




INFORMATION REPORT

TO:	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	March 30, 2023
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report as at December 31, 2021 (FCS21091(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not applicable.

INFORMATION

Attached as Appendix "A" to Report FCS21091(a) is Aon Hewitt's investment performance report for the Hamilton Municipal Retirement Fund (HMRF), the Hamilton-Wentworth Retirement Fund (HWRF) and the Hamilton Street Railway (HSR) as of December 31, 2021. Together the three pension funds make up the Master Trust, which is referred to as the "Plan" throughout Report FCS21091(a).

As of December 31, 2021, the market value of the assets of the Plan was \$362.7 M, an increase of \$18.7 M compared with \$344.0 M as of December 31, 2020. The funded ratio increased from 74.9% to 84.8% at year-end due to very low interest rates, increased resource prices and economic outlook.

For the one-year period ending December 31, 2021, the Plan's return was 12.6%, outperforming its benchmark return of 10.9% by 1.7%. The benchmark return is based on the benchmark asset mix for the Plan. The Plan's return of 12.6% underperformed the OMERS (Gross) plan return of 15.7% by 3.1%.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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Table 1 shows the Plan's one-year return for the last five years (ending December 31 in each year).

**Table 1
Plan's 1-Year (ended Dec. 31) Returns**

	12 Months Ended Dec. 31/21	12 Months Ended Dec. 31/20	12 Months Ended Dec. 31/19	12 Months Ended Dec. 31/18	12 Months Ended Dec. 31/17
Plan Return	12.6%	8.7%	13.8%	-4.2%	9.5%
Benchmark	10.9%	13.5%	16.4%	-2.6%	8.3%
Value Added	1.7%	-4.8%	-2.6%	-1.6%	1.2%
Market Value	\$362.7 M	\$344.0 M	\$337.5 M	\$311.5 M	\$341.9 M
Funded Ratio	84.8%	74.9%	78.6%	75.4%	75.2%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. Attached as Appendix "B" to Report FCS21091(a), RBC Investor & Treasury Service (RBCITS) reports its universe of pension funds, which totals C\$4.6 B and had an average annual return of 8.9% in the year ended December 31, 2021. The Plan's return of 12.6% outperformed the RBCITS average annual return of 8.9% by 3.7%. Canadian and Global equity returns were major contributors to the Plan's overall return. The significant drop in interest rates in early 2020 followed by full off setting rate increases late in 2021, led to negative returns of -0.42% in longer term bonds and a minor positive return in Real Return bonds of +1.9% held within the portfolio.

Table 2 compares the Plan's returns to OMERS fund's gross returns over one, five and ten-year periods, all ending December 31, 2021. The Plan's gross returns are greater than OMERS gross returns for two periods. This is unexpected due to OMERS strategy of emphasizing alternative investments, public equity and fixed income securities, which remained stable but generated very good returns in 2021. OMERS (Gross) return of 15.7% is accounting for 45% of their outperformance at a return of 20.7%, as well as, private equity and real estate accounting for 45% with returns of 25.8% and 15.9%, respectively. The returns on infrastructure and short-term credit accounted for the last 10% contribution at a return of 10.7% and 5.8% (short-term).

**Table 2
Annualized Returns**

	Dec. 31/21 One-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
Plan (HSR, HMRF, HWRF)	12.6%	7.9%	8.6%
Plan Benchmark	10.9%	9.2%	9.0%
OMERS (Gross)	15.7%	7.5%	8.0%
OMERS Benchmark (Gross)	6.6%	7.1%	7.4%

The Plan's ten-year gross annualized return for the period ending December 31, 2021 is 8.6% underperforming the benchmark return of 9.0% by 0.4% and outperforming OMERS return of 8.0% by 0.6%.

The Plan's five-year gross annualized return for the period ending December 31, 2021 is 7.9% underperforming the benchmark return of 9.2% by 1.3% and outperforming OMERS return of 7.5% by 0.4%.

The Plan's gross return for the period ending December 31, 2021 is 12.6% outperforming the benchmark of 10.9% by 1.7% and under-performed OMERS 15.7% by 3.1%. OMERS results are reported in OMERS 2021 financial reports available online.

OMERS invests in public market securities (such as public equities and bonds) and in private market investments (such as private equity, real estate, infrastructure and strategic investments). The Plan invests only in public market securities. Private market investments require expertise developed over many years, have limited liquidity, require significant administrative costs and current valuations may or may not be realized.

Asset Mix

Table 3 shows the percentage of Plan assets in each asset class as of December 31, 2021 compared to December 31, 2020.

**Table 3
Percentage of Plan Assets in Each Asset Class**

Asset Class	Dec. 31, 2021	Dec. 31, 2020	Change
Canadian Equity	23.7%	29.7%	-6.0%
Global Equity	<u>20.8%</u>	<u>28.4%</u>	<u>-7.6%</u>
Total Equity	44.5%	58.1%	-13.6%
Canadian Fixed Income	55.4%	41.8%	13.6%
Cash	0.0%	0.1%	-0.1%

Note: Anomalies due to rounding.

Total equity decreased by 13.6% to 44.5% and total fixed income, including cash, increased by a corresponding 13.6% to 55.5%. Global equity decreased by 7.6% to 20.8%. Canadian equity holdings decreased by 6% to 23.7%. Canadian fixed income increased by 13.5% to 55.4% including cash. The year saw equity returns domestically and internationally in the portfolio ranging from 14.4% to 35.8%. The fixed income portfolios incurred mediocre returns for the year ranging from -4.2% (Long Bonds) to 1.9% (Real Return Bonds), a -0.9% overall fixed income return on holdings of 20.6% Long Bonds and 34.8% Real Return Bonds and cash for disbursement.

The Master Trust at year-end was within its prescribed boundaries set by the Plan's investment policy given the funded ratio at 84.8% (44.5% equity and 55.4% fixed income).

Managers' Performance

Managers' investment performance relative to their benchmark and peer group is summarized in Table 4. One-year rates of return, percentages of plan assets and rankings in terms of quartile performance are as of December 31, 2021.

**Table 4
Managers' Performance**

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Period Ending Dec.31/21				
Canadian Equity:				
Guardian	23.8%	25.1%	-1.3%	12.3%
Letko	35.8%	25.1%	10.7%	11.5%
Global Equity				
Aberdeen ⁽¹⁾	21.1%	21.0%	0.1%	5.2%
GMO ⁽²⁾	14.4%	21.0%	-6.6%	15.6%
Fixed Income:				
TDAM Long Bonds ⁽³⁾	-4.2%	-4.5%	0.3%	20.6%
TDAM Real Return Bonds	1.9%	1.8%	0.1%	34.8%

Notes: ⁽¹⁾ Engaged in April 2010

⁽²⁾ Engaged in July 2010

⁽³⁾ Toronto Dominion Asset Management (TDAM) engaged in March 2012

Guardian, one of the two Canadian active equity managers, had a return of 23.8% and underperformed its benchmark return of 25.1% by -1.3%. Its performance is fourth quartile (90%) over the one-year and third quartile (61%) over the four-year period, with a benchmark return of 10.3% and an actual return of 9.5%. Guardian manages 12.3% of Plan assets with an added value of -0.8% over four years.

Letko, the second Canadian active equity manager, had a return of 35.8% and outperformed its benchmark return of 25.1% by 10.7% with an added value of 10.7%. Its performance is first quartile (7%) over the one-year period and fourth quartile over the four-year period (86%) with an actual return of 7.3% with a benchmark return of 10.3%, with an added value of -3.0% over four years. Letko manages 11.5% of the Plan assets.

Aberdeen is a global equity manager. Its return was 21.1% exceeding the benchmark return of 21.0% by 0.1%. Aberdeen's performance is second quartile (31%) over the one-year period and added value of 0.1%. Aberdeen manages 5.2% of the Plan assets. The firm's performance is second quartile (45%) over four years, underperforming the benchmark of 13.5% by -0.9% with a return of 12.6%.

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GMO is the second active global equity manager. GMO's return was 14.4%, underperforming the benchmark return of 21.0 by 6.6%. GMO's performance is fourth quartile (77%) over the one-year period and added value of -6.6%. GMO manages 15.6% of Plan assets and is fourth quartile (76%) over four years returning 8.6% compared to the 13.5% benchmark a value added of -4.9%.

TDAM Long Bonds – The active long bond fund manager has 20.6% of the portfolio holdings under management. Performance over one year is a return of -4.2% compared to the benchmark return of -4.5% which is a value added of 0.3%. The four-year return was 5.0% compared to the benchmark of 4.8% with an added value of 0.2%.

TDAM Real Return Bonds – The passively managed fund has 34.8% of the portfolio under management and returned 1.9% over the one-year period compared to the benchmark return of 1.8%. Value added was 0.1%. The four-year return was 5.7% compared to the benchmark of 5.6% with an added value of 0.1%.

In summary, the Plan's gross return of 12.6% underperformed OMERS' gross return 15.7% by 3.1% and its funding ratio increased to 84.8% from last year's 74.9%.

Interest Rates have risen very quickly and substantially in all terms in 2022 and are expected to continue at the time of writing. The fund's balance was changed and escalated the holdings of the Real Return Bonds specifically and reduced equity holdings as funding for the overall Master Trust improved to a trigger point emphasizing Bonds. This allowed the fund to capture equity returns and prepare for the inevitable increases in inflation and interest rates while reducing equity holdings. All returns were positive and close to their benchmarks with a value added range of -6.6% to 10.7% contributing to overall positive returns. The highest return was 35.8% (Letko) and the lowest was -4.2% (TDAM Long Bonds) at year end. The Plan had a return of 12.6% bettering its benchmark of 10.9% and added value of 2.6% and exceeded the RBCITS average of 8.9% by 3.7%.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS21091(a) – The City of Hamilton Master Trust Period Ending December 31, 2021– AON Performance Review and Investment Manager Evaluation

Appendix "B" to Report FCS21091(a) – Canadian DB pensions posted healthy returns in 2021: RBC Investor & Treasury Services January 31, 2022

GB/dt