




## INFORMATION REPORT

<b>TO:</b>	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
<b>COMMITTEE DATE:</b>	March 30, 2023
<b>SUBJECT/REPORT NO:</b>	Master Trust Pension Investment Performance Report as at June 30, 2022 (FCS23044) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gerald T. Boychuk (905) 546-2424 Ext. 4321
<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

### Council Direction

Not Applicable.

### Information

Attached, as Appendix "A" to Report FCS23044, 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 June 30, 2022. Together, the three pension funds make up the Master Trust, which is referred to as the "Plan" in Report FCS23044.

The Plan's return for the one-year period ended June 30, 2022 of -12.1% underperformed its benchmark of -11.8 by 0.3%. The market value of the assets of the Plan totalled \$292 M compared to \$355.4 M as of June 30, 2021, a decrease of \$63.4 M.

The funded ratio of assets to liabilities decreased to 80.3% (\$292 M to \$363.5 M) from 82.9% at June 30, 2021. Currently, a funding ratio of 80.3% enables a range of 48% to 68% for the Liability Matching Component (LMC) and the fund is at 55.4% (Fixed Income). The plans funded status estimated at -\$71.5 M improved from an estimated -\$73.5 M at June 30, 2021. The ultimate target contemplates 80% fixed income as interest rates rise and value of assets increases relative to liability present values.

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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 (ended June 30) returns, value added, market value and funded status for the last five years.

**Table 1**  
Plan's One-Year ended June 30 Returns

	12 Months Ended Jun.30/22	12 Months Ended Jun.30/21	12 Months Ended Jun.30/20	12 Months Ended Jun.30/19	12 Months Ended Jun.30/18
Plan Return	-12.1%	19.1%	1.3%	4.1%	7.3%
Benchmark	-11.8%	14.1%	7.1%	6.4%	7.7%
Value Added	-0.3%	5.0%	-5.8%	-2.3%	-0.4%
Market Value (\$ Millions)	\$292.0	\$355.4	\$318.8	\$336.4	\$339.9
Funded Ratio	80.3%	82.9%	73.0%	76.2%	75.3%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. Attached as Appendix "B" to Report FCS23044, RBC Investor & Treasury Service reports its universe of pension funds, totalling C\$4.40 Trillion with a median return of -8.6% in the quarter ended June 30, 2022. The Plan's quarterly return of -10.4% underperformed the universe's median quarterly return of -8.6% by -1.8%.

**Asset Mix**

Table 2 shows the percentage of Plan assets in each asset class as of June 30, 2022 compared to June 30, 2021.

**Table 2**  
Percentage of Plan Assets in Each Asset Class

Asset Class	Jun.30/22	Jun.30/21	Change	Benchmark
Canadian Equity	25.2%	25.2%	0.0%	23.0%
Global Equity	<u>19.3%</u>	<u>23.9%</u>	<u>-4.6%</u>	22.0%
Total Equity	44.5%	49.1%	-4.6%	
Canadian Fixed Income	55.4%	50.8%	+4.6%	55.0%
Cash	0.1%	0.1%	0.0%	

Note: Anomalies due to rounding

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Managers' Performance

Managers' investment performance relative to their benchmark is summarized in Table 3. One-year rates of return are as of June 30, 2022.

**Table 3**  
Managers' Performance  
One-Year Period Ended Jun. 30/22

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Canadian Equity:				
Guardian	-5.6%	-3.9%	-1.7%	13.0%
Letko	1.4%	-3.9%	+5.3%	12.2%
Global Equity				
Aberdeen <sup>(1)</sup>	-10.7%	-10.8%	+0.1%	4.6%
GMO <sup>(2)</sup>	-15.7%	-10.8%	-4.9%	14.6%
Fixed Income:				
TDAM Long Bonds <sup>(3)</sup>	-19.5%	-19.7%	+0.2%	19.4%
TDAM Real Return Bonds <sup>(3)</sup>	-13.1%	-12.3%	-0.8%	35.4%

Notes: <sup>(1)</sup> Engaged in April 2010

<sup>(2)</sup> Engaged in July 2010

<sup>(3)</sup> Toronto Dominion Asset Management (TDAM) engaged in March 2012

Pension Investment Transfer - Update

Previous discussions with OMERS have not presented a solution as costs for OMERS assumption of the Plans were very high. Current options include private sector management, including an Outside Chief Investments Officer (OCIO) or an insurance company, or a not-for-profit public corporation, such as Investment Management Corporation Ontario (IMCO). Eckler, a firm specializing in hiring OCIO, has been engaged to develop an RFP, advise, qualify, review, rank proposals submitted.

Toronto was able to transfer most of their plans to OMERS, while Ottawa was left in the same situation as Hamilton. Ottawa has used Eckler to hire an OCIO to take over their two legacy plans, one Provincially regulated, the other Federally. Eckler is now helping them hire one to put their General funds into a Prudent Investor structure.

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## The Plan's Future

Given the recent economic problems with COVID-19, tariffs and supply lines, global markets have been restricted due to the uncertainty as to what the future brings. This confusion has been exacerbated by the Russia-Ukraine war and rapidly increasing Central bank interest rates designed to alter inflation expectations. Staff proposes to hire an OCIO who will assist in obtaining new management processes, to accomplish the appropriate asset mix given economic conditions worldwide and the appropriate asset mix to match the current liabilities in the plan. Also, staff would be updating the need to track exposure ranges to meet the goal of an expected wind-up at a reasonable cost based on more recent liabilities and expected returns, as well as, investment strategy.

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS23044 – City of Hamilton Master Trust Defined Benefit Plan Second Quarter 2022 – AON Quarterly Investment Review

Appendix "B" to Report FCS23044 – Canadian Defined Benefit Pension Plans Quarterly returns tied for lowest in three decades – July 29, 2022.

GB/dt