




INFORMATION REPORT

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | May 18, 2023 |
| SUBJECT/REPORT NO: | Hamilton Future Fund Investment Performance Report – December 31, 2022 (FCS23050) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Gerald T. Boychuk (905) 546-2424 Ext. 4321 Brandon A. Teglas (905) 546-2424 Ext. 4363 |
| SUBMITTED BY: | Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department |
| SIGNATURE: |  |

COUNCIL DIRECTION

Not Applicable.

INFORMATION

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.73% for the 12 months ending December 31, 2022 and an average earnings rate of 2.59% over the past five years. The earnings rate includes interest and lending revenues but excludes realized and unrealized capital gains / losses.

The City of Hamilton Future Fund's portfolio generated approximately \$1,432,012 in bond interest, net realized capital gains / losses and lending revenue over the last 12 months ending December 31, 2022. The total return of \$1,432,012 was realized on an investment at an average cost of \$51,772,302, giving a percentage return on cost of 2.77%. Interest, net realized capital gains / losses and bond lending income over the last five years have averaged \$1.30 M annually.

As of December 31, 2022, net unrealized capital loss was \$2,309,102 and a net capital gain of \$11,727 was realized over the past 12 months. The duration of the portfolio of investments was 4.22 years as of December 31, 2022 compared with 4.32 years as of December 31, 2021.

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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.

**SUBJECT: Hamilton Future Fund Investment Performance Report –
December 31, 2022 (FCS23050) (City Wide) – Page 2 of 3**

As of December 31, 2022, the market value of the portfolio was \$50,557,975 compared with \$53,345,292 as of December 31, 2021, a decrease of \$2,787,317.

For the 12 months ending December 31, 2022, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was -5.20%, out-performing the benchmark return of -5.70% by 50 basis points. Over the past five years, the overall return has averaged 1.74% per annum, out-performing the average benchmark return over the same five-year period of 0.71% by 103 basis points. The out-performance of the Hamilton Future Fund relative to the benchmark over the last five years is attributed mostly to its overweight position over the last couple of years in longer term bonds.

The overall returns for the One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) for the year ending December 31, 2022 was 28.90% for the Equity Portfolio, -4.04% for bonds and 1.57% for money market. If the City's Policy had been used in these funds (i.e. 90% bonds and 10% money market), the overall return would have been -3.48% or 172 basis points higher than the overall return of -5.20%. Using an average portfolio market value of \$44,784,335 for the past 12 months, an increase of 1.72% in overall return would have resulted in a revenue increase of approximately \$770,291. The FTSE TMX Short Government Index returned -3.88% and the FTSE TMX Mid Government Index returned -10.33%.

Table 1 below summarizes the investment return indicators.

**Table 1: Investment Return Indicators
(for information purposes only)**

| | 12 Months ended 12/31/2022 | 12 Months ended 12/31/2021 | 12 Months ended 12/31/2020 | 12 Months ended 12/31/2019 | 12 Months ended 12/31/2018 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Policy Target | -5.70% | -1.49% | 5.51% | 3.42% | 1.79% |
| Hamilton Future Fund Portfolio | -5.20% | -1.25% | 7.75% | 5.47% | 1.95% |
| One Fund – Bonds | -4.04% | -1.44% | 5.29% | 1.68% | 1.51% |
| One Fund – Money Mkt. | 1.57% | 0.04% | 0.85% | 2.61% | 1.43% |
| FTSE TMX – Short Government | -3.88% | -1.12% | 4.85% | 2.40% | 1.96% |
| FTSE TMX – Mid Government | -10.33% | -3.07% | 9.69% | 4.92% | 2.12% |
| Bond Lending Revenue | \$15,059 | \$13,623 | \$10,738 | \$18,094 | \$14,128 |
| Earnings Rate (Excludes Capital Gains / Losses) | 2.73% | 2.60% | 2.43% | 2.58% | 2.62% |

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Table 2 below summarizes the changes in Canadian interest rates over the past 24 months.

Table 2 – Canadian Interest Rates

| Canada Benchmark Bond | Interest Rate January 3, 2023 | Interest Rate January 4, 2022 | Interest Rate January 4, 2021 |
|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| One Month (T-Bill) | 4.10% | 0.08% | 0.04% |
| 2 year | 4.02% | 1.01% | 0.20% |
| 5 year | 3.34% | 1.39% | 0.39% |
| 10 year | 3.21% | 1.59% | 0.68% |

As can be seen in Table 2, interest rates increased through 2022 for all terms up to 10 years. The increase in rates from the previous year ranged from 1.62% in the 10-year bond to 4.02% in the one month (T-bill).

The Canadian Dollar and US Dollar exchange rate started at approximately \$1.26 and increased to \$1.35 at year end. Oil started the year at \$77 US per barrel and finished the year at \$83 US per barrel. The GDP rate growth forecast of 1.6% was not achieved for the year. It has been confirmed as an actual -6.8% for 2022. The actual was rectified in the last half of 2022 ending with a +3.4% real GDP growth number.

The Bank of Canada, through 2022, increased the Bank of rate six times starting in April to 4.25% at year end to dampen inflation due to global COVID-19 and variants, supply and price stability, coupled with increasing wage demands. The expectation is for rates to remain at the +4.25%, more or less, for an extended period. The expectation is for inflation to decline and real Growth GDP to be in the 2% to 3% range.

The Future Fund portfolio has significant holdings of high-quality securities. The Fund out-performed its benchmark by 50bps (0.50%) by returning -5.20% through 2022 versus a benchmark of -5.70%. As a strategy going forward, the assumptions are that the economy will recover, COVID-19 will be controlled, a new normal will arrive but not immediately and interest rates will vary only marginally for this coming year.

GB/BT/dt