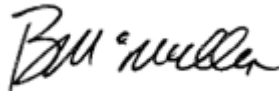




INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 5, 2024
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report – December 31, 2023 (FCS24066) (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

Earnings Rate and Income

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 3.11% for the 12 months ending December 31, 2023, and an average earnings rate of 2.69% 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 investment portfolio generated approximately \$1,668,652 in bond interest, net realized capital gains / losses and lending income over the last 12 months ending December 31, 2023. The average dollar amount of bond interest, net realized capital gains / losses and lending income generated over the last five years is \$1.38 M annually.

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.

Return on Cost Basis

The total return of \$1,668,652 was realized on an investment at an average cost of \$53,326,943 giving a percentage return on cost of 3.13%.

Market Value and Overall Return

As of December 31, 2023, the market value of the investment portfolio was \$53,593,627, including accrued, compared with \$50,557,975 as of December 31, 2022, an increase of \$3,035,652. The book value of the investment portfolio as of December 31, 2023 was \$54,148,207, including accrued, resulting in a change in unrealized appreciation / depreciation on market value of negative \$554,580.

For the 12 months ending December 31, 2023, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was 6.03%, outperforming the benchmark return of 4.80% by 123 basis points. Over the past five years, the overall return has averaged 2.56% per annum, outperforming the average benchmark return over the same five-year period of 1.31% by 125 basis points.

The outperformance of the Future Fund versus the benchmark for the year ending December 31, 2023 is mostly attributed to the holdings in longer-maturity bonds, which outperformed bonds with shorter maturity over the year 2023, particularly in the fourth quarter of 2023 and also attributed, in part, to the equity holdings which had positive and strong performance.

By comparison, the overall returns for ONE Investment (formed in 1993 by Local Authority Services (LAS) and CHUMS Financing Corp., a subsidiary of the Municipal Finance Officers' Association of Ontario) over the 12-month period ending December 31, 2023 were 4.61% for the ONE Canadian Government Bond Portfolio (bonds with term to maturity less than five years) and 4.65% for ONE Money Market Portfolio. If the City's Policy had been used in these ONE Portfolios (i.e., 90% ONE Canadian Government Bond Portfolio and 10% ONE Money Market), then the overall return would have been 4.61%, or 1.42% less than the actual return of 6.03%.

Using an average portfolio market value of \$49,316,569 for the past 12 months, an increase of 1.42% in overall return would have resulted in a revenue increase of approximately \$700,295. Also, for comparison the FTSE TMX Short Government Index returned 4.19% and the FTSE TMX Mid Government Index returned 5.65% over the year ending December 31, 2023.

The duration of the investment portfolio was 4.21 years as of December 31, 2023, compared with 4.22 years as of December 31, 2022.

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Table 1 below summarizes the investment return indicators.

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

	12 Months ended 12/31/2023	12 Months ended 12/31/2022	12 Months ended 12/31/2021	12 Months ended 12/31/2020	12 Months ended 12/31/2019
Policy Target	4.80%	-5.70%	-1.49%	5.51%	3.42%
Hamilton Future Fund Portfolio	6.03%	-5.20%	-1.25%	7.75%	5.47%
ONE Canadian Government Bond Portfolio	4.61%	-4.04%	-1.44%	5.29%	1.68%
ONE Money Market	4.65%	1.57%	0.04%	0.85%	2.61%
FTSE TMX – Short Government	4.19%	-3.88%	-1.12%	4.85%	2.40%
FTSE TMX – Mid Government	5.65%	-10.33%	-3.07%	9.69%	4.92%
Bond Lending Income	\$13,152	\$15,059	\$13,623	\$10,738	\$18,094
Earnings Rate (Excludes Capital Gains/Losses)	3.11%	2.73%	2.60%	2.43%	2.58%

As of December 31, 2023, the market value of investments in the City's Future Fund portfolio of \$53,593,627 was composed of \$50,510,041 in bonds, including accrued, or 94.25% of the total portfolio; \$2,509,958 in ONE Canadian Equity Portfolio (equity) or 4.68% of the portfolio; and \$573,629 in cash or 1.07% of the portfolio.

Over the 12-month period ending December 31, 2023, the City's investment in ONE Canadian Equity Portfolio returned 17.22%, as calculated by RBC Investor and Treasury Services, the City's Custodian.

Canadian Interest Rates

Table 2 below summarizes the changes in Canadian interest rates from January 2022 to January 2024.

Table 2 – Canadian Interest Rates

Canada Benchmark Bond	Interest Rate January 2, 2024	Interest Rate January 3, 2023	Interest Rate January 4, 2022
One Month (T-Bill)	5.03%	4.10%	0.08%
2 year	3.96%	4.02%	1.01%
5 year	3.25%	3.34%	1.39%
10 year	3.18%	3.21%	1.59%

During the first three quarters of 2023, bond interest rates mostly increased and then during the fourth quarter of 2023, bond interest rates trended downwards as expectations developed that the Bank of Canada would start cutting its policy rate in 2024. The bond interest rate increase in the first three quarters of 2023 was largely retraced in the fourth quarter of 2023 with bond interest rates ending up at year end at approximately the same levels as they were at the beginning of the year.

At the beginning of the year in 2023, the Bank of Canada policy rate was at 4.25%. During the first half of 2023, the Bank of Canada raised its policy rate twice by 25 basis points and in July 2023, raised it again by 25 basis points, taking the policy rate to 5% where it remained for the rest of the year in 2023.

Investment Portfolio Holdings

The Future Fund portfolio has significant holdings in high-quality government bonds: investments in federal, provincial and municipal bonds. The investment strategy continues to be to invest in high quality bonds with moderate holdings in mid to longer-maturity bonds.

APPENDICES AND SCHEDULES ATTACHED

None