




INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 5, 2024
SUBJECT/REPORT NO:	Reserve / Revenue Fund Investment Performance Report – December 31, 2023 (FCS24067) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not Applicable.

INFORMATION

Earnings Rate and Income

The investment portfolio for the City of Hamilton's (City's) Reserve / Revenue Fund (comprised of reserve / revenue funds, capital account balances and unused operating funds) had an earnings rate of 3.14% for the 12 months ending December 31, 2023 and had an average earnings rate of 2.89% over the past five years. The earnings rate includes interest and bond lending income but excludes realized and unrealized capital gains / losses.

Income generated from the investment portfolio and the City's bank account was \$70,511,168, composed of bond interest, net realized capital gains / losses, lending income, bank interest and interest on guaranteed investment certificates (GICs), over the 12 months ending December 31, 2023. The average dollar amount generated over the last five years is \$42.2 M.

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Return on Cost Basis

The return of \$70,511,168 was realized on an average cost of assets of \$1,807,893,509 giving a percentage return on cost of 3.90%. The average cost of assets of \$1,807,893,509 consists of \$1,092,492,262 in bond investments including accrued; \$541,923,182 for the City's bank account balance; \$65,706,126 in investments in the ONE Canadian Equity Portfolio; \$5,876,104 in investments in the ONE Canadian Corporate Bond Portfolio; and \$101,895,835 in GICs.

Market Value and Overall Return

As at December 31, 2023, the market value of the investment portfolio (including accrued) was \$1,158,613,001 compared with \$1,103,421,595 as at December 31, 2022, an increase of \$55,191,406. The book value of the investment portfolio (including accrued) as at December 31, 2023 was \$1,183,871,682 resulting in a change in unrealized appreciation / depreciation on market value of negative \$25,258,681.

For the 12 months ending December 31, 2023, the overall return (includes bond interest, bond lending income, realized capital gains / losses and unrealized capital gains / losses) was 6.60% and the return on the benchmark was 4.80%, resulting in an outperformance of 180 basis points. Over the last five-year period, the annual overall return averaged over the years from 2019 to 2024 is 2.21% per annum, outperforming the average return on the benchmark over the same five-year period of 1.31% by 90 basis points.

The outperformance of the Reserve 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.

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. For example, the yield on the Government of Canada bond with a term to maturity of 10 years was 3.1% as of December 31, 2023, down 0.2% from its yield of 3.3% as of December 31, 2022 and down 1.1% from its peak at 4.2% on October 3, 2023.

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The Canadian equity markets performed positively in the year ending December 31, 2023. The S&P/TSX Composite Index returned +8.1% in the fourth quarter of 2023 and returned 11.8% for the 1 year ending December 31, 2023. In Q4, the equity market rose largely due to an expectation of interest rate cuts by the central banks including the BOC in 2024 with expectations of inflation moderating. 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% in ONE Canadian Government Bond Portfolio and 10% in ONE Money Market Portfolio), then the overall return would have been 4.61%, or 1.99% less than the actual overall return of 6.60%.

On an average investment portfolio market value of \$1,029 M, (excluding ONE Investment Equity Portfolio and bank account balances), this incremental return would have resulted in an improved market value of approximately \$20.47 M. Also, for comparison with short term bond indices, the FTSE TMX Short Government Index returned 4.19% while the FTSE TMX All-Government Mid Index returned 5.65%.

Table 1 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%
City's Portfolio	6.60%	-7.09%	-0.57%	7.16%	4.97%
ONE Canadian Government Bond Portfolio	4.61%	-4.04%	-1.44%	5.29%	2.61%
ONE Money Market Portfolio	4.65%	1.57%	0.04%	0.85%	1.68%
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	\$381,621	\$344,736	\$336,417	\$262,239	\$322,520
Earnings Rate (Excludes Capital Gains/Losses)	3.14%	2.86%	2.95%	2.71%	2.80%
City's Return: ONE Canadian Equity Portfolio (Equity)*	17.22%	17.07%	33.56%	19.56%	18.53%

- 2023 calculated by RBC Investor and Treasury Services; 2022-2019 calculated by COH

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As of December 31, 2023, the market value of investments in the City's investment portfolio was \$1,158,613,001 and was composed of \$1,068,503,494 (or 92.2% of the portfolio) in bonds, including accrued, \$84,704,740 (or 7.3% of the portfolio) in the ONE Canadian Equity Portfolio (equity) and \$5,404,767 (or 0.47% of the portfolio) in the ONE Canadian Corporate Bond Portfolio.

Over the 12-month period ending December 31, 2023, the City's investment in ONE Canadian Equity Portfolio returned 17.22% and the City's investment in ONE Canadian Corporate Bond Portfolio returned 6.25%, both calculated by RBC Investor and Treasury Services, the City's Custodian.

In regard to interest earned on the City's bank account, it is noted that during the year ending December 31, 2023 the interest rate earned in the City's bank account was significantly greater than the interest rate earned on Treasury Bills and Banker's Acceptances. Therefore, monies earmarked for short-term operations / expenses were held in the City's bank account to earn the higher interest rate income instead of investing in Treasury Bills and Bankers Acceptances which would have been held in the investment portfolio. Additionally, monies earmarked for short term operations / expenses were also invested in Guaranteed Investment Certificates (GICs) at attractive rates compared to Treasury Bills and Bankers Acceptances and these GICs were held in the City's bank account.

As of December 31, 2023, the duration of the portfolio was 4.82 years compared with 4.69 years as at December 31, 2022.

Canadian Interest Rates

Table 2 shows 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%	0.04%
2 year	3.96%	4.02%	0.20%
5 year	3.35%	3.34%	0.39%
10 year	3.18%	3.21%	0.68%

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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 Reserve 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