Hamilton

INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	March 20, 2025
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report as at December 31, 2023 (FCS23094(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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COUNCIL DIRECTION

Not applicable.

INFORMATION

Attached as Appendix "A" to Report FCS23094(a) is Aon Solution Canada Inc.'s (Aon) investment performance report for the City of Hamilton Master Trust as of December 31, 2023. The Master Trust is comprised of Hamilton Municipal Retirement Fund (HMRF), the Hamilton-Wentworth Retirement Fund (HWRF) and the Hamilton Street Railway Pension Plan (HSR). The Master Trust is referred to as the "Plan" throughout Report FCS23094(a).

As of December 31, 2023, the market value of the assets of the Plan was $298.3 M, an increase of $3.5 M compared with $294.8 M as of December 31, 2022. The Plan's funded ratio of assets to liabilities increased from 82.0% to 90.0% at year-end 2023 due in part to interest rates which continued to rise in 2023.

For the one-year period ending December 31, 2023, the Plan's return was 9.4%, underperforming its benchmark return of 9.7% by 0.3%. The benchmark return is based on the benchmark asset mix for the Plan.

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. 31/23	12 Months Ended Dec. 31/22	12 Months Ended Dec. 31/21	12 Months Ended Dec. 31/20	12 Months Ended Dec. 31/19
Plan Return	9.4%	-12.7%	12.6%	8.7%	13.8%
Plan Benchmark	9.7%	-13.6%	10.9%	13.5%	16.4%
Value Added	-0.3%	0.9%	1.7%	-4.8%	-2.6%
Market Value	$298.3 M	$294.8 M	$362.7 M	$344.0 M	$337.5 M
Funded Ratio	90.0%	82.0%	84.8%	74.9%	78.6%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. RBC Investor & Treasury Service (RBCITS) reports its universe of pension funds, which totals nearly C$4.0 trillion and had an average annual return of 9.1% in the year ended December 31, 2023. The Plan's return of 9.4% outperformed the RBCITS average annual return of 9.1% by 0.3%. The Plan's return of 9.4% outperformed the OMERS (Gross) plan return of 4.6% by 4.8%.

Canadian and Global equity returns were major contributors to the Plan's overall return. Overall, equities performed strongly over the year 2023. The main reason for strong equity performance was central banks that slowed down the pace of their rate hikes during the year and indicated possible rate cuts in the upcoming year 2024 given the declining trend in inflation.

Table 2 compares the Plan's returns to OMERS fund's gross returns over one, three and ten-year periods, all ending December 31, 2023.

Table 2
Annualized Returns

	Dec. 31/23 One-Year Annualized Return	3-Year Annualized Return	10-Year Annualized Return
Plan (HSR, HMRF, HWRF)	9.4%	2.4%	5.8%
Plan Benchmark	9.7%	1.7%	6.6%
OMERS (Gross)	4.6%	8.0%	7.3%
OMERS Benchmark (Gross)	7.0%	N/A	7.3%

The Plan's ten-year gross annualized return for the period ending December 31, 2023 is 5.8% underperforming the benchmark return of 6.6% by 0.8% and underperforming OMERS return of 7.3% by 1.5%.

The Plan's three-year gross annualized return for the period ending December 31, 2023 is 2.4% outperforming the benchmark return of 1.7% by 0.7% and underperforming OMERS return of 8.0% by 5.6%.

The Plan's gross return for the period ending December 31, 2023 is 9.4% underperforming the benchmark of 9.7% by 0.3% and outperformed OMERS return of 4.6% by 4.8%.

OMERS results are reported in OMERS 2023 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.

OMERS' returns in 2023 significant underperformance to their benchmark reflected a major divergence between the performance of public and private assets. Both public equities and fixed income performed strongly. However, returns from private asset strategies were restrained by the increased cost of debt, increased operating costs and anticipated slower economic growth, all factors that also impacted private assets worldwide.

Asset Mix

Table 3 shows the percentage of Plan assets in each asset class as of December 31, 2023 compared to December 31, 2022.

Table 3
Percentage of Plan Assets in Each Asset Class

Asset Class	Dec. 31, 2023	Dec. 31, 2022	Change
Canadian Equity	27.5%	26.4%	+1.1%
Global Equity	18.7%	18.3%	+0.4%
Total Equity	46.2%	44.7%	+1.5%
Canadian Fixed Income	53.8%	55.2%	-1.4%
Cash	0.0%	0.1%	-0.1%

Note: Anomalies due to rounding.

Total equity increased by 1.5% to 46.2%. Global equity increased by 0.4% to 18.7%. Canadian equity holdings increased by 1.1% to 27.5%. Canadian fixed income decreased by 1.4% to 53.8% including cash.

Overall, equities performed strongly over the year 2023. The main reason for strong equity performance was central banks that slowed down the pace of their rate hikes during the year and indicated possible rate cuts in the upcoming year 2024 given the declining trend in inflation.

The Master Trust asset mix at year-end 2023 (46.2% equity and 53.8% fixed income) was outside of its prescribed boundaries set by the Plan's investment policy given the funded ratio at 90%. AON recommended that a rebalancing of the portfolio such that fixed income is at 60%. This rebalancing is being deferred until the Outsourced Chief Investment Officer (OCIO) is engaged, which is expected in early 2025, because a major review of the Master Trust investment policy will be undertaken at that time.

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, 2023.

Table 4
Managers' Performance Period Ending Dec.31/23

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Canadian Equity:				
Guardian	16.3%	11.8%	4.5%	14.9%
Letko	9.5%	11.8%	-2.3%	12.6%
Global Equity				
Aberdeen(1)	17.0%	20.5%	-3.5%	4.6%
GMO(2)	19.0%	20.5%	-1.5%	14.1%
Fixed Income:				
TDAM Long Bonds(3)	10.0%	9.5%	0.5%	18.3%
TDAM Real Return Bonds	1.8%	2.0%	-0.2%	35.5%

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 16.3% and outperformed its benchmark return of 11.8% by 4.5% with an added value of 4.5%. Its performance is first quartile (13%) over the one-year and third quartile (59%) over the four-year period, with a benchmark return of 8.6% and an actual return of 9.1%. Guardian manages 14.9% of Plan assets with an added value of 0.5% over four years.

Letko, the second Canadian active equity manager, had a return of 9.5% and underperformed its benchmark return of 11.8% by 2.3% with an added value of -2.3%. Its performance is third quartile (73%) over the one-year period and second quartile over the four-year period (48%) with an actual return of 8.6% with a benchmark return of 9.5%, with an added value of 0.9% over four years. Letko manages 12.6% of the Plan assets.

Aberdeen is a global equity manager. Its return was 17.0% underperforming its benchmark return of 20.5% by 3.5%. Aberdeen's performance is second quartile (48%) over the one-year period and added value of -3.5%. Aberdeen manages 4.6% of the Plan assets. The firm's performance is second quartile (32%) over four years, outperforming the benchmark of 9.8% by 0.2% with a return of 10.0%.

GMO is the second active global equity manager. GMO's return was 19.0%, underperforming the benchmark return of 20.5 by 1.5%. GMO's performance is second quartile (35%) over the one-year period and added value of -1.5%. GMO manages 14.1% of Plan assets and is fourth quartile (81%) over four years returning 6.9% compared to the 9.8% benchmark a value added of -2.9%.

TDAM Long Bonds – The active long bond fund manager has 18.3% of the portfolio holdings under management. Performance over one year is a return of 10.0% compared to the benchmark return of 9.5% which is a value added of 0.5%. The four-year return was -1.8% compared to the benchmark of -2.2% with an added value of 0.4%.

TDAM Real Return Bonds – The passively managed fund has 35.5% of the portfolio under management and returned 1.8% over the one-year period compared to the benchmark return of 2.0%. Value added was -0.2%. The four-year return was 0.0% compared to the benchmark of 0.1% with an added value of -0.1%.

In summary, the Plan's gross return of 9.4% outperformed OMERS' gross return 4.6% by 4.8% and its funded ratio increased to 90.0% from last year's 82.0%.

The Plan's return of 9.4% did not meet its benchmark of 9.7% and added value of -0.3% but bettered the RBCITS average of 9.1% by 0.3%.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS23094(a) – AON Quarterly Investment Review for the City of Hamilton Master Trust for the Fourth Quarter 2023 Period Ending December 31, 2023

Appendix “B” to Report FCS23094(a) – RBC Investor Services Reports Canadian DB Pension Plans return 8.2% in Q4, ending the year up 9.1%: