



City of Hamilton Report for Information

To: Chair and Members
Audit, Finance and Administration Committee

Date: May 1, 2025

Report No: FCS25017

Subject/Title: Reserve / Revenue Fund Investment Performance
Report as of December 31, 2024

Ward(s) Affected: (City Wide)

Recommendations

- 1) That Report FCS25017 respecting Reserve / Revenue Fund Investment Performance as of December 31, 2024 **BE RECEIVED** for information.

Key Facts

- For 2024, the City's Reserve / Revenue Fund ("Reserve Fund") had an earnings rate of return of 4.04% on market value basis and an overall market value return of 6.37% which outperformed the benchmark of 4.49% by 188 points.
- For 2024, the Reserve Fund together with the City's bank account and GICs realized a return of 4.54% on cost basis, and generated income of \$80.63 M. The income generated over five years averages \$51.89 M.
- The Reserve Fund is governed by Ontario legislation (Ontario Regulation 438/97) and the City's Statement of Investment Policies and Procedures (Report FCS24004).
- The Reserve Fund investment holdings comprises bonds, ONE Investment Program Canadian Corporate Bond Portfolio ("ONE Canadian Corporate Bond Portfolio") and ONE Investment Program Canadian Equity Portfolio ("ONE Canadian Equity Portfolio").
- The Reserve Fund investment holdings together with the City's Guaranteed Investment Certificates (GICs) and bank balances totalled \$1.8 B as at December 31, 2024.

Financial Considerations

There are no budgetary or financial implications to the recommendations.

Background

Report FCS25017 provides transparency on the financial management of the City's investments.

Analysis

The Reserve Fund investment holdings (bonds, ONE Canadian Corporate Bond Portfolio, and ONE Canadian Equity Portfolio) together with Bank GICs and bank balances total \$1.8 B on market value basis and \$1.8 B on cost basis as at December 31, 2024.

Reserve Fund Values and Composition

As at December 31, 2024, the market value of the Reserve Fund (including accruals) was \$1,176,025,761 compared with \$1,158,613,000 as at December 31, 2023 representing an increase of \$17,412,761. The book value of the Reserve Fund (including accruals) as at December 31, 2024 was \$1,176,404,026 resulting in an unrealized loss on market value of \$378,265.

The composition of the market value of the Reserve Fund was \$1,068,248,219 (or 90.8% of the fund) in bonds, including cash and accruals, \$102,124,357 (or 8.7% of the fund) in the ONE Canadian Equity Portfolio and \$5,653,184 (or 0.5% of the fund) in the ONE Canadian Corporate Bond Portfolio, resulting in a total of \$1,176,025,761 as at December 31, 2024.

As of December 31, 2024, the portfolio weighted term-to-maturity of the Reserve Fund was 5.46 years compared with 5.52 years as at December 31, 2023.

Earnings Rate of the Reserve Fund

The Reserve Fund had an earnings rate of 4.04% for the 12 months ending December 31, 2024 and had an average earnings rate of 3.14% over the past five years. The earnings rate includes investment income and bond lending income but excludes realized and unrealized capital gains / losses.

Return on Average Cost for Reserve Fund, Bank Account and GICs

Income generated of \$80,626,525 was realized on an average cost of assets of \$1,776,728,996 giving a percentage return on average cost of 4.54% in 2024.

The average cost of assets of \$1,776,728,996 consists of \$1,212,108,130 in Reserve Fund investments (\$1,135,905,946 in bonds, \$70,181,889 in ONE Canadian Equity Portfolio; \$6,020,295 in the ONE Canadian Corporate Bond Portfolio), \$500,690,899 for the City's bank account balance and \$63,929,967 in GICs.

The income generated of \$80,626,525 is composed of investment income, net realized capital gains / losses, lending income, bank interest and GICs interest, over the 12 months ending December 31, 2024. The average annual income generated over the last five years is \$51.89 M.

Overall Market Value Return of Reserve Fund

For the 12 months ending December 31, 2024, the overall market value return (which includes investment income, bond lending income, realized capital gains / losses and unrealized capital gains / losses) for the Reserve Fund was 6.37% and the return on the benchmark was 4.49%, resulting in an outperformance of 188 basis points. Over the last five-year period, the annual overall market value return averaged over the years from 2020 to 2024 is 2.49% per annum, outperforming the average return on the benchmark over the same five-year period of 1.52% by 97 basis points.

Over the 12-month period ending December 31, 2024, the City's investment in ONE Canadian Equity Portfolio returned 20.57% and the City's investment in ONE Canadian Corporate Bond Portfolio returned 4.60%.

The outperformance of the Reserve Fund versus the benchmark for the year ending December 31, 2024 is mostly attributed to the holdings in short-term and mid-term maturity bonds, which outperformed bonds with longer maturity over the year. ONE Canadian Equity Portfolio holdings posted significant positive returns in 2024, which also contributed to the outperformance.

Our benchmark or Policy target return of 4.49% is comprised of returns on a portfolio of 62.5% FTSE Canada Short Term Government Bond index, 27.5% FTSE Canada All Government index and 10.0% FTSE Canada 91 Day T-Bill index. FTSE refers to Financial Times Stock Exchange.

Comparators

By comparison, for the year ending December 31, 2024 the overall market value returns were 4.85% for the ONE Investment Program Canadian Government Bond Portfolio (bonds with term to maturity 18 months to three years) and 7.17% for ONE Investment Program Money Market / HISA Portfolio. If the City's Policy had been used in these ONE Investment Program Portfolios (i.e., 90% in ONE Investment Program Canadian Government Bond Portfolio and 10% in ONE Investment Program Money Market / HISA Portfolio), then the overall market value return would have been 5.08%, or 1.29% less than the actual overall market value return of 6.37%.

On an average (over 12 months in 2024) Reserve Fund market value of \$1,196 M, an incremental return of 1.29% would translate to an improved market value of approximately \$15.43 M.

Also, for comparison with short term bond indices, the FTSE TMX Short Government Index returned 4.92% while the FTSE TMX All-Government Mid Index returned 4.00%.

Table 1 summarizes the investment return indicators for the Reserve Fund and other comparators over the past five years.

Table 1 – Investment Return Indicators

	12 Months ended 12/31/2024	12 Months ended 12/31/2023	12 Months ended 12/31/2022	12 Months ended 12/31/2021	12 Months ended 12/31/2020
Policy Target	4.49%	4.80%	-5.70%	-1.49%	5.51%
Reserve Fund - Overall Market Value Return	6.37%	6.60%	-7.09%	-0.57%	7.16%
Comparators (1 to 4):					
1 ONE Investment Program – Canadian Government Bond	4.85%	4.61%	-4.04%	-1.44%	5.29%
2 ONE Investment Program – Money Market/HISA Portfolio *	7.17%	4.65%	1.57%	0.04%	0.85%
3 FTSE TMX – Short Government	4.92%	4.19%	-3.88%	-1.12%	4.85%
4 FTSE TMX – Mid Government	4.00%	5.65%	-10.33%	-3.07%	9.69%
Reserve Fund - Earnings Rate (Excludes Capital Gains/Losses)	4.04%	3.14%	2.86%	2.95%	2.71%
Reserve Fund - Return on ONE Canadian Equity Portfolio **	20.57%	20.55%	17.07%	33.56%	19.56%

Notes to Table 1:

* 2024 CoH calculation based on One Investment Program Money Market (Jan to Sept) and One Investment Program HISA (Oct to Dec); 2020-2023 as per One Investment Program Money Market (MM). One Investment Program MM was discontinued in Oct 2024.

** 2023 & 2024 market returns as per RBCITS; 2020 to 2022 returns calculated by COH

Canadian Interest Rates

Table 2 shows the changes in Canadian interest rates from January 2023 to January 2025.

Table 2 – Canadian Interest Rates

Canada Benchmark Bond	Interest Rate January 2, 2025	Interest Rate January 2, 2024	Interest Rate January 3, 2023
One Month (T-Bill)	3.19%	5.03%	4.10%
2 year	2.93%	3.96%	4.02%
5 year	2.96%	3.35%	3.34%
10 year	3.22%	3.18%	3.21%

City's Bank Account and GICs

In regard to interest earned on the City's bank account, it is noted that during the year ending December 31, 2024 the interest rate on the City's bank account was often greater than the interest rate on short term investments. Therefore, monies earmarked for short-term operations / expenses were held in the City's bank account to earn the higher interest rate. Additionally, monies earmarked for short term operations / expenses were also invested in GICs at attractive rates compared to short term investments and these GICs were held in the City's bank account.

Looking Forward

Market and economic expectations drive interest rates and return on assets. The current global issues including tariffs affect growth, investment, employment and inflation. Staff will continue to monitor the current situation and make adjustments to the investment strategy and asset mix accordingly.

Alternatives

There are no alternatives for consideration.

Relationship to Council Strategic Priorities

Report FCS25017 enforces and supports the following:

1. Sustainable Economic & Ecological Development
 - 1.1 Reduce the burden on residential taxpayers
3. Responsiveness & Transparency
 - 3.1 Prioritize customer service and proactive communication

Previous Reports Submitted

Recent Investment Performance Reports and Statement of Investment Policies and Procedures Report include:

- FCS24067 - [Reserve / Revenue Fund Investment Performance Report – December 31, 2023](#) – AF&A, December 5, 2024
- FCS23001 - [Reserve / Revenue Fund Investment Performance Report – December 31, 2022](#) – AF&A, May 18, 2023
- FCS22032 - [Reserve / Revenue Fund Investment Performance Report - December 31, 2021](#) – AF&A May 19, 2022
- FCS24004 - [Reserve/Revenue Statement of Investment Policies and Procedures](#) – AF&A, January 18, 2024

Consultation

None.

Appendices and Schedules Attached

None.

Prepared by:

Gerald T. Boychuk, Chief Investment Officer
Corporate Services Department, Finance / Administration,
Investments and Special Projects
Brandon A. Teglas, Investment Assistant
Corporate Services Department, Finance / Administration,
Investments and Special Projects

Submitted and recommended by:

Brian McMullen, Director
Finance / Administration, Investments and Special Projects
Corporate Services Department