INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: September 10, 2012	
SUBJECT/REPORT NO: Hamilton Future Fund Investment Performance Report - June 30, 2012 (FCS12068) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department **SIGNATURE:**	**PREPARED BY:** Gerald T. Boychuk 905-546-4321

Council Direction:

Not Applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of **4.58%** for the 12 months ending June 30, 2012 and an average earnings rate of **4.75%** over the past five years. Bond lending revenues of **$3,810** are included in the earnings rate of **4.58%**. 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 **$3.04** million in bond interest, net realized capital gains and lending revenue over the last 12 months ending June 30, 2012. The total return of **$3.04** million was realized on an investment at an average cost of **$67,525,856**. The percentage return on investment cost over this period was **4.50**%. Interest, net realized capital gains/losses and lending income over the last five years have averaged approximately $3.6 million annually. The duration of the portfolio of investments was **3.66** years as of June 30, 2012 compared to **3.17** years as of December 31, 2011. As at June 30, 2012, the market value of the portfolio was **$75,662,459**; net unrealized capital gains totalled **$2,252,157** million and net capital loss of **$187,979** was realized through the past 12 months.

For the 12 months ending June 30, 2012, the overall return (which includes interest, bond lending revenue, realized and unrealized capital gains/losses) was **3.49%,** underperforming the benchmark return of **4.97%** by **148** basis points. Over the past five years, the overall return has averaged **5.06%** per annum, underperforming the average benchmark return over the same five-year period of **5.10%** by **4** basis points.

The overall returns for the One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) for the year ended June 30, 2012 were **1.33%** for bonds and **1.03%** 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 **3.08%** or **41** basis points less than the actual return of **3.49%**. Using an average portfolio market value of **$71,414,883** million for the past 12 months, an increase of **0.41%** in overall return translates into a revenue increase of approximately **$292,801**.

The following Table 1 summarizes the investment return indicators.

Table 1

Investment Return Indicators (for information purposes only)

	12 Months ended 6/30/2012	**12 Months ended 12/31/2011**	**12 Months ended 12/31/2010**	**12 Months ended 12/31/2009**	**12 Months ended 12/31/2008**
Policy Target	4.97%	5.76%	3.89%	1.72%	9.17%
Hamilton Future Fund Portfolio	**3.49%**	**4.33%**	**3.91%**	**4.69%**	**8.86%**
The One Fund – Bonds	3.31%	4.19%	3.00%	3.35%	8.08%
The One Fund – Money Mkt.	1.03%	1.19%	0.65%	0.75%	4.00%
DEX - Short Government	3.55%	4.62%	3.29%	1.94%	8.55%
DEX – Mid Governments	11.38%	10.20%	6.51%	1.57%	7.01%
Lending Revenue	$3,810	$6,697	$4,046	$8,524	$6,395
Earnings Rate (Excludes Capital Gains/Losses)	**4.58%**	**4.72%**	**4.57%**	**5.00%**	**4.89%**

The Future Fund investment portfolio underperformed its benchmark due to its overweight position in Provincial and Canadian Schedule I Bank Notes with short maturities (less than one year in maturity). In these sectors, longer term bonds outperformed shorter term bonds. The Hamilton Future Fund has been purposely invested in shorter-term maturities due to the upcoming need to finance Pan Am and West Harbour lands spending requirements.

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

Table 2

CANADIAN INTEREST RATES			
Canada Benchmark	**Interest Rate June 29, 2012**	**Interest Rate January 3, 2012**	**Interest Rate January 4, 2011**
One Month (T-Bill)	0.86%	0.90%	0.91%
2 year	1.03%	0.98%	1.70%
5 year	1.25%	1.31%	2.46%
10 year	1.74%	1.99%	3.17%

As at June 30, 2012, compared with December 31, 2011, yields on Government of Canada bonds were lower for those with a yield-to-maturity greater than 5 years and were slightly higher for those with a yield-to-maturity less than five years. Credit spreads were moderately wider on Provincial, Canadian Schedule I Bank Deposit Note and Canada Housing Trust Agency bonds with yield-to-maturity greater than five years; and were either narrower or unchanged with yield-to-maturity less than five years. Commodities were down by 6.9%; crude oil was down 13.6%; gold was up 2.2%; and the Canadian dollar relative to the U.S. dollar appreciated by 0.5% to USD98.37 on June 29, 2012. In the first half of 2012, the European debt crisis and global growth concerns were key themes in the bond market and, like last year, continued to drive yields lower as investors moved into safe havens. In the first half of 2012, the Bank of Canada kept the policy interest rate at 1%, unchanged, citing external downside risks.

Recently, on August 1, 2012, the Federal Reserve reiterated that low levels (near zero) for the policy rate can be expected through late 2014. On July 17, 2012, as expected, the Bank of Canada maintained the policy rate at 1% saying the global economy has weakened since April 2012 which is expected to restrain Canadian growth. Market expectations are that the Bank of Canada will raise the policy rate ahead of the Federal Reserve and possibly in 2013.

The Bank of Canada, in July 2012, downgraded its 2012 growth forecast for the Canadian economy to 2.1% from 2.4%. Recently, on July 16, 2012, citing downside risks from the euro zone debt crisis, the International Monetary Fund (IMF) reduced its estimate for 2013 global growth to 3.9 per cent from 4.1 per cent just three months ago, and projects global growth to be 3.5% for 2012.

Some downside risks to the global economic outlook in 2012 include a hard economic landing in China as the momentum slows in its economy; slower-than-expected growth in the U.S., and the risk that policymakers in the euro-zone do not do enough to contain the region's on-going debt crisis.