



INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: March 2, 2011	
SUBJECT/REPORT NO: Hamilton Future Fund Investment Performance Report - December 31, 2010 (FCS10076(a)) (City Wide)	
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SIGNATURE:	

Council Direction:

Not applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of **4.57%** for the 12 months ending December 31, 2010 and an average earnings rate of **4.81%** over the past five years. Bond lending revenues of **\$4,046** are included in the earnings rate of **4.57%**. 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 **\$3.7** million in bond interest, net realized capital gains, lending revenue over the last 12 months ending December 31, 2010. The total return of **\$3.7** million was realized on an average investment at a cost of **\$69,832,660**. The percentage return on investment cost over this period was **5.35%**. Interest, realized capital gains/losses and lending income over the last five years have averaged approximately **\$4.9** million annually. The duration of the portfolio of investments was **2.87** years as of December 31, 2010 compared to **3.39** years as of December 31, 2009. As at December 31, 2010 the market value of the portfolio was **\$71,876,298**; net unrealized capital gains totalled **\$3,353,227** and net capital gains of **\$508,193** were realized through the past 12 months.

SUBJECT: Hamilton Future Fund Investment Performance Report - December 31, 2010 (FCS10076(a)) (City Wide) - Page 2 of 4

For the 12 months ending December 31, 2010, the overall return (which includes interest, bond lending revenue, realized and unrealized capital gains/losses) was **3.91%**, outperforming the benchmark return of **3.89%** by **2** basis points. Over the past five years, the overall return has averaged **5.00%** per annum, beating the average benchmark return over the same five-year period of **4.64%** by **36** 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 December 31, 2010 were **3.00%** for bonds and **0.65%** 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 **2.77%** or **114** basis points less than the actual return of **3.91%**. Using an average portfolio market value of **\$74.97** million for the past 12 months, an increase of **1.14%** in overall return translates into a revenue increase of approximately **\$854,719**. The following Table 1 summarizes the investment return indicators.

Table 1
Investment Return Indicators (for information purposes only)
(to December 31, 2010)

	12 Months ended 12/31/2010	12 Months ended 12/31/2009	12 Months ended 12/31/2008	12 Months ended 12/31/2007	12 Months ended 12/31/2006
Policy Target	3.89%	1.72%	9.17%	4.50%	3.91%
Hamilton Future Fund Portfolio	3.91%	4.69%	8.86%	3.75%	3.80%
The One Fund – Bonds	3.00%	3.35%	8.08%	3.84%	2.62%
The One Fund – Money Mkt.	0.65%	0.75%	4.00%	4.39%	3.83%
Dex - Short Government	3.29%	1.94%	8.55%	4.54%	3.88%
Dex – Mid Governments	6.51%	1.57%	7.01%	4.52%	3.91%
Lending Revenue	\$4,046	\$8,524	\$6,395	\$9,242	\$9,340
Earnings Rate (Excludes Capital Gains/Losses)	4.57%	5.0%	4.89%	4.84%	4.74%

The Future Fund out-performed its benchmark due to its investments in short provincial bonds and major Canadian Schedule I bank deposit Notes, both of which continue to add value. Investments in the portfolio consist primarily of bonds of less than five years in maturity with virtually no money market investments (given the extremely low interest

rates offered on money market investments). Investments have been in bonds that can enhance the earnings yield versus longer maturity Canada Government bonds.

The following Table 2 illustrates the changes in Canadian interest rates over the past 24 months:

Table 2

CANADIAN INTEREST RATES			
Maturity Term: Canada Benchmark	Interest Rate January 3, 2011	Interest Rate January 2, 2010	Interest Rate January 2, 2009
One Month (T-Bill)	0.90%	0.14%	0.83%
2 yr	1.67%	1.45%	1.10%
5 yr	2.42%	2.76%	1.70%
10 yr	3.12%	3.61%	2.69%

As at December 31, 2010, Canadian federal bond yields (with a maturity greater than three years) were lower versus December 31, 2009. In the third quarter of 2010, it became clear that the U.S. and Canadian economies were deteriorating. But, by the end of the fourth quarter, after further monetary and fiscal stimulus in the U.S., the outlook for growth had significantly improved. As at December 31, 2010, compared to December 31, 2009, credit spreads on Provincial, Canadian Schedule I deposit Notes and Canadian agency bonds were moderately wider. Commodities were up 17.4%; crude oil was up 15.1%; gold was up 29.5%; and the Canadian dollar relative to the U.S. dollar strengthened to parity. The Bank of Canada raised the policy interest rate by a quarter percentage point at three of its policy meetings in mid-year, resulting in a current policy interest rate of 1%.

Market expectations are that the Bank of Canada will begin again to raise the policy interest rate in the near future – forecasts range from as soon as April 2011 to as late as the end of 2011 (given the recent strength of the Canadian dollar and the Federal Reserve still on hold).

The Bank of Canada's forecast for Canadian GDP in 2011 is 2.4%. The World Bank forecasts global growth in 2011 to be 3.3% while the International Monetary Fund (IMF) forecasts global growth in 2011 to be 4.4%. Neither the World Bank nor the IMF believes growth would be strong enough to significantly reduce unemployment. Risks which may threaten the nascent economic revival globally include China's recent measures to rein-in inflation, a significant decline in prices in U.S. housing, the

sovereign debt crisis in Europe, and the lack of a plan by the U.S. to tackle their fiscal deficit.