



Hamilton

# INFORMATION REPORT

**CITY WIDE  
IMPLICATIONS**

<b>To:</b>	Chair and Members Corporate Administration Committee		
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<b>Date:</b>	April 25, 2006		
<b>Re:</b>	<b>Quarterly Investment Update to March 31, 2006 (FCS06043) (City Wide)</b>		

## **Council Direction:**

Not applicable

## **Information:**

The City's investment portfolio (comprised of reserves / reserve funds, capital account balances and unused operating funds) returned **4.62%** for the past 12 months and 5.90% for the 12 months ended December 31<sup>st</sup> 2005. Both returns include interest, realized and unrealized capital gains, and lending revenues. The duration of the portfolio at March 31, 2006, was 4.3 years compared to 5.32 years at December 31, 2005. The total fund value at March 31, 2006 was \$565,706,750. The portfolio exceeded its policy target return of 3.01% by 161 basis points for the year due to greater bond holdings. The actual earning rate (excluding realized and unrealized capital gains) for the year was 4.77%. Bond lending revenues of \$44,187 are included in the earning rate.

The One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) returns for the year ended March 31, 2006, was 1.81% for bonds including unrealized gains and 2.70% for money markets. If our policy had been used in these funds (i.e., 90.0% bonds and 10.0% money market), the annual return would have been 1.90% or 272 basis points less than the actual of 4.62% for the past year; which translates into a \$12.0+ million revenue increase on an average portfolio balance of \$500 million.

<b>Investment Return Indicators (for information purposes only)</b> <b>(To March 31, 2006)</b>		
	<b>12 Months ended 3/31/2006</b>	<b>12 Months ended 12/31/2005</b>
Policy Target	3.01%	3.48%
<b>City's Portfolio</b>	<b>4.62%</b>	<b>5.90%</b>
The One Fund – Bonds	1.81%	2.09%
The One Fund – Money Market	2.70%	2.52%
Scotia Index -Short Governments	2.17%	2.23%
Scotia Index -Mid Governments	3.97%	5.43%
Lending Revenues	\$ 44,187	\$ 44,596
Earning Rate (Excludes Capital Gains)	4.77%	4.71%

Unrealized capital gains at March 31, 2006 totalled \$9,242,948, resulting in a total portfolio value of \$565,706,750. Capital gains of \$5,839,000 were realized through the course of the past 12 months.

The City's portfolio was 61.7% bonds and 38.3% money market securities at quarter end compared to 81.9% bonds and 18.1% money market at January 1, 2006. The portfolio's money market holdings ranged from 12.6% to 38.3% through the past year, averaging 23.11%. The portfolio has increased from \$482 million to \$566 million with proceeds from tax levies and selected bond sales.

The schedule below demonstrates the changes in rates over the past fifteen months:

<b>CANADIAN INTEREST RATES</b>			
Maturity Term: (Canada Credit)	Interest Rate March 31, 2006	Interest Rate January 2, 2005	Interest Rate January 2, 2004
One month	3.78%	2.35%	2.49%
2 year	4.00%	3.02%	3.00%
5 year	4.16%	3.69%	3.99%
10 year	4.28%	4.30%	4.77%

The interest rate declines are having a significant impact on the City's investment portfolio. Firstly, the fund derives a significant proportion of income from short-term investments which are above the lows of January 2, 2005, but are at a significantly lower level (167 basis points), than in 2001 when the one month rate was 5.43%. The portfolio has a marginally greater number of bonds in it currently earning better than money

market rates. Given a rising interest rate environment, the portfolio will be increasing money market investments and reducing the duration of bond holdings.

The Bank of Canada continues to follow the United States in a measured increase in interest rates, depending upon economic conditions. The Canadian economy continues to operate near capacity with a relatively low unemployment rate. The housing market is strong and some price pressures are beginning to appear in the economy. Rate increases are not expected to be significant at this time, but they are expected to be continuous and in keeping with economic conditions. The rate increase of 25 basis points on April 25, 2006 is expected to be followed by an increase in May of another 25 basis points.

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General Manager  
Finance and Corporate Services