



Hamilton

INFORMATION REPORT

**CITY WIDE
IMPLICATIONS**

To:	Chair and Members Audit and Administration Committee		
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Date:	February 9, 2009		
Re:	Cemetery Accounts Investment Performance Report – December 31, 2008 (FCS08076(a)) (City Wide)		

Council Direction:

N/A

Information:

Over the twelve (12) month period ending December 31, 2008, the earnings rates are **5.06%** for the Cemetery Care & Maintenance Trust; **5.06%** for the Cemetery Monument Care Trust and **4.97%** for the Cemetery Pre-Need Assurance Trust. The earnings rate excludes realized and unrealized capital gains/losses and is based on interest and lending fees realized on the average portfolio market value.

Over the same period, the total returns (which include realized and unrealized capital gains/losses) are **7.89%** for the Cemetery Care & Maintenance; **5.97%** for the Cemetery Monument Care and **6.93%** for the Cemetery Pre-Need Assurance. The policy total return is 6.41%. As a result, the Cemetery Care & Maintenance and the Cemetery Pre-Need Assurance over-performed by one hundred and forty-eight (148) and fifty-two (52) basis points respectively; whereas, the Cemetery Monument under-performed by forty-four (44) basis points.

As of December 31, 2008, the total portfolio values are \$8,787,196 (with \$554,052 of unrealized capital gain) for the Cemetery Care & Maintenance; \$815,983 (with unrealized capital gain of \$ 50,064) for the Cemetery Monument Care and \$1,887,300 (with \$113,701 of unrealized capital gain) for the Cemetery Pre-Need Assurance.

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The following Chart illustrates the earnings rate, total return, securities lending revenue, income earned and ending portfolio value for the Trusts.

Investment Return Indicators (for information purposes only) (12 Months Ending December 31, 2008)			
	12 months ended Dec 31, 2008	12 months ended Dec. 31, 2007	12 months ended Dec. 31, 2006
Earnings Rate (Excluding Unrealized Capital Gains or Loss)			
Cemetery Care & Maintenance	5.06%	5.19%	5.33%
Cemetery Monument Care	5.06%	5.15%	5.34%
Cemetery Pre-Need Assurance	4.97%	5.14%	5.27%
Total Return			
Cemetery Care & Maintenance	7.89%	3.86%	4.13%
Cemetery Monument Care	5.97%	4.11%	4.54%
Cemetery Pre-Need Assurance	6.93%	4.11%	4.22%
Policy Target (Dex Universe Index)	6.41%	3.68%	4.06%
Securities Lending Revenue			
Cemetery Care & Maintenance	\$ 471.95	\$ 1,057.56	\$ 483.24
Cemetery Monument Care	\$ 35.63	\$ 33.29	\$ 8.80
Cemetery Pre-Need Assurance	\$ 69.15	\$ 65.40	\$ 28.80
Income Earned			
Cemetery Care & Maintenance	\$ 423,054	\$ 423,531	\$ 413,220
Cemetery Monument Care	\$ 38,846	\$ 38,026	\$ 37,511
Cemetery Pre-Need Assurance	\$ 88,705	\$ 85,773	\$ 85,117
Ending Portfolio Market Value			
Cemetery Care & Maintenance	\$ 8,787,196	\$ 8,626,953	\$ 8,327,894
Cemetery Monument Care	\$ 815,983	\$ 831,793	\$ 783,937
Cemetery Pre-Need Assurance	\$ 1,887,300	\$ 1,879,833	\$ 1,803,608

The following Chart illustrates the changes in Canadian interest rates over the past twenty-four (24) months:

CANADIAN INTEREST RATES			
Maturity Term: Canada Benchmark	Interest Rate January 2, 2009	Interest Rate January 2, 2008	Interest Rate January 2, 2007
One Month (T-Bill)	0.83%	3.71%	3.17%
2 yr	1.10%	3.75%	3.81%
5 yr	1.70%	3.87%	3.89%
10 yr	2.69%	3.99%	3.97%

Current conditions in Canadian fixed income markets continue to be dominated by the severe global financial crisis, a flight to Treasury bonds, declining commodity demand, and, now, global recession which is rapidly unfolding. Central Banks now face threats of a prolonged severe recession, extreme credit concerns for both corporate (financial) and government entities, and an extreme concern for liquidity. Governments around the world are in the process of implementing fiscal stimulus packages in an effort to revive growth.

Over the first half of 2008, Central Banks' actions in the U.S. and Canada reflected their view of the balance of the risks between slower growth (first quarter) and rising inflation expectations (second quarter). As a result, both the U.S. Federal Reserve and the Bank of Canada cut rates in the first four (4) months of the year. Rates were left unchanged at two per cent (2%) and three per cent (3%) respectively in the third (3rd) quarter, although inflation expectations along with commodity prices were deteriorating quickly. Oil tumbled thirty per cent (30)% from its' summer peak of \$147 in July 2008 to \$100 by September 30, 2008.

In the fourth (4th) quarter, the crisis in the global financial markets accelerated and, as well, the economy was quickly deteriorating. Oil plummeted to close at \$45 by year end, almost seventy per cent (70%) lower from its July 2008 peak. As a result, the U.S. Federal Reserve cut rates by almost two per cent (2%) to a range of zero to point twenty-five per cent (0-.25%), its current level. The Bank of Canada dropped rates by two per cent (2%) to one per cent (1%). Expectations are for the Bank of Canada to cut another fifty (50) basis points at its next meeting in March 2009.

The consensus outlook is for a global recession with recovery in the second (2nd) half of 2009 or early 2010. Globally, credit risk premiums are still at elevated levels and credit continues to be difficult to obtain. Risk aversion and de-leveraging continue to be dominant themes. Some risks to the outlook are: (1) the recession will prove deeper and prolonged with a slower recovery; and (2) longer term asset price deflation expectations will form in which case longer term rates (10+ years) will decline further.

The Cemetery portfolios have benefited from holding some longer-maturity bonds as rates have declined over the year; and from holding high-quality credits (senior bank paper). The current strategy is to continue to hold high quality credits and some longer maturity bonds with the expectation of a depressed financial and economic outlook over the next six (6)months.

Antonio D. Tollis
Acting General Manager
Finance and Corporate Services