



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>Hamilton Future Fund March 31, 2006 Quarterly Investment Update (FCS06044) (City Wide)</b>		

## **Council Direction:**

Not applicable

## **Information:**

The Hamilton Future Fund monies were invested and returned 4.40% through 12 months ended March 31, 2006 and 5.21% for the 12 months ended December 31, 2005. This overall return includes realized and unrealized capital gains and lending income. The duration of the portfolio was approximately 4.5 years compared to 4.7 years at December 31, 2005. The total fund value at March 31, 2006, was \$98,891,196. The actual earning rate (excluding realized and unrealized gains) for the year was approximately 4.52%. Bond lending revenues of \$10,246 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. Money market holdings averaged 17.2%, ranging from 8.5% to 27.8%. The fund at March 31, 2006 was approximately 15.3% money market holdings. If funds had been invested in the One Fund at our Policy of 10% money market and 90.0% bonds, the return for the past year would have been 1.90% or 250 basis points less. This translates into a revenue increase of approximately \$2.5+ million on an average portfolio of \$100 million.

<b>Investment Return Indicators (for information purposes only) (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>Fund's Portfolio</b>	<b>4.40%</b>	<b>5.21%</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	\$10,246	\$10,814
Earning Rate (Excludes Capital Gains)	4.52%	4.77%

Unrealized capital gains at March 31, 2006, totalled \$2,506,410, resulting in a total portfolio value of \$98,891,196. Capital gains of \$2,158,250 were realized through the course of the past twelve months. The portfolio fluctuated through this period from a low of 72% bonds to a high of 91% bonds and is currently 88% bonds on a cost basis.

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

#### CANADIAN INTEREST RATES

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 have a significant impact on investment returns. Firstly, the fund derives a significant proportion of income from short-term investments, which are above the lows of January 2, 2005, but significantly lower (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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