



Hamilton

INFORMATION REPORT

**CITY WIDE
IMPLICATIONS**

To:	Chair and Members Audit and Administration Committee		
From:	Antonio D. Tollis Acting General Manager Finance and Corporate Services	Telephone: Facsimile: E-mail:	(905) 546-2424 x4549 (905) 546-2584 Tony.Tollis@hamilton.ca
Date:	February 9, 2009		
Re:	Hamilton Future Fund Investment Performance Report – December 31, 2008 (FCS08081(a)) (City Wide)		

Council Direction:

N/A.

Information:

The City Of Hamilton Future Fund portfolio has returned **4.89%** (excluding capital gains or losses) for the twelve (12) months ending December 31, 2008. Bond lending revenues of \$7,535 are included in the earnings rate. For the past five (5) years, the average earning rate on investments has been **4.69%**. The overall return which is impacted by increasing or decreasing asset prices was **8.86%** for the twelve (12) months ending December 31, 2008. Over the past five (5) years, this overall return has averaged **5.55%** per annum, beating the average benchmark return of **5.26%** by twenty-nine (29) basis points. The Future Fund portfolio has generated, on average over the past five years, approximately \$5.5 million in interest, realized capital gains and lending income annually. The duration of the portfolio, as of December 31, 2008, was 3.71 years compared to 3.72 years as of December 31, 2007. The total value of the portfolio was \$84,642,854 as of December 31, 2008.

The One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) returns for the year ended December 31, 2008, was 8.08% for bonds, including unrealized gains and 4.00% for money markets. If the City's policy had been used in these funds (i.e., 90.0% bonds and 10.0% money market), the overall return would have been **7.67%** or one hundred and nineteen (119) basis points less than the actual return of 8.86% for the past year, which translates into approximately \$938,910 revenue increase on an average portfolio balance of \$78.9 million in the past twelve (12) months.

**Investment Return Indicators (for information purposes only)
(to December 31, 2008)**

	12 Months ended 12/31/2008	12 Months ended 12/31/2007	12 Months ended 12/31/2006	12 Months ended 12/31/2005	12 Months ended 12/31/2004
Policy Target	9.17%	4.50%	3.91%	3.48%	5.23%
Hamilton Future Fund Portfolio	8.86%	3.75%	3.80%	5.21%	6.15%
The One Fund – Bonds	8.08%	3.84%	2.62%	2.09%	4.93%
The One Fund – Money Mkt.	4.00%	4.39%	3.83%	2.52%	2.20%
Dex - Short Government	8.55%	4.54%	3.88%	2.23%	4.89%
Dex – Mid Governments	7.01%	4.52%	3.91%	5.43%	7.62%
Lending Revenue	\$6,395	\$9,242	\$9,340	\$10,814	\$7,063
Earning Rate (Excludes Capital Gains/Losses)	4.89%	4.84%	4.74%	4.77%	4.23%

Unrealized capital gains at December 31, 2008, totalled \$4,792,916, resulting in a total portfolio value of \$84,642,854. A capital gain of \$4,364 has been realized through the past twelve (12) months. The portfolio fluctuated through this period from a low of 61.69% bonds to a high of 95.87% bonds and is currently 82.47% bonds on a market value basis as of December 31, 2008.

The Future Fund marginally under-performed its' benchmark due to a very low duration in the portfolio. The portfolio has been fully invested in securities of less than five (5) years. As well, the portfolio has emphasized current returns versus longer term Canada bonds which would have increased capital gains due to the flight to quality experienced through 2008.

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 are dominated by the ongoing global credit crisis, a slowing economy, and a flight to US Treasury bonds and declining commodity demand. Central Banks now face threats of very weak growth, extreme credit concerns for both corporate and government entities, and an extreme concern for liquidity. Credit has become increasingly scarce worldwide and world economies are entering a significant recessionary period in spite of extremely low interest rates. It appears that fiscal stimulus through increased borrowing and expenditure will be required to further stimulate the economy.

Over the first half of 2008, Central Banks' actions in the U.S. and Canada reflected their view of the balance of risks between slower growth (first quarter) and rising inflation (second quarter). Both the U.S. Federal Reserve and the Bank of Canada cut rates in the first four (4) months of this year and left rates unchanged at 2% and 3% respectively in the third quarter. Inflation expectations declined through the second half of the year as commodity prices tumbled, including oil which closed around \$45 versus its' summer peak of \$147.

The Federal Funds rate has declined to 0-0.25%; the Canadian overnight rate to 1.0%. The credit crisis has spread to emerging countries and is influencing all countries. Globally, credit risk premiums are at historic levels and credit is more difficult to obtain. Loss of confidence has resulted in a dramatic flight to U.S. Treasury bonds/bills. Economic and credit conditions, and massive de-leveraging, have caused a significant downward trend in economic activity. The consensus outlook for 2009 is, at best, world growth at approximately 2% - a recessionary level. Short-term rates are expected to decline further in Canada; however, U.S. rates are now at 0-0.25% and cannot drop further. Longer term rates are not declining as rapidly and will not unless long-term deflation unfolds.

The City's investment portfolios are invested with duration of less than the index due to the uncertainty, possible long-term rate increases, credit concerns and liquidity concerns. Investment has been in the highest credit quality bonds issued by governments or major Canadian banks. Money market holdings, bank balances and/or short bond equivalents have remained high in order to remain flexible.

Actual interest in 2009 earnings should remain higher than short-term or bank rates at less than 1.0% annually due to longer term bonds held.

Antonio D. Tollis
Acting General Manager
Finance and Corporate Services