Council Direction:
Not Applicable.

Information:
The investment portfolio for the City of Hamilton’s (City’s) Reserve/Revenue Fund (comprised of reserve/revenue funds, capital account balances and unused operating funds) had an earnings rate of 2.93% for the 12 months ending December 31, 2012, and had an average earnings rate of 3.54% over the past five years. Bond lending revenues of $85,206 are included in the earnings rate of 2.93%.

The City’s portfolio generated approximately $29.01 million in bond interest, net realized capital gains, lending revenue and bank interest over the 12 months ending December 31, 2012. The average dollar amount generated over the last five years is approximately $34.7 million. Earnings were supplemented by $4.87 million in net realized capital gains for the 12 months ending December 31, 2012. The total return of $29.01 million was realized on an average asset cost of $842,017,606 ($714,529,827 for the investment portfolio plus $127,487,779 for the City’s bank account balance). The percentage return on this asset cost over this period was 3.45%. Net unrealized capital gains totalled $25.15 million as at December 31, 2012.
For the 12 months ending December 31, 2012, the overall return (which includes bond interest, bond lending revenues, realized and unrealized capital gains/losses) was 3.06%; whereas the return on the benchmark was 1.56%, resulting in an out-performance of 150 basis points. Over the past five years, the overall return has averaged 5.17% per annum, outperforming the average return on the benchmark over the same five-year period of 4.42% by 75 basis points.

By comparison, the overall returns for the ONE Funds portfolios (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers’ Association), over the 12 month period ending December 31, 2012 were 1.55% for bonds and 1.04% for money market. If the City’s Policy had been used in these Funds (i.e. 90% bonds and 10% money market), then the overall return would have been 1.50% or 156 basis points less than the actual return of 3.06%. On an average portfolio market value of $748.4 million, an increase of 1.56% in return translates into a revenue increase of approximately $11.7 million.

Table 1 below summarizes the investment return indicators:

| Table 1 |
|------------------|------------------|------------------|------------------|------------------|
| **Investment Return Indicators (for information purposes only)** |
|-----------------|------------------|------------------|------------------|------------------|------------------|
| Policy Target   | 1.56%            | 5.76%            | 3.89%            | 1.72%            | 9.17%            |
| City’s Portfolio| 3.06%            | 6.83%            | 4.29%            | 4.92%            | 6.73%            |
| The One Fund – Bonds | 1.55%            | 4.19%            | 3.00%            | 3.35%            | 8.08%            |
| The One Fund – Money Market | 1.04%            | 1.19%            | 0.65%            | 0.75%            | 4.00%            |
| Dex - Short Government | 1.17%            | 4.62%            | 3.29%            | 1.94%            | 10.16%           |
| Dex – Mid Governments | 3.45%            | 10.20%           | 6.51%            | 1.57%            | 11.66%           |

<table>
<thead>
<tr>
<th>Bond Lending Revenue</th>
<th>$85,206</th>
<th>$64,847</th>
<th>$69,350</th>
<th>$97,365</th>
<th>$84,071</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings Rate (Excludes Capital Gains/Losses)</td>
<td>2.93%</td>
<td>3.33%</td>
<td>3.57%</td>
<td>4.26%</td>
<td>3.61%</td>
</tr>
<tr>
<td>City’s Return ONE Fund Investment (Equity)</td>
<td>14.49%</td>
<td>-7.71%</td>
<td>11.91%</td>
<td>31.18%</td>
<td>-19.04%</td>
</tr>
</tbody>
</table>

The investments in the portfolio consist of 100% bonds and 0% money market. During the year ending December 31, 2012, the rate earned in the City’s bank account was
higher than the rate earned on Treasury Bills and Banker’s Acceptances (with terms
less than 6 months) and therefore, funds that are earmarked for short term expenses
were held in the City’s bank account. The City also continued to hold a modest amount
of Floating Rate Notes, which continued to be a favourable alternative to money market
securities.

As at December 31, 2012, the duration of the portfolio was 4.65 years compared to 4.2
years as at December 31, 2011. The market value of the investment portfolio was
$781,705,521, an increase of $75.54 million compared to December 31, 2011.
Significant cash flows in 2012 included the City borrowing a total of $94.74 million in
three separate loans. On February 17, 2012, a $42 million loan was undertaken by
effectively issuing a 15 year serial debenture through Infrastructure Ontario. Then on
May 4, 2012, the City undertook two variable-rate long-term bank loans, one for $38
million over 15 years and another for $14.74 million over 5 years, both structured as
fixed-rate serial debentures using interest rate swaps.

The market value of the portfolio includes $76.3 million (attributed cost) of restructured
Master Asset Vehicle-II (MAV-II) Notes, and $9.9 million of Devonshire Trust Asset
Backed Commercial Paper which was not restructured. The MAV Notes were received
in exchange for the previously held Asset Backed Commercial Paper (ABCP). In 2007
and 2008, the City took a reserve loss position of $12.9 million against all the
restructured MAV Notes. The Devonshire Trust ABCP has an allowance for loss of $5.5
million. Although the City’s independent litigation for Devonshire Trust has been
terminated, due to external legal counsel error, there is another on-going litigation
between Barclay’s Bank and Metcalfe & Mansfield which, if successful, could result in
recovery. Also of note, on August 30, 2012, the MAV-II Noteholders approved an
Extraordinary Resolution that allows for an early redemption process. The
Noteholders’s approval was the first step for the optional early redemption process,
which requires, and now awaits, the consent of various other stakeholders in order for it
to move forward and ultimately be put in place.

In June 2007, the City began subscribing to the ONE Funds Equity Account. Over a
period of 67 months ending December 31, 2012, the City has deposited a total of $6.0
million with the ONE Funds Equity Account. As at December 31, 2012, the market
value of the City’s investment in the ONE Funds Equity Account is $6.99 million, which
corresponds to 0.9% of the market value of the City’s investment portfolio. Over the
past twelve months ending December 31, 2012, the City’s one-year return on its
investment in the ONE Funds Equity Account was 14.49%.

The out-performance of the Reserve/Revenue investment portfolio relative to the
benchmark is attributed mostly to its longer duration and its holdings in Schedule I
Canadian Bank Deposit Note and Provincial bonds, primarily in the five and ten year terms.

Table 2 below shows the changes in Canadian interest rates over the past 24 months:

<table>
<thead>
<tr>
<th>CANADIAN INTEREST RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada Benchmark Bond</strong></td>
</tr>
<tr>
<td>One Month (T-Bill)</td>
</tr>
<tr>
<td>2 year</td>
</tr>
<tr>
<td>5 year</td>
</tr>
<tr>
<td>10 year</td>
</tr>
</tbody>
</table>

As at December 31, 2012, compared with June 30, 2012, yields on Government of Canada bonds were modestly higher. For Provincial, Canadian Schedule I Bank Deposit Note and Canada Housing Agency bonds, the credit spread narrowed relative to Government of Canada bonds. Commodities were up 3.7%; crude oil was up 4.9%; gold was up 4.9%; and the Canadian dollar relative to the U.S. dollar appreciated 2.5% and closed at near-par (1.0079) on December 31, 2012. In the second half of 2012, policy actions by central bankers (the European Central Bank and the Federal Reserve) resulted in lowering acute crisis risks in the euro area and the United States and reduced some of the buying of bonds as a safe-haven. In Canada, the Bank of Canada continued to keep the policy interest rate at 1%.

Recently, on January 30, 2013, the Federal Reserve cautioned that although stress in global financial markets has eased somewhat, the economic outlook continues to have downside risks. The Fed affirmed its pledge to purchase assets until the labour market improves substantially and, provided inflation remains in check, intends to keep low levels (near zero) for the policy rate until the jobless rate falls to at least 6.5%. In Canada, the Bank of Canada at its recent meeting on January 23, 2013, maintained the policy interest rate at 1% and indicated that the timing of any withdrawal of monetary stimulus is less imminent than previously anticipated.

The Bank of Canada’s latest forecast for Canadian economic growth is 2.0% in 2013. The International Monetary Fund projects a gradual global recovery, forecasting 3.5% global growth in 2013, a downward revision of 0.1% from its October 2012 forecast.

A key downside risk in the bond market during 2013 is uncertainty related to the timing of the Federal Reserve exiting its accommodative policy. Stronger than expected growth in the U.S. (currently expected to be between 2 and 3%) with inflation expectations not contained is another downside risk.