To: Chair and Members  
Corporate Administration Committee  

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General Manager  
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Date: October 20, 2005  
Re: Hamilton Future Fund September 30, 2005, Quarterly Investment Update  
(FCS05061(b)) (City Wide)

Council Direction:

Council has requested a Quarterly Investment Update on the status of the Hamilton Future Fund.

Information:

The Hamilton Future Fund monies were invested and returned 8.02% through 12 months from September 30, 2004, to September 30, 2005 and 6.15% for the 12 months ended December 31, 2004. This overall return includes realized and unrealized capital gains and lending income. The duration of the portfolio was approximately 6.1 years compared to 5.0 years at December 31, 2004. The total fund value at September 30, 2005, was $116,129,174. The actual earning rate (excluding realized and unrealized gains) for the year was approximately 4.47%. Bond lending revenues of $9,045 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 September 30, 2005, was 6.03% for bonds, including unrealized gains and 2.39% for money markets. Money market holdings averaged 14.5%, ranging from 8.0% to 21%. The fund at September 30, 2005, was approximately 16.0% 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 4.17% or 385 basis points less. This translates into a revenue increase of approximately $4.4+ million on an average portfolio of $115 million.
Unrealized capital gains at September 30, 2005, totalled $4,732,789, resulting in a total portfolio value of $116,129,174. Capital gains of $373,400 were realized through the course of the past twelve months. The portfolio fluctuated through this period from a low of 69% bonds to a high of 94% bonds and is currently 89% bonds on a cost basis.

The schedule below demonstrates the changes in rates over the past twenty-one months:

**CANADIAN INTEREST RATES**

<table>
<thead>
<tr>
<th>Maturity Term (Canada Credit)</th>
<th>Interest Rate Sept. 30, 2005</th>
<th>Interest Rate January 2, 2005</th>
<th>Interest Rate January 2, 2004</th>
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</thead>
<tbody>
<tr>
<td>One Month</td>
<td>2.76%</td>
<td>2.35%</td>
<td>2.49%</td>
</tr>
<tr>
<td>2 year</td>
<td>3.36%</td>
<td>3.02%</td>
<td>3.00%</td>
</tr>
<tr>
<td>5 year</td>
<td>3.63%</td>
<td>3.69%</td>
<td>3.99%</td>
</tr>
<tr>
<td>10 year</td>
<td>3.97%</td>
<td>4.30%</td>
<td>4.77%</td>
</tr>
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</table>

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 (-267 basis points), than in 2001 when the one month rate was 5.43%. The portfolio has a 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 has expressed its intention to join 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 market is expecting two interest rate increases going forward; one in October and one in December.

Joseph L. Rinaldo
General Manager
Finance and Corporate Services