

Financial highlights

Donations to the Foundation are invested for the long term in public markets and in alternative investments. Investment income is then allocated annually to support granting, community leadership and operations. The summary and charts presented here provide both a financial snapshot and a history of recent activity.

Overview

The financial results for the Foundation for 2022-23 reflect the continued generosity of our donors with \$7.5 million in donations, over \$13 million expended on grants and community leadership, more than \$44 million in capital invested for impact, and five- and ten-year investment returns that continue to exceed our long-term investment policy targets.

(\$000s)	2023	2022	2021
Donations received	7,478	10,812	10,704
Grants and community leadership	13,036	13,626	12,892
Impact investment (included in investments below)	44,114	31,610	30,831
Loans outstanding to charities and not-for-profits	13,565	10,619	10,673
As a % of total investments	17.8%	12.8%	12.7%
Operating expenses	2,843	2,660	2,662
As a % of average assets	1.08%	1.03%	1.16%
Total assets	263,425	261,063	256,102
Investments at:			
Market	213,400	203,403	199,294
Cost	34,148	44,093	42,812
Total investments	247,548	247,496	242,106
Total investment returns:			
One year*	4.0%	5.2%	35.9%
Five years	8.2%	8.9%	10.1%
Ten years	9.0%	10.1%	9.7%
Total HCF funds balance	258,872	257,103	252,244
Funds held on behalf of others	2,372	2,289	2,201

*One-year returns combine those from impact investing and the public market. Five- and ten-year returns show public market only.

Federal government legislation has increased the “disbursement quota” (the minimum amount that charities are required to spend on granting and charitable activities) to 5.0 percent from 3.5 percent of invested assets, beginning with HCF’s coming fiscal year. This change represents a 43 percent increase in required expenditures. HCF has exceeded the new five percent requirement for

the last five years, with disbursement rates ranging from 5.4 to 6.2 percent. In total, over the five years ended March 31, 2022, HCF exceeded the disbursement quota by more than \$22.5 million. In addition, the Foundation has continued to mobilize its capital to contribute to positive social and environmental outcomes with 18 percent in impact investments locally, nationally and globally. HCF’s endowment spending policy will remain at four percent for 2023-24 which, when added to our flowthrough granting and charitable activities, will meet the disbursement quota.

Public markets experienced volatility throughout the year with significant monetary policy tightening by central banks to try to tame post-COVID inflation. This, along with geopolitical instability and a series of global banking issues in the last quarter of the financial year, resulted in a market benchmark return of -1.5 percent. HCF’s public portfolio was flat at 0.2 percent for the year ended March 31, 2023. HCF’s total returns including our impact investments were four percent for the year. As outlined in the investment section of this report, the Foundation moved to record certain impact investments at fair value where reliably measurable. Staff believe this provides more accurate and transparent information to our stakeholders.

In addition:

- As a long-term investor, HCF recognizes that public markets will experience volatility throughout investment cycles. Our reserves, which are at our policy maximum, enable us to continue to grant and maintain operating capacity during market turbulence.
- We are committed to creating a more transparent and equitable public market through our responsible investing strategies. Paying attention to the environmental, social and governance factors of the Foundation’s holdings is an important way to align our assets with our mission. This strategy has evolved from learning the landscape and audits that hold our managers accountable, to a more proactive approach characterized by shareholder engagement on issues that are important to our organization.
- HCF continues to pursue our impact investment strategy by strengthening our commitment to reallocate more assets from our public market portfolios into impact investments that a) align with our mission and provide deep impact, b) provide the required investment returns, and c) provide opportunities not correlated with public markets. HCF has been developing our affordable housing strategy while continuing to actively invest in affordable housing initiatives. We are also gathering and sharing research and collaborating with housing providers, the City of Hamilton, other levels of government and other funders. See page 50 for a summary of this work.

In keeping with our commitment to financial accountability and transparency, full audited financial statements are available at www.hamiltoncommunityfoundation.ca or by mail. If you have any questions regarding our financial highlights, please contact Yulena Wan at ywan@hamiltoncommunityfoundation.ca or by phone at 905.523.5600 x 228. You may also access the HCF T3010 tax return information online at

<https://apps.cra-arc.gc.ca/ebci/hacc/srch/pub/chrtydtls?selectedCharityBn=130527427RR0001&isSingleResult=false&dsrdPg=1&q.stts=0007>

Donations

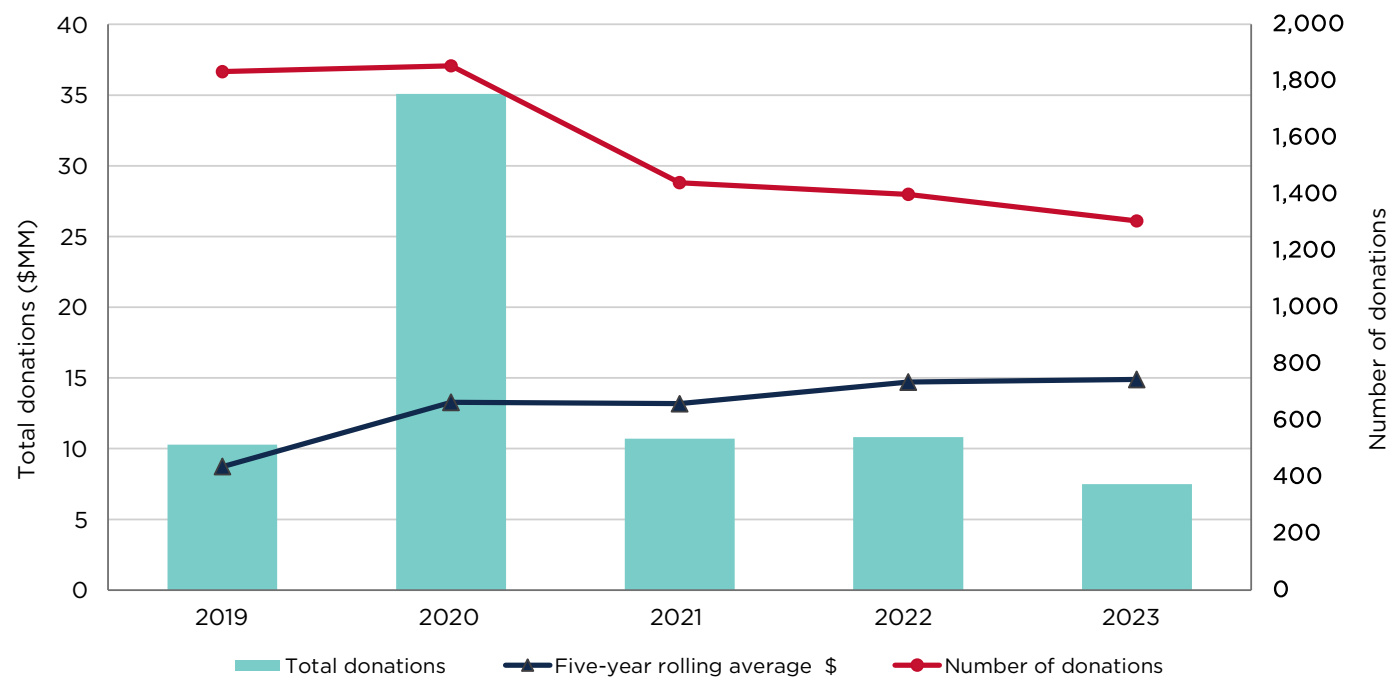
Donations to the Foundation are from individuals, corporations, and other charities. Donors may contribute to named endowment or flowthrough funds, to the Board-directed Community Fund, or to HCF’s community leadership projects.

HCF received \$7.5 million in donations in 2022-23. Annual donations are influenced by the realization of donations in wills and significant one-time donations such as property and private equity that have been received in recent years. As illustrated in Chart 1, annual donations have ranged from \$7.5 to \$35.1 million over the last five years. The five-year rolling average of donations has increased 71 percent, from \$8.7 million to \$14.9 million, over the past five years.

The number of donations is 1,305, a small decrease from 1,399 last year. The number of donations fluctuates based on “in memoriam” donations and the number and nature of events organized by donors to raise money for their funds.

Chart 1

DONATIONS



Grants and community leadership

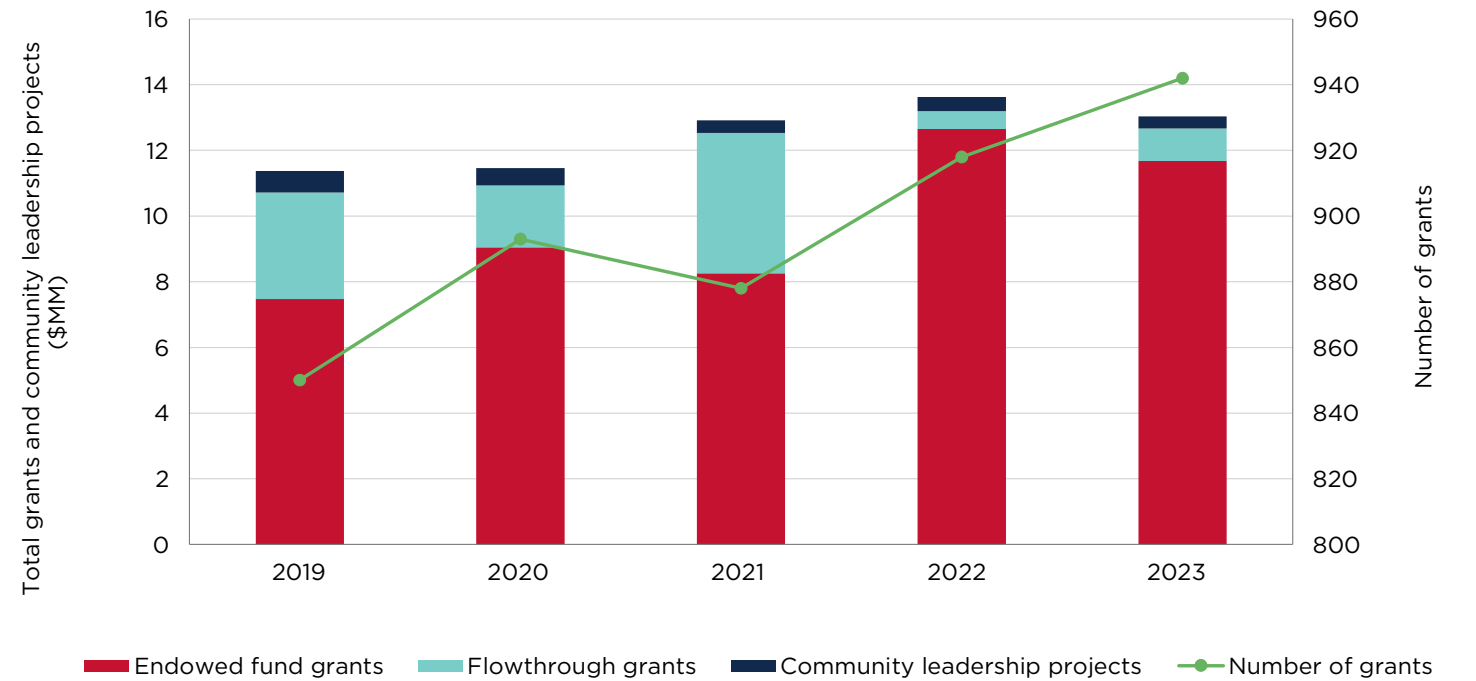
Grants are made annually from both endowed and flowthrough funds. Flowthrough fund balances are granted in a shorter time and thus can materially influence the amount HCF grants annually.

As illustrated in Chart 2, grants and community leadership project spending over the past five years has ranged from \$11.4 million to last year’s historic high of \$13.6 million. Granting from flowthrough funds and expenditures on community leadership projects has ranged from seven to 37 percent of total granting

in any given year, largely depending on the timing and nature of flowthrough and project activity. Flowthrough granting in recent years has largely consisted of federal government funding related to social finance investment readiness and COVID-19 support programs. This year’s 942 grants represent a record high and is five percent higher than the five-year average.

Chart 2

GRANTS AND COMMUNITY LEADERSHIP PROJECTS



Investments

Investments traded in active markets are reported at fair market value. Effective April 1, 2022, the Foundation changed its accounting policy for certain private equity, real estate and infrastructure investments (collectively “alternative investments”) from cost to fair value. When HCF first invested in these types of alternative investments, they represented a small proportion of the entire investment portfolio and accordingly management made an irrevocable election to record these types of investments at cost as the information to record them at fair value was not readily available.

However, over time the alternative investments have become an integral part of the Foundation’s investment strategy and thus have increased as a proportion of the total investment portfolio. Therefore, management has determined that maintaining certain alternative investments at cost does not provide relevant information to the Foundation’s stakeholders. As such, management has changed their previously irrevocable election and elected to measure certain alternative investments at fair value. This change in accounting policy has been applied prospectively with no restatement of prior year’s figures.

Those investments where fair value is not reliably measurable continue to be recorded at cost, less any impairment.

HCF invests according to policy guidelines established by the Board of Directors. Two committees of the Board oversee investments to ensure compliance with the policy:

- The Finance & Investment Committee oversees public market portfolios which are managed by two professional investment firms. This committee reviews the investment managers' reports quarterly to assess each manager's performance, and formally evaluates their performance semi-annually.
- The Impact Investment Committee oversees impact investments with due diligence and other support from professional consultants.

HCF is endowment based, thus its policy focuses on long-term investing. It is supported by a reserve account that is currently at its policy maximum.

The investment policy sets out a total portfolio target asset mix, as well as a range around these targets. The public market investment managers have mandates within this targeted asset mix and use their discretion to invest the portfolios within these ranges. Chart 3 reflects the targeted and year-end asset mix. Note that \$23.4 million of private equity relates to a fund established by a donor and is neither part of the asset mix nor of the consolidated portfolio results.

Chart 3

	Asset mix	
	Targeted	Year end
Total	100%	100%
Fixed income	10 – 40%	13%
Public equity	30 – 85%	73%
Alternatives	0 – 20%	14%

The next table reflects the public market and impact investment returns including and excluding the one-time adjustment to fair value on alternative investments for the year. This \$8.0 million unrealized gain included \$1.6 million related to infrastructure, \$1.8 million to real estate and \$4.6 million related to private equity impact investments. These unrealized gains reflect the increase in the value of these investments that have occurred over the last 10 years.

Annual investment returns	Public markets	Impact investments	Total portfolio
Returns before fair value adjustment	0.2%	1.4%	0.3%
Returns including fair value adjustment	1.3%	13.6%	4.0%
Benchmark	-1.5%	6.7%	-0.1%

Impact investments include loans, community bonds, private debt, real estate investments and private equity. As noted, those investments where fair value is not reliably measurable are recorded at cost, less any impairment. Currently, \$10.7 million or 24 percent of the \$44 million impact portfolio is carried at cost until investments are realized (and cash is returned). As a result, the total annual impact return will continue to lag behind the long-term impact return until realized; however, the current adjustment to fair market value will begin to more realistically reflect the impact portfolio results. We continue to monitor the performance of our impact investments closely and are encouraged by both their positive social and environmental impact as well as their financial returns.

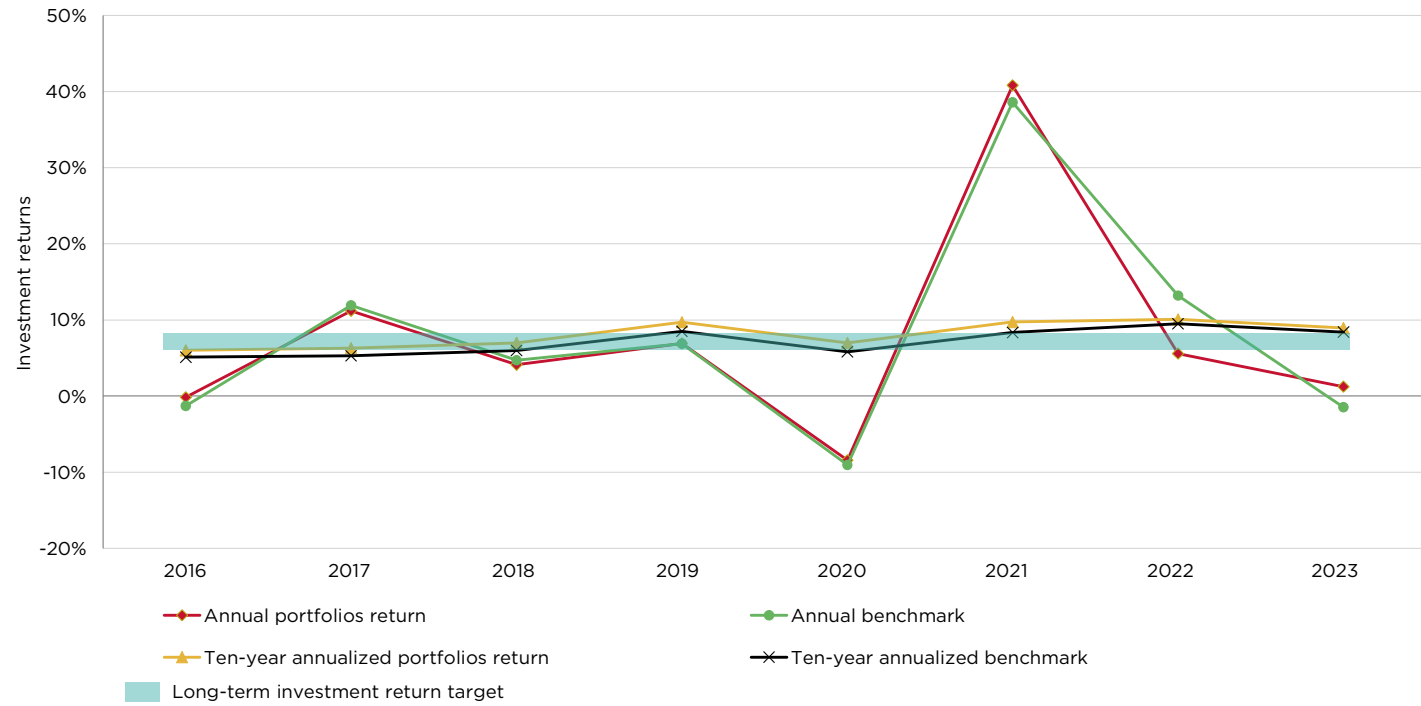
Public markets

Two long-term portfolios are invested in the public markets with Jarislowsky Fraser and Connor, Clark & Lunn. Chart 4 compares those portfolios against benchmarks as follows:

- Returns for each year against the annual investment policy benchmark for that year.
- 10-year annualized return against the 10-year annualized investment policy benchmark.
- Both return rates against the targeted investment policy long-term return range.

Benchmarks reflect the performance of each market index based on HCF's specific target asset mix. Comparing actual results to the benchmark measures the value added by investment managers against the average market performance. HCF's investment policy target is a long-term investment return in the 6.5 to 7.5 percent range.

Chart 4 PUBLIC MARKET INVESTMENT RETURNS



The public markets experienced a negative and very volatile year ending at a -1.5 percent benchmark with HCF’s portfolios posting a 0.2 percent increase. Overall, the impact of inflation and the central bank’s response in raising interest rates created significant negative returns for the first two quarters of HCF’s financial year. The third quarter ending December 31, 2022 saw all markets delivering positive returns as inflation appeared to be easing. Despite a tumultuous final quarter, where concern about the continued high levels of inflation and banking issues heightened volatility, all markets experienced positive returns. This helped to offset some of the significant negative returns for the first half of the year.

As long-term investors, HCF’s investment and spending policies recognize that volatility is a reality of public market investing. Our spending policy determines the amount available to grant in any given year, and enables HCF to grant at a consistent level, with excess income in higher-return years used to support income shortfalls in lower-return years. As noted in the overview, HCF’s spending policy for granting from endowed funds is set at four percent for 2023-24.

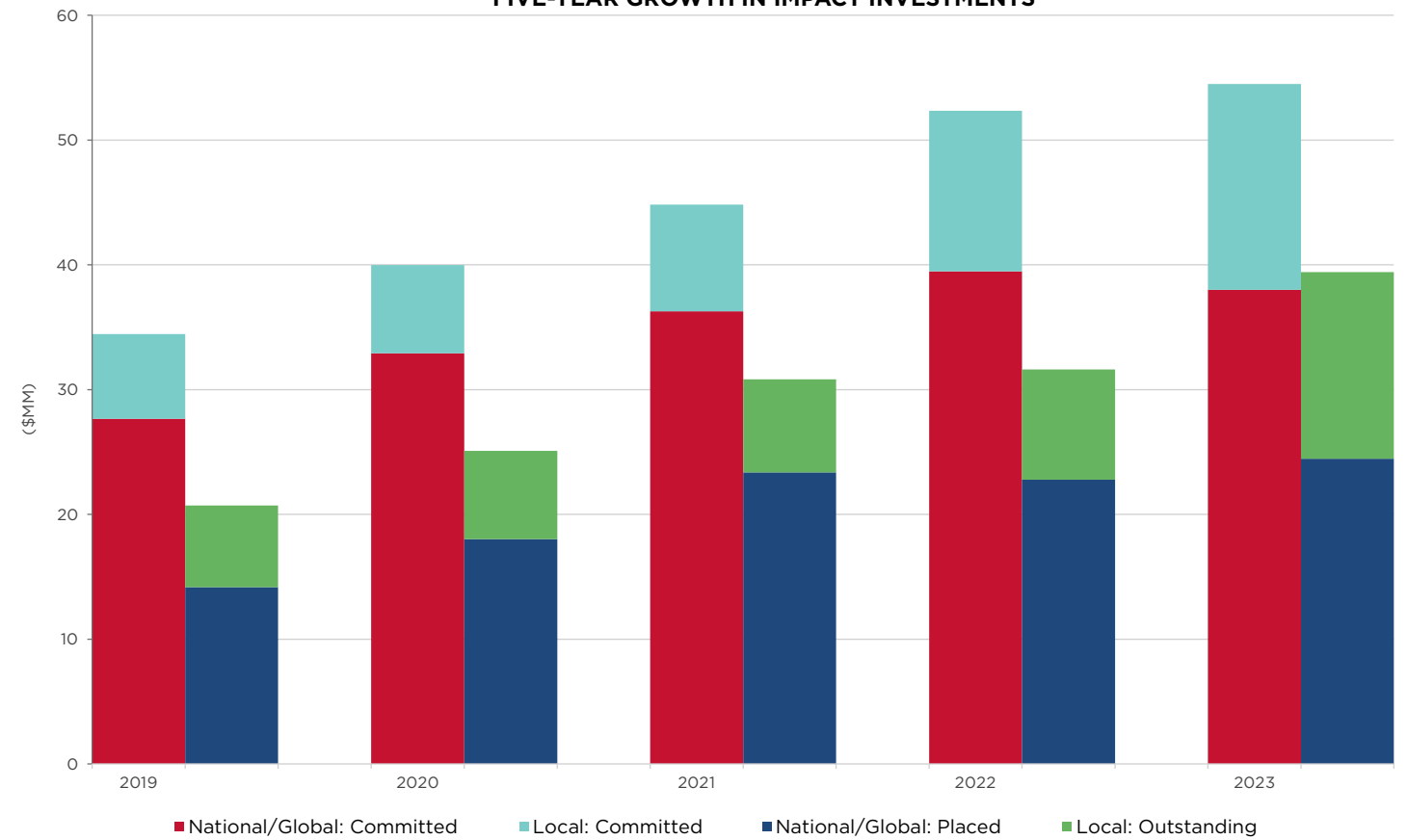
The 8.9 percent 10-year annualized return continues to be higher than the targeted investment policy range and is 0.5 percent higher than the 8.4 percent benchmark.

Impact investments

Impact investments enable donations to endowed funds to drive positive change beyond granting, because they represent investments of capital that deliver financial returns coupled with positive social and/or environmental outcomes. These investments also provide a pool uncorrelated to public market volatility.

Approximately 18 percent of our long-term assets are in impact investments. Chart 5 illustrates HCF’s impact investing progress over the past five years with \$39.4 million currently placed and another \$15 million committed. This brings HCF’s total commitment to \$54.5 million, up from \$52 million last year. Impact investments cover areas including affordable housing, arts, environment and sustainable development, and support our response to the Truth and Reconciliation Calls to Action.

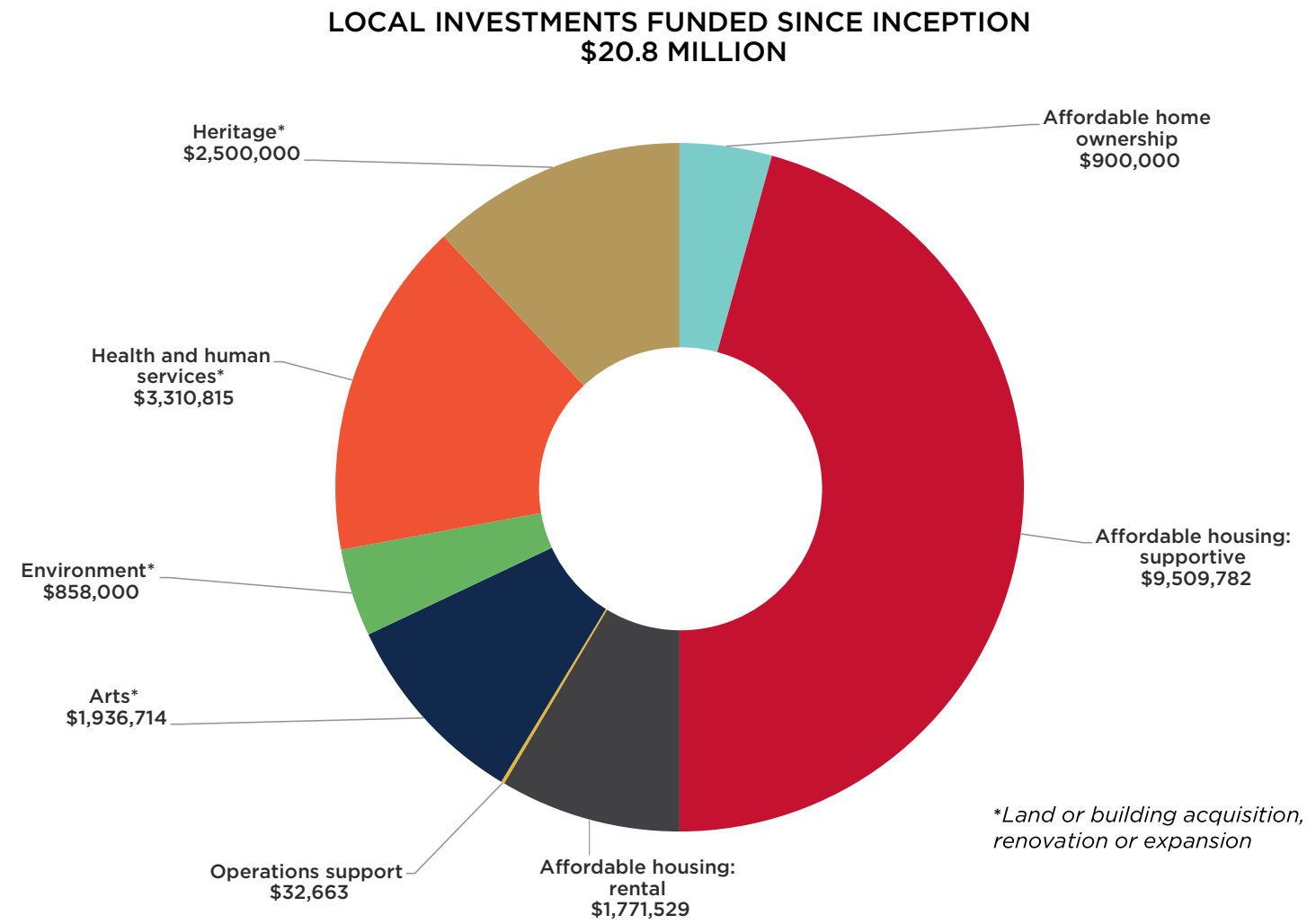
Chart 5 FIVE-YEAR GROWTH IN IMPACT INVESTMENTS



Locally

Local investments since inception total \$20.8 million with \$14.9 million outstanding at year end and an additional \$1.6 million committed. Chart 6 shows the impact areas our investments have supported. Since inception in 2012, \$5.9 million in investments have been repaid and recycled as new investments in our community, and have also supported granting. Affordable housing continues to be a primary focus of our local investing with 59 percent of our investments since inception supporting housing providers to build and preserve affordable home ownership opportunities, affordable rental housing and supportive housing options.

Chart 6

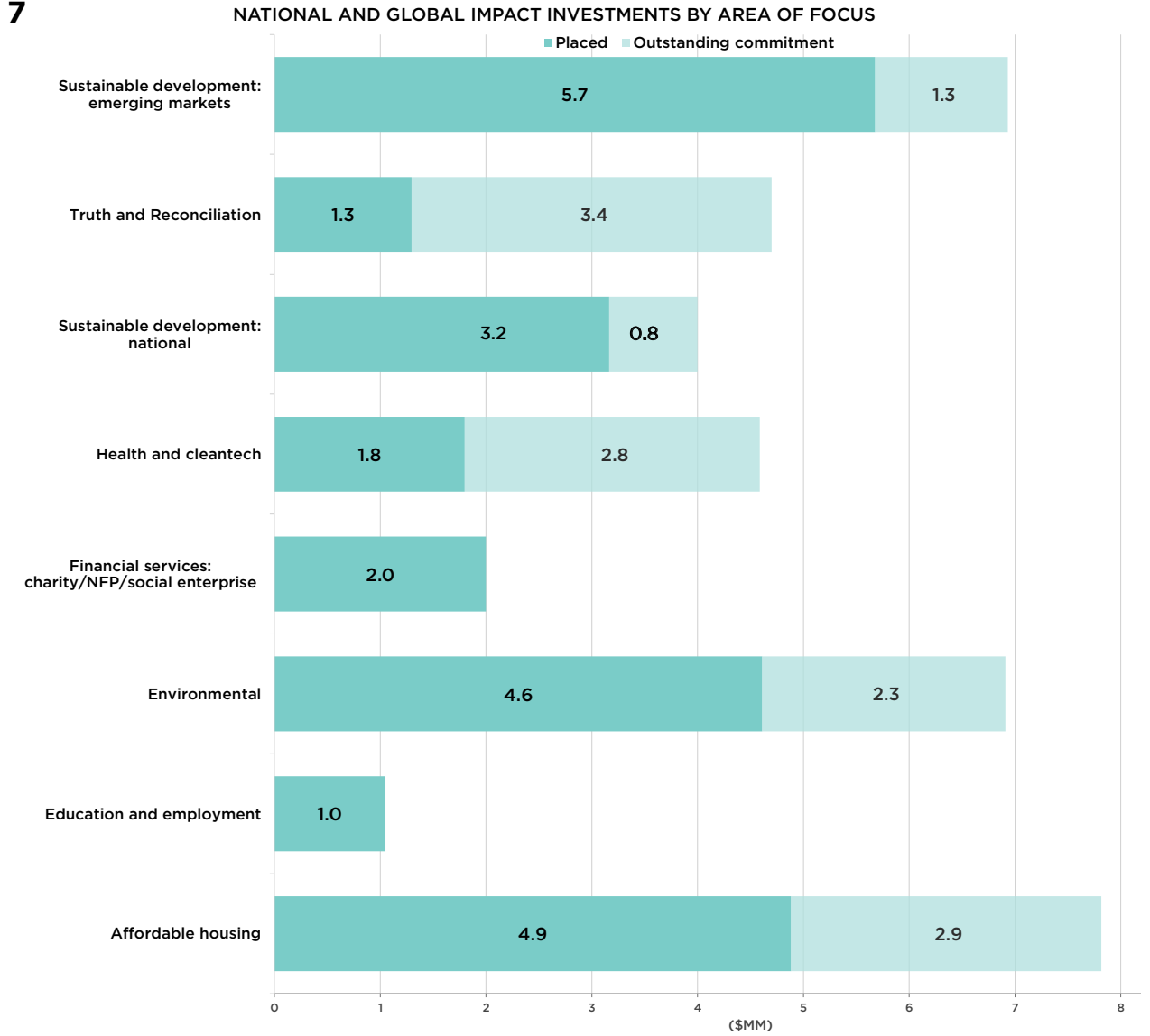


Nationally/Globally

These investments include private equity, private debt and real estate.

Chart 7 identifies the investment areas, with \$24.5 million placed and a total commitment of \$38.0 million across 27 investments.

Chart 7



Total investment returns

	2023	2022
Investment returns include:		
Interest and dividends	\$ 6,176,342	\$ 9,107,630
Realized gains on sale of investments	2,275,193	12,532,624
Unrealized gains (losses)	2,953,420	(10,071,728)
	<u>11,404,955</u>	<u>11,568,526</u>
Deduct:		
Investment fees	(1,150,840)	(1,147,044)
Investment income allocated to funds held on behalf of third party	(83,409)	(88,213)
	<u>\$ 10,170,706</u>	<u>\$ 10,333,269</u>

Operations

Operating expenses for the fiscal year ended March 31, 2023 total \$2.8 million, up 6.9 percent reflecting a return to a pre-COVID level of operations and inflation pressures. Staffing costs related to the Foundation's 23 employees represent 69 percent of HCF's operating costs.

In addition to breaking out cost by type, operating costs are allocated to each of the Foundation's operating areas: grants administration, community and philanthropic leadership, community relations and knowledge sharing, philanthropic services, and administration and governance. Community and philanthropic leadership includes convening around the city's critical issues, and fostering the growth of philanthropy and impact investing by sharing staff time and knowledge to support other charities. Charts 8 and 9 illustrate these costs by operating area and by expense type.

Chart 8

COST BY OPERATING AREA

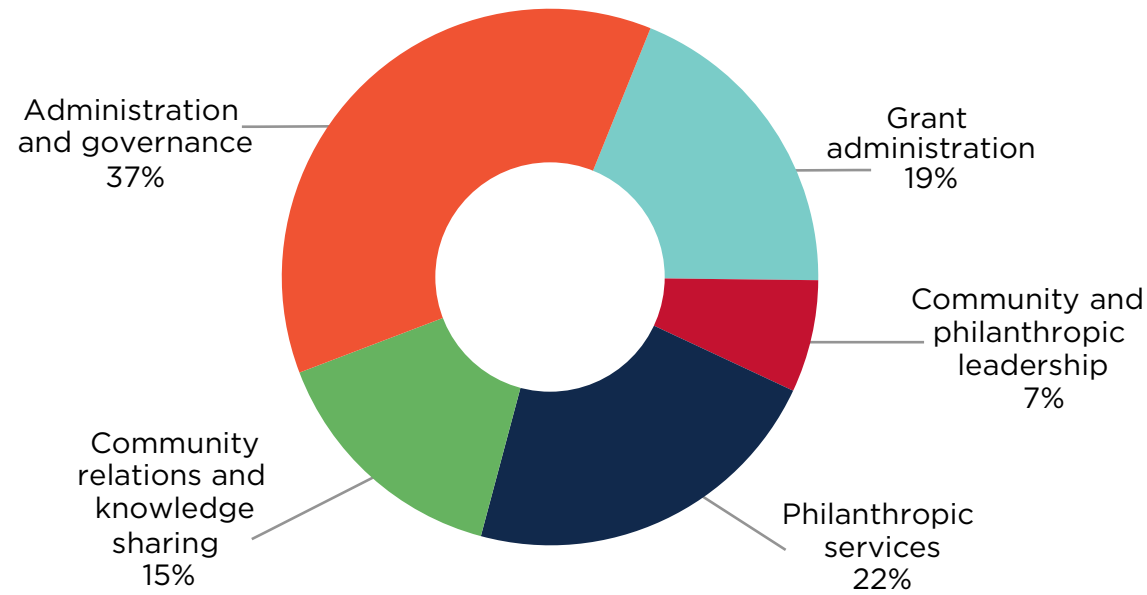
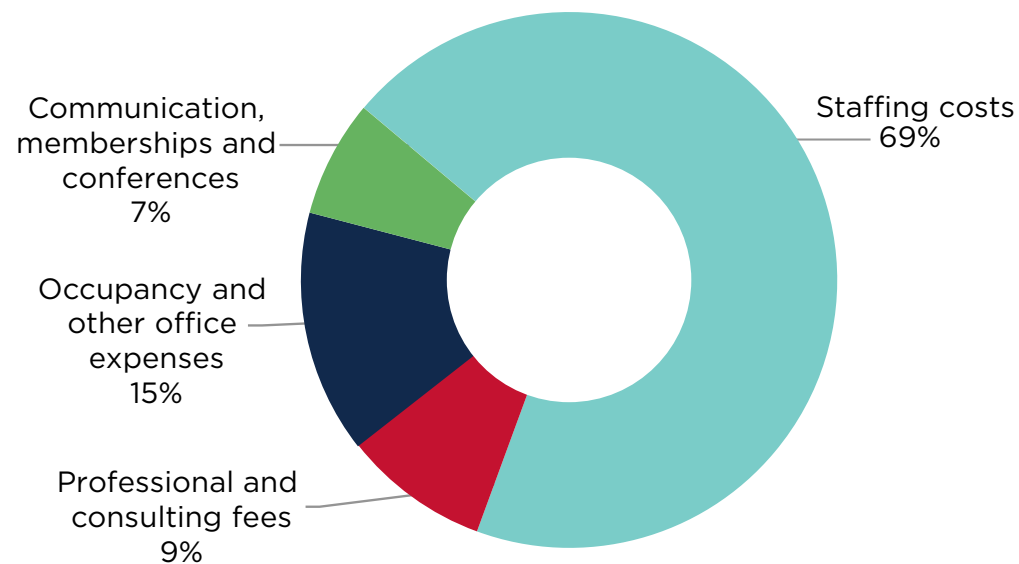


Chart 9

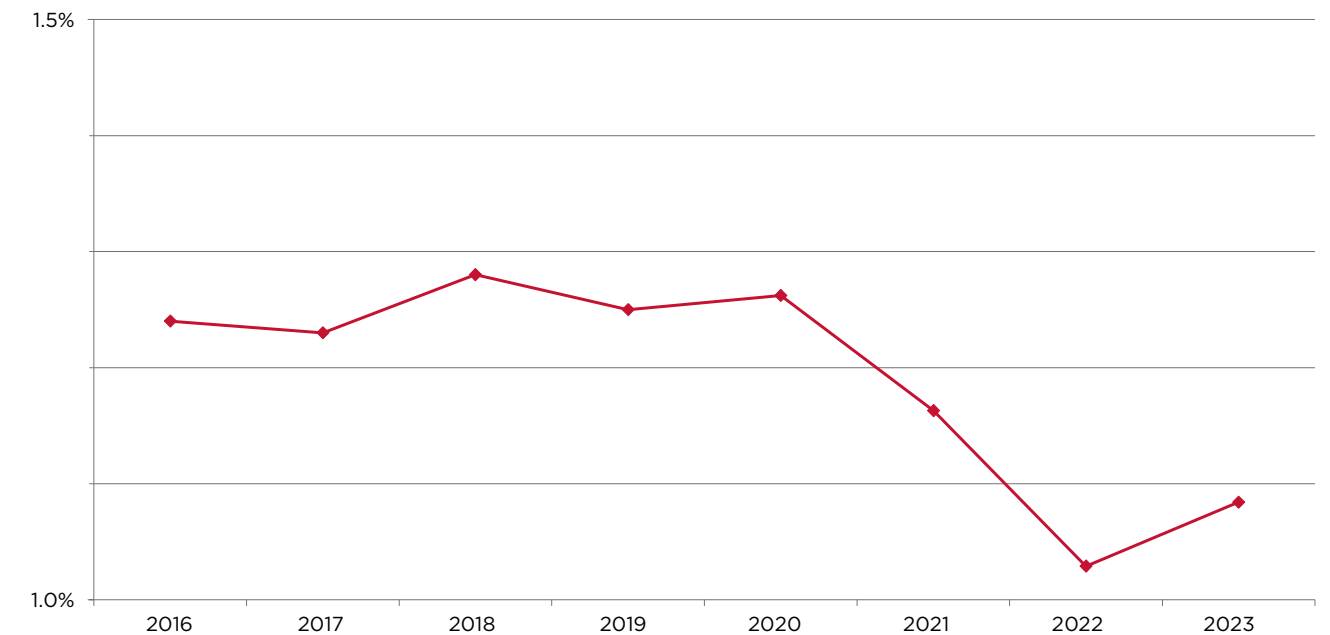
COST BY EXPENSE TYPE



The Foundation's annual donor development expenses are not necessarily attributable to the donations received in that year. The nature of donations to the Foundation can result in costs preceding the receipt of the donation by several years (for example, donations through wills). As a result, consistent with the community foundation sector, operating costs are evaluated by a ratio of total operating expenses to average total assets. Ratios fall within a range depending on the size and stage of the community foundation's development.

Chart 10

OPERATING EXPENSES AS A PERCENT OF AVERAGE ASSETS



The ratio of 1.08 percent, as illustrated in Chart 10, represents a significant drop from the pre-pandemic level in 2020 of 1.26 percent. The drop in 2021 resulted from the impact of large investment returns that increased the Foundation's average assets, combined with cost savings that resulted from the pandemic's impact. We anticipate this ratio will return to the ranges seen in prior years which management assesses to be within an acceptable range for a foundation of HCF's size, stage and level of community leadership, compared against benchmarks established in the community foundation sector. We continually monitor both the actual results and the benchmarks.

Total assets

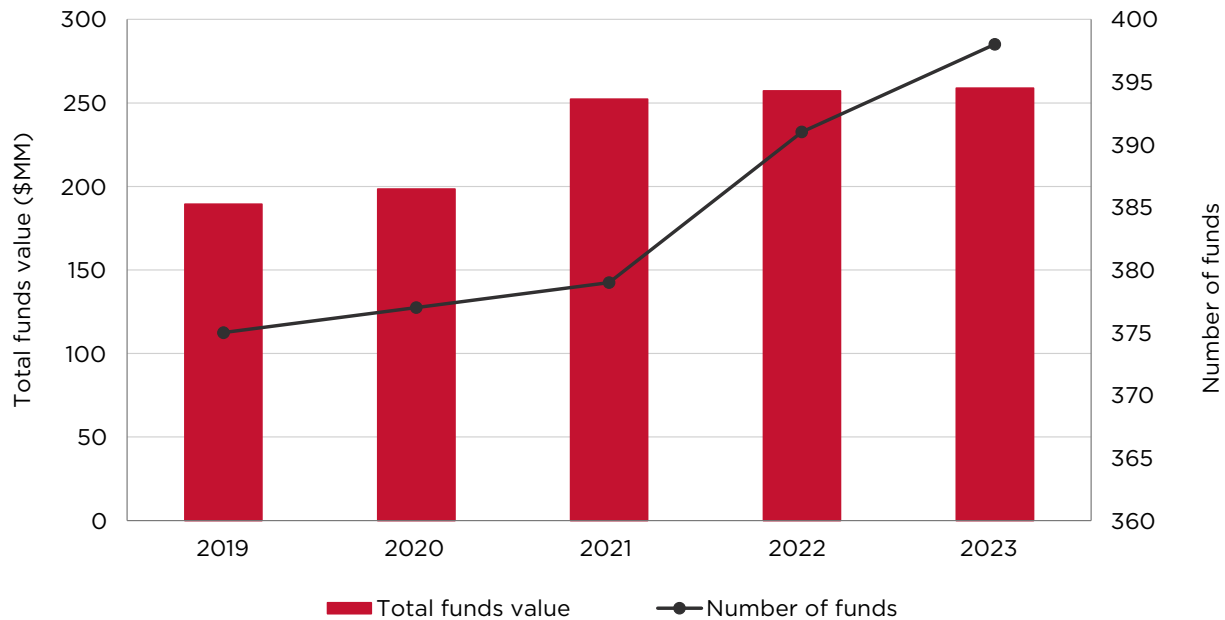
Hamilton Community Foundation’s total assets of \$263.4 million at March 31, 2023 include balances of HCF funds and \$2.4 million in funds held on behalf of others.

HCF fund balances

Hamilton Community Foundation’s fund balances, illustrated in Chart 11, represent accumulated donations plus the net investment earnings on these donations, minus granting and operating costs. Funds include both endowed and flowthrough funds. Endowed funds are held permanently and grant from investment earnings. Flowthrough funds are fully distributed as grants over a pre-determined term.

Chart 11

FUNDS



The fund balances have grown 37 percent to \$258.9 million as of March 31, 2023, from \$189.3 million in 2019. The \$53.9 million increase in fund balances at the 2021 year end resulted largely from the 35.9 percent annual investment return. The number of funds has grown five percent to 398 from 375 in 2019.