



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: July 14, 2021
Re: Town of Huntsville - Annual Investment Plan Review
Report: ONE JIB-008-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Town of Huntsville's Investment Plan (Attachment 1).

2. SUMMARY

Huntsville's annual Investment Policy Statement review resulted in changes that more closely aligns it with the ONE JIB Outcome Framework. The Town has \$9.5 million available to invest, which includes a new contribution of \$1.0 million. The Town's updated Municipal Client Questionnaire shows that its previous need for a Cash Outcome allocation is no longer necessary and that the new contributions have a 5-to-10-year horizon, which allows the Town to assume more risk overall.

The proposed Investment Plan shows a reallocation of MNRI currently in the Cash Outcome to Contingency and to the Target Date 3-to-5-Year Outcome compared to the June 2020 Investment Plan. It also maps the new contribution of \$1.0 million to the Target Date 5-to-10 Year Outcome. This changes the Pooled Fund allocations, shifting MNRI out of ONE HISA and increasing the allocations to the equity and fixed income funds.

The average annual expected return in the proposed Investment Plan is 4.0%, which is 0.5% higher than in the June 2020 Investment Plan. Based on the Town's Municipal Client Questionnaire and discussions with the Treasurer, the difference is appropriate because the adjusted time horizons allow the Town to assume higher levels of risk.

3. BACKGROUND

Huntsville's Annual Investment Policy Statement review resulted in changes to closely align it with the ONE JIB Outcomes Framework

The Town of Huntsville completed its annual Investment Policy Statement review on January 27, 2021 and adopted the revised Policy on February 22, 2021. Council is required to review and, if necessary, update the Investment Policy Statement annually, as per Ontario Regulation 438/97 (Regulation). Council updated the Town's Policy so that it more closely aligns with the ONE JIB Outcomes Framework.

Huntsville's investment objective is long-term growth and returns in excess of inflation

The Regulation requires municipalities to consider the following matters under the prudent investor regime:

- Preservation of capital
- Adequate liquidity that takes into account the needs of financial obligations and reasonably anticipated budgetary requirements
- Diversification by asset class, market, sector, issuer, credit quality and term to maturity
- Income and capital appreciation
- Macro risks, such as inflation, economic growth and interest rates.

Huntsville's Investment Policy Statement verifies that the Town has taken these considerations into account in setting its investment objectives. The Town's overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns based on the Consumer Price Index.

Huntsville's overall risk tolerance is a moderate chance loss of capital over a 5-year period with an annual downside comfort of 5 to 10% decline in a single year.

Huntsville's risk tolerance and investment horizon are defined by category and purpose of reserve and reserve fund, and they are aligned with the ONE JIB Outcome Framework

The ONE JIB uses an outcome-based approach to translate municipal needs and goals into investment allocations.

Table 1 below shows details of the ONE JIB's approved Outcomes Framework, which classifies investments into four Outcome categories: Cash, Stable Return, Contingency, and Target Date Outcomes. The Outcomes are in alignment with Huntsville's investment objectives, risk profile and time frames. Huntsville's Investment Plan assigns investment allocations based on the outcome mapping in Table 1.

Table 1: ONE JIB Outcomes Framework

Outcome Category	Outcome Strategy	Objective	Risk Tolerance, Liquidity	Investment Horizon
Cash	Cash	Preservation of capital	Low risk; high liquidity	< 3 years
Stable Return	Stable Return	Income generation: To generate returns to fund recurring needs	Moderate risk with emphasis on growth and stable returns, regular liquidity	> 5 years (Perpetual)
Contingency	Contingency	Contributions for unexpected and infrequent events	Higher risk, emphasis on longer-term capital growth with some liquidity	> 5 years (Perpetual)
	Asset mgt reserves	Contributions to generate returns to fund asset management reserves	Higher risk, emphasis on longer-term capital growth; low liquidity	> 10 years (Perpetual)
Target Date	Target Date 3-5 yrs	Preservation of capital	Low risk; high liquidity	3 - 5 years
	Target Date 5-10 yrs	Contributions toward capital projects, mitigate inflation impacts and meet target funding requirements	Moderate risk, liquid	5 - 10 years
	Target Date 10+ yrs	Contributions toward capital projects, mitigate inflation impacts and meet target funding requirements	Higher risk, emphasis on long term inflation-adjusted growth	> 10 years

Huntsville’s MNRI includes shares of Lakeland Holdings Limited that are not to be included in calculations of asset allocations

Huntsville has approximately \$12.9M in shares in Lakeland Holdings Limited, the local distribution company (LDC). The Investment Policy Statement recognizes this investment as Long-Term Funds (or MNRI) that fall under the prudent investor standard. However, the Investment Policy Statement provides direction to the ONE JIB with respect to the treatment of these funds. LDC shares are considered restricted, special assets and remain in the custody of the Town. The Town is actively involved in shareholder meetings and plans to vote its shares. The LDC shares are to be viewed as separate standalone investments and are not to be included in calculations of asset allocations.

Huntsville has \$9.5 million in MNRI, which includes a \$1.0 million contribution

Huntsville has approximately \$9.5 million available for the ONE JIB to invest. This amount represents the approximate market value of current investments with ONE JIB plus a \$1.0 million contribution this year.

The Town may contribute an additional \$1.0 million later in the year

Additionally, the Town is currently evaluating its capital plan and financing options, which may result in a further contribution of \$1.0 million later this year. It is anticipated that those additional capital reserve funds, if reclassified as MNRI, would also fall into the 5-to-10-year range.

The Town's MNRI is divided between contingency reserves and target date reserves, all with an expected time horizon of greater than 10 years

Huntsville's MNRI can be grouped into five distinct types:

1. Development Charge reserve funds, which are used to pay for growth-related capital projects.
2. Obligatory reserve funds (i.e., funds that must be segregated due to legislation under various Acts), which are typically used to pay for specific capital infrastructure.
3. Capital reserves, which are used to fund capital infrastructure.
4. Stabilization reserves, which are a type of contingency reserve that is used to smooth out somewhat predictable annual volatility (e.g., winter maintenance costs, municipal election costs).
5. Contingency reserves, which are intended to manage potential cost shocks (e.g., emergency management, legal expenses).

Table 2 below from the Municipal Client Questionnaire shows the breakdown in dollar values by reserve type, category and investment horizon. Most of the Town's development charge MNRI is allocated to projects happening within the next ten years. Apart from some planned projects with the Federal Gas Tax fund, the Town's obligatory reserves have a time horizon greater than 10 years. Huntsville's capital reserves and special projects MNRI is allocated to projects planned within the next 5 years. The Town is planning to refurbish its municipal pool beginning in 2025 and is contemplating building a new Operations Facility within the next three years, but the project is contingent on available funding from senior levels of government and securing debt financing. Additionally, the Town does self-finance (i.e., borrow between reserves) for some projects, which may lead to stabilization and contingency reserves being treated as Target Date reserves on occasion; otherwise, these reserves have a long time-horizon.

Table 2: MNRI by Type, Category and Time Horizon from MCQ section 4.2 (rounded to \$ thousands)

Reserve Type	Category	Comments	MNRI Amount	Investment Horizon of MNRI			
				18 months to 3 years	3-5 years	5-10 years	10+ years
Development Charge Reserve Funds	Target Date	Growth-related projects	1,730		608	1,000	122
Other Obligatory Reserve Funds	Target Date	Federal Gas tax, Parking, Parkland Cash in Lieu	1,442	-	290	-	1,152
Capital Reserves & Special Projects	Target Date	Planned projects	1,731	-	1,731	-	
Stabilization Reserves	Contingency Reserves	Stable balances	1,691	-	-	-	1,691
Contingency Reserves	Contingency Reserves	Modest growth expected	2,971	-	1,000		1,971
MNRI Total			9,565	-	3,629	1,000	4,936

Table 3: Forecasted changes to MNRI from MCQ section 4.3

Type	2022	2023	2024	2025	2026-2030
Anticipated MNRI Drawdowns	-	-	-	-	-
Anticipated MNRI Contributions	1,000	-	-	-	-
Net change in MNRI	1,000	-	-	-	-

Huntsville’s objective is to achieve moderate growth without excessive risk to capital

Huntsville’s Municipal Client Questionnaire indicates a willingness to accept higher risk for potentially higher returns in the long run. The Town is comfortable with a moderate chance of capital loss over a 5-year period and has indicated tolerance for a single year decline between 5-10%.

4. ANALYSIS

The ONE JIB Outcomes Framework was used to allocate MNRI in a manner consistent with Huntsville’s Investment Policy Statement

Using the ONE JIB Outcomes Framework, the CIO has developed a draft investment plan for ONE JIB’s review and approval. The allocations in the plan reflect the objectives, investment horizon and risk tolerance of the Town. The characteristics of the Town’s reserves were considered when building investment allocations in the Investment Plan.

The proposed mapping to Outcomes and resulting asset allocations in the proposed Investment Plan are consistent with the time horizon and level of certainty in the Town’s cash flow forecasts

The Town has scheduled projects in the next 3 to 5 years, which requires some liquidity and emphasis on preservation of capital. The portion of the Town’s stabilization and contingency reserve MNRI that it does not anticipate using for self-financed projects, has a long time-horizon with some uncertainty related to the timing of potential drawdowns, which means it can assume a moderate degree of risk on these funds. Its remaining MNRI is intended for planned projects in the 5-to-10-year range and the 10+ year range and has been mapped to the appropriate Target Date Outcomes. The plan’s asset allocations (Table 4 below) and fund allocations (Table 5 below) were determined using the ONE JIB Outcomes Framework.

Table 4: Proposed Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	3.7	38.4	-	40	60	100
Target Date 3-5 Years	3.7	39.0	20	70	10	100
Target Date 5-10 Years	1.0	10.5	-	50	50	100
Target Date 10+ Years	1.1	12.0	-	25	75	100
Total	\$ 9.5	100.0				

Table 5: Proposed Pooled Fund Allocations by Outcome (\$ millions)

Outcome	ONE HISA	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Contingency	-	0.66	1.54	0.22	0.22	1.0	3.7
Target Date 3-5 Years	0.74	0.11	0.26	0.39	0.39	1.8	3.7
Target Date 5-10 Years	-	0.15	0.35	0.08	0.08	0.4	1.0
Target Date 10+ Years	-	0.26	0.60	0.04	0.04	0.2	1.1
Total \$	\$ 0.7	\$ 1.2	\$ 2.8	\$ 0.7	\$ 0.7	\$ 3.4	\$ 9.5

Table 6 provides the same information in percentage, showing how the fund holdings are held within each of the Outcomes.

Table 6: Fund Allocations as a Percentage of Total by Outcome

Outcome	ONE HISA	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Contingency	0.0%	6.9%	16.1%	2.3%	2.3%	10.8%	38.4%
Target Date 3-5 Years	7.8%	1.2%	2.7%	4.1%	4.1%	19.1%	39.0%
Target Date 5-10 Years	0.0%	1.6%	3.7%	0.8%	0.8%	3.7%	10.5%
Target Date 10+ Years	0.0%	2.7%	6.3%	0.5%	0.5%	2.1%	12.0%
Total	7.8%	12.4%	28.9%	7.6%	7.6%	35.7%	100.0%

The proposed Investment Plan remaps the Cash Outcome MNRI to the Target Date 3-5 Year Outcome and the Contingency Outcome, while new contributions are allocated to the Target Date 5-10 Year Outcome

As Huntsville no longer anticipates needing to withdraw funds in the next three years, the MNRI that was previously deployed in the Cash Outcome has been redeployed to the Target Date 3-5 Year Outcome (\$1.6 million) and the Contingency Outcome (\$0.3 million) based on the Municipal Client Questionnaire revisions. The new contribution (\$1.0 million) is being allocated to the Target Date 5-10 Year Outcome to meet anticipated needs at that time.

Table 7: Percentage of MNRI by Outcome (2020 Plan vs. Current vs. Proposed)

Outcome	2020 Plan Weight	31-May-21 Weight	Proposed Plan Weight
Cash	25.0%	23.4%	0.0%
Contingency	37.5%	39.1%	38.4%
Target Date 3-5 Years	25.0%	24.1%	39.0%
Target Date 5-10 Years	0.0%	0.0%	10.5%
Target Date 10+ Years	12.5%	13.3%	12.0%
Overall	100.0%	100.0%	100.0%

When compared to the June 2020 Plan most of the changes to the proposed plan can be explained by market value changes, the \$1.0 million in new MNRI, and a remapping of Outcomes

After mapping MNRI to Outcomes, the Framework suggests the portfolio-level Pooled Fund allocations in Tables 8a (in dollars) and 8b (percentage). Comparable numbers are provided for the initial June 2020 Plan allocations and actual allocations as of May 31, 2021. The difference between the 2020 Plan figures and the Proposed Plan figures in both tables can be explained by market value change and the contribution of new MNRI (\$1.0 million) mapped to the Target Date 5-10 Year Outcome, and the remapping of the Cash Outcome to the Contingency and Target Date 3-5 Year Outcomes. The May 31, 2021 Actual figures provide a reference point that incorporates market value change and transactions since the 2020 Plan.

Table 8a: Portfolio-level Allocations between ONE JIB Pooled Funds

Fund	2020 Plan \$ millions	Actual (May) \$ millions	Proposed Plan \$ millions
ONE HISA	\$ 2.4	\$ 2.4	\$ 0.7
ONE Canadian Equity Fund	0.8	1.0	1.2
ONE Global Equity Fund	1.9	2.2	2.8
ONE Canadian Government Bond Fund	0.4	0.4	0.7
ONE Canadian Corporate Bond Fund	0.4	0.4	0.7
ONE Global Bond Fund	2.0	2.1	3.4
Total \$	\$ 8.0	\$ 8.6	\$ 9.5

Table 9b: Portfolio-level Allocation Weights between ONE JIB Pooled Funds

Fund	2020 Plan Weight	Actual (May) Weight	Proposed Plan Weight
ONE HISA	30.0%	28.1%	7.8%
ONE Canadian Equity Fund	10.3%	11.7%	12.4%
ONE Global Equity Fund	24.1%	25.1%	28.9%
ONE Canadian Government Bond Fund	5.3%	5.2%	7.6%
ONE Canadian Corporate Bond Fund	5.3%	5.1%	7.6%
ONE Global Bond Fund	24.9%	24.8%	35.7%
Total \$	100.0%	100.0%	100.0%

Average expected returns on the proposed Investment Plan are 0.5% higher than the June 2020 Investment plan due to revised return assumptions and changed investment allocations

The average return expectation (i.e., Annual 10-yr Compound Return Assumptions) detailed in the plan is 4.0%. This is 0.5% higher than the return expectations in the June 2020 Investment Plan. The change is attributable to the reallocation of money away from the Cash Outcome and the new contribution. The revised return assumptions established at the February 17, 2021 ONE JIB meeting, lowered the return assumptions on some of the fixed income Pooled Funds used in the previous Investment Plan. The overall equity allocation increases by 6.9% between plans due to the remapping of MNRI from the Cash Outcome to the Contingency and Target Date 3-to-5 Year Outcomes and the allocation of the new contribution to the Target Date 5-to-10 Year Outcome. The allocation to cash declined notably as the Town is better able to project its cashflow needs. The overall risk level associated with the proposed 2021 Investment Plan is higher than the June 2020 Investment Plan, which is appropriate considering its circumstances and goals. The standard deviation, which is a statistical measure that helps reflect the amount of risk, is 5.0% in the proposed Plan, 0.9% higher vs the 2020 Investment Plan.

Table 10: Risk and Return Comparison to Last Year's Plan

Plan version	Average Expected Returns	Standard Deviation
July 2021 Draft Investment Plan	4.0%	5.0%
June 2020 Investment Plan	3.5%	4.1%
Difference	+0.5%	+0.9%

5. CONCLUSION

Huntsville's Council completed its annual Investment Policy Statement review and updated the policy to align more closely with the ONE JIB Outcomes Framework. The proposed Investment Plan is consistent with the Town's Investment Policy Statement. The proposed asset mix and fund allocations reflect the Town's investment objectives and risk preferences expressed in its

Investment Policy Statement and Municipal Client Questionnaire. As a result, the Investment Plan is appropriate for the Town's objectives, risk tolerance, time horizons and available MNRI.

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