Appendix 7 - Account Mapping and Investment Allocations
District of Muskoka

1. Summary

- Muskoka has $125.5 million available to invest, with varying time horizons, most of which is expected to be needed within the next 10 years.

- Part of the $125.5 million available to invest is currently held in a bond portfolio. These bonds will either be liquidated or transferred in kind. Transition planning to be done in early June will confirm the in-kind portion.

- The District Council has established its investment objectives and risk tolerance levels through its IPS with further information being provided in its MCQ.

- The revised outcomes and further analysis prompted shifting some MNRI to alternate outcomes.

- The changes to the outcomes result in an increase in the allocation to equities from 29.3% in total to 34.9% and cash holdings increase 1.8% to 8.9%.

- The increased exposure to equites increases expected returns by 0.1% while increasing standard deviation by 0.2%.

2. Background

Muskoka's IPS and MCQ establish the amount available for investing, their investment objectives, investment horizons and risk tolerance

Muskoka initially has $125.5 million available for the ONE JIB to invest, all of which is expected to be drawn down within the next ten years.

At the end of 2019, the Municipality had reserves and reserve funds totalling approximately $162.8 million, with approximately $127.8 classified as money not required immediately. $2.3 million of Muskoka's MNRI consists of repurchased debentures, which the municipality identifies in its IPS as restricted for the purposes of ONE JIB investment.

In terms of upcoming significant capital expenditures, the District is building a wastewater treatment plant beginning in 2020-21 that it expects to complete in 2023 at a total project cost of $33M. Muskoka clearly demarks timeframes for all of its MNRI; 1.8% will be required in the 2-to-3-year range, 36.5% in the 3-to-5-year range, and most (61.7%) falling within the 5-to-10-year range.

The District's return objective is an annual return that at least meets inflation. In their MCQ they note a particular sensitivity to the Non-residential Building Construction Price Index (NRBCPI). Their primary objectives, based on the time horizon and needs, should be oriented around growth in investments.

Muskoka's overall risk tolerance is moderate with an annual downside comfort of -5% in a single year. Their IPS states their risk tolerance on contingency funds and target date funds with a time horizon of greater than 5 years is high. Moderate risk is acceptable on all funds with a 3-to-5-year time horizon regardless of purpose. Funds required within the next 3 years have been assigned a low risk tolerance.

3. Analysis

Mapping Muskoka's MNRI to the revised outcomes shifts $11 million from the Stable Return to the Cash Plus outcome and realigns target date money to more appropriate time horizons.

Muskoka's Total MNRI decreased by $2.25 million from the draft plan allocations vs. the revised mapping because a recent update in the MCQ that clarified that the original MNRI number included value of repurchased Muskoka debentures (which count as MNRI, but which are not available for JIB investing as per Muskoka's IPS). Further analysis of Muskoka's cash flow forecasts indicated that the investment horizon of the money previously allocated to Stable Return would be more appropriately shifted to the Cash Plus outcome as it was anticipated to be required in the 3-to-5-year range. Originally allocated to longer-term target dates, analysis of Muskoka's MCQ prompted the shift of most of those funds to the Target Date 5-to-10-year outcome.

Table 1
Comparison of MNRI allocation to Original and Revised Outcomes

Draft Plan Presented to Council		Revised Mapping	
Original Outcomes	Amount ($)	Revised Outcomes	Amount ($)
Target Date 2023	2,343,952	Cash < 3 yrs	1,929,952
Target Date 2025	35,264,446	Cash Plus 3-5 yrs	46,248,480
Stable Return	11,346,034	Stable Return	-
Contingency (Low to moderate risk)	5,259,979	Contingency	5,259,979
Contingency (High risk)	-	Asset mgt reserves	-
Target Date 2030	-	Target Date 5-10 yrs	72,080,913
Target Date 2035, 2040, 2045	73,572,913	Target Date > 10 yrs	-
Total	127,787,324		$125,519,324

Compared to the Draft Plan the Revised Mappings would shift the overall allocations from 29.3% equities to 34.9% equities, and cash holdings increase from 1.8% to 8.9%.

The revised outcomes mapping, along with the revised suggested fund allocation weights for each outcome, results in a shift among funds. The changes result in a greater allocation to equities overall, with a 7% increase in the Canadian Equity Fund and a 1.4% decrease to the Global Equity Fund. This combined with increased cash holdings lead to a lower allocation to fixed income affecting the Canadian Corporate Bond allocation primarily with some downward adjustments on the other bond funds as well. See Table 2 for specific allocations.

Table 2
Allocation Between ONE Funds
Comparison between Original Draft and Revised Mapping

	Draft Plan Presented to Council		Revised Mapping	
Fund	Total Invested	Percentage	Total Invested	Percentage
HISA	2,343,952	1.8%	11,179,648	8.9%
CDN Equity Fund	4,508,946	3.5%	13,146,388	10.5%
Global Equity Fund	32,972,063	25.8%	30,674,904	24.4%
CDN GOV Bond Fund	9,848,094	7.7%	10,577,758	8.4%
CND Corp Bond Fund	21,463,070	16.8%	10,577,758	8.4%
Global Bond Fund	56,651,199	44.3%	49,362,869	39.3%
Total $	$127,787,324	100.0%	$125,519,324	100.0%

The proposed changes to mapping and allocations will increase the average expected returns but will also increase the volatility of the portfolio

The revised outcome mappings had a marginal affect the risk and return vs details presented to council in the draft plan. Returns were marginally higher at 4.0% standard deviation and increase from 4.3% to 4.5% compared to the plan presented to council. Note that the equity allocations increased slightly, but lower expected returns from HISA offset what would have otherwise resulted in slightly better returns. See table 3 for further details.

Table 3
Risk and Return Comparison
Draft plan to Revised Mappings

Plan version	Average Expected Returns	Standard Deviation
Draft Plan Presented to Council	3.9	4.3
Revised Plan Based on New Mappings	4.0	4.5
Difference	+0.1	+0.2

Since the draft plan was presented to council, interest rates have dropped. The projected return for HISA, a significant holding, have been revised from 2.2% to 0.915%. For comparability purposes, the draft plan returns have been revised from 4.0 % to 3.9% reflect the revised assumptions.

5. Conclusion

Staff is looking for feedback on whether the revised mappings lead to an allocation that is more in line with Muskoka's risk tolerance and return objectives.

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