Appendix 4 - Account Mapping and Investment Allocations
Town of Huntsville

1. Summary

- Huntsville has $8.0 million available to invest, revised downward from $10 million since the draft plan was developed. One Investment is expecting an updated MCQ to confirm of this for investment planning purposes.

- The Huntsville Council has established its investment objectives and risk tolerance through its IPS and MCQ

- The revised outcomes, lower amount to invest, 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 15.5% in total to 34.4% and decreases cash holdings from 35% to 30%.

- The increased exposure to equites increases expected returns by 0.6% while increasing standard deviation by 1.4%.

2. Background

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

Huntsville initially has $8.0 million available for the ONE JIB to invest. The Town has a planned $3 million streetscape project planned for 2022/23. Additionally, the Town is anticipating that repairs to the municipal pool will be required in 2022, the full scope and cost of which are not yet known. The remainder of the Town's MNRI are associated with capital reserve and reserve funds ($1 million) that have a long time-horizon or are established for contingency purposes. The Town's return objective is an annual return that at least meets inflation. They are looking to achieve moderate growth without excessive risk to capital.

Huntsville's overall risk tolerance is moderate with an annual downside comfort level of negative 5% in a single year. Their IPS states their risk tolerance on contingency and target date funds with a term of greater than 5 years is high, while their tolerance for risk on funds expected to be required in 4 to 5 years is moderate and their risk on shorter term investments (3 years or less) is low.

3. Analysis

A combination of a drop in MNRI by $2 million and a review of investment horizons led to a reallocation of Stable Return money and a shift of a small portion of funds to a longer time horizon.

Initially $10 million, Huntsville's long-term fund estimates have been revised downward to $8 million since the draft investment plan was developed, this reduction largely impacted contingency allocations. Further analysis of Huntsville's MCQ indicated that approximately $4 million would be required in the 2 to 5-year range, and this was split evenly between the two shorter term Cash and Cash Plus outcomes. Since the MCQ did not indicate a need for a regular income, the previous Stable Return allocation was shifted to the Contingency outcome. Additionally, $1 million was allocated to the longer-term target date 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	3,500,000	Cash < 3 yrs	2,000,000
Target Date 2025		Cash Plus 3-5 yrs	2,000,000
Stable Return	2,000,000	Stable Return	
Contingency (Low to moderate risk)	4,500,000	Contingency	3,000,000
Contingency (High risk)		Asset mgt reserves	
Target Date 2030		Target Date 5-10 yrs	
Target Date 2035, 2040, 2045		Target Date > 10 yrs	1,000,000
Total	$10,000,000		$8,000,000

Compared to the Draft Plan the Revised Mappings would shift the overall allocations from 15.5% equities to 34.4% equities; cash holdings decrease from 35% to 30%.

The revised outcomes mapping, lower initial MNRI figure, along with the revised suggested fund allocation weights for each outcome, results in a shift among funds. The changes result in a higher allocation to both the Canadian Equity Fund and the Global Equity Fund and a decreased allocation to the Canadian Government, and Global Bond Funds. While not contemplated in the first draft the revised mapping contemplates a small allocation to Canadian

Corporate Bonds. Short-term cash holdings decrease by $1.1 million under the revised mapping. 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	3,500,000	35.0%	2,400,000	30.0%
CDN Equity Fund	225,000	2.3%	825,000	10.3%
Global Equity Fund	1,325,000	13.3%	1,925,000	24.1%
CDN Govt Bond Fund	1,050,000	10.5%	427,500	5.3%
CND Corp Bond Fund	-	0.0%	427,500	5.3%
Global Bond Fund	3,900,000	39.0%	1,995,000	24.9%
Total $	$10,000,000	100.0%	$ 8,000,000	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 and increased equity allocation will increase expected returns to 3.5% from 2.9%. The changes would also mean that standard deviation would increase from 2.7% to 4.1% compared to the plan presented to council. 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*	2.9	2.7
Revised Plan Based on New Mappings	3.5	4.1
Difference	**+0.6**	**+1.4**

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 3.3% to 2.9% 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 Huntsville's risk tolerance and return objectives.

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