Appendix 6 - Account Mapping and Investment Allocations
City of Kenora

1. Summary

- Kenora has $38.3 million available to invest.
- The City has established the Citizen's Prosperity Trust Fund, $26.6 million of the total available for investing, which is designed to protect the principle and provide an ongoing income
- The Kenora Council has established its investment objectives and risk tolerances through its IPS and its MCQ
- The revised outcomes and further analysis prompted shifting some MNRI to alternate outcomes.
- The changes to the outcomes result in a decrease in the allocation to equities from 36.7% to 34.7% and an increase of cash holdings from 0% to 8.7%.
- The decreased exposure to equites decreases expected returns by 0.3% while decreasing standard deviation by 0.4%.

2. Background

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

Kenora initially has $38.3 million available for the ONE JIB to invest, $26.75 million of which is intended to act as a perpetual income fund (Citizen's Prosperity Trust Fund (CPTF)).

Kenora's MNRI can subdivided into two categories: (1) CPTF and (2) general municipal reserve and reserve funds.

In 2008 Kenora sold its municipal telephone system and established the CPTF worth approximately $40.8 million. The CPTF is established as a legacy fund where capital is to be preserved with income and gains on the investments used to replace the lost annual revenue the utility provided (approximately $1.1 million). Kenora has established a 3% return objective on the CPTF to meet its annual income targets. The City often uses the CPTF as a source of internal debt financing, borrowing money from the CPTF setting the interest rate at its return objective of

3%. After accounting for the self-financed portion of the CPTF and the amount categorized as money required immediately for near-term capital projects, there are approximately $26.75 million in CPTF available for investment by the JIB. As preservation of principle is a high priority, the risk tolerance on all CPTF money is low to moderate.

The remainder of the Kenora's funds, approximately $11.5 million, are either required within the next 5 years ($3.3 million) or have no definitive time horizon ($8.2 million). The City's return objectives on non-CPTF money is an annual return that at least meets inflation.

Kenora's overall risk tolerance is low ("a very small chance of capital loss") with an expected annual return between zero and 2.5%. Additionally, Kenora's IPS provides a risk tolerance level for each individual account purpose, approximately $1.2 million has been identified as low risk, with the remainder being assigned a moderate risk tolerance.

3. Analysis

Using the new mapping Kenora's allocations shift away from long-term target date outcomes to the Stable Return and Contingency outcomes.

In the draft plan the target date allocations were used to help achieve the annual income target as the stable return outcomes were not capable of achieving this investment goal. The new outcome mapping with revised investment allocations have higher allocation to equities in the stable return outcome, and now can be used to allow Kenora to achieve this income goal. This makes the new mapping of outcomes more succinct and appropriate. About $26.75 million was moved from the longer-range target date outcomes into the stable return, putting greater emphasis on the principle preservation and income goals of the CPFT and less emphasis on the time horizon.

Further analysis of Kenora's cash flows indicates that funds originally assigned to the Target Date 2030 outcome were better suited to the contingency outcome because there were no definitive timelines. Due to the short time horizon of the money initially allocated to the Stable Return and Low risk Contingency outcomes, they were reallocated to the new Cash Plus 3-to-5-year outcome. See table 1 for specific details.

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	-	Cash < 3 yrs	-
Target Date 2025	-	Cash Plus 3-5 yrs	3,340,886
Stable Return	1,670,443	Stable Return	26,752,386
Contingency (Low to moderate risk)	1,670,443	Contingency	8,171,954
Contingency (High risk)	-	Asset mgt reserves	-
Target Date 2030	8,171,954	Target Date 5-10 yrs	-
Target Date 2035, 2040, 2045	26,752,386	Target Date > 10 yrs	-
Total	$38,265,226		$38,265,226

Compared to the Draft Plan the Revised Mappings would shift the overall equity allocation from 36.7% to 34.7%; cash holdings increase from 0.0% to 8.7%.

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 modest overall decrease to equities but puts a heavier weighting on the Canadian Equity Fund. The Canadian Government Bond Fund sees a sizable increase while the Global Bond Fund sees a modest decrease, and the allocation to the Canadian Corporate Bond Fund is reduced to almost half of its previous allocation. 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	-	0.0%	3,343,416	8.7%
CDN Equity Fund	1,913,261	5.0%	3,978,893	10.4%
Global Equity Fund	12,112,668	31.7%	9,284,084	24.3%
CDN GOV Bond Fund	501,133	1.3%	3,248,825	8.5%
CND Corp Bond Fund	6,017,679	15.7%	3,248,825	8.5%
Global Bond Fund	17,720,485	46.3%	15,161,183	39.6%
Total $	$38,265,226	100.0%*	$38,265,226	100.0%

*Allocation percentages referenced in draft plan will differ because the draft plan percentages included $5.0 million in in-kind securities, which have been omitted from table above.

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 will decrease expected returns to 4.0% from 4.3%. The changes would also mean that standard deviation would decrease from 4.9% to 4.5% 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	4.3	4.9
Revised Plan Based on New Mappings	4.0	4.5
Difference	-0.3	-0.4

5. Conclusion

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

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