



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer and
Colin Macdonald, Manager of Investments
Date: June 23, 2020
Re: Investment Report and Investment Plan – Town of Huntsville
Report: 20-016

1. RECOMMENDATIONS

It is recommended that:

1. The Board approve Huntsville's Investment Plan (Attachment 1)
2. The Board receive Huntsville's revised Municipal Client Questionnaire for information (Attachment 2)
3. The Chief Investment Officer notify the Board of any in-year changes to Huntsville's Investment Policy Statement and any related implications for the Investment Plan
4. The Chief Investment Officer review the Investment Plan in Q1 2021 and present a revised Investment Plan for approval by Q2 2021
5. The Chief Investment Officer develop a performance report for Huntsville Council for the Board's consideration by Q1 2021

2. SUMMARY

Huntsville has agreed to be a Founding Municipality in the creation of the ONE Joint Investment Board (ONE JIB). As part of the process under the applicable provincial regulation, the Board must develop and approve an Investment Plan for the Town of Huntsville.

Key Points:

- Huntsville will initially allocate \$8.0 million to the Prudent Investor Standard
- Large projects will result in the Town drawing down its MNRI in the first few years. Reserves are expected to drop from \$13.9 million in 2020 to \$6.2 million by 2022.
- The Investment Plan provides for the expected liquidity needs with \$2 million in the Cash Outcome and an additional \$2 million in the Target Date 3-5 Year Outcome.

- Huntsville’s Investment Policy Statement (IPS) and Municipal Client Questionnaire (MCQ) were presented and received by the ONE JIB at its May 20, 2020 meeting. Details can be found in ONE JIB Report #20-011 – Investment Outcomes – Appendix 4.
- The Town is expecting to be able to grow reserves by 15% annually.
- Uncertainty around facility upgrade costs means the Town places a higher priority on liquidity in the short-term (< 5 years)
- Expected annual returns based on the allocations in the proposed Investment Plan are projected to be 3.5%.
- The Investment Plan includes a quick transition of funds to ONE JIB, as Huntsville’s contribution is mostly invested in a ONE Legal List product and available cash.

The proposed investment allocations, which reflect consolidated holdings across ONE Investment outcomes are presented below:

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	2,400,000	30.0
ONE Canadian Equity Fund	825,000	10.3
ONE Global Equity Fund	1,925,000	24.1
ONE Canadian Government Bond Fund	427,500	5.3
ONE Canadian Corporate Bond Fund	427,500	5.3
ONE Global Bond Fund	1,995,000	24.9
Total	8,000,000	100.0

Locked-In Investments	Estimated Value (\$)
Lakeland Holdings Ltd. (LDC)	11,749,000

3. BACKGROUND

Council has approved the application of the Prudent Investor Standard to a portion of Huntsville’s investments

The Town’s staff have worked with ONE staff and other Founding Municipalities to prepare the documentation and obtain the approvals needed to establish the ONE JIB. This included completing the Municipal Client Questionnaire and developing an Investment Policy Statement.

Council considered the transition to the prudent investor standard on three occasions. On June 24, 2019, Council approved further due diligence to determine the best approach to move to the Prudent Investor Standard, including participation as a founding member in the establishment of the ONE JIB. On November 12, 2019, Council approved the development of an Investment Policy Statement and the preparation of documents to establish the ONE JIB with other Founding Municipalities. On December 17, 2019, Council approved its Investment Policy Statement, which

permits investment under the Prudent Investor Standard. On March 17, 2020, Council authorized execution of the Initial Formation Agreement and the ONE JIB Agreement. Council also received for information the draft Investment Plan prepared by ONE staff.

Huntsville’s investment objective is to generate long-term growth, targeting returns in excess of inflation. The Town needs a relatively conservative risk profile to accommodate known near-term capital spending

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, and the Investment Plan provides further explanation.

The Town’s overall investment objective is moderate growth with relatively conservative levels of risk, resulting in above-inflation returns.

ONE JIB uses an outcome-based approach to translate municipal needs and goals into investment allocations. A draft of the Outcomes Framework was presented to Council for information at its December 18, 2019 meeting. Once the ONE JIB was legally constituted and able to deliberate the Outcomes Framework, it was refined and approved May 20, 2020 (see ONE JIB Report #20-011 - Investment Outcomes – Appendix 4). Table 1 below shows details of the ONE JIB approved Outcomes Framework, which classifies investments into four Outcome categories: Cash, Contingency, Stable Return and Target Date outcomes. The revised outcomes are in alignment with Huntsville’s investment objectives, risk profile and time frames. Huntsville’s Investment Plan assigns investment allocation based on the outcome mapping in Table 1. The allocations are reflective of the objectives, characteristics and investment horizon and risk tolerance of the Town. The characteristics of the Town’s reserves, reserve funds or other balances were considered when building investment allocations in the Investment Plan.

Table 1 - Investment Objectives and Outcomes

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 holds shares in a Local Distribution Company

Huntsville has approximately \$11.75 million 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.

4. ANALYSIS

Huntsville has approximately \$8.0 million in MNRI

At the end of 2019, the Town had reserves and reserve funds totalling approximately \$12.1 million but has seen that depleted to \$10.7 million more quickly than originally anticipated. In its initial assessment, Huntsville had categorized \$10.0 million as MNRI, but revised that amount down to \$8 million in May 2020. While the Town is planning to grow their reserves by approximately 15 percent per year, large projects in the short term will see reserves decline slightly, before they begin growing again in about 5 years.

The Town has used a time-based threshold of 18 months to define money not immediately required

Under the Act, municipalities can only invest MNRI, whether they choose to invest in the legal list or under the prudent investor standard. For the purpose of the Prudent Investor Standard, it is necessary to define MNRI within the Investment Policy Statement because control of the funds is delegated to an investment board. ONE Investment provided guidance on best practices in determining the definition of MNRI and the Town determined that 18 months was appropriate.

Huntsville anticipates an initial drop in MNRI, followed by consistent growth in its investments over the next ten years

MNRI is expected to drop from \$8 million in 2020 to approximately \$6.2 million in 2022, and then increase, ultimately reaching approximately \$23.5 million by 2028.

Liquidity is a priority due to uncertainty regarding costs of impending capital expenditures

There is considerable uncertainty about the cost of pre-planned capital expenditures. Therefore, the plan will highlight liquidity as a key consideration when building the investment allocations to accommodate for near-term spending needs.

The Investment Plan contains an asset allocation and allocations to specific funds

The Investment Plan provides asset allocations according to Huntsville's investment objectives and risk tolerance, as shown in Table 2. These allocations are based on the Town's Investment Policy Statement and MCQ, which describe the objectives, risk tolerance, liquidity and investment horizon for the reserves that make up MNRI.

Table 2 - Asset Allocation

Outcome	Total Invested (\$)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	2,000,000	25.0	100	-	-	100
Contingency	3,000,000	37.5	-	40	60	100
Target Date 3-5 yrs	2,000,000	25.0	20	70	10	100
Target Date 10+ Years	1,000,000	12.5	-	25	75	100
Total	8,000,000	100.0				

The Investment Plan then allocates these amounts to ONE Investment's fund offerings, as shown in Table 3. Table 4 provides the same information in percentage, showing the fund associated with each of the outcomes. Table 5 provides a summary of the allocations by fund.

Table 3 - Investment Mix (Amounts in \$)

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
Cash	2,000,000	-	-	-	-	-	2,000,000
Contingency	-	540,000	1,260,000	180,000	180,000	840,000	3,000,000
Target Date 3-5 yrs	400,000	60,000	140,000	210,000	210,000	980,000	2,000,000
Target Date 10+ Years	-	225,000	525,000	37,500	37,500	175,000	1,000,000
Total	2,400,000	825,000	1,925,000	427,500	427,500	1,995,000	8,000,000

Table 4 - Investment Mix (%)

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
Cash	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.0%
Contingency	0.0%	6.8%	15.8%	2.3%	2.3%	10.5%	37.5%
Target Date 3-5 yrs	5.0%	0.8%	1.8%	2.6%	2.6%	12.3%	25.0%
Target Date 10+ Years	0.0%	2.8%	6.6%	0.5%	0.5%	2.2%	12.5%
Total	30.0%	10.3%	24.1%	5.3%	5.3%	24.9%	100.0%

Table 5 - Summary of Allocations by Fund

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	2,400,000	30.0
ONE Canadian Equity Fund	825,000	10.3
ONE Global Equity Fund	1,925,000	24.1
ONE Canadian Government Bond Fund	427,500	5.3
ONE Canadian Corporate Bond Fund	427,500	5.3
ONE Global Bond Fund	1,995,000	24.9
Total	8,000,000	100.0

The specific allocations to each one of the Outcomes noted above were based on input from the Investment Policy Statement and the Municipal Client Questionnaire, as well as discussions with the Treasurer. The purpose and characteristics of each reserve and reserve account were mapped to each of these outcomes, which determined the dollar amount assigned to each outcome.

The allocations are relatively conservative primarily due to the Town's desire for liquidity in case a portion of MNRI is needed for capital projects over the next few years. As these nearer term spending needs are addressed, the risk profile of the Town may need to be revisited.

The average annualized expected return on Huntsville's investments is approximately 3.5%

In its Municipal Client Questionnaire, Huntsville expressed annual return expectations in the range of -5% to +5%.

The overall estimated annual return for the asset allocations and fund mix in the Investment Plan is 3.5%. The expected returns by investment objective (see May 20, 2020 - ONE JIB Report # 20-010 Fund Offerings and Investment Managers for details of the investment projections) are:

- Cash Outcome 0.9%
- Contingency: 4.9%
- Target Date 3-5 Year Outcome: 3.0
- Target Date 10+ Year Outcome: 5.3%
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5. CONCLUSION

Huntsville's Council has approved an Investment Policy Statement and other documentation to enable it to adopt the Prudent Investor Standard and become a founding municipality for the ONE JIB.

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.

Prepared by: Colin Macdonald, Manager of Investment Services and Keith Taylor, Chief Investment Officer

Approved for Submission by: Evelyn Foo, Chief Compliance Officer