Investing Overview

HEARTH BOARD MEETING

MARCH 2022

Purpose

- Update the Board on discussions at the February Finance Committee to consider if a portion of HEARTH's available funds should be invested in diversified portfolio.
- Explain the relationship between risk appetite and investment horizon.
- Provide the Board with a primer on investment fundamentals, with appropriate consideration as to the risk of loss through periods of market volatility.

Investment Risk Horizon

- ❖ An investment time horizon is the period of time an investor expects to hold an investment until they need access to the funds.
  - The target access date could be to fund an investment, e.g. a building, or it could be for contingency purposes, e.g. to deal with unanticipated expenses or a sustained reduction in cash inflows/revenue.
- ❖ Relationship between Investment Horizon and Risk Profile
  - The longer the time horizon, the more aggressive, or riskier, a portfolio an investor can build.
    - ✓ *Parents saving for a young child's college education may have a relatively long investment horizon – 15 to 20 years – and are better positioned to deal with the "ups and downs" of the market.*
  - The shorter the time horizon, the more conservative, or less risky, the portfolio the investor may want to adopt.
    - ✓ *A couple saving for their first home may have a much shorter time horizon – 1 to 3 years – and may opt to be risk adverse, so as to not risk losses in funds earmarked for their down payment.*

Long Term Risk/Return Relationships

❖ Over the long term, higher risk investments have historically produced higher returns.

Investment	1Y Return	5Y Return	10Y Return	20Y Return
Treasury Bill	0%	5%	6%	24%
Barclays Aggregate Bond	0%	19%	33%	134%
S&P 500	29%	133%	362%	509%
NASDAQ	27	235%	686%	1038%

Short Term Risk/Return Relationships

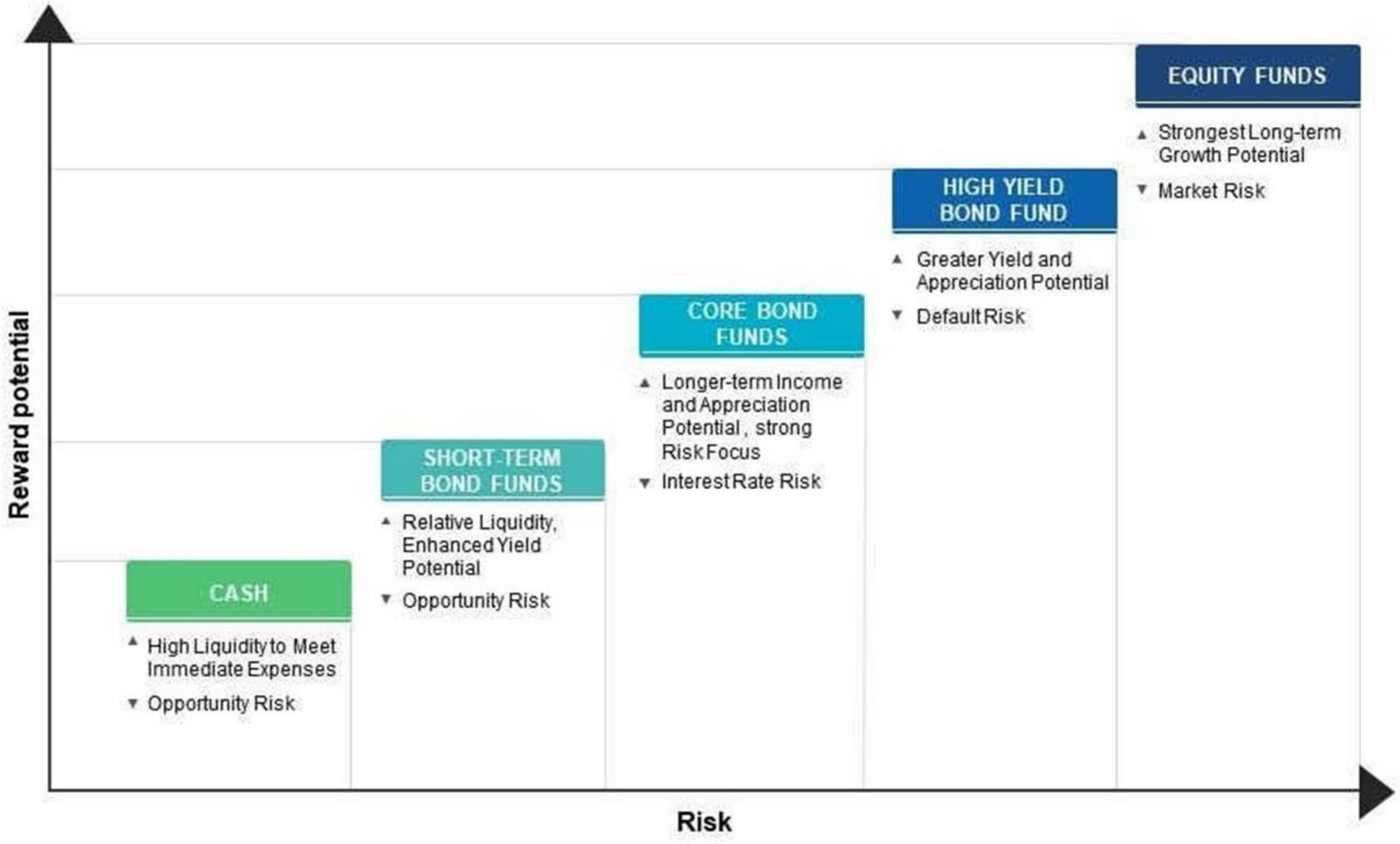
❖ However, over volatile shorter term periods, riskier investment can and have lost considerable value.

Investment	Inflation Scare	COVID 2020	Financial Crisis	Tech Boom
Start Date	12/31/2021	12/31/2019	12/31/2007	12/31/2001
End Date	01/27/2021	03/23/2020	03/05/2009	10/09/2002
Treasury Bill	0%	1%	1%	3%
Barclays Aggregate Bond	-2%	1%	4%	8%
S&P 500	-9%	-30%	-52%	-32%
NASDAQ	-15%	-20%	-48%	-49%

Risk Types

- Opportunity Risk
  - The potential that a better opportunity may become available after having committed to a less risky investment strategy.
  - Example: investment in bank deposits when equity prices rise.
- Interest Rate Risk
  - The potential for investment losses that result from a change in interest rates. If interest rates rise, the value of a bond or other fixed-income investment will decline.
  - Example: investing in long term Treasury Bonds during a low interest rate environment and rates rise subsequently.
- Default Risk
  - The potential for an investment losses because a borrower will be unable to make the required payments on their debt obligation.
  - Example: investing in corporate bonds and having the issuing companies go bankrupt.
- Market Risk
  - Market risk, or systematic risk, affects the performance of the entire market simultaneously.
  - Market risk may arise due to a number of factors, including but not limited to: interest rates, economic growth, inflation, technological advancements, regulation, international forces, political setting, and stress events, e.g. the 2008-09 Financial Crisis and 1H 2020 COVID Stress.

Investment Risk / Reward Continuum



Example Portfolio Allocation

- The portfolio allocations below may be appropriate for HEARTH if some portion of available funds were considered to have an intermediate to long term investment risk horizon.

	Allocation Ranges		
Asset Class	**Minimum**	**Midpoint**	**Maximum**
U.S. Large Cap Equity	20%	35%	50%
U.S. Small & Mid Cap Equity	5%	15%	25%
International Equity	10%	17.5%	25%
Total Equities	**50%**	**60%**	**70%**
High Quality (Investment Grade) Fixed Income	20%	30%	40%
High Yield (Below Investment Grade) Fixed Income	0%	10%	20%
Total Fixed Income	**20%**	**30%**	**40%**
Cash	**5%**	**12.5%**	**20%**