

To: ONE Joint Investment Board  
From: Keith Taylor, Chief Investment Officer, ONE Investment  
Date: July 14, 2021  
Re: Town of Whitby - Annual Investment Plan Review  
Report: ONE JIB-005-21

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Town of Whitby's Investment Plan (Attachment 1).

## 2. SUMMARY

Whitby's annual Investment Policy Statement review did not result in any changes. The Town has \$142.7 million available to invest, after \$26.6 million in contributions. Their updated Municipal Client Questionnaire shows no changes to their mapping of existing MNRI from last year's plan and maps new contributions to longer term Outcomes.

The average annual expected return in the proposed Investment Plan is 4.1%, which is 0.1% higher than in the June 2020 Investment Plan. The difference is mostly due to increased equity weight from the mapping of new MNRI to longer term Outcomes, partially offset by lower return assumptions on for some of the fixed income Pooled Funds approved by ONE JIB in February 2021.

## 3. BACKGROUND

**Whitby's Annual Investment Policy Statement review did not result in any changes**

The Town of Whitby completed its Annual Investment Policy Statement review on March 1, 2021. Council is required to review and, if necessary, update the Policy annually, as per Ontario Regulation 438/97 (Regulation). Council decided that an update to the Policy was not required at that time.

**Whitby's investment objective is long-term growth with returns in excess of inflation**

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.

Whitby's Investment Policy Statement verifies that the Town has taken these considerations into account in setting its investment objectives. The Town's overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns. In addition to the Consumer Price Index, returns will also need to be assessed against the change in the Non-Residential Construction Price Index, a measure of inflation that is also a consideration for the Town.

Whitby's risk tolerance and investment horizon are defined by category and purpose of reserve and reserve fund, and they are aligned with the ONE JIB Outcome Framework

ONE JIB uses an Outcome Framework to translate municipal needs and goals into investment allocations.

Table 1 below shows details of the ONE JIB approved Outcomes Framework, which classifies investments into four Outcome categories: Cash, Stable Return, Contingency, and Target Date outcomes. The Outcomes are in alignment with Whitby's investment objectives, risk profile and time frames. Whitby's Investment Plan assigns investment allocations based on the outcome mapping in Table 1.

*Table 1: ONE JIB Outcomes Framework*

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

Whitby's MNRI includes shares of Elexicon Energy Inc. that are not to be included in calculations of asset allocations

Whitby has approximately \$78.3 million of shares in Elexicon Energy Inc., the Local Distribution Company (LDC).

The IPS recognizes this investment as Long-Term Funds (or MNRI) that fall under the prudent investor standard. However, the IPS 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.

**Whitby will be contributing approximately \$26.6 million to its MNRI in 2021, increasing its total MNRI to \$142.7 million**

Whitby has approximately \$142.7 million available for the ONE JIB to invest. This amount represents the approximate market value of current investments with ONE JIB plus a new contribution of approximately \$26.6 million.

**The Town's MNRI is divided into contingency reserves and target date reserves**

Whitby's MNRI can be categorized into the following types:

1. Asset Management Reserves, which have a very long time-horizon and are used to help pay for capital renewal and replacement.
2. Development Charge Reserve Funds, which are used to fund the growth-related portion of capital infrastructure projects.
3. Other Obligatory Reserve Funds, which are legislated reserve funds under various Acts where money is collected and must be used for a specific purpose such as target date capital projects.
4. Capital reserves, which are used to fund capital infrastructure.
5. Stabilization reserves, which are a type of contingency reserve that is used to smooth out somewhat predictable annual volatility (e.g., winter maintenance costs, municipal election costs).
6. Contingency reserves, which are intended to manage potential cost and revenue shocks (e.g., emergency management, legal expenses).

Table 2 adapted from the Municipal Client Questionnaire, shows the breakdown in dollar values by reserve type, category, and investment horizon. The municipality has an asset management reserve fund with \$14.5 million in MNRI – the fund has a very long time-horizon. As a rapidly growing municipality, Whitby has collected a sizable amount in development charges for future projects, many of which are scheduled within the next ten years. The various obligatory reserve funds have a time-horizon of greater than ten years, apart from a \$12.3 million drawdown from its Parkland Cash-in-Lieu Fund and Parking Reserve Fund in the 3-to-5-year range.

The Town is anticipating a \$26.3 million withdrawal from its capital reserves within the next 5 years to fund some of the non-growth portion of its growth-related projects, with the remaining \$3.4 million intended for projects scheduled in the 10 plus year range. The Town has noted that the capital reserve estimates use conservative assumptions due to uncertainty around availability

in government grants and the infrastructure financing strategy. The stabilization reserves and contingency reserves have expected investment horizons greater than 10 years.

*Table 2: MNRI by Type, Category and Time Horizon, from MCQ section 4.2 (rounded to \$ thousands)*

Reserve Type	Category	Comments	MNRI Amount	Investment Horizon of MNRI			
				18 months to 3 years	3-5 years	5-10 years	10+ years
AM Reserves	AM Reserves	Asset replacement and renewal	14,453	-	-	-	14,453
Development Charge Reserve Funds	Target Date	Growth related projects	66,902	1,238	10,638	53,189	1,837
Other Obligatory Reserve Funds	Target Date	Fed Gas tax, Parking, Parkland Cash in Lieu, Developer contributions	29,613	-	12,269	-	17,344
Capital Reserves	Target Date	Planned projects	29,721	-	26,277	-	3,444
Stabilization Reserves	Contingency Reserves	Stable balances	4,164	-	-	-	4,164
Contingency Reserves	Contingency Reserves	Modest growth expected	1,152	-	-	-	1,152
<b>MNRI Total</b>			<b>146,005</b>	<b>1,238</b>	<b>49,184</b>	<b>53,189</b>	<b>42,394</b>

The Town anticipates withdrawals of \$52.7 million in the 3 to 5 year range and another \$64.2 million in the 5 to 10 year range

Whitby's MNRI forecast anticipates modest net contributions over the next two years, totaling approximately \$1.1 million. The Town has a significant number of capital projects planned that will require drawing MNRI down by \$13.7 million in 2024 and \$39.0 million in 2025. In the 5 to 10 year range Whitby is expecting net withdrawals of approximately \$64.2 million. See table 3 for further details.

*Table 3: Forecasted changes to MNRI from MCQ section 4.3*

Type	2022	2023	2024	2025	2026-2030
Anticipated MNRI Drawdowns	(3,982)	0	(13,743)	(38,987)	(83,683)
Anticipated MNRI Contributions	4,405	670	0	0	19,466
<b>Net change in MNRI</b>	<b>423</b>	<b>670</b>	<b>(13,743)</b>	<b>(38,987)</b>	<b>(64,217)</b>

Whitby has indicated a willingness to accept higher risk for potentially higher long-term returns

Whitby’s Municipal Client Questionnaire indicates a willingness to accept higher risk for potentially higher returns in the long run. The Town is comfortable with a moderate chance of capital loss over a 5-year period, and it has indicated that its tolerance for a single year decline is less than 5%.

#### 4. ANALYSIS

The ONE JIB Outcomes Framework was used to map MNRI in a manner consistent with Whitby’s Investment Policy Statement

Using the ONE JIB Outcome Framework, the CIO has developed a draft Investment Plan for ONE JIB’s review and approval. The allocations in the proposed Plan reflect the objectives, investment horizon and risk tolerance of the Town. The characteristics of the Town’s reserves were considered when building the Investment Plan.

**The proposed mapping to Outcomes and the resulting asset allocation are consistent with the time horizon in the Town’s cash flow forecasts**

The Town has a significant number of planned capital projects over the next 10 years, mostly growth-related projects. Asset management reserves and the portions of other capital reserves with a time horizon greater than 10 years allow the Town to assume a higher risk profile on those funds. The reserves with a 5 to 10 year horizon provide enough time to assume a moderate level of risk, and the reserves with shorter time horizons can be invested less volatility with a lower risk profile. Asset allocations (Table 4 below) and fund allocations (Table 5 below) in the proposed Investment Plan were determined using the ONE JIB Outcomes Framework. The most significant changes to the Town’s Plan arise from the mapping of new MNRI contributions to Outcomes with longer timeframes, notably the Asset Management Reserves Outcome and the Target Date 10+ Year Outcome.

*Table 4: Proposed Asset Allocation*

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	4.9	3.4	-	40	60	100
Asset Mgmt Reserves	9.0	6.3	-	10	90	100
Target Date 3-5 Years	49.5	34.7	20	70	10	100
Target Date 5-10 Years	47.9	33.6	-	50	50	100
Target Date 10+ Years	31.4	22.0	-	25	75	100
Total	\$ 142.7	100.0				

*Table 5: Proposed Pooled Fund Allocations by Outcome (values in \$ millions)*

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
Contingency	-	0.88	2.05	0.29	0.29	1.4	4.9
Asset Mgmt Reserves	-	2.43	5.67	0.14	0.14	0.6	9.0
Target Date 3-5 Years	9.90	1.48	3.46	5.20	5.20	24.3	49.5
Target Date 5-10 Years	-	7.18	16.76	3.59	3.59	16.8	47.9
Target Date 10+ Years	-	7.07	16.50	1.18	1.18	5.5	31.4
Total \$	\$ 9.9	\$ 19.0	\$ 44.4	\$ 10.4	\$ 10.4	\$ 48.5	\$ 142.7

Table 6 provides the same information in percentage, showing how the fund holdings are held within each of the Outcomes.

*Table 6: Fund Allocations as a Percentage of Total by Outcome*

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
Contingency	0.0%	0.6%	1.4%	0.2%	0.2%	1.0%	3.4%
Asset Mgmt Reserves	0.0%	1.7%	4.0%	0.1%	0.1%	0.4%	6.3%
Target Date 3-5 Years	6.9%	1.0%	2.4%	3.6%	3.6%	17.0%	34.7%
Target Date 5-10 Years	0.0%	5.0%	11.7%	2.5%	2.5%	11.7%	33.6%
Target Date 10+ Years	0.0%	5.0%	11.6%	0.8%	0.8%	3.9%	22.0%
Total	6.9%	13.3%	31.1%	7.3%	7.3%	34.0%	100.0%

The new contributions will be mapped to the Asset Management Reserves Outcome and the Target Date 10+ Years Outcome including some minor Outcome remapping

There were no changes in Whitby's Investment Policy Statement. However, the new contributions identified in the Municipal Client Questionnaire required updates to the Town's Outcome mapping. Based on section 4.2 of the Municipal Client Questionnaire and discussions with the Town, the \$26.6 million in new contributions will be allocated to the Asset Management reserves Outcome (\$8.7 million increase) and the Target Date 10+ Years Outcome (\$17.9 million increase). Additionally, the small Cash Outcome from last year's plan was remapped to the Target Date 3-

5 Year Outcome. The mapping of the new MNRI has an impact on the overall weight in each Outcome. See table 7 for details and comparison to last year's plan.

*Table 7: Percentage of MNRI by Outcome (2020 Plan vs. Current vs. Proposed)*

Outcome	2020 Plan Weight	31-May-21 Weight	Proposed Plan Weight
Cash	0.4%	0.0%	0.0%
Contingency	4.0%	4.2%	3.4%
Asset Mgmt Reserves	0.2%	0.2%	6.3%
Target Date 3-5 Years	44.2%	42.6%	34.7%
Target Date 5-10 Years	40.2%	41.2%	33.6%
Target Date 10+ Years	10.9%	11.7%	22.0%
Overall	100.0%	100.0%	100.0%

When compared to the June 2020 Plan most of the changes to the proposed plan can be explained by market value changes, a contribution of new MNRI, and some Outcome remapping

After mapping MNRI to Outcomes, the Framework suggests the portfolio-level Pooled Fund allocations in tables 8a (in dollars) and 8b (percentage). Comparable numbers are provided for the initial June 2020 Plan allocations and actual allocations as of May 31, 2021. The difference between the 2020 Plan figures and the Proposed Plan figures in both tables can be explained by market value change, the contribution of \$26.6 million in new MNRI, and a remapping of last year's Cash Outcome. The May Actual figures provide a reference point that incorporates market value change and transactions since the 2020 Plan. The deployment of new MNRI to longer range Outcomes means that more of the new MNRI will be allocated to equities than to fixed income investments. The Global Equity allocation will grow to 31.1% of total investments, up from 25.7%, and the Canadian Equity allocation will increase from 11.9% to 13.3%. As a result, the proportionate allocations to the fixed income funds will decline.

*Table 8a: Portfolio-level Allocations between ONE JIB Pooled Funds*

Fund	2020 Plan \$ millions	Actual (May) \$ millions	Proposed Plan \$ millions
ONE HISA	\$ 10.0	\$ 9.6	\$ 9.9
ONE Canadian Equity Fund	11.4	13.8	19.0
ONE Global Equity Fund	26.7	29.9	44.4
ONE Canadian Government Bond Fund	9.0	9.3	10.4
ONE Canadian Corporate Bond Fund	9.0	9.2	10.4
ONE Global Bond Fund	41.9	44.2	48.5
Total \$	\$ 108.0	\$ 116.1	\$ 142.7

*Table 9b: Portfolio-level Allocation Weights between ONE JIB Pooled Funds*

<b>Fund</b>	<b>2020 Plan Weight</b>	<b>Actual (May) Weight</b>	<b>Proposed Plan Weight</b>
ONE HISA	9.3%	8.3%	6.9%
ONE Canadian Equity Fund	10.6%	11.9%	13.3%
ONE Global Equity Fund	24.7%	25.8%	31.1%
ONE Canadian Government Bond Fund	8.3%	8.0%	7.3%
ONE Canadian Corporate Bond Fund	8.3%	7.9%	7.3%
ONE Global Bond Fund	38.8%	38.1%	34.0%
<b>Total \$</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Average expected returns on the proposed Investment Plan are 0.1% higher than the June 2020 Investment plan due to revised return assumptions

The average return expectation (i.e., Annual 10-yr Compound Return Assumptions) detailed in the proposed Investment plan is 4.1%. This is 0.1% higher than the return expectations for the June 2020 Investment Plan. The change is attributable to the addition of \$26.6 million to longer-term Outcomes and to the revised return assumptions established in the February 17, 2021 ONE JIB meeting, which lowered the expected return on the fixed income Pooled Funds. The overall equity allocation increases by 9.3% from the June 2020 plan, this also includes to the allocation of new contributions to longer-term Outcomes (i.e., Target Date 10+ years and Asset Management Reserves). The overall risk level associated with the proposed 2021 Investment Plan is higher than the June 2020 Investment Plan, which is appropriate considering its circumstances and goals. The standard deviation, which is a statistical measure that helps reflect the amount of risk, is 5.3% in the proposed Plan, 0.7% higher vs the 2020 Investment Plan.

*Table 10: Risk and Return Comparison to Last Plan*

<b>Plan version</b>	<b>Average Expected Returns</b>	<b>Standard Deviation</b>
July 2021 Draft Investment Plan	4.1%	5.3%
June 2020 Investment Plan	4.0%	4.6%
<b>Difference</b>	<b>+0.1%</b>	<b>+0.7%</b>

## 5. CONCLUSION

Whitby's Council completed its annual Investment Policy Statement review and chose not to update the Policy. 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. As a result, the Investment Plan is appropriate for the Town's objectives, risk tolerance, time horizons and available MNRI.

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Approved for submission by: Judy Dezell and Donna Herridge, Co-Presidents/CEO