



REPORT

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

1. RECOMMENDATIONS

It is recommended that the Board:

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

2. SUMMARY

Innisfil's annual Investment Policy Statement review resulted in changes intended to closely align it with the ONE JIB Outcomes Framework. The Town has \$26.8 million available to invest, which includes a contribution of \$10.0 million. Their updated Municipal Client Questionnaire shows that no changes are required to the Outcome mapping, with the exception of the deployment of the new MNRI, which will be mapped to the Target Date 5-10 Year Outcome.

The average annual expected return in the proposed Investment Plan is 4.6%, which is 0.3% lower than in the June 2020 Investment Plan. The difference is attributable to the allocation of MNRI to an Outcome with lower equity weighting than the average equity weighting in the June 2020 Plan and the lower return assumptions on some of the fixed income Pooled Funds that ONE JIB approved in February 2021.

3. BACKGROUND

Innisfil's Annual Investment Policy Statement review resulted in changes that more closely align it with the ONE JIB Outcomes Framework

The Town of Innisfil completed its annual Investment Policy Statement review on June 22, 2021. Council is required to review and, if necessary, update the Policy annually, as per Ontario Regulation 438/97 (Regulation). Council amended its Policy so that it more closely aligns with the ONE JIB Outcomes Framework. The objectives, risk tolerance and investment horizons now mirror those in the Framework. The Policy's effective date was July 2, 2021.

Innisfil's investment objective is long-term growth and 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.

Innisfil'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 based on the Consumer Price Index.

Innisfil's risk tolerance and investment horizon are defined by category and purpose of reserves and they are aligned with the ONE JIB Outcome Framework

ONE JIB uses an outcome-based approach 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 Innisfil's investment objectives, risk profile and time frames. Innisfil'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

Innisfil's MNRI includes shares of Innpower Corporation and its affiliate, Innterprises Inc., that are not to be included in calculations of asset allocations

Innisfil has approximately \$28.0M in shares in Innpower Corporation and Innterprises Inc., the local distribution company (LDC) and its affiliate. 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.

Innisfil has \$26.8 million in MNRI, which includes a contribution of \$10.0 million

Innisfil has approximately \$26.8 million available for the ONE JIB to invest. This amount represents the approximate market value of current investments with ONE JIB plus a contribution of approximately \$10.0 million.

There is some uncertainty with respect to future cash flow needs. The Town notes in its Municipal Client Questionnaire dated June 21, 2021, that its capital planning and asset management processes are still in their infancy, and its financing strategy is not in a mature state. In discussions with the Treasurer, it was noted that there is uncertainty related to the timing of projects, the level of debt financing that will be used, and the availability of funding from senior levels of government. The Treasurer also noted that their cashflow forecasts tend to reflect development charge collections conservatively.

Most of the Town's MNRI has a time horizon of greater than 5 years and can either be categorized as Target Date or Contingency Reserves

Innisfil's MNRI can be grouped into the following categories:

1. Asset renewal (i.e., capital reserves), which are used to fund capital infrastructure – in this instance asset renewal is used by the Town as a broad term for capital reserves with varying time horizons and should not be confused with the Asset Management Reserves in the Outcomes Framework, which have a very long time horizon.
2. Growth – (i.e., Obligatory reserve funds such as Development Charges, Parkland Cash in Lieu, etc.) – which are reserve funds used to fund the growth-related portion of capital infrastructure.
3. Operating reserves – which combines stabilization and contingency reserves:
 - a. 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).
 - b. Contingency reserves, which are intended to manage potential cost and revenue shocks (e.g., emergency management, legal expenses).

The forecasts for the asset renewal reserves estimates \$1.7 million will be required in the 3-to-5-year range and \$5.4 million will be required in the 5-to-10-year range. Requirements from growth-related reserve funds are all estimated to be in the 5-to-10-year range. Requirements from the Town's operating reserves are estimated to be in the 5 plus years range, which is the expected profile for most contingency reserves.

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			
				24 months to 3 years	3-5 years	5-10 years	10+ years
Asset Renewal	Target Date	More volatile balances	7,094		1,692	5,402	
Growth (Obligatory Reserves)	Target Date	Growing	10,722			10,722	
Operating Reserves	Contingency Reserves	Stable balances	8,873		174	8,726	
TOTAL MNRI			26,689		1,838	24,850	

Innisfil currently forecasts significant contributions starting in 2024, but the visibility of cashflow forecasts decreases considerably in the 5 to 10 year horizon.

Innisfil's projects considerable growth in its MNRI over the next ten years. The Town anticipates making contributions of \$12.8 million in 2024 before making any withdrawals (\$5.8 million in 2025 and \$10.0 million in 2026). The Town expects MNRI balances to grow to \$70.3 million by 2029. As noted previously, there is uncertainty related to timing of projects and the financing strategy, which could also push cash flow needs to a later date or allow for further contributions. Planned projects scheduled for 2030 and beyond far exceed the total MNRI projected in 2030. The Treasurer anticipates that these forecasts will change as the Town's capital planning and asset management practices evolve over the next few years. At this time, the Treasurer was not comfortable projecting cashflows beyond 2030. The drawdown in the 2026-2030 period noted in Table 3 is a reflection of this, which should be seen as a conservative assumption rather than indicating an expected full drawdown in MNRI.

Table 3: Forecast contributions and withdrawals - adapted from MCQ 4.2 (\$ thousands)

Type	2022	2023	2024	2025	2026-2030
Anticipated MNRI Drawdowns	0	0	0	(5,771)	(80,336)
Anticipated MNRI Contributions	0	0	12,819	0	46,599
Net change in MNRI	0	0	12,819	(5,771)	(33,737)

Innisfil's objective is to achieve moderate growth without excessive risk to capital

Innisfil has indicated that its objective is moderate growth without excessive risk to capital. The Town is comfortable with a moderate chance of capital loss over a 5-year period and a single year decline in the 5-10% range.

4. ANALYSIS

The ONE JIB Outcomes Framework was used to allocate MNRI in a manner consistent with Innisfil's Investment Policy Statement

Using the ONE JIB Outcomes Framework, the CIO has developed a proposed Investment Plan for ONE JIB's review and approval. The allocations in the plan reflect the objectives, investment horizon and risk tolerance of the Town. The characteristics of the Town's reserves and reserve funds were considered in building the Investment Plan.

The proposed allocations to Outcomes and resulting asset allocations are consistent with the time horizon and level of certainty in the Town's cash flow forecasts

The Town has considerable uncertainty about the timing of its capital reserve cash flows due to the continuing evolution of its capital planning and asset management processes. It also has a policy of conservatively estimating growth-related revenue. As future contributions are expected to be able to accommodate any withdrawal needs in the next five years, all current MNRI has a time horizon of greater than 5 years. Additionally, debt financing decisions and upper-level government funding availability will potentially push cash needs further out, creating uncertainty around the magnitude and timing of withdrawals. As a result, the Town's asset renewal funds begin to assume similar characteristics to contingency funds, with a time horizon greater than 5 years and a higher degree of uncertainty around timing. The growth-related funds have levels of uncertainty similar to the asset renewal MNRI; however, the majority of this MNRI is mapped to the Target Date 5-to-10 Year Outcome, which is where the Plan proposes deploying the new contributions (\$10.0 million). The \$16.8 million already under ONE JIB's control and management remains mapped to the Contingency Outcome (62.7%). See tables 4 and 5 for further details.

Table 4: Proposed Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	16.8	62.7	-	40	60	100
Target Date 5-10 Years	10.0	37.3	-	50	50	100
Total	\$ 26.8	100.0				

Table 5: Proposed Pooled Fund Allocations by Outcome (\$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	-	3.03	7.06	1.01	1.01	4.7	16.8
Target Date 5-10 Years	-	1.50	3.50	0.75	0.75	3.5	10.0
Total \$	\$ -	\$ 4.5	\$ 10.6	\$ 1.8	\$ 1.8	\$ 8.2	\$ 26.8

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%	11.3%	26.3%	3.8%	3.8%	17.6%	62.7%
Target Date 5-10 Years	0.0%	5.6%	13.1%	2.8%	2.8%	13.1%	37.3%
Total	0.0%	16.9%	39.4%	6.6%	6.6%	30.6%	100.0%

The only proposed change to Outcome mapping is that the new contribution of \$10.0 million is mapped to the Target Date 5-10 Years Outcome

The updates to Innisfil's Investment Policy Statement and Municipal Client Questionnaire only required changes related to the new contribution of \$10.0 million.

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

Outcome	2020 Plan Weight	31-May-21 Weight	Proposed Plan Weight
Contingency	100.0%	100.0%	62.7%
Target Date 5-10 Years	0.0%	0.0%	37.3%
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 and the mapping of new contributions to the Target Date 5-10 Year Outcome

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 and the contribution of new MNRI. The May Actual figures provide a reference point that incorporates market value change and transactions since the 2020 Plan.

The mapping of new MNRI (\$10.0 million) into the Target Date 5-10 Year Outcome will affect allocations to the Pooled Funds.

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

Fund	2020 Plan \$ millions	Actual (May) \$ millions	Proposed Plan \$ millions
ONE HISA	\$ -	\$ 0.0	\$ -
ONE Canadian Equity Fund	2.7	3.3	4.5
ONE Global Equity Fund	6.3	7.1	10.6
ONE Canadian Government Bond Fund	0.9	1.0	1.8
ONE Canadian Corporate Bond Fund	0.9	1.0	1.8
ONE Global Bond Fund	4.2	4.6	8.2
Total \$	\$ 15.0	\$ 16.8	\$ 26.8

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

Fund	2020 Plan Weight	Actual (May) Weight	Proposed Plan Weight
ONE HISA	0.0%	0.0%	0.0%
ONE Canadian Equity Fund	18.0%	19.3%	16.9%
ONE Global Equity Fund	42.0%	42.0%	39.4%
ONE Canadian Government Bond Fund	6.0%	5.8%	6.6%
ONE Canadian Corporate Bond Fund	6.0%	5.8%	6.6%
ONE Global Bond Fund	28.0%	27.1%	30.6%
Total \$	100.0%	100.0%	100.0%

Average expected returns on the proposed Investment Plan are 0.3% lower than in the June 2020 Investment plan

The average return expectation (i.e., Annual 10-yr Compound Return Assumptions) in the proposed investment plan is 4.6%. This is 0.3% lower than the return expectations in the June 2020 Investment Plan. The change is partially attributable to the allocation of new contributions to the Target Date 5-to-10-Year Outcome, which has a lower equity weight than the Contingency Outcome. Additionally, it reflects the revised return assumptions established at the February 17, 2021 ONE JIB meeting, which lowered the return assumptions on some of the fixed income Pooled Funds. The overall equity allocation decreases by 3.7% between plans. The overall risk level associated with the proposed 2021 Investment Plan is lower than the June 2020 Investment Plan. The standard deviation, which is a statistical measure that helps reflect the amount of risk, is 6.3% in the proposed Plan, 0.3% lower vs the 2020 Investment Plan.

Table 10: Risk and Return Comparison to Last Year's Plan

Plan version	Average Expected Returns	Standard Deviation
July 2021 Proposed Investment Plan	4.6%	6.3%
June 2020 Investment Plan	4.9%	6.6%
Difference	-0.3%	-0.3%

5. CONCLUSION

Innisfil's Council completed its annual Investment Policy Statement review and updated the policy to align more closely with the ONE JIB Outcomes Framework. 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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