

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: July 14, 2021
Re: Town of Bracebridge - Annual Investment Plan Review
Report: ONE JIB-002-21

1. RECOMMENDATIONS

It is recommended that the Board:

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

2. SUMMARY

Bracebridge's annual Investment Policy Statement review did not result in any changes. The Town has \$6.4 million available to invest, all with a time horizon of greater than 10 years. They are not expecting to make any contributions or withdrawals to their MNRI. Their updated Municipal Client Questionnaire shows that no changes are required to the Outcome mapping.

The proposed Investment Plan shows no change to target allocations from the June 2020 Investment Plan. The Pooled Fund allocations in the proposed Investment Plan are substantially the same as the actual allocations in Bracebridge's current portfolio. The Pooled Fund allocations within their assigned Outcomes are aligned with target weights, as a rebalance occurred in April 2021.

The average annual expected return in the proposed Investment Plan is 5.0%, which is 0.1% lower than the June 2020 Investment Plan. The difference is entirely attributable to lower return assumptions on some of the fixed income Pooled Funds that ONE JIB approved in February 2021.

3. BACKGROUND

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

The Town of Bracebridge completed its Annual Investment Policy Statement review on December 18, 2020. 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.

Bracebridge'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.

Bracebridge'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. Returns will also need to be assessed in relation to the change in the Non-Residential Construction Price Index, a measure of inflation that is also a consideration for the Town.

Bracebridge's risk tolerance and investment horizon are defined by category and purpose of reserves 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 Bracebridge's investment objectives, risk profile and time frames. Bracebridge'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

Bracebridge’s MNRI includes shares of Lakeland Holdings Limited that are not to be included in calculations of asset allocations

Bracebridge has approximately \$32.5M 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.

Bracebridge has \$6.4 million in MNRI and does not anticipate making any contributions or withdrawals this year

Bracebridge has approximately \$6.4 million available for the ONE JIB to invest, all of which is expected to have a timeframe of greater than 10 years. This amount represents the approximate market value of current investments with ONE JIB. Much of the Town’s capital reserves are short-term in nature as it moves forward on a \$53.8 million multi-use community center, which was delayed due to the pandemic but is expected to break ground later this year. A portion of the Town’s MNRI, approximately \$601,600, has been used for self-financing purposes (i.e., the municipality has borrowed internally from its reserves).

The Town’s MNRI is divided between contingency reserves and target date reserves, all with an

expected time horizon of greater than 10 years.

Bracebridge’s MNRI can be grouped into four distinct types:

1. Obligatory reserve funds (i.e., funds that must be segregated due to legislation under the Development Charges Act or the Planning Act), which are typically used to pay for capital infrastructure.
2. Capital reserves, which are used to fund capital infrastructure.
3. 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).
4. Contingency reserves, which are intended to manage potential cost and revenue shocks (e.g., emergency management, legal expenses).

Table 2 below from the Municipal Client Questionnaire shows the breakdown in dollar values by reserve type, category and investment horizon. All MNRI has an investment horizon greater than 10 years. As noted previously, an adjustment to MNRI is made to account for the self-financing activity and an additional adjustment of \$364,100 is made to account for differences between the market value and the recorded value provided by the Town. The resulting values are consistent with last year’s breakdown of MNRI.

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
Obligatory reserve funds	Target Date	Stable balances	1,123.2	na	na	na	1,123.2
Capital Reserves	Target Date	Volatile balances	2,274.8	na	na	na	2,274.8
Stabilization Reserves	Contingency Reserves	Stable balances	3,291.6	na	na	na	3,291.6
Contingency Reserves	Contingency Reserves	Modest growth expected	631.1	na	na	na	631.1
Self-financing	MNRI offset		(601.6)				(601.6)
Timing differences	Invested MNRI value drift	MCQ MNRI static- MV of invested MNRI fluctuates	(364.1)				
MNRI Total			6,355.0				

The Town anticipates no contributions or withdrawals through 2024, with net contributions of \$14.3 million in years four through ten

Bracebridge’s MNRI forecasts do not anticipate any contributions or withdrawals over the next three years. The Town anticipates a withdrawal of \$2.2 million in 2025; however, anticipated contributions of \$2.9 million in that year will see a positive net change of approximately \$666,000 in MNRI. As any cash needs can be accommodated by the forecasted contribution in that year, discussions with the Treasurer indicated that all current MNRI will be invested for a

period greater than 10 years. In years 2026 through 2030, Bracebridge is forecasting its capital reserves to grow by approximately \$13.7 million. The Town is forecasting total net contributions over the next ten years of \$14.3 million. Further details can be found in Table 3.

Table 3: Forecasted changes to MNRI from MCQ section 4.3

Type	2022	2023	2024	2025	2026-2030
Anticipated MNRI Drawdowns	-	-	-	(2,230.3)	-
Anticipated MNRI Contributions	-	-	-	2,896.6	13,680.6
Net change in MNRI	-	-	-	666.3	13,680.6

Bracebridge’s overall risk tolerance is a moderate chance loss of capital over a 5-year period with an annual downside comfort of -5 to -10% in a single year.

4. ANALYSIS

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

Using the ONE JIB Outcomes Framework, the CIO has developed a draft Investment Plan for ONE JIB’s review and approval. The allocations 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 of MNRI to Outcomes and resulting asset allocation are consistent with the time horizon and level of certainty in the Town’s cash flow forecasts

The Town does not anticipate withdrawing money over the next ten years, which should allow the Town to assume an above average risk profile. Consistent with the information provided by the Town, the MNRI is divided almost equally between the Contingency and Target Date 10+ Years Outcomes, at 48.7% and 51.3% respectively. The proposed investment plan’s asset allocations (Table 4 below) and fund allocations (Table 5 below) were determined using the ONE JIB Outcomes Framework. The allocations show no significant changes from the June 2020 Investment Plan.

Table 4: Proposed Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	3.1	48.7	-	40	60	100
Target Date 10+ Years	3.3	51.3	-	25	75	100
Total	\$ 6.4	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	-	0.56	1.30	0.19	0.19	0.9	3.1
Target Date 10+ Years	-	0.73	1.71	0.12	0.12	0.6	3.3
Total \$	\$ -	\$ 1.3	\$ 3.0	\$ 0.3	\$ 0.3	\$ 1.4	\$ 6.4

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%	8.8%	20.4%	2.9%	2.9%	13.6%	48.7%
Target Date 10+ Years	0.0%	11.6%	27.0%	1.9%	1.9%	9.0%	51.3%
Total	0.0%	20.3%	47.4%	4.8%	4.8%	22.6%	100.0%

The mapping of MNRI to Outcomes remains the same as in the June 2020 Investment Plan

There were no changes in Bracebridge's Investment Policy Statement or Municipal Client Questionnaire that required changes to the Town's Outcome mapping. It should be noted that there is a residual Cash Outcome allocation of \$55 in its current investments, as a result of ongoing administrative challenges related to the use of ONE HISA. The difference between the 2020 Plan Weight and the Proposed Plan Weight by Outcome is attributable to the difference in market value changes between the Contingency and Target Date 10+ Outcomes. As the Target Date 10+ Outcome has a higher allocation to equities, that portion of MNRI grew at a higher rate than the MNRI mapped to the Contingency Outcome.

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	49.1%	48.7%	48.7%
Target Date 10+ Years	50.9%	51.3%	51.3%
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

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

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	1.1	1.4	1.3
ONE Global Equity Fund	2.7	3.0	3.0
ONE Canadian Government Bond Fund	0.3	0.3	0.3
ONE Canadian Corporate Bond Fund	0.3	0.3	0.3
ONE Global Bond Fund	1.3	1.4	1.4
Total \$	\$ 5.6	\$ 6.4	\$ 6.4

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	20.3%	21.7%	20.3%
ONE Global Equity Fund	47.3%	46.8%	47.4%
ONE Canadian Government Bond Fund	4.9%	4.7%	4.8%
ONE Canadian Corporate Bond Fund	4.9%	4.7%	4.8%
ONE Global Bond Fund	22.7%	22.0%	22.6%
Total \$	100.0%	100.0%	100.0%

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

The average annual return expectation (i.e., Annual 10-yr Compound Return Assumptions) detailed in the plan is 5.0%. This is 0.1% lower than the return expectation in the June 2020 Investment Plan. As the Outcome mappings and target weights will remain the same, the change is entirely attributable to 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 risk level associated with the proposed 2021 Investment Plan is marginally higher than the June 2020 Investment Plan. The standard deviation, which is a statistical measure that helps reflect the amount of risk, is 7.3%, 0.1% higher vs the in 2020 Investment Plan.

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

Plan version	Average Expected Returns	Standard Deviation
July 2021 Draft Investment Plan	5.0%	7.3%
June 2020 Investment Plan	5.1%	7.2%
Difference	-0.1%	+0.1%

5. CONCLUSION

Bracebridge's Council completed its annual Investment Policy Statement review and chose not to update it. 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