

To: ONE Joint Investment Board
 From: Keith Taylor, Chief Investment Officer, ONE Investment
 Date: November 17, 2021
 Re: Quinte West's Investment Plan
 Report: ONE JIB-O38-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve Quinte West's proposed Investment Plan (Attachment 1).
2. Receive Quinte West's Municipal Client Questionnaire (Attachment 2).

2. SUMMARY

The City of Quinte West has agreed to join the ONE JIB as a Participating Municipality. As part of the process under the applicable provincial regulation, the ONE JIB must develop and approve an Investment Plan for the City.

Quinte West will allocate \$33.5 million in MNRI to be invested under the care and control of ONE JIB. Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 3.8%. The effective date for Quinte West to join the ONE JIB is January 1st, 2022. The MNRI will be deployed into the investment Outcomes within two weeks of the effective date.

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

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	\$ 5.7	17.1
ONE Canadian Equity Fund	4.0	12.1
ONE Global Equity Fund	9.4	28.2
ONE Canadian Government Bond Fund	2.1	6.4
ONE Canadian Corporate Bond Fund	2.1	6.4
ONE Global Bond Fund	10.0	29.9
Total	\$ 33.5	100.0

3. BACKGROUND

Quinte West will be contributing approximately \$33.5 million in MNRI in 2022

Quinte West's MNRI can be categorized into the following types:

1. Development Charge Reserve Funds
2. Other Obligatory Reserve Funds
3. Capital reserves
4. Stabilization reserves
5. Contingency reserves

Table 2 below, adapted from the Municipal Client Questionnaire (MCQ), shows the breakdown in dollar values by reserve type, category, and investment horizon. As a growing municipality, Quinte West collects development charges for future growth projects, with approximately half of those projects scheduled within the next ten years. The various obligatory reserve funds are target date funds that have a time-horizon that is predominantly in the 5-10-year range.

The City's Capital Reserve forecasts are very conservative as they do not yet have a capital planning and asset management process that looks beyond the three-year range. As a result, the forecasts anticipate the full withdrawal of these funds within the next 10 years. It is expected that these capital reserves may have a longer time horizon, and the City expects more clarity in future forecasts as it advances its asset management and capital planning practices. The stabilization reserves and contingency reserves have expected investment horizons predominantly in the 5-10-year range.

Table 1: MNRI by Type, Category and Time Horizon, adapted 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
Development Charge Reserve Funds	Target Date	Growth related projects	8,079	1,500	1,000	1,000	4,579
Other Obligatory Reserve Funds	Target Date	Provincial Gas Tax, CCBF (formerly Fed Gas Tax), etc.	4,771	96	-	4,675	-
Capital Reserves	Target Date	Planned projects	15,646	2,371	5,000	8,275	-
Stabilization Reserves	Contingency Reserves	Stable balances	1,366	101	-	1,265	-
Contingency Reserves	Contingency Reserves	Modest growth expected	3,632	96	-	2,786	751
MNRI Total			33,495	4,165	6,000	18,000	5,330

The City anticipates withdrawals of \$14.8 million within the next five years and another \$14.0 million in the 5-to-10-year range

Quinte West's MNRI forecasts anticipates drawdowns during the forecast period, which are largely tied to expected capital expenditures associated with their target date reserves. The City's forecasts do not anticipate new contributions to MNRI; however, their MCQ notes an anticipated growth in reserves of 5% per year or greater, while expenditures are anticipated to rise roughly at the rate of inflation. As noted above, the City has capital projects planned that will require drawing MNRI down by \$4.4 million in 2023, \$5.0 million in 2024, and \$5.4 million in 2025. In the 5-to-10-year range Quinte West is expecting net withdrawals of approximately \$14.0 million.

Table 2: Forecast contributions and withdrawals - adapted from MCQ 4.2 (\$ thousands)

Type	2022	2023	2024	2025	2026-2030
Anticipated MNRI Drawdowns	0	(4,400)	(5,000)	(5,400)	(14,000)
Anticipated MNRI Contributions	0	0	0	0	0
Net change in MNRI	0	(4,400)	(5,000)	(5,400)	(14,000)

4. ANALYSIS

Quinte West's \$33.5 million MNRI will be transitioned to the ONE JIB as a cash contribution

The City will have \$33.5 million available for the ONE JIB to invest. The MNRI to be transitioned to the ONE JIB will be a cash contribution. The City does not have existing ONE Investment Legal List portfolios that will need to be liquidated to fund this contribution. The Effective Date for Quinte West to join the ONE JIB is January 1, 2022, with the transfer of MNRI to the ONE JIB accounts and investment into the underlying Outcomes/securities to occur within 2 weeks of the Effective Date.

The proposed mapping to Outcomes and resulting asset allocation are consistent with Quinte West's time horizon, risk tolerances and objectives

The City has a significant number of planned capital projects over the next 10 years, which include some growth-related contributions. Over half of the development charge reserve fund MNRI has a time horizon greater than 10 years, which allows the municipality to assume a higher risk profile on those funds. Reserves with a 5-to-10-year horizon can be invested at moderate risk levels, and the reserves with shorter time horizons can be invested in more liquid securities, which will lower the portfolio's overall risk profile significantly. Mapping the MNRI to Outcomes was done using the information provided above from the MCQ and through discussions with the Treasurer to ensure a common understanding of the uses and purpose of the MNRI. Asset allocations (Table 4 below) and fund allocations (Tables 5 and 6 below) were determined using the ONE JIB's Outcomes Framework.

Table 3: Proposed Outcome Mapping and Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	\$ 4.4	13.2	100	-	-	100
Contingency	4.0	11.9	-	40	60	100
Target Date 3-5 Years	6.5	19.5	20	70	10	100
Target Date 5-10 Years	14.0	41.6	-	50	50	100
Target Date 10+ Years	4.6	13.7	-	25	75	100
Total	\$ 33.5	100.0				

Table 5: Proposed Pooled Fund-Level Allocation

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	\$ 5.7	17.1
ONE Canadian Equity Fund	4.0	12.1
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ONE Canadian Government Bond Fund	2.1	6.4
ONE Canadian Corporate Bond Fund	2.1	6.4
ONE Global Bond Fund	10.0	29.9
Total	\$ 33.5	100.0

Table 6: 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
Cash	\$ 4.4	-	-	-	-	-	\$ 4.4
Contingency	-	0.72	1.68	0.24	0.24	1.1	4.0
Target Date 3-5 Years	1.30	0.20	0.46	0.68	0.68	3.2	6.5
Target Date 5-10 Years	-	2.09	4.88	1.05	1.05	4.9	14.0
Target Date 10+ Years	-	1.04	2.42	0.17	0.17	0.8	4.6
Total \$	\$ 5.7	\$ 4.0	\$ 9.4	\$ 2.1	\$ 2.1	\$ 10.0	\$ 33.5

The average annual expected return on Quinte West's investments is approximately 3.8%

The average return expectations (i.e., Annual 10-yr Compound Return Assumptions) detailed in the proposed Investment Plan is 3.8%. The combined standard deviation of the portfolio is approximately 4.8%. Risk and return attributes of the Consolidated MNRI are shown in Table 7 below.

This aligns with the risk and return objectives established in the City's Investment Policy Statement and the MCQ, as detailed in Report O44-21.

Table 7: Risk and return expectations

Outcome	Expected Return	Standard Deviation	Allocation Weight
Cash	0.7%	1.3%	13.2%
Contingency	4.8%	6.6%	11.9%
Target Date 3-5 Years	2.7%	2.8%	19.5%
Target Date 5-10 Years	4.4%	5.8%	41.6%
Target Date 10+ Years	5.3%	7.9%	13.7%
Overall	3.8%	4.8%	100.0%

5. CONCLUSION

The proposed Investment Plan is consistent with the City's Investment Policy Statement. The proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its Investment Policy Statement and MCQ.

As a result, the Investment Plan is appropriate for the City's objectives, risk tolerance, time horizons and available MNRI.

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

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