



REPORT

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Investments, ONE Investment
Date: November 17, 2021
Re: ONE JIB Agreements - City of Quinte West and Municipality of Neebing
Report: ONE JIB-O42-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Authorize the Chair and Board Secretary to execute a ONE JIB Agreement on behalf of ONE JIB with the Municipality of Neebing and ONE Investment.
2. Authorize the Chair and Board Secretary to execute a ONE JIB Agreement on behalf of ONE JIB with the City of Quinte West and ONE Investment.

2. SUMMARY

The City of Quinte West and Municipality of Neebing Councils have authorized the entering into of the ONE JIB Agreement once ONE JIB has accepted them as Participating Municipalities under the Agreement. Both municipalities have completed all the necessary steps to enter into the ONE JIB Agreement. The ONE JIB Agreement is the primary operating document for municipalities that have decided to invest their money that they do not require immediately under the prudent investor regime through ONE JIB. ONE Investment is also a party to the Agreement. It will provide support and administrative services to the other parties.

3. BACKGROUND

ONE JIB is the only joint investment board currently constituted under the Municipal Act

Historically, Provincial legislation has restricted municipal investments of money not required immediately (MNRI) to a limited number of securities prescribed by regulation, often referred to as the Legal List. With amendments to municipal legislation and the formation of ONE JIB, municipalities that join ONE JIB can invest in any type of securities under the prudent investor regime with professional investment expertise regardless of municipal size or financial position. Before formally opting into the prudent investor regime by passing an enabling by-law, a Participating Municipality must execute the ONE JIB Agreement.

Municipal legislation permits ONE JIB to accept any municipality in Ontario into the Prudent Investment Program

Under the *Municipal Act, 2001* and Ontario Regulation 438/97 (the Regulation), a municipality must delegate its investment powers and duties in respect of its MNRI to an Investment Board or a Joint Investment Board before its MNRI can be invested under the prudent investor regime. There are three ways for a municipality to invest through an Investment Board:

1. It can establish its own Investment Board if it has either \$50 million in net financial assets or \$100 million in money and investments that it does not require immediately, in the opinion of its treasurer.
2. It can partner with other municipalities that collectively meet the \$100 million in money and investments that they do not require immediately to establish a Joint Investment Board. This is how ONE JIB was established by the six founding municipalities.
3. It can enter into an agreement with an already existing Investment Board or Joint Investment Board.

The third alternative is the one that enables ONE JIB to accept additional municipalities into the ONE Prudent Investment Program.

The ONE JIB Agreement is the formal document that establishes the terms and conditions under which ONE JIB agrees to invest on behalf of a new municipality

The ONE JIB Agreement is the primary operating document for municipalities that have decided to invest their MNRI under the prudent investor regime through ONE JIB. It governs the relationship between ONE JIB and any municipality that decides to invest under the prudent investor regime and executes the Agreement. The initial municipal signatories to the agreement constitute the six municipalities that established ONE JIB. They are sometimes referred to as the Founding Municipalities. The municipalities that subsequently enter into the ONE JIB Agreement, together with the Founding Municipalities, are all referred to as Participating Municipalities. ONE Investment is also a party to the agreement. The ONE JIB Agreement was developed with input from the municipal and investment communities, including ONE Investment's members (LAS and CHUMS), its Directors (all municipal representatives) and the Founding Municipalities. The Agreement attached to this report has been reviewed and executed by the Founding Municipalities effective July 2, 2020.

The ONE JIB Agreement is a foundational legal agreement and can only be amended in accordance with the procedures set out in the Agreement.

ONE Investment provides full turn-key service to municipalities looking to participate in ONE JIB

ONE Investment has developed a two-step process for municipalities to participate in the ONE Prudent Investment Program through ONE JIB. First, municipalities pass an Authorizing By-law pursuant to which they adopt an Investment Policy Statement that sets out their objectives and needs in respect of their MNRI under the prudent investor regime, approve a Municipal Client Questionnaire and authorize municipal staff to execute the ONE JIB Agreement. The passing of the Authorizing By-law ensures that municipalities meet the legislative requirements to enter an

agreement with ONE JIB and must occur prior to ONE JIB accepting them as Participating Municipalities. The second step is the passing of a Prudent Investor Enabling By-law pursuant to which they officially opt into the prudent investor regime. ONE Investment encourages municipalities to pass this by-law after ONE JIB agrees to accept them as Participating Municipalities under the ONE JIB Agreement. A municipality typically passes the Prudent Investor Enabling By-law after ONE JIB has approved its Investment Plan.

4. ANALYSIS

Quinte West and Neebing have completed all the steps necessary to join ONE JIB as Participating Municipalities

The City of Quinte West and Municipality of Neebing Councils have passed the Authorizing By-laws (attached) on October 4 and October 6, 2021, respectively. Through these by-laws each municipality has approved its Investment Policy Statement that permits investing under the prudent investor regime. Each Investment Policy Statement was developed using ONE JIB's Investment Policy Statement template. Further detail on each Investment Policy Statement is provided in Report O44-21.

Subject to acceptance into ONE JIB, Quinte West and Neebing will pass Prudent Investor Enabling By-laws that will become effective in January 2022

Municipalities must pass an irrevocable Prudent Investor Enabling By-law prior to having their MNRI invested under the prudent investor regime. Because the by-law is irrevocable ONE Investment advises municipalities to pass this by-law after ONE JIB has agreed to invest on their behalf. Quinte West and Neebing will pass their Prudent Investor Enabling By-laws after ONE JIB agrees to accept them as Participating Municipalities. It is anticipated that the by-laws will have effective dates in early January 2022. This means that if ONE JIB accepts the two municipalities as Participating Municipalities, it can adopt investment plans as soon as possible, but the plans will not be implemented until the effective date specified in each by-law.

The two municipalities are expected to invest a combined total of \$35.8 million

Quinte West and Neebing have submitted Municipal Client Questionnaires. Quinte West indicates that it will invest \$33.4 million in MNRI and Neebing expects its investment to be \$2.4 million. Further details on the Municipal Client Questionnaires will be provided in Reports O44-21, O38-21, and O46-21.

There are no restrictions or clauses in the Investment Policy Statement of either municipality that would limit ONE JIB's ability to manage their MNRI prudently and effectively

A key consideration for ONE JIB in deciding whether to accept a new Participating Municipality is its ability to manage investments in a prudent and effective manner. If, in the opinion of ONE JIB, a municipality has added clauses or restrictions to its Investment Policy Statement that would prevent the prudent investment of MNRI or would make such investment administratively impossible to implement given the structure of the ONE Prudent Investment Program, ONE JIB should not accept such municipality as a Participating Municipality.

The City of Quinte West has a clause in its Investment Policy Statement that restricts foreign direct investment in countries with Canadian or UN economic sanctions. The City of Kenora's Investment Policy Statement contains the same restriction.

In the opinion of the Chief Investment Officer, the Investment Policy Statement of each applicant municipality includes no restrictions or clauses that would limit ONE JIB's ability to manage their MNRI prudently and effectively.

ONE JIB Agreement overview

The following are highlights of the ONE JIB Agreement. (References to sections and schedules relate to the ONE JIB Agreement.)

(a) Investment Decisions

ONE JIB assumes exclusive control and management of money and investments that Participating Municipalities do not require immediately (Sections 2.01 and 2.04).

All investments are to be made by ONE JIB exercising the care, skill, diligence and judgment that a prudent investor would exercise in making such investments (Section 10.01).

ONE JIB can notify a Participating Municipality that its investment policy is not prudent and decline to invest in accordance with such policy (Sections 5.01 (d) and 10.05).

(b) Money to be invested

Municipalities have the sole right and obligation to determine the amount of their money and investments that are not required immediately from time to time to be given to ONE JIB for investment (Section 5.04(b)).

(c) Investment Plans

ONE JIB prepares and adopts an investment plan to implement the investment policy of each Participating Municipality. ONE JIB advises on investment policies and changes thereto (Sections 5.02 and 5.03(a)).

ONE JIB updates investment plans when necessary and at least annually (Section 5.03 (b)).

(d) Withdrawal of Money

Money can be withdrawn by a Participating Municipality on 30 days' notice if it determines that money that was formerly not required immediately is then required immediately (Section 5.04 (b)) ONE JIB can extend the time to return large amounts of money to avoid prejudice to other Participating Municipalities and can delay the return of money in extraordinary circumstances (Sections 5.04 (e) and 5.04 (f)).

(e) Agents

ONE JIB appoints agents including external portfolio managers and custodians to implement transactions (Section 3.02).

ONE JIB monitors and reports on agents' performance (Section 3.04).

(f) Reports on Investments

ONE JIB periodically reports on compliance with investment policies and plans and on the performance of investments annually or more frequently if required (Section 8)

(g) Members

Membership of ONE JIB cannot include members of municipal council or municipal staff except for municipal treasurers who can constitute up to 25% of the members (Section 7.03).

Members' standards of conduct are set out in a Code of Conduct that is attached as an exhibit to the Terms of Reference; the Terms of Reference are attached as a schedule to the agreement (Schedule "D").

The adherence of members to the Code of Conduct is subject to oversight by an Integrity Commissioner.

(h) Exclusivity

So long as they are parties to the agreement, Participating Municipalities cannot invest under the prudent investor regime through any investment board other than ONE JIB (Section 2.02).

(i) Fees

Investment pools are subject to management fees and other expenses set by ONE Investment; fees are determined on a cost-recovery basis and are reviewed at least annually (Section 9, Schedule "D").

Management fee discounts are to be determined by ONE Investment and paid directly by ONE Investment to Participating Municipalities (Schedule "D").

(j) Complaints

A complaint protocol establishes a process for dealing with complaints by a Participating Municipality with respect to the management of its investments (Section 11).

(k) Indemnities

Participating Municipalities indemnify ONE JIB for liabilities incurred in fulfilling its obligations under the agreement with a standard carve-out for ONE JIB's own misconduct (Section 10.03).

(l) Withdrawals from Agreement

Any Participating Municipality may withdraw from the agreement, subject to certain conditions, so long as it continues to invest through another authorized vehicle (Sections 13.02 and 13.03).

(m) Termination of Agreement

The agreement can only be terminated by no fewer than two Founding Municipalities if certain conditions are met (Section 15.01).

5. CONCLUSION

ONE Investment recommends that ONE JIB agree to accept the City of Quinte West and Municipality of Neebing as Participating Municipalities and authorize ONE Investment to work with the Chair and Secretary of ONE JIB and the municipalities to execute the ONE JIB Agreement and complete any other necessary documentation.

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

Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEO, ONE Investment