

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: November 17, 2021
Re: Investment Policy Statements – Municipality of Neebing and City of Quinte West
Report: ONE JIB-O44-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report on the Investment Policy Statements of the Municipality of Neebing and the City of Quinte West.

2. SUMMARY

- The Municipality of Neebing and the City of Quinte West have adopted Investment Policy Statements for the purposes of entering the Prudent Investor Regime (attached).
- The policies are compliant with municipal legislation.
- The objectives, risk tolerances and investment horizons in the Investment Policy Statements are aligned with the ONE JIB framework.
- The municipalities have also completed Municipal Client Questionnaires (MCQ) that provide further detail on their return expectations and risk tolerances.
- The information provided in the Investment Policy Statements and the MCQs were considered when developing the proposed Investment Plans.

3. BACKGROUND

Municipal legislation requires that municipalities investing in the prudent investor regime develop an Investment Policy Statement

Municipalities are required under paragraph 18 of Part II of O Reg. 438/97 (the Regulation) to adopt and maintain an investment policy statement for investment in the prudent investor regime. This policy must include the municipality's:

1. objectives for return and risk tolerance
2. need for liquidity, particularly for planned projects and unanticipated contingencies

The Investment Policy Statement may also include other requirements or matters that council considers in the municipality's best interest.

The Investment Policy Statement must be reviewed at least annually.

ONE Investment and ONE JIB have an Investment Policy Statement template

ONE Investment and ONE JIB have developed a recommended Investment Policy Statement template for municipalities. It is designed to meet municipal legislative requirements. The template contains suggestions for appropriate objectives, risk tolerances, and time horizons for different types of municipal reserves.

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, Contingency, Stable Return and Target Date outcomes.

Table 1 - ONE JIB Outcome 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

ONE JIB uses a Municipal Client Questionnaire to further understand the information provided in the Investment Policy Statement

The ONE JIB has approved a MCQ that is designed to probe municipalities on their return expectations, risk tolerance, and investment experience. As the ONE JIB Framework is designed to connect municipal reserves with appropriate investment strategies, the MCQ also poses questions with respect to municipal cashflows and capital planning to ensure that the funds are being invested in a manner that is consistent with the unique circumstances of the municipality.

4. ANALYSIS

Neebing and Quinte West Councils have adopted Investment Policy Statements with objectives, risk tolerances and investment horizons that are fully aligned with the ONE JIB Framework

Councils for the Municipality of Neebing and the City of Quinte West have adopted Investment Policy Statements that are based on the template. Municipal staff have customized the Investment Policy Statements to reflect their municipalities' circumstances, including removing sections that do not apply. The Investment Policy Statement, combined with the completed MCQ, reflect the investment needs, objectives, risk tolerances and constraints of each municipality.

Neebing and Quinte West's investment objectives are primarily to achieve long-term growth, and their investment horizon should allow them to assume an above average risk profile to achieve their long-term growth objectives

The Regulation requires municipalities to consider the following matters under the prudent investor regime:

- Preservation of capital
- Adequate liquidity that considers 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.

Neebing and Quinte West's Investment Policy Statements verify that the municipalities have taken these considerations into account in setting their investment objectives.

Both Neebing and Quinte West use a 24-month time frame to define MNRI

Under the Act, municipalities can only invest MNRI, whether they choose to invest in the Legal List or under the Prudent Investor Standard. For the Prudent Investor Standard, it is necessary to define MNRI within the Investment Policy Statement because control of the funds is delegated to an investment board. ONE Investment provided guidance on best practices in determining the definition of MNRI, and Neebing and Quinte West both determined that 24 months was appropriate.

Neebing's objectives should allow the ONE JIB to invest their MNRI to achieve long-term growth

In its MCQ, Neebing defined their risk / return objectives as follows (questions 3.1, 3.2, and 3.3 in the MCQ):

- Objective is to: "Achieve moderate growth without excessive risk to capital"
- Able to accept: "Moderate chance of loss of capital over a 5-year period"

- A tolerance for a single year unrealized loss: “10-15% decline”

These responses provide guidance on how the ONE JIB should be investing the MNRI of Neebing. The Municipality’s overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns.

Quinte West’s objectives should allow the ONE JIB to invest their MNRI to achieve long-term growth

In its MCQ, Quinte West defined their risk / return objectives as follows (questions 3.1, 3.2, and 3.3 in MCQ):

- Objective is to: “Achieve moderate growth without excessive risk to capital”
- Able to accept: “Moderate chance of loss of capital over a 5-year period”
- A tolerance for a single year unrealized loss: “5-10% decline”

These responses provide guidance on how the ONE JIB should be investing the MNRI of Quinte West. The City’s overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns.

5. CONCLUSION

Quinte West and Neebing’s respective Investment Policy Statements are based on the ONE JIB Investment Policy Statement template and are therefore aligned with the ONE JIB Framework with respect to investment objectives, risk tolerances, and investment horizons. The Investment Policy Statements demonstrate that both municipalities have considered all the elements required in municipal legislation.

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