REPORT

To: ONE Joint Investment Board
From: Colin Macdonald, Manager of Investments and
Keith Taylor, Chief Investment Officer
Date: May 20, 2020
Re: Fund Offerings and Investment Managers Report
Report: 20-010

## 1. Recommendations

It is recommended that the Board:

1.1. Approve the following fund offerings:

| Fund/Investment Vehicle | Asset Class |
|---|---|
| ONE HISA | Cash |
| ONE Canadian Government Bond Fund | Domestic sovereign bonds |
| ONE Corporate Bond Fund | Domestic corporate credit |
| ONE Global Bond Fund | Global fixed income (including high yield bonds) |
| ONE Canadian Equity Fund | Domestic equity |
| ONE Global Equity Fund | Global equity (including emerging markets) |

1.2. Approve the following external managers for each fund:

| Fund/Investment Vehicle | Investment Manager |
|---|---|
| ONE HISA | NA |
| ONE Canadian Government Bond Fund | MFS Investment Management |
| ONE Corporate Bond Fund | MFS Investment Management |
| ONE Global Bond Fund | Manulife Asset Management |
| ONE Canadian Equity Fund | Guardian Capital LP |
| ONE Global Equity Fund | Mawer Investment Management Ltd. |

1.3. Receive for information as follows:

a. The legislative backdrop for the prudent investor standard;
b. The process of establishing a Joint Investment Board;
c. Discussion on investing under the Prudent Investor Standard versus Legal List;
d. Discussion on Founding Municipalities' money not required immediately and how it is defined;
e. Description of the key planning tools to be used under the ONE Prudent investor program:
    i. the Investment Policy Statement;

ii. Municipal Client Questionnaire; and
iii. Investment Plan;
f. Risk and return analysis
i. Why moving to prudent investor improves risk / return for municipalities
ii. Risk tolerance of Founding Municipality versus proposed allocations;
g. The Building Blocks of Prudent Investor Allocations – Outcomes and Funds;
h. Investment manager selection process and review of managers selected; and,
i. Canadian investment exposures – mandates and managers.

## 2. Key Points

- The outcomes-based approach used by the ONE Joint Investment Board (ONE JIB) will build several investment allocations that suit a range of investment purposes for municipalities. These allocations will use five pooled funds that ONE Investment will create.

- These five pooled funds and a cash-like investment vehicle will represent the building blocks to populate the investment allocations.

- The five pooled funds provide a range of investment exposures that will enable the ONE JIB to build diversified allocations for municipalities.

- The investment mandates of the pooled funds are designed to offer lower risk exposures.

- Mangers recommended to manage the pooled funds are all active managers. ONE staff, the ONE Investment Advisory Committee and the ONE Investment Board have reviewed their philosophy, process, people and performance. They are comfortable recommending these managers for use in the ONE JIB's investment program.

## 3. Background

### Background on Ontario Prudent Investor Regime for Municipalities

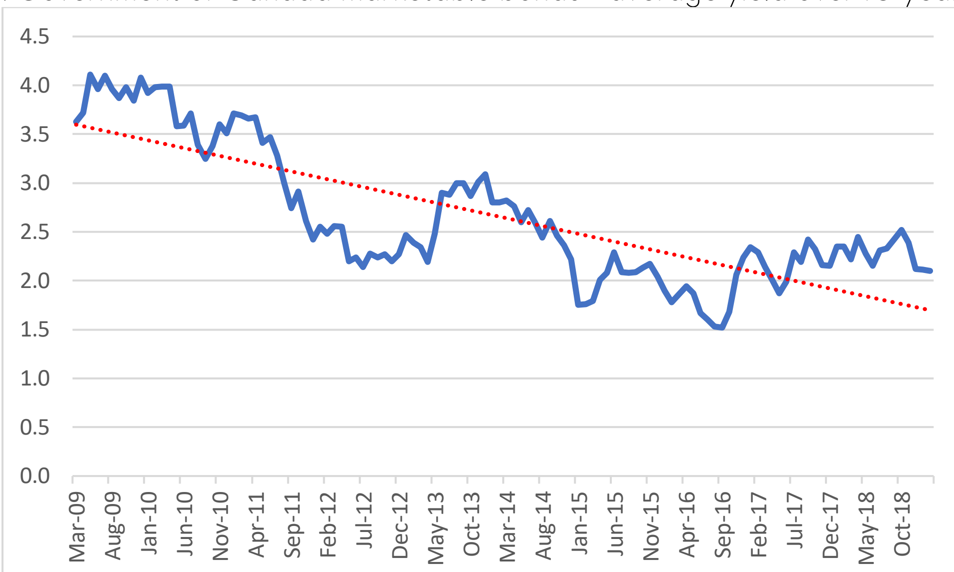
Recent amendments[1] to the *Municipal Act, 2001* (Act) and changes to O. Reg. 438/97 (Regulation) provide eligible municipalities the option to invest money not required immediately according to the Prudent Investor (PI) standard. The purpose of these reforms is to enable municipalities to earn improved risk-adjusted rates of return by building more

[1] Appendix 1 – Changing Investment Power in Ontario was prepared by ONE Investment and provides details related to the changing municipal investment environment.

diverse portfolios of investments. Municipalities that opt into the prudent regime will no longer be restricted to a prescribed list of investments (e.g. Canadian bonds and money market securities).

Municipalities have consistently advocated for broadened investment powers since the 2008 global financial crisis. The low interest rate environment which followed the financial crisis provided fewer opportunities to earn the returns that were previously available as demonstrated in the Chart 1. Further, the number of eligible Canadian equities has declined over the years.

Chart 1: Government of Canada marketable bonds – average yield over 10 years




Source: Bank of Canada

In 2015, the City of Toronto was the first municipality in Ontario to be granted access to the PI regime. Prior to the effective date of January 1, 2018 for the City's PI regime, the City was required to establish an independent Investment Board (IB) and develop a new investment policy.

## What is the Prudent Investor Standard?

The "prudent investor standard" places no restrictions on eligible securities but does require an investor to construct an investment portfolio with the care, skill, diligence and judgment of a prudent investor. The standard was successfully implemented through Ontario pension fund reforms and was included in the Ontario *Trustee Act* in 1999.

To comply with the PI standard according to the Act, a municipality must consider the following criteria in planning investments, in addition to other relevant criteria:

1. General economic conditions.
2. The possible effect of inflation or deflation.
3. The role that each investment or course of action plays within the municipality's portfolio of investments.
4. The expected total return from income and the appreciation of capital.

5. Needs for liquidity, regularity of income and preservation or appreciation of capital.

In addition, a municipality must diversify its investments to an extent that is appropriate for general economic and capital market conditions. There is also a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

A move to the PI regime requires the passage of a new irrevocable by-law. Once such a by-law has been passed and a municipality is subject to the PI regime, it does not matter if it no longer meets the eligibility criteria, as long as it met one of them at the time of passing of the by-law. To opt out of the PI regime, a municipality would need a regulation of the Lieutenant Governor in Council.

The Regulation also specifies the governance model to be used if a municipality wishes to access the PI regime. All investments made under the PI provisions of the Regulation must be implemented by delegation to an IB or a JIB. For a municipality that elects to move to the PI regime and establish an IB or JIB, in addition to establishing a new IB or JIB and appointing its members, Council would also have to adopt an investment policy to govern the investment strategies and activities of the IB or JIB

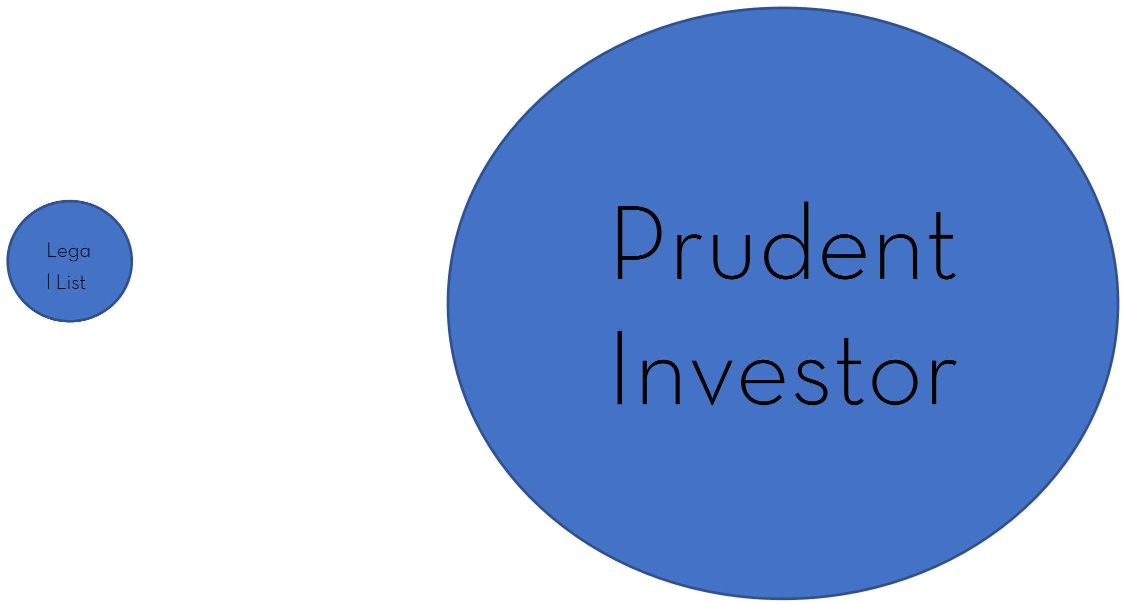
## What are the benefits of the Prudent Investor Regime?

Since there are no restrictions on individual securities that can be acquired, the PI standard allows a wider range of potential investments. This permits a greater degree of diversification, which is a key tool in managing portfolio risk. The greater range of investment options also permits access to a variety of securities and securities classes that can produce better returns than the securities prescribed in the current Legal List. In addition, the PI standard also allows a portfolio to be modified to accommodate new types of securities and changing market conditions. In short, for money not required immediately, the PI standard has the potential to produce higher returns with less risk over time and enable investors to better align their portfolio with their willingness to accept risk.

"Over longer horizons, underlying economic growth matters more than short-lived panics with respect to returns, and international diversification does an excellent job of protecting investors."[2]

[2] Asness, Clifford S., Isrealov, Roni, and John M. Liew. (2011). "International Diversification Works (Eventually)" Financial Analysts Journal Volume 67, Number 3.

Diagram 1: Investment Options using the Prudent Investor Standard (not to scale)




| Legal List | Prudent |
|---|---|
| • Canadian federal, provincial and municipal government or government-guaranteed bonds<br>• Short-term and fixed-income securities issued by Canadian chartered banks and credit unions.<br>• Other prescribed securities | The world (as long as it is invested with the care, skill, diligence and judgment of a prudent investor) |

## Legal List versus Prudent Investor

Municipalities will need to decide whether to invest money that it does not require immediately under the new PI regime or to continue to invest under the Legal List. Table 1 below compares these two approaches.

Investing under the PI standard is generally preferred by experts to the Legal List because it provides greater opportunities for diversification and risk management with potentially greater investment returns.

Table 1: Legal List versus Prudent Investor Standard

| Legal List | Prudent Investor Standard |
|---|---|
| • Council develops a statement of investment policies and goals | • Council develops an investment policy, the IB or JIB develops an investment plan to support Council's policy |
| • Easy to monitor in theory | • Monitoring requires more detailed policies and procedures |
| • Regulations can be difficult to interpret | • Requires more detailed independent due diligence |
| • Time consuming to evolve to reflect evolving capital markets | • Evolves concurrently with capital markets |
| • May provide a false sense of security | • Consistent with fiduciary duty |
| • Risk is determined by the Legal List | • Risk can be determined and controlled at the portfolio level |
| • Ability to diversify is more limited | • Ability to provide greater diversification and risk reduction |

## Transitioning to the Prudent Investor Regime

All municipalities can access the PI regime. How the PI regime is accessed, however, will depend on the municipality's ability to meet the requirements set out in the legislative framework. These requirements can be found in Part II of the Regulation, which sets out eligibility criteria for municipalities, as well as the required governance structure.

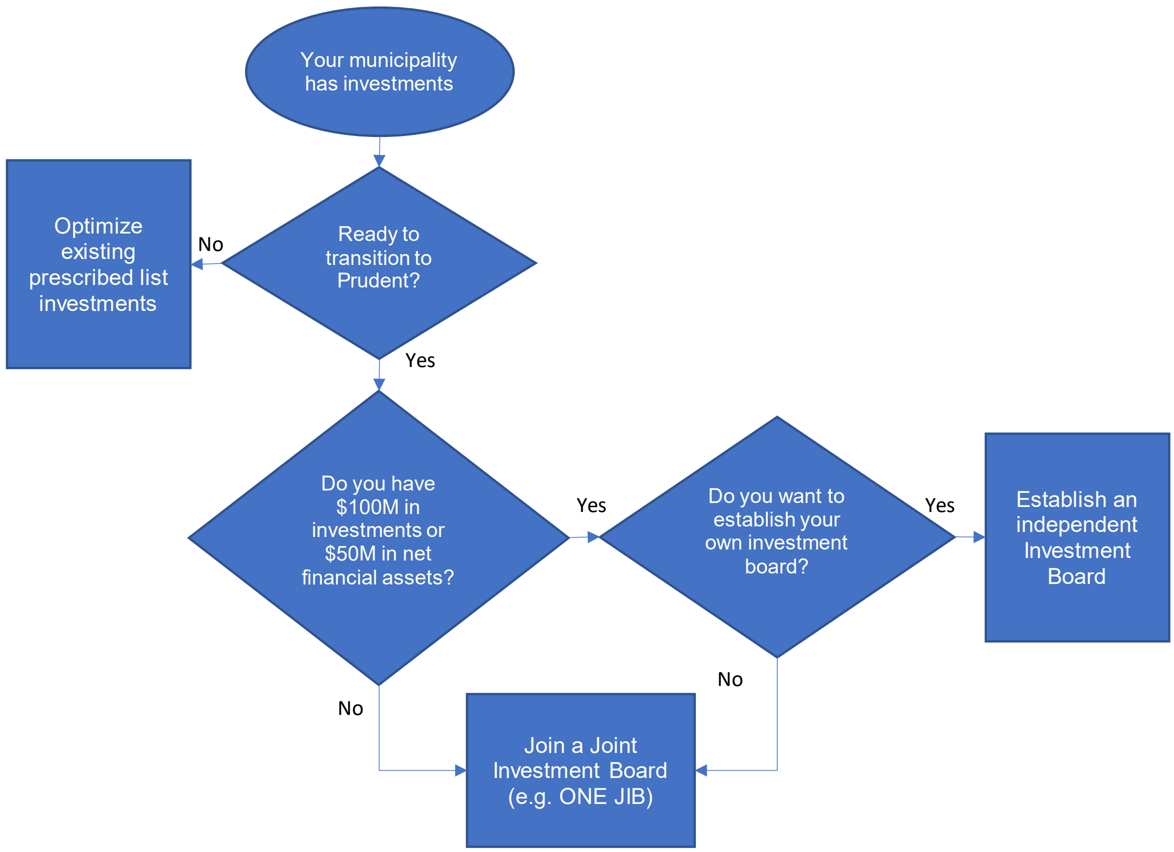
Municipalities that meet the specified financial eligibility criteria have the most options. The financial eligibility criteria are:

1. In the opinion of the treasurer, the municipality has at least $100M in money and investments that it does not require immediately, or
2. The municipality has $50M in net financial assets as reported in Schedule 70 of the most recent Financial Information Return

A municipality that meets one of these two criteria can invest according to the PI regime in the following two ways. It can independently establish its own IB, or it can establish and invest through a JIB with one or more other municipalities, if all of the establishing municipalities have, in the opinion of each of their treasurers, a combined total of at least $100M in money and investments that the municipalities do not require immediately.

A municipality that does not meet the criteria can only access the PI regime by investing through an existing JIB established by another municipality or municipalities. Refer to Diagram 2 to view the options visually.

Diagram 2: Decision tree about the Transition to the Prudent Investor Standard




## Investment Board Structure

The requirement for an IB/JIB is set out in section 17 of the Regulation. The structure shares some of the features with governance structures found in the pension sector. Specifically, for municipalities, according to the Regulation, IBs/JIBs established under section 196 (IB) or section 202 (JIB) of the Act are local boards of the municipalities.

Key points about IBs/JIBs:

1) The IB or JIB must be given "control and management" of the municipality's money and investments not required immediately.
2) The municipality must delegate to the IB or JIB:
   a) The municipality's powers to make investments, and
   b) The municipality's duties under section 418.1 of the Act

The establishing municipality in the case of an IB and the municipalities in the case of a JIB are free to determine the size of the IB or JIB and qualifications of the IB or JIB members. They are prohibited from appointing any member of Council or municipal staff to the IB or JIB except the municipal treasurer in the case of an IB and except for municipal treasurers in the case of a JIB, provided they do not constitute more than 25% of the JIB members.

Council retains ultimate control, however, by providing direction to the IB or JIB through Council's approved investment policy. The investment policy governs the IB's or JIB's investment plans. The investment policy should include a definition for what the municipality deems to be its money that is not required immediately (i.e. what will be under the IB's or JIB's control), objectives for returns on investment, risk tolerance, and needs for liquidity among other components.

Council must review its investment policy at least annually and update it as required. The investment plan must also be updated by the IB or JIB at least annually following Council's review of its investment policy to ensure continued compliance with the policy. An annual investment report must be provided by the IB or JIB to Council and it must include, among other matters, a statement by the treasurer as to whether all investments are in compliance with the investment policy and investment plan.

Another consideration is that the required governance model can be costly to both set up and run. Establishing an IB independently requires one municipality to bear the full start-up costs, as well as annual operation costs. The City of Toronto spent more than $500,000[3] in 2017 before its IB was even operational. Going forward, remuneration for members of the Toronto IB will be up to $215K per annum[4]. In general, independent set up costs include a significant amount for lawyer fees; while ongoing costs include remuneration for board members and municipal support staff, board insurance, consultant fees, and other agents' fees such as third-party manager fees. Municipalities wishing to share these costs can consider joining a JIB, rather than going it alone.

## Joining a Joint Investment Board

As of May 6, 2020, no JIB has been established in Ontario. The only IB that has been created is the Toronto IB. A municipality could consider working with other municipalities to create a JIB or wait until others have created one and evaluate that experience before making a commitment to join.

### *Creating a New JIB*

A municipality could work with others to establish a JIB. The benefit of this approach would be the sharing of startup and ongoing costs among the founding members of the JIB. ONE Investment has collaborated with a limited number of municipalities to establish the ONE Joint Investment Board (ONE JIB).

ONE Investment is a not for profit corporation formed by CHUMS Financing Authority which is wholly owned by the Municipal Finance Officers' Association of Ontario (MFOA) and Local

[3] https://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-101438.pdf
[4] https://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-101512.pdf

Authority Services (LAS), a corporation of the Association of Municipalities of Ontario (AMO). It currently offers investment products for Ontario municipalities under the Legal List approach to investing.

ONE Investment's offering is a cost-effective turnkey solution to municipalities that wish to access the PI regime but do not qualify on their own or are cautious about the work and costs of going it alone. ONE's proposed approach will provide each municipality with:

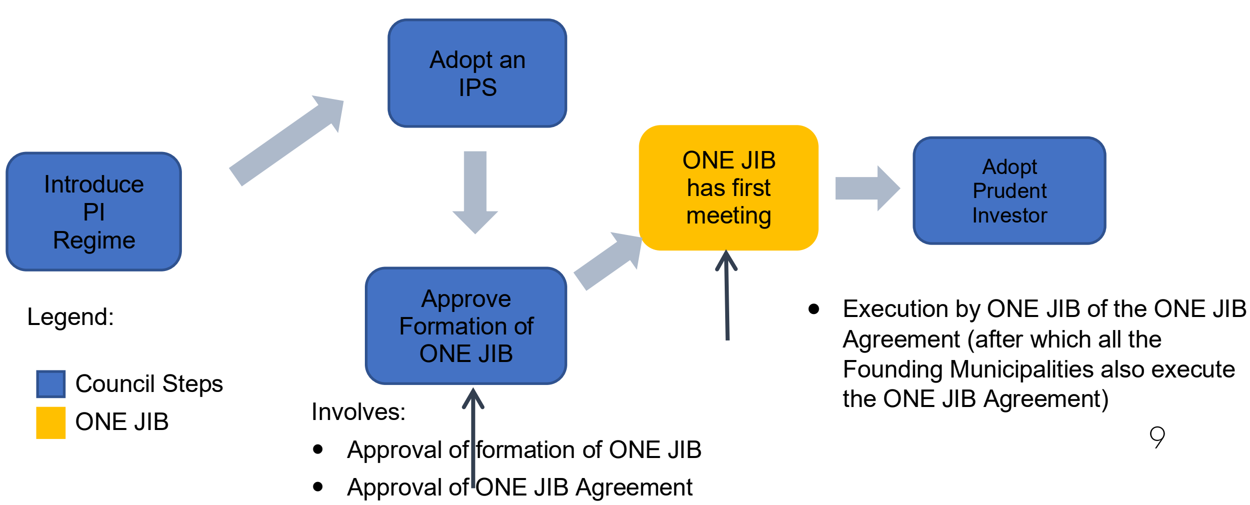
1. A structure through which to invest under the PI standard (ONE JIB);
2. Support for the ONE JIB on behalf of the Participant Municipalities;
3. Legal legwork to prepare the various legal agreements needed to make the governance structure work;
4. Assistance on crafting a comprehensive prudent investment policy that complies with the applicable legislation;
5. Assistance to the ONE JIB in developing an investment plan that corresponds to each municipality's needs, objectives, and comfort level;
6. Reporting and monitoring that will help each municipality track its performance and meet its reporting obligations under the Regulation; and ,
7. Municipal finance advice, if desired, on how to make an investment program an integral part of the capital budget process and asset management financing strategy.

A founding member of ONE JIB can qualify for lower fees or, perhaps, to have its municipal treasurer appointed to ONE JIB.

Figure 1 below outlines the steps in implementing the PI regime under the Regulation. The establishment of ONE JIB involves a three-step Council approval process outlined below:

1. Adoption of an Investment Policy Statement (IPS) which outlines the manner in which a Municipality will invest under the PI regime and which is based on the completed Municipal Client Questionnaire;
2. Execution of the Initial Formation Agreement which establishes ONE JIB and which is described in a separate report; and,
3. Execution of the ONE JIB Agreement which establishes the relationship between the Municipality, ONE JIB and ONE Investment and which is described in a separate report.

Figure 1 - Overview of Prudent Investor



These steps must be undertaken by each of the Founding Municipalities if they wish to pursue the PI regime, which begins with establishing ONE JIB. Once the Authorizing By-law is passed by all the Founding Municipalities ONE JIB will hold its inaugural meeting at which it will decided to execute the ONE JIB Agreement with the Founding Municipalities. The ONE JIB Agreement is the primary operating document for municipalities that decide to invest with ONE JIB. Once this Agreement is executed Founding Municipalities will then pass a by-law (Prudent Investor Enabling By-law) officially opting into the PI regime as at the Prudent Effective Date set out therein.

The Prudent Investor Enabling By-law each Council pass is the last step to adopting the PI regime and can be viewed as a housekeeping matter. After the Prudent Effective Date that is set out in the Prudent Investor Enabling By-law, each Founding Municipality can start transferring its money and investments that are not required immediately to ONE JIB for investing in accordance with the PI regime.

Currently there are six municipalities, outlined in Table 2 below, that are Founding Municipalities working together to establish ONE JIB. These six Founding Municipalities have sufficient monies to meet the Regulations $100 million in money not required immediately.

## Money Not Required Immediately

Under section 418.1 of the Act "money that is not required immediately" (MNRI) can be invested in any security, provided that in making the investment the municipality exercises the care, skill, diligence and judgment that a prudent investor would exercise in making the investment. If a municipality elects to pass a by-law under section 418.1, the effect will be that its MNRI must be invested in accordance with the prudent investor regime.

Every municipality has MNRI and also "money that is required immediately" (MRI).

Under prudent investor regime, municipalities retain the management and control of their MRI[5] whereas management and control of their MNRI must be transferred to an IB/JIB (i.e., ONE JIB).

It is up to the municipal Council to determine what portion, if any, of the money in a reserve fund or from a particular source is actually required to meet immediate financial obligations and what portion is not so required and therefore can be invested for the long term.

In making the determination, Council may consider:

1. the time horizon within which the monies are needed to meet financial obligations
2. the purpose for which the monies have been collected or set aside and will be used
3. the source of the money
4. any combination of the foregoing

[5] MRI must be invested in accordance with the Legal List.

The determination of MNRI is essentially a time issue. There is no universally accepted definition of MNRI, but ONE's legal counsel has used **18 months** as a generally accepted benchmark. It appears reasonable for most municipalities, but it is up to each municipality to define how it determines MNRI. This means that individual Councils may prefer different timeframes to determine the monies that form MNRI. Municipalities should define how they determine their MNRI within their Investment Policy Statement (IPS).

Any changes in MNRI must be communicated immediately in writing to ONE JIB using the Municipal Client Questionnaire (MCQ).

Table 2 highlights the timeframes determined by each Founding Municipality for their MNRI in their IPS. Monies required before this timeframe form MRI, which the Treasure will continue to control, and monies required beyond the timeframe represent MNRI that will be managed by the ONE JIB.

Table 2: Timeframe to Determine Founding Municipality MNRI

| Name of Municipality | Timeframe |
|---|---|
| Town of Bracebridge | 18 Months |
| Town of Huntsville | 18 Months |
| Town of Innisfil | 24 months |
| City of Kenora | 24 months |
| The District of Muskoka | 18 months |
| Town of Whitby | 18 months |

Table 3 shows the total amount of <u>cash and investments</u> that each Founding Municipality has determined to be MNRI. These amounts also include locked in portion of MNRI that is not available for investment for ONE JIB i.e., local hydro company shares etc.

Table 3: Breakdown of Founding Municipality MNRI

| Name of Municipality | Total Amount of MNRI | Cash Portion | In kind Portion | Locked in Portion |
|---|---|---|---|---|
| Town of Bracebridge | $36,400,000 | $5,600,000 | | $30,800,000 |
| Town of Huntsville | $19,749,000 | $8,000,000 | | $11,749,000 |
| Town of Innisfil | $37,700,000 | $15,010,123 | | $22,689,877 |
| City of Kenora | $50,000,000 | $35,000,598 | $5,000,000 | $9,999,402 |
| The District of Muskoka | $127,787,324 | $125,519,324 | | $2,268,000 |
| Town of Whitby | $167,215,932 | $107,954,932 | $6,000,000 | $53,261,000 |
| Total | **$438,852,256** | **$297,084,977** | **$11,000,000** | **130,767,279** |

## The Three Key Planning Documents

ONE Investment has developed three document templates to help guide Council and ONE JIB in setting objectives and investment strategies that will be fully compliant with municipal legislation:

1. The Municipal Client Questionnaire
2. The Investment Policy Statement
3. The Investment Plan

## Municipal Client Questionnaire (MCQ)

The purpose of this questionnaire is to identify money and investments not required immediately in order to advise on the appropriate account structure. Based on the future cash flow needs and client risk tolerance, provided by the municipal staff in its completed MCQ, ONE JIB can advise on investment allocations, create an Investment Plan and manage investments effectively on an ongoing basis.

The municipality's finance staff have completed the MCQ and presented it to Council with the IPS for its consideration and approval. The MCQ will also be used by ONE JIB in conjunction with the IPS to develop the Investment Plan that reflects each municipal Council's direction.

As municipal circumstances change the municipality may need to revise MNRI or inform the ONE JIB of other details that could influence how their MNRI are invested. The MCQ should be updated to inform the ONE JIB of such changes. It is the responsibility of the municipality to inform ONE Investment on a timely basis of any relevant changes in circumstances via revisions in their MCQ.

## Investment Policy Statement (IPS)

The IPS is a high level and comprehensive overview and it is through this document that Council provides the strategic direction that will guide ONE JIB's Investment Plan design and implementation. It is through this document that Council ultimately controls its MNRI. A municipality must have an IPS according to the Regulation governing municipal investments under the prudent investor standard. Through its IPS, a municipality must define its objectives for return on investment, risk tolerance and need for liquidity. At a minimum, Council will be required to review and, if necessary, amend, this document annually. However, if Council priorities change or fiscal circumstances require, the IPS can be reviewed and amended at any point in time. It is the municipality's responsibility to notify ONE JIB of any changes to the IPS so that the Investment Plan can be updated accordingly.

The IPS is a comprehensive statement of a Municipalities investment policy and constitutes Council's investment directions for the Municipalities funds in which it has a direct or indirect interest including, without limitation, its MNRI and its MRI.

### Investment Plan

The Investment Plan is a more detailed document that outlines ONE JIB's overall investment approach as well as the investment mix for each Municipality's investment objectives based on the IPS and informed by details within the MCQ. The adoption of an Investment Plan is the responsibility of ONE JIB, as required by the Regulation. The Investment Plan can only be finalized after the inaugural meeting of ONE JIB. At that meeting, ONE JIB will review, modify, if necessary, and adopt the draft Investment Plan.

## 4. Analysis

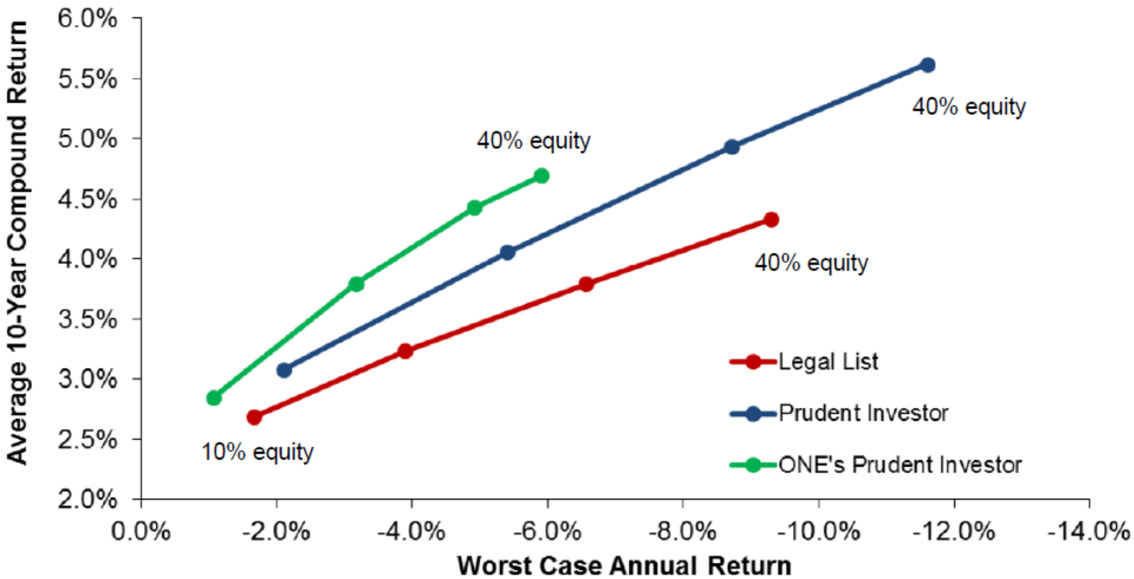
### Risk and return analysis – Justifying Merits of Prudent Investor

The prudent investor standard's purpose is to enable municipalities to earn improved risk-adjusted rates of return by building more diverse investment portfolios. ONE Investment's analysis validates that the move to the prudent investor standard should allow Ontario municipalities to generate higher returns, but more importantly, this analysis suggests that it may be possible to do so while also potentially lowering overall investment risks.

The methodology used to demonstrate this is known as 'efficient frontiers'. The efficient frontier is the set of portfolios that offer the highest expected return for a defined level of risk or the lowest risk for a given level of expected return. Portfolios that lie below the efficient frontier are sub-optimal because they do not provide enough return for the level of risk.

The efficient frontier can be represented in a graph that shows how different investment allocations influence risk and return. Higher returns typically can only be achieved by assuming greater risk. The efficient frontier shows the tradeoff between incremental risk and incremental return. Using data provided by Aon, an external consultant retained by ONE Investment, an efficient frontier was created to represent the opportunities under the prudent investor standard. Risk was defined in this study using a proprietary risk measure called Conditional Tail Expectation (CTE). This measure uses scenario analysis to determine investment returns over a wide range of different circumstances. Chart 2 shows the efficient frontiers generated by this study. In this graph, a better outcome either is upwards or to the left (i.e., more return for each level of risk, or less risk for any given level of return).

Chart 2: Efficient Frontiers




NOTE: The data in Chart 2 was provided by the investment consultant, Aon. The 'worst case annual return' represents an average return of 50 of the worst outcomes from 1000 scenarios run. Because it is an average, it does not preclude results lower than this average in any single year. The blue prudent investor line was created by Aon to represent a generic prudent investor efficient frontier.

The red line represents the efficient frontier available under the Legal List. As the equity allocation is increased from 10% to 40% (going from left to right on the graph) both the risk and return increase. The blue line represents prudent investor efficient frontier based on Aon's analysis, which represent the universe of securities available to Ontario municipalities under the Prudent Investor regulations. It is comprised of the Legal List offerings, as well as US high yield bonds, global bonds and global stocks. The expanded universe of available investments increases the return potential and offers better diversification, which helps to reduce overall risk. As the graph shows, the prudent investor efficient frontier offers superior risk/return potential versus investing under the Legal List alone.

Finally, ONE's prudent investor frontier shows the value that ONE brings to Ontario municipalities through its investment offerings. The ONE Investment funds are designed to have a relatively low-risk profile and are actively managed. The choice of investment managers, combined with their investment style, helps to improve the overall risk/return frontier of the ONE prudent investor portfolios. The efficient frontier generated by ONE's offerings under the prudent investor standard is higher than Aon's prudent investor frontier, resulting in a better risk/return profile.

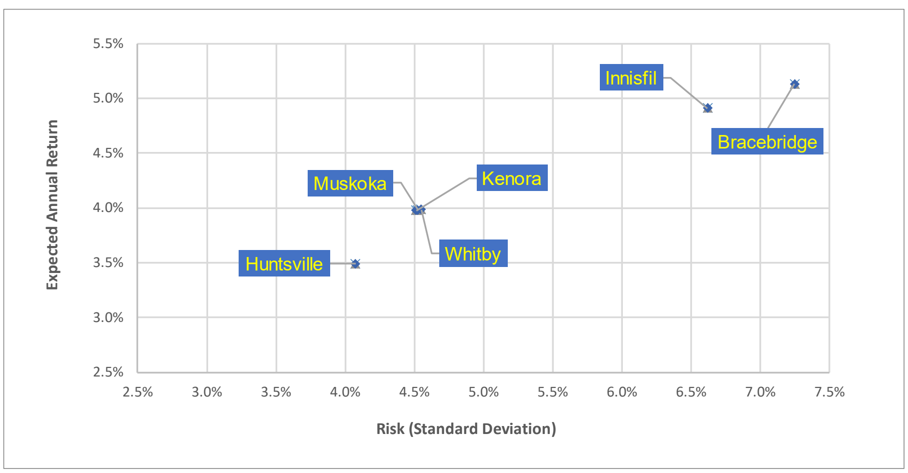
The overall conclusions from the efficient frontier analysis is that the municipalities investing through the prudent investor standard should be able to achieve superior investment results versus investing under the Legal List while still maintaining acceptable levels of investment risk.

ONE believes that the risk/return outcomes generated by Aon's model are necessarily imprecise. The asset allocations it produces should be treated only as broad indicators of potential outcomes. These are not predictions of returns since future asset-class behavior is unknown. As well, it is difficult to model all of ONE's specific building block asset classes using traditional market indices, particularly for the Global Bond Fund and the lower risk equity funds. For these reasons, ONE is not planning to create asset allocations that match those implied by Aon's model.

### Founding Members – Summary of proposed allocations

Since the prudent investor standard's main purpose is to enable municipalities to earn improved risk-adjusted rates of returns, staff have analyzed the risk/return profiles for ONE JIB's Founding Municipalities (see Chart 3). The chart is for illustration purposes pending ONE JIB Direction on outcomes.

Chart 3: Founding Municipalities Risk/Return Details

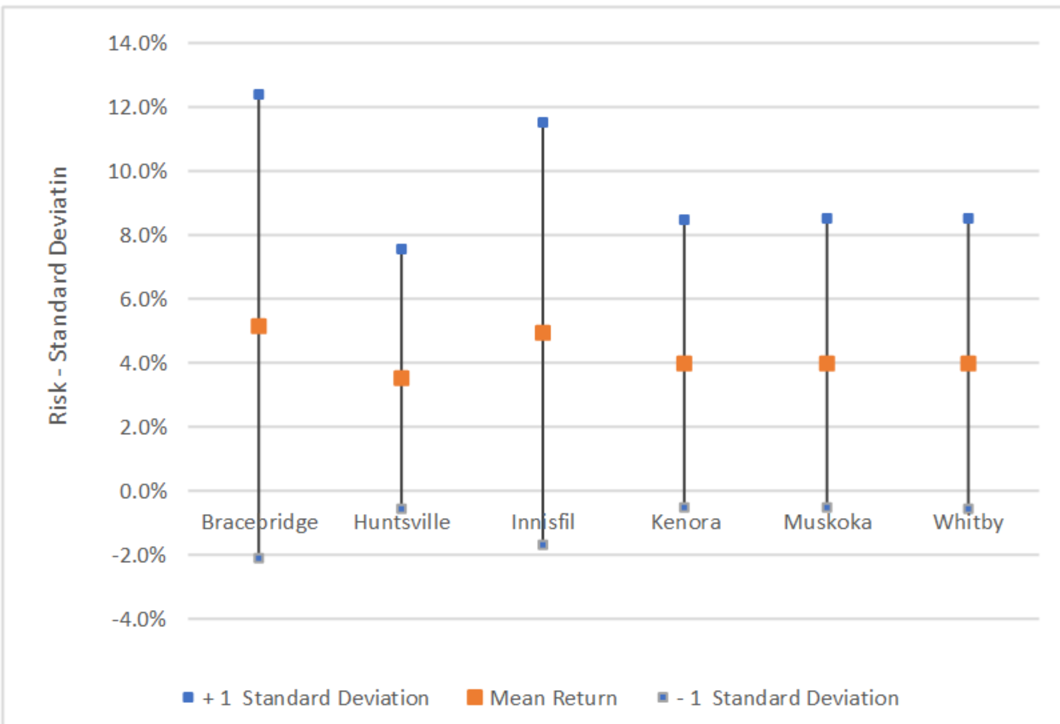



| | Return | Std Dev |
|---|---|---|
| **Bracebridge** | 5.1% | 7.2% |
| **Huntsville** | 3.5% | 4.1% |
| **Innisfil** | 4.9% | 6.6% |
| **Kenora** | 4.0% | 4.5% |
| **Muskoka** | 4.0% | 4.5% |
| **Whitby** | 4.0% | 4.5% |

The annual expected returns are based on Aon's modeling. The expected returns are conservative forward-looking estimates of long-term returns based on macroeconomic and capital market forecasts. The measure of risk used in Chart 3 is standard deviation, which is a measure of the dispersion of risk, which can be used to understand the probability of outcomes. A low standard deviation means that the values tend to be close to the mean (i.e., the expected return), while a high standard deviation indicates that the values are spread out over a wider range. The standard deviation can be used to show the probability of returns falling within a specified range. Assuming a normal distribution, approximately 68% of the time the returns should fall within one standard deviation of the expected return. For example, if the annual expected return is 4% and the standard deviation is 5%, then in any one year the returns should be between -1% and +9% approximately 68% of the time. The standard deviation analysis simply attaches probabilities that reflect the normal distribution of investment outcomes.

This type of analysis helps investors digest the volatility that is associated with their investments and provides the ONE JIB with a framework to confirm that the allocations for each municipality are appropriate, considering their risk tolerance as disclosed in their MCQ. Chart 4, again for illustration purposes, outlines the expected returns associated with the proposed initial allocations for the Founding Municipalities. The chart shows the expected annual return as an orange dot, while the line shows the range of returns one standard deviation above and below this expected annual return.

Chart 4: Framing range of expected Founding Municipalities returns




| | + 1 Standard Deviation | Mean Return | - 1 Standard Deviation | Standard Deviation |
|---|---|---|---|---|
| Bracebridge | 12.4% | 5.1% | -2.1% | 7.2% |
| Huntsville | 7.6% | 3.5% | -0.6% | 4.1% |
| Innisfil | 11.5% | 4.9% | -1.7% | 6.6% |
| Kenora | 8.5% | 4.0% | -0.5% | 4.5% |
| Muskoka | 8.5% | 4.0% | -0.5% | 4.5% |
| Whitby | 8.5% | 4.0% | -0.6% | 4.5% |

The range of outcomes in Chart 4 should be aligned with the risk preferences of the Founding Municipalities. Each founder described their risk tolerance in their responses to the following three questions in their MCQ:

3.1 Which of the following best reflects the Municipality's investment objectives for its MNRI?
- ☐ Capital preservation is the main objective. Willingness to accept low returns in order to avoid any years with losses.
- ☐ Achieve moderate growth without excessive risk to capital.
- ☐ Willingness to accept higher risk, including risk of loss of capital, for potentially higher returns over the longer term

3.2 What is the Municipality's risk tolerance for its MNRI?
- ☐ Low (Conservative Approach: A very small chance of loss of capital over a 5-year period)
- ☐ Moderate (Moderate chance of loss of capital over a 5-year period)
- ☐ High (Greater uncertainty with potential of higher returns over a 5-year period)

3.3 Annual Return Expectations: Which range best reflects the Municipality's expected annual return for its MNRI?
- ☐ 0% to 2% gain
- ☐ 5% loss to 5% gain
- ☐ 10% loss to 10% gain

The municipal IPS defines risk tolerance and this information on risk tolerances is elaborated in the MCQ. The answers to these questions in the MCQ from each of the Founding Municipalities capture how they evaluate risk. Table 4 provides a summary of the Founding Municipalities responses.

Table 4: MCQ responses on risk

| | Main Objective | Risk Tolerance | Annual Return Expectations |
|---|---|---|---|
| **Bracebridge** | Moderate Growth | Moderate Risk | -5% to +5% |
| **Huntsvile** | Moderate Growth | Moderate Risk | -5% to +5% |
| **Innisfil** | Moderate Growth | Moderate Risk | -5% to +5% |
| **Kenora** | Capital Preservation | Low Risk | 0% to +2.5% |
| **Muskoka** | Higher Returns | Moderate Risk | -5% to +5% |
| **Whitby** | Higher Returns | Moderate Risk | -5% to +5% |

The proposed allocations and the range of expected returns as noted in Chart 4 appear to be consistent with the responses of the Founding Municipalities related to risk tolerance. Individual municipal investment mix and investment time horizons may vary based on specific investment objectives.

## The Building Blocks of Prudent Investor Allocations – Outcomes & Funds

ONE Investment's approach for the prudent investor offering intends to set up a suite of funds with a relatively low risk profile to be used as building blocks to construct investment offerings that are suitable for the investment of long-term monies of Ontario municipalities. An outcome-based approach will be used as a way of communicating the municipal investment needs and translating them into investment allocations.

The outcomes should be structured to facilitate client understanding of their purpose and expected behavior. MNRI can be allocated based on these outcomes in an intuitive way, which should reflect the purpose of all municipal reserves, reserve accounts and other balances. This should help Council and staff understand the connection between municipal accounts and the investment outcomes. Each one of these outcomes has a unique asset allocation that is designed to be appropriate for the outcome's purpose and is outlined in more detail along with the specific asset allocations assigned to each outcome in a separate report to the ONE JIB (Investment Outcomes 20-011).

The asset allocations associated with these investment outcomes will be constructed with pooled investment funds that ONE Investment is creating. These pooled funds will be used as 'building blocks' to create the allocations for each outcome. Each outcome will use the same set of pooled funds in different proportions to construct the outcomes. The outcomes will each have different risk/return characteristics even though they are built with the same underlying pooled funds.

The following considerations influenced the construction of the investment allocations, pooled funds and investment process for the ONE Investment prudent investor offering:

- The investment objective should not be solely focused on maximizing returns. Levels of risk in each allocation are equally important. The purpose is to earn improved risk-adjusted rates of return by building more diverse portfolios of investments.
- As the municipal clients are non-taxable, they are relatively indifferent between returns generated from capital gains versus recurring income. The source of return on investments is not particularly important for this client base.
- Growth in investments is one of the primary objectives. Additionally, preserving the purchasing power is also a key consideration for municipal investors. In many cases the investments will fund future construction projects or to replace aging assets, where preserving the purchasing power of investments is highly relevant to the municipalities.
- Allocation to equity investments will help the portfolios achieve sufficient growth to offset inflation. For allocations intended to grow a rate in excess of inflation, larger allocations to equities will be appropriate.
- Because Canada has a small weight in global stock markets and because it is not a well-diversified market, the asset allocations will emphasize non-Canadian holdings.

- Exposure to Canadian equities and fixed income is appropriate as our municipal clients will prefer some exposure to this market with which they may be familiar and because it has no currency risk.
- Tolerance bands for broad asset classes help to ensure sharp movements in equities relative to bonds would prompt the manager to rebalance. The allocation bands for each outcome will be designed to ensure that if equities outperformed bonds by approximately 20% a rebalance would be required.
- The strategic asset allocation weights assigned are not expected to change. Except in extreme market situations, no market timing is expected to be done by the ONE JIB.
- Accounts will be rebalanced twice annually, as needed, and any cash flows will be deployed to help rebalance allocations back to the intended target mix. Rebalance ensures that the allocation weights are held relatively constant, and the risk profile of the outcomes also remains at the intended target.
- Due to extremely low expected returns, Cash is used primarily in the outcomes with the relatively short investment horizons.
- The ONE HISA (High Interest Savings Account) will be used to reflect allocations to cash where appropriate.
- Unconstrained Global Bonds (the ONE Global Bond Fund) form a substantial portion of the allocations because of their combination of higher return expectations than Canadian bonds and significantly lower risk than equities.
- ONE Global Bond Fund has meaningful exposure to high yield bonds and types of fixed income securities that are not represented in the other Canadian bond funds. This has diversification benefits for the allocations.
- The ONE Canadian Government Bond Fund provides heavy exposure to Canadian government bonds and the maturity profile of this Fund is relatively short. These features make it a very low risk investment, which is important when building diversified investment portfolios.
- The ONE Canadian Corporate Bond Fund is designed to give exposure to very high credit quality Canadian fixed income. It has a longer maturity profile than the ONE Canadian Government Bond Fund and the ONE Global Bond Fund. The credit exposure helps generate additional income for the portfolios and while its maturity profile has implications for diversification benefits.
- The Canadian Equity Fund is designed with a risk targeting approach, which limits exposure to cyclical sectors such as the energy and materials sector. The fund tends to have less volatile returns than the broad Canadian equity market. In weaker equity markets it often performs better than the broader Canadian equity markets.
- The Global Equity Funds provides exposure to international equities including emerging markets. The international equity exposure is important as it improves overall growth potential. The tendency of the performance to dampen the downside in weak markets was a criterion used when selection the external manager for this fund.

- Currency exposure is understood to be a source of diversification for investments. At this time the ONE JIB does not intend to actively hedge the returns of foreign investment exposures. This does not preclude investment managers employing currency hedging as part of their active investment management process.
- The investment funds/vehicles used in the ONE Investment prudent investor outcomes provide exposure to the basic portfolio building blocks. They each represent the key asset classes required to build diversified allocations as described in Table 5.

Table 5: Initial Investments vehicles

| Fund/Investment Vehicle | Asset Class |
|---|---|
| ONE HISA | Cash |
| ONE Canadian Government Bond Fund | Domestic sovereign bonds |
| ONE Corporate Bond Fund | Domestic corporate credit |
| ONE Global Bond Fund | Global fixed income (including high yield bonds) |
| ONE Canadian Equity Fund | Domestic equity |
| ONE Global Equity Fund | Global equity (including Emerging Markets) |

- Table 5 represents the investment vehicles that will be used initially when the ONE JIB starts investing founder MNRI. All of these investments are fully liquid investment vehicles.
- The asset classes available under the ONE Investment prudent investor offering are intended to be expanded over time. As assets under management grow, new funds and exposures will be explored to enhance the diversification benefits and return potential.
- At a later date the investment offering may be expanded to include infrastructure and real estate or other alternative investments, which may include investments that are less liquid.
- The ONE JIB will evaluate the investment offering on an ongoing basis and adjust and improve the offering as appropriate.

## Preparations for the investment offerings of the JIB

The preparations for launching the ONE JIB dates back to 2018. Working on the advice from ONE Investment's Investment Advisory Committee (IAC), the structure of the investment offerings was recommended to enable the ONE JIB could commence the investment process in an expedited manor after the ONE JIB was formed. All of these preparations form the groundwork and structure for the investment activities of the JIB. The ONE JIB will be required to review and approve these details before the any investment activity takes place.

In September 2018 ONE staff issued an RFP for Investment Consulting Services to undertake three tasks:

1. Support ONE Investment in determining asset class strategies;
2. Conduct manager searches based on the strategies; and,
3. Review existing ONE Investment fund managers.

The investment consultant, Aon, was selected to assist ONE Investment with these tasks. ONE staff instructed the consultant to provide research and list of candidates for two new mandates (global equity and global bond) to be used as building blocks in creating the three investment solutions for municipal clients:

1. Contingency outcome (long-term, low risk growth);
2. Stable return outcome (a reasonably steady payout each year while growing principal at least at the rate of inflation); and,
3. Target date outcomes.

## Investment Manager Selection Process

The manager selection process involved screening a larger list of candidates based on suitability of the manager/mandate to fit the criteria established by ONE Investment. This process involved quantitative and qualitative screening of candidates to create a short list of managers to interview. Interviews were conducted with each managers/mandate to gain more in-depth understanding. This ultimately allowed the IAC to identify managers to recommend for use by the ONE JIB for the prudent investors offering.

In February 2019, the investment consultant, Aon, recommended a short list of managers and provided comprehensive analysis to support the choice of this short list of candidates for the Investment Advisory Committee to review. Aon conducted operational due diligence on all candidates, provided an overview of the candidates' business, investment staff, philosophy, process, risk management and qualified the firm's approach to ESG policies. Comprehensive analysis of historical risk and return analysis was also provided. These details were reviewed before selecting candidates to be interviewed by the IAC.

The selection process of managers typically involves the use of what is known as the 4P's of manager searches', which covers the 4 topics: People, Philosophy, Process, and Performance. This framework captures the key considerations and questions that help differentiate the investment managers and help justify the selection of the manager to be used. Table 6 summarizes the 4P's:

Table 6: Typical Manager Evaluation Criteria - The 4P's

| The 4 P's | Considerations |
|---|---|
| People | Is the investment team stable?<br>What is their experience level?<br>Is there equity ownership?<br>What is the team dynamic?<br>Is there key person risk and do they have proper succession planning? |

| | |
|---|---|
| | Do they instill confidence? |
| Philosophy | Discipline, confidence and conviction in an manager's investment philosophy are key considerations that give insight about the manager's ability to generate repeatable results.<br>What are their guiding principles that drive their investment decision-making process?<br>What investment style do they employ and what capital market inefficiencies are they trying to exploit? |
| Process | How is the philosophy executed?<br>How are securities researched and selected?<br>Is the investment process well defined?<br>Can they adequately justify why securities are in the mandates?<br>Do they have proper sell discipline?<br>How often are investment positions reviewed?<br>Who is accountable for performance?<br>How do they ensure the mandates are adequately diversified?<br>How is risk managed? |
| Performance | How does their performance compare to their peers?<br>How consistent are the investment results?<br>When and why has their performance deviated from their benchmark?<br>Do they have a performance record that is long enough to gain confidence that the outperformance is repeatable?<br>Annualized returns indicate the long-term performance. They tend to smooth out good and bad years and hence should be used to understand average returns. They tell little about the dispersion of returns.<br>Calendar year returns are evaluated to identify the dispersion of returns.<br>When did these returns depart from the benchmark returns and why?<br>Is the pattern of manager returns highly volatile?<br>Do the manger returns vary considerably from the manager's performance benchmark?<br>Can the manger consistently outperform their benchmark? |

In addition to the traditional manager selection criteria described in Table 6, other criteria were also considered that include the evaluation of policies regarding environmental, social and governance (ESG) of the manager. How ESG considerations are evaluated and factored into the investment process give comfort to the end investors and also have implication for the suitability of investment and the sustainability of performance of individual securities. ONE Investment notes that ESG consideration for municipal investors is being focused on more closely and is a highly relevant criteria for the manager selection process.

Other criteria used in the selection process including evaluation of manager fees, domicile of mandate and tax implications, attributes of the investments and their appropriateness for the prudent investor offering and other business-related considerations. Ultimately, the selection of managers evaluated all the factors/consideration to make a holistic analysis. Input from IAC members and relevant ONE staff individually ranked the managers interviewed. The results were compared and debated until a consensus was formed on the mangers to be selected.

## Global Equity Investment Manger Search

The following criteria were chosen in the belief that they would balance an opportunity for more return potential with strong risk management. These criteria are appropriate considering the risk profile of municipal investors and the need to generate growth.

1. MSCI All Country World Index (approximately 10% in emerging markets) as a benchmark; Emerging Market exposure is desirable;
2. Broad diversification; and,
3. Strong downside protection.

Exposure to global equities is one of the key reasons for municipalities to move to the prudent investor regime, as this type of exposure is not available under the Legal List. The growth potential and diversification benefits versus other asset classes justify its inclusion in the ONE Investment mandates. The MSCI All Country World Index (MSCI ACWI) is a market capitalization weighted index that includes large and mid-cap companies across 23 Developed Markets and 26 Emerging Markets. It provides wide geographic exposure and the inclusion of emerging markets tends to increase the growth profile of investments. The broad diversification and downside protection criteria for manager selection provide help to lower the volatility associated with global equity investments. This is in line with the relatively low risk approach of all the ONE Investment mandates.

Based on the recommendation of the consultant, the IAC selected the candidates in Table 8 to be interviewed on March 14, 2019. Some of the attributes and details that were presented during the interview process are also detailed in the table.

Table 8: Global Equity Managers Interviewed

| | GQG Partners LLC | Longview Partners (Guernsey) Limited | Mawer Investment Management Ltd. | Morgan Stanley Investment Management |
|---|---|---|---|---|
| Strategy Name | Global Equity | Equity Total Return (Unhedged) | Global Equity | Global Franchise |
| Inception | June 2016 | December 2002 | October 2009 | March 1996 |
| Benchmark | MSCI ACWI | MSCI ACWI | MSCI ACWI | MSCI ACWI |
| Assets in Strategy (CAD$ billion) | $8.05 | $36.0 | $8.7 | $25.80 |
| Firm Ownership | Some ownership by | Primarily owned by Rajiv | 100% employee ownership | 100% owned by Morgan |

| | | | | |
|---|---|---|---|---|
| | senior professionals | Jain(Founder, CIO and Chairman of firm). Some ownership by senior professionals | | Stanley |
| Strategy Staff | 11 | 8 | 30 | 9 |
| Investment Approach | Fundamental, Bottom-Up & Top Down | Fundamental, Bottom-Up | Fundamental, Bottom-Up | Fundamental, Bottom-Up |
| Investment Style | Growth/Quality | Quality | Quality | Quality |
| Turnover of holdings per year | 40-50% | 20% | 16% | 20% to 30% |
| Maximum Emerging Market Exposure | 20% | Unconstrained by geography or sector | 20% | 30% |

## Final Selection: Mawer Investment Management's Global Equity Strategy

All of the candidates interviewed would have been satisfactory choices and the decision-making process was more a matter of identifying the best or most suitable manager. The consensus of the IAC was that Mawer should be selected as the manager. The ONE Investment Global Equity Fund will invest in units of the Mawer Investment Management's Global Equity Strategy pooled fund. As the assets under management grow it may become practical to instead have Mawer manage the mandate as a separate account, which would allow the ONE Investment Global Equity Fund to structure the fund to minimize the impact of foreign withholding taxes on investment income.

Mawer exhibits a very strong cohesive firm and investment culture with appropriate alignments of interest. Firm stability and low personnel turnover are positive attributes. Employee ownership is broadly diversified. The investment process is rigorous, well thought out, and strictly adhered to. Their deep fundamental analysis is supported by a quantitative probabilistic framework. Discussions of ideas are very strong. The portfolio has broad exposure outside of purely large-cap stocks. The firm also runs a global small cap product, which can generate ideas for this fund since all research is standardized. The strategy had a very cohesive and understandable approach to their investment management process that the IAC felt would resonate with municipal investors. Their answers to questions on ESG matters differentiated them for the other candidates, as they clearly demonstrated that their good judgment and moral standards were more important in making investment decisions than the growth prospects of the firms involved. They were able to explain in a succinct way how they assign investment weights to each position and clearly demonstrated the process of that ensured sell discipline. The manager does not employ a currency hedging strategy. The IAC separately discussed the merits of hedging the currency exposure related to global equity holdings and it was noted that this tended to diminish the diversification benefits associated with global equity investing.

## Global Fixed Income Investment Manager Search

The following criteria are expected to provide a stable return through both income and capital gains by giving the manager the latitude to access any bonds in the world.

1. Global unconstrained portfolio;
2. Stable return is favored; and,
3. Short duration.

Shorter duration is appropriate for this search to limit the interest rate risk, and to allow the manager to concentrate on adding value for this fixed income mandate. In a low interest rate environment, the ability to generate returns from traditional fixed income investments is somewhat limited. The unconstrained nature of the mandate means the manager is less beholden to the benchmark and has more flexibility to seek returns by investing in different sectors or investment types to augment returns. The manager of this mandate will use active management to select securities and use high conviction ideas in a portfolio comprised primarily of fixed-income securities of global issuers, including corporate bonds and government bonds. The mandate will include exposure to emerging and developed markets and include both investment grade and high yield securities. The low interest sensitivity of investments, well-diversified positions and an average credit rating of investment grade mean that the mandate has a relatively low risk profile.

Based on the recommendation of the consultant, the IAC selected the candidates in Table 9 to be interviewed on April 14, 2019. Some of the attributes and details that were presented during the interview process are also detailed in the Table 9.

Table 9: Global Fixed Income Managers Interviewed

| | BlackRock | MFS Investment Management | Manulife Asset Management | PIMCO |
|---|---|---|---|---|
| Product | BlackRock Fixed Income Global Opportunities | MFS Canadian Short Corporate Plus Fixed Income Strategy | Manulife Asset Management Strategic Fixed Income | PIMCO Monthly Income Fund |
| Inception | May 2010 | Not available | October 1986 | January 2011 |
| Benchmark | No Benchmark | FTSE Canada | Bloomberg | Bloomberg |

| | | Short Term Corporate Index | Barclays Multiverse Index | Barclays U.S Aggregate Hedged CAD |
|---|---|---|---|---|
| Assets in Strategy (CAD$ billion) | $44.45 | Not available | $31.38 | $268.81 |
| Fixed Income Staff | 460 | 93 | 156 | Not available |
| Average Credit Quality | A- | Investment Grade | Investment Grade | A |
| Duration Range | Not available | 1 year to 4.5 years | 2 years to 6 years | Not available |
| Yield to Maturity | 4.27% | Not available | 5.02% | 5.26% |

## Final Selection: Manulife Asset Management's Strategic Fixed Income product

The IAC recommended that the JIB select Manulife Asset Management's Strategic Fixed Income product to be used to represent global fixed income exposures. The ONE Investment Global Bond Fund intends to invest in units of the Manulife Asset Management Strategic Fixed Income pooled fund.

While all of the candidates interviewed had the capacity to provide a mandate that satisfied the search objectives, Manulife's approach resonated. They offered an opportunity set within the fixed income space with ample capabilities to add value. They have a long track-record demonstrating excellent risk adjusted returns. They appeared to have a strong team dynamic and instilled confidence that they could manage relatively complex strategies well and offered a broad opportunity set of capabilities within the fixed income markets. Despite the complexity involved with unconstrained fixed income, they were able to explain their process well and clearly explain how they attain their performance. The rationale behind aspects of their investment approach were well thought out, well explained and gave confidence in their abilities.  Being able to explain the strategy to municipal investors more readily is a secondary consideration in the selection of managers, but it is important that the end investors gain comfort in how their money is managed. They have an active currency hedging strategy that typically is above 50% hedged back to the Canadian dollar. The interaction between international interest rates and currency movements means that a fully hedged approach may not be optimal. Hedging is used to reduce volatility and for diversification purposes but has been used to enhance overall performance. This product has a particularly low correlation to the Canadian government bonds, which implies good diversification benefits for the ONE Investment prudent investor offering.

## Canadian Investment Exposures – mandates and managers

ONE Investment has a suite of investment products that are currently available to municipal investors under the Legal List. The low-risk attributes of these portfolios are suitable to be paired with the new Global Equity and Global Fixed Income mandates. Together they will be used to build well-diversified allocations for the ONE Investment Prudent Investor offering. As existing investment managers are being used and these mandates have a long performance track record, the IAC was comfortable with these managers and mandates for use under the prudent investor offering.

Three of the ONE Investment Legal List portfolios will be used as a template to create pooled funds for the prudent investor offering. It is anticipated that initially the holdings of the Legal List portfolios and prudent investor pooled funds will be substantially the same. As the pooled funds will not be subject to the strict rules of the Legal List, the managers will have more freedom to allow the pooled funds to assume similar investment exposure without being subject to the same prescriptive restrictions of the Legal List. It is contemplated that in the future these pooled funds with Canadian investment exposure may modify their mandates to be less similar to the Legal List portfolio offerings.

### ONE Canadian Equity Fund

The manager of this fund will be Guardian Capital LP, a subsidiary of Guardian Capital Group Limited, listed on the Toronto Stock Exchange. This Canadian investment manager has been managing a nearly identical mandate for ONE Investment since January 2007. The strategy uses a risk-targeted approach that limits exposure to the resource sector to reduce exposure to cyclical sectors of the Canadian equity market, which makes the mandate relatively low risk.

The strategy is a Growth-at-a-Reasonable Price (GARP) style that seeks companies with above average growth and quality, which expects to add value primarily through bottom-up stock selection while adhering to sector weighting limits. They look for strong business franchises exhibiting long term growth potential. The attractiveness of these growth opportunities, however, must be supported by four key components:

1. The business must exhibit a sustainable competitive advantage within their marketplace;
2. The firm must be supported by a strong management team;
3. The firm's balance sheet must be appropriately healthy for the industry they operate in; and,
4. The valuation of the stock must be reasonable relative to its growth potential

As the new ONE Canadian Equity Fund will mirror the existing ONE Canadian Equity Portfolio, a description of the Legal List mandate and characteristics have been presented in Table 10 while recent sector allocations have been presented in Table 11. This information should help the ONE JIB understand the expected exposures and characteristics of the ONE Canadian Equity Fund.

Table 10: ONE Canadian Equity Portfolio

| | |
|---|---|
| Investment Objective | To outperform S&P/TSX Composite |

| | |
|---|---|
| Investment Process | Primarily through bottom-up stock selection |
| Size of Companies | Mid to large cap stocks |
| Portfolio Diversification | 35 to 50 stocks in addition to sector weighting<br>limits |
| Cash Flow and Dividend | The portfolio favours companies with a high and stable level of cash flow. Most stocks in the portfolio pay a dividend since it is a sign quality; however, payment of a dividend or the level is not a requirement. |
| Asset Under Management (Legal List) (March 31, 2020) | $ 397.8 million |

Table 11: ONE Canadian Equity Portfolio Sector Weights, As at March 31, 2020

| Sector | S&P/TSX Composite (%) | ONE Portfolio (%) |
|---|---|---|
| Energy | 13.2 | 5.1 |
| Materials | 11.7 | 8.2 |
| Industrials | 11.9 | 18.0 |
| Consumer Discretionary | 3.5 | 3.8 |
| Consumer Staples | 4.5 | 15.0 |
| Health Care | 1.0 | 0.0 |
| Financials | 32.0 | 24.4 |
| Information Technology | 7.0 | 11.2 |
| Communication Services | 6.4 | 9.8 |
| Utilities | 5.7 | 4.5 |
| Real Estate | 3.1 | 0.0 |
| TOTAL | 100.0 | 100.0 |

## ONE Canadian Government Bond Fund

The manager of this fund will be MFS Investment Management who has been managing a nearly identical mandate for ONE Investment under the Legal List since October 1997. This fund will invest in very high credit quality Canadian bonds and emphasizes exposure to government bonds including federal, provincial and municipal bonds. By design, this fund will have very short bond duration, which means it has relatively low interest rate risk. These features will make this fund a very low risk investment mandate. As the new ONE Canadian Government Bond Fund will mirror the existing ONE Canadian Government Bond Portfolio, a description of this Legal List mandate and characteristics are presented in Table 12. This information should help the ONE JIB understand the expected exposures and characteristics of the ONE Canadian Government Bond Fund.

Table 12: ONE Canadian Government Bond Portfolio, As at March 31, 2020

| | |
|---|---|
| Investment Objective | To provide a competitive rate of return in conservatively managed short-term bonds with a priority of capital preservation. |
| Investment Process | Driven by combination macro-economic analysis and fundamental research |
| Bond Duration | 2.5 years |
| Yield to Worst | 1.40% |
| Average Coupon | 2.46% |
| Average Credit Quality | AA |
| Exposure to Corporate Credit | 41.5% |
| Asset Under Management (March 31, 2020) | $216.4 million |

## ONE Canadian Corporate Bond Fund

The manager of this fund will be MFS Investment Management who has been managing a nearly identical mandate for ONE Investment under the Legal List since September 2008. This fund will invest in very high credit quality Canadian bonds and emphasizes exposure to corporate bonds. This fund will have an intermediate bond duration, which means its performance is sensitive to changes in the level of interest rates. These features mean that the fund will have a relatively low risk profile but would typically be expected to generate higher returns than the ONE Canadian Government Bond Fund. As the new ONE Canadian Corporate Bond Fund will mirror the existing ONE Canadian Corporate Bond Portfolio, a description of this Legal List mandate and characteristics have been presented in Table 13. This information should help the ONE JIB understand the expected exposures and characteristics of the ONE Canadian Corporate Bond Fund.

Table 13: ONE Canadian Corporate Bond Portfolio, As at March 31, 2020

| | |
|---|---|
| Investment Objective | Provide a competitive rate of return within a conservatively managed portfolio of diversified corporate and government bonds. |
| Investment Process | Driven by combination macro-economic analysis and fundamental research |
| Bond Duration | 5.35 years |
| Yield to Worst | 2.23% |
| Average Coupon | 2.99% |
| Average Credit Quality | AA- |

| | |
|---|---|
| Exposure to Corporate Credit | 66.0% |
| Asset Under Management (March 31, 2020) | $282.8 million |

## Conclusion

The groundwork to build ONE JIB has been underway for several years and involved comprehensive planning that included ONE Investment staff, IAC, input from Founding Municipalities as well as other consultants and legal experts. This creates a solid foundation for the ONE JIB to move forward. This report summarizes many of the considerations for foundation of ONE JIB's the prudent investor offering. The background information presented here is considered vital to gaining and understanding the nuances and details that will be relevant for the ONE JIB members.

In addition to background information provided for informational purposes, specific details about Founding Municipalities MNRI, risk and return considerations, investment offerings, and manager selections have been elaborated so the ONE JIB members can start deliberating on the aspects of how the  Founding Municipalities MNIR will be invested in an expedited manner.

The key items in this report for the ONE JIB are:

1. Approval of the investment vehicles/funds to be used
2. Approval of managers selected for each of the ONE Investment pooled funds

Other details in this report are intended as background information and detail that will help the ONE JIB members make informed decisions on the two action items above.

Drafted by: Colin Macdonald, Manager of Investments and
Keith Taylor, Chief Investment Officer
Approved for submission by: Judy Dezell and Donna Herridge, Co-President/CEO

Appendix 1

ONE INVESTMENT

# Changing Municipal Investment Powers in Ontario

## Table of Contents

## Changing Municipal Investment Powers in Ontario

For all municipalities in Ontario, except for the City of Toronto, investment powers are governed by the *Municipal Act, 2001* (the "Act"). In the case of Toronto, investment powers are dealt with under the *City of Toronto Act, 2006*. Section 9 of the Act grants natural person powers to municipalities and sections 8 and 10 indicate that such powers are to be interpreted broadly. However, there are a number of powers identified in section 17 of the Act which are excluded from this broad grant of powers. Section 17 explicitly states that the power of municipalities to invest is not derived from its natural person powers. Instead investment powers are based on "express authority" found in the legislation.

## Investment Powers Under the *Municipal Act, 2001*

Until recently, the express authority to invest under the Act, was found exclusively in section 418.

> 418 (1) A municipality may invest in prescribed securities, in accordance with the prescribed rules, money that it does not require immediately including,
>
> (a) money in a sinking, retirement or reserve fund;
>
> (b) money raised or received for the payment of a debt of the municipality or interest on the debt; and
>
> (c) proceeds from the sale, loan or investment of any debentures. 2001, c. 25, s. 418 (1).

Section 418 makes it clear that municipalities can only invest in securities that are prescribed in regulations according to rules and conditions also set out by regulation. Subsection 418(6) gives broad regulatory authority to the Lieutenant Governor in Council (Cabinet) to prescribe rules, define eligible securities and to specify that there is no authority to invest in any securities other than those set out in regulation.

In addition to section 418, section 420 permits municipalities to enter into agreements for the investment of money with other municipalities or certain other public entities (e.g. public hospital, universities, school boards or an agent of any of these groups). Section 420 provides the authority for municipal comingled investment funds such as those made available under the ONE Investment Program (the "ONE Funds").

## Legal List Investing

As noted above, the Act permits the Ontario government to prescribe eligible investments and investment rules in a regulation. The legal list was the only permitted investment approach available to municipalities for many years until amendments were made to the Act in March of 2018. The first investment regulation in Ontario came into force in 1997 (O. Reg. 438/97, the "Regulation"). The Regulation has been amended numerous times since then, most recently in March of 2018.[1] The list of eligible investments and various

[1] Last amended by O. Reg. 43/18 which appeared in the Ontario Gazette on March 17, 2018.

conditions has been summarized in a table prepared by the Municipal Finance Officers' Association (MFOA) and attached hereto as Appendix A.[2]

The Regulation sets out a range of eligible securities for municipal investments. This approach to investing is often referred to as a "legal list" approach since it explicitly lists the securities or securities classes that are eligible for municipalities. All other securities are ineligible. In addition to identifying eligible securities for investment purposes, the Regulation has a number of other requirements, including:

- Conditions
    - Securities can have additional conditions. For example, only bonds issued by listed eligible issuers can be acquired by municipalities. In some cases, securities require a prescribed minimum rating. In other cases the municipality might be required to have a certain minimum rating. In still others, securities might only be accessible through the ONE Investment Program. The latter applies to shares of Canadian corporations and corporate bonds with a maturity of five years or more.
    - The Regulation stipulates that, with some limited exceptions, only securities denominated in Canadian dollars are eligible

- Investment Policy
    - Section 7 of the Regulation requires the council of a municipality to adopt a statement of investment policies and goals before it invests in a legal list security. The Regulation requires such policies to address the following, at a minimum:
        - the municipality's risk tolerance and the preservation of its capital;
        - the municipality's need for a diversified portfolio of investments; and
        - obtaining legal advice and financial advice with respect to the proposed investments.

- Annual Reporting
    - Section 8 of the Regulation states that council shall require the treasurer to prepare and provide to the council annually, or more frequently as specified by the council, an investment report. The investment report shall contain:
        - a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
        - a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
        - a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;

[2] MFOA's summary of the Regulation is current up to the amendments made by O. Reg. 43/18.

        - a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
        - such other information that the council may require or that, in the opinion of the treasurer, should be included.

- Additional Duty of the Treasurer
    - The investment report must also contain a statement by the treasurer as to whether any of the investments for which a minimum rating is required fell below the minimum rating set out in the Regulation during the period covered by the report.

Finally, the Regulation also deals with forward rate agreements. These are agreements entered into by a municipality and a Schedule I, II or III Bank under the *Bank Act* (Canada) to make an investment at a future date in a prescribed security. The Regulation stipulates a number of conditions that must be met in these agreements.

In 2018, a number of amendments were made to the legal list provisions of the Regulation. The following changes were made to a newly created Part I of the Regulation that is the foundation for municipalities investing using the legal list approach. These include:

- Sell investments that fall below the minimum rating set out in the regulation according to a plan, including expected timelines for selling the investment ("workout plan"), adopted by the municipality (used to be within 180 days);
- Minimum ratings on certain securities reduced to A-;
- Can invest in securities of Credit Unions and Caisses Populaires under certain conditions;
- Can accept any donation, including equities, if sold according to a municipal workout plan
- American dollar accounts acceptable (used to be all securities had to be denominated in Canadian dollars);
- 180 day limitation on bond forward agreements replaced by limit of 12 months; and
- AMO/LAS/MFOA/CHUMS can participate in the ONE Funds.

While these changes were welcomed, they did not significantly expand the range of investments that municipalities could make. However, expanded investment powers came with the addition of the prudent investor standard to the regulation.

## Prudent Investor Standard Investing

On May 30, 2017, Royal Assent was given to *An Act to Amend Various Acts in Relation to Municipalities* (Bill 68). This was an omnibus Act that made amendments to numerous statutes dealing with municipalities. With respect to municipal investment powers, the Act was amended to include a new section 418.1, which introduced a new approach to investment that was previously introduced to the *City of Toronto Act, 2006* in 2015. The new section gives municipalities access to an alternative investment approach to the existing "legal list." The new "prudent investor standard" approach offers access to a broader range of securities and an enhanced ability to control risk through greater diversification. In addition to this amendment to the Act, in 2018 amendments were also made to the Regulation that made changes to the existing legal list provisions and, as well, introduced rules and conditions related to the prudent investor standard.

## What is the prudent investor standard?

The "prudent investor standard" places no restrictions on eligible securities but does require a municipality to exercise the care, skill, diligence and judgment of a prudent investor when investing under the new regime.

The municipality must consider the following criteria in planning investments, in addition to any other criteria that are relevant to the circumstances:

1. General economic conditions.
2. The possible effect of inflation or deflation.
3. The role that each investment or course of action plays within the municipality's portfolio of investments.
4. The expected total return from income and the appreciation of capital.
5. Needs for liquidity, regularity of income and preservation or appreciation of capital.

The municipality must diversify its investments to an extent that is appropriate to general economic and investment market conditions.

To access these expanded investment powers, a municipality must:

- Meet specific financial criteria;
- Pass an appropriate by-law
- Enter into an agreement to establish an investment board ("IB") or joint investment board ("JIB");
- Adopt and maintain an investment policy;
- Have the IB or JIB adopt and maintain an investment plan that is consistent with the municipality's investment policy;
- Monitor investment performance, and
- Review performance reports and update the investment policy as needed.

The policy and the plan should be adopted and the agreement must be entered into before the by-law is passed.

This report sets out below the financial criteria and discusses the prudent investor governance model below. Subsequent reports will discuss the investment policy and by-law required.

The new standard is not directly available to all municipalities. To invest under the new standard a municipality must meet one at least one of the following financial eligibility conditions:

- In the opinion of the treasurer, the municipality has at least $100 M in money investment that it does not require immediately, or
- Has $50 M in net financial assets as reported in the Financial Information Return posted on the Ministry's website on the day the by-law is passed.

A municipality need only meet one of these conditions to be able to pass a by-law to adopt the prudent investor standard.  Once a by-law has been passed and the municipality is using the prudent investor regime, it does not matter if it ceases to meet either of the financial eligibility conditions, as long as it met one of them at the time of passing the by-law.  Appendix B shows all municipalities that meet either or both of the financial eligibility conditions based on 2016 Financial Information Returns (FIRs).

Municipalities that do not meet either of these conditions independently can still access the prudent investor regime by pooling resources with other municipalities.  Municipalities that collectively have $100 M in money and investments that they do not require immediately may jointly invest through a pooled or joint arrangement.

## Benefits of the Prudent Investor Standard

Since there are no restrictions on individual securities that can be acquired, the prudent investor standard allows a wider range of potential investments.  This permits a greater degree of diversification and diversification is a key tool in managing portfolio risk.  The greater range of investment options also permits access to a variety of securities and securities classes that can produce better returns than the securities on the current legal list.  In addition, the prudent investor standard allows a portfolio to be modified to accommodate new types of securities and changing market conditions.  In short, for money not required immediately, the prudent investor standard has the potential to produce higher returns with less risk over time and allow investors to better align their portfolio with their willingness to accept risk.

The prudent investor standard, like the legal list, applies to money not required immediately.  Its greatest potential benefit is to allow municipalities to substitute investment returns for tax dollars to finance capital projects.  The investment products that would be attractive under the prudent investor regime will often have longer investment horizons and are ideal for financing assets with long lives.  A municipality does not require investment options beyond the legal list if it only wants a high degree of liquidity and minimal risk.

## Legal List vs Prudent Investor

Municipalities will need to decide whether to invest money not required immediately under the new prudent investor standard or to continue to invest using the legal list. A municipality can choose one approach or the other, but not both. (A municipality adopting the prudent investor regime may still, of course, continue to invest its money that is required immediately under the legal list.)

In Ontario, investing under the prudent investment standard is generally considered by experts to be preferred to the legal list because it provides greater opportunities for diversification and risk management with potentially greater investment returns.  Table 1 compares and contrasts the two approaches that Ontario municipalities now have.

Table 1: Legal List vs Prudent Investor Standard

| Legal List | Prudent Investor Standard |
|---|---|
| • Council develops a statement of investment policies and goals | • Council develops an investment policy, the IB or JIB develops an investment plan to implement council's policy |
| • Easy to monitor in theory | • Monitoring requires more detailed policies and procedures |
| • Regulations can be difficult to interpret | • Evolves concurrently with capital markets |
| • Time consuming to evolve to reflect evolving capital markets | • Requires more detailed independent due diligence |
| • May provide a false sense of security | • Consistent with fiduciary duty |
| • Risk is determined by the legal list | • Risk can be determined and controlled at the portfolio level |
| • Ability to diversify is more limited | • Ability to provide greater diversification and risk reduction |

## The Prudent Investor Governance Model

The Regulation requires a particular governance model to be used if a municipality wishes to use the prudent investor standard authorized by s. 418.1 of the Act and Part II of the Regulation. The governance model, set out in s. 17 of the Regulation, states that funds not required immediately must be invested through an IB or a JIB.[3] A municipality must:

- Establish an IB or JIB under section 196 (IB) or section 202 (JIB). Such a board is a local board of the municipality.[4]
- Give "control and management" of the municipality's investments to the IB or JIB
- The municipality must delegate to the IB or JIB:
  - The municipality's powers to make investments, and
  - The municipality's duties under section 418.1 of the Act.

[3] The Act provides in subsection 418.1(12) that money that the municipality does not require immediately includes:

i. money in a sinking, retirement or reserve fund
ii. money raised or received for the payment of a debt of the municipality or interest on the debt and
iii. proceeds from the sale, loan or investment of any debenture.

[4] Note that as a municipal service board, an IB or JIB is subject to various other provisions of the Act (e.g. open meetings, conflict of interest) as well as any municipal policies that might be operative with respect to local boards (e.g. codes of conduct).

In the case of a new IB or JIB the municipality is free to determine the size of the board and qualifications of board members but is prohibited from appointing any member of council or municipal staff person to the board except the municipal treasurer, provided that the treasurer does not make up more than 25% of its members.

A municipality that does not meet either of the financial eligibility conditions on its own has several options with respect to alternative arrangements. It can:

- enter into a written agreement to invest through an IB established by another municipality[5] before the day the by-law is passed with the following parties:
    - the IB
    - any other municipalities investing through the IB.

  (paragraph 3 of section 15 and subsection 17(3) of the Regulation)

- enter into a written agreement to invest through the City of Toronto IB with the following parties:
    - the City of Toronto
    - the City of Toronto IB
    - any other municipalities investing through the City of Toronto IB[6].

  (paragraph 3 of section 15 and section 43 of O. Reg. 610/06)

- enter into an agreement to establish and invest through a JIB with one or more municipalities. In order to establish a JIB, all of the municipalities establishing the JIB must have, in the opinion of their treasurers, a combined total of at least $100M in money and investments that the municipalities do not require immediately.
  (paragraph 2 of section 15 and subsection 17(2) of the Regulation)

- enter into an agreement to invest through an existing JIB established by other municipalities before the day the by-law is passed with the following parties:
    - the JIB
    - any other municipalities investing through the JIB.

  (paragraph 3 of section 15 and subsection 17(3) of the Regulation)

The ONE investment Program will establish a JIB to oversee pooled access to the standard so that small and medium sized municipalities can enjoy the better returns through the prudent investor standard.

---

[5] The other municipality must have been able to fulfill one of the financial eligibility conditions.

[6] It should be noted that the City of Toronto Investment Policy at present does not contemplate the City of Toronto IB investing on behalf of other municipalities.

### Municipal vs Investment Board Responsibilities

The governance structure set out in Part II of the Regulation places clear legal obligations on the municipality as well as the IB or JIB that has responsibility for managing the investments. These responsibilities are summarized in Table 2.

Table 2: Responsibilities Under the Governance Model

| Responsibilities Under the Governance Model | |
|---|---|
| Municipality | IB/JIB |
| • Adopts, maintains investment policy | • Adopts, maintains investment plan |
| • Reviews policy at least annually | • Monitors, reports performance |
| • Monitors performance compliance by the IB/JIB | • Updates plan to comply with investment policy |
| • Municipality (treasurer) reports as whether the investment plan has complied with the municipality's investment policy | • May engage agents to manage investment functions |

It should be noted that the prudent investor model will require municipalities to develop more robust investment policies and to monitor their performance on an ongoing basis. For small and medium sized municipalities, the ONE Investment Program is working to offer as much assistance as possible for investment policy development, monitoring and municipal finance issues such as integrating investment strategies with capital programs.

### ONE Investment and the prudent investor standard

ONE Investment is a not for profit corporation formed by CHUMS Financing Corporation (a subsidiary of the MFOA) and LAS/AMO.[7] ONE Investment currently offers many investment options for municipalities that invest using the legal list approach. These legal list products will continue to be maintained for those choosing to invest under the legal list. However, the program will also be expanded to accommodate municipalities that wish to adopt the prudent investor standard for municipal investing.

### ONE Investment's Legal List Program

ONE offers five investment products that have been designed to provide investment options for municipalities with differing investment horizons. These include options that range in terms of investment horizons from portfolios for short-term funds to a Canadian Equity portfolio for municipalities with investment horizons of five or more years. Table 3 provides a summary of the product offerings, the recommended investment horizons, the investment approaches and samplings of the securities held in each product.

Table 3: ONE Investment Program Products

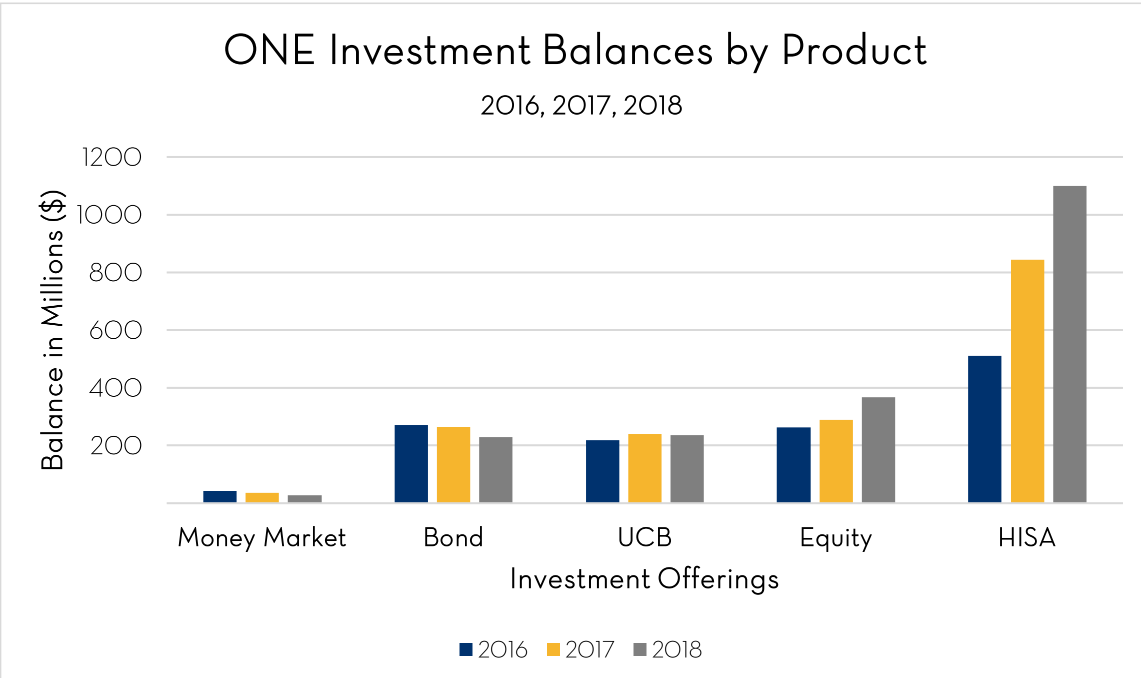
[7] See the ONE Investment Program website for further information.

| Portfolio | Intended Investment Horizon | Investment Approach | Holdings |
|---|---|---|---|
| HISA (High Interest Savings Account) | 1+ months | Deposits with a Schedule One Canadian Bank under a master LAS/CHUMS account | • Bank deposits |
| Money Market | 1 month to 18+ months | Preserve capital and maintain liquidity while maximizing short-term income | • Canadian treasury bills<br>• High quality commercial paper<br>• Banker's acceptances<br>• Floating rate notes |
| Bond | 18 months to 3+ years | Provide a higher return over longer investment horizons through diversified investments | • Federal, provincial and municipal bonds<br>• High quality bank paper<br>• Bank guaranteed debt |
| Universe Corporate Bond* | 4+ years | Investment in highly rated corporate bonds maturing over a wide timeframe | • Canadian corporate bonds<br>• Federal, provincial and municipal bonds |
| Canadian Equity* | 5+ years | A diversified, conservatively managed portfolio of equity securities issued by Canadian corporations | • Canadian equity securities |

** These asset classes (Canadian equities and Canadian Corporate Bonds with maturities longer than five years) are available for investment for municipalities only through ONE Program as per the Regulation.*

Table 4 shows balances as of December 31 for the years 2016, 2017 and 2018. Balances at the end of 2018 were just under $2 B. With the exception of the money market portfolio, all products have seen significant growth in recent years. Growth in products with longer investment horizons suggest that more municipalities are using investment revenues to finance capital projects.

Table 4: ONE Investment Balances by Product




Unsurprisingly, large municipalities have larger balances, on average, than small ones. Nevertheless, ONE Investment has numerous smaller investors as Table 5 illustrates. Almost 70% of all investors have populations of 25,000 or less, although they collectively hold about 17% of the total investments. At the other end of the population spectrum, municipalities with a population of 100,000 or more constitute 13% of investors but hold 51% of the total investments.

Table 5: ONE Investment Investor Profile (as at Dec 31, 2018)

| Population (000s) | Muni's | Number of Investors | % of Total Investors | Market Penetration | Investment ($M) | % Total Investment |
|---|---|---|---|---|---|---|
| <5 | 193 | 44 | 29% | 22% | 74 | 4% |
| 5 - 25 | 157 | 59 | 39% | 38% | 245 | 13% |
| 25 - 50 | 26 | 17 | 11% | 65% | 287 | 15% |
| 50 - 100 | 33 | 13 | 9% | 39% | 325 | 17% |
| 100+ | 35 | 19 | 13% | 54% | 944 | 51% |
| Total | 444 | 152 | 100% | 34% | 1,875 | 100% |

## ONE Investment's Prudent Investor Program

Under the prudent investor regime, and its governance model, an arm's length IB or JIB will have the "control and management" of the investment funds. The ONE Investment Program is working to provide opportunities for all municipalities to access the prudent investment standard. Specifically, ONE is:

- Recruiting experts for a JIB
    - ONE has recruited highly experienced experts to participate in a JIB as required under the Regulation. Some of these individuals have deep investment experience and knowledge while others have experience and knowledge of municipal finance through experience working in the municipal finance sector.
    - Creating an agreement that will permit interested municipalities to establish and invest through ONE Joint Investment Board ("ONE JIB") to take advantage of the prudent investor regime
- Preparing draft agreements for other municipalities to invest through ONE JIB
- Recruiting investment experts to manage the investment portfolios of participating municipalities according to their investment policies and to advise municipalities on an appropriate allocation of funds consistent with their investment objectives
- Building a model investment policy template to assist municipalities in crafting investment policies and standards that can ensure that investments are made that are consistent with a municipality's investment goals and risk tolerance
- Providing investment advice and municipal finance advice so that municipalities are better equipped to integrate their investment program with their capital program
- Providing education and training to municipal staff on investing and the use of investment funds to support municipal objectives and priorities
    - ONE Investment has produced a number of investment newsletters dealing with the new prudent investor regime
    - Seminars and webinars. One staff regularly produce investment seminars and webinars on a range of investment issues
    - One on one discussions with municipal finance staff in municipalities with ONE Investment's experts in investment portfolio construction and municipal finance. This provides valuable assistance for municipalities to clarify their

investment goals and understand how to integrate their investment policies with other related polices such as their capital budget, debt management program and reserve contribution policies

ONE Investment will establish a JIB, ONE JIB, with several municipalities that, collectively, have at least $100 M to invest. ONE JIB will develop investment plans for participating municipalities and manage their funds according to those plans.

## Summary

Municipal investment powers have been significantly expanded in Ontario for municipalities that meet eligibility criteria and adopt a particular governance model set out in Part II of the Regulation. Two different and mutually exclusive approaches to investing have existed since January 1, 2019. The existing "legal list" approach, which is the traditional approach to investing for municipalities, continues. The new prudent investor regime approach is open to municipalities that meet eligibility criteria, either individually or collectively, and delegate control and management of their money not required immediately to an IB or JIB.

The prudent investor regime places no restrictions on securities but stresses that investment portfolios be constructed with regard to broad criteria that include:

- General economic conditions,
- The possible effect of inflation or deflation,
- The role that each investment or course of action plays within the municipality's portfolio of investments,
- The expected total return from income and the appreciation of capital, and
- Needs for liquidity, regularity of income and preservation or appreciation of capital.

The investment of municipal money is undertaken by an IB or JIB that is a local board of the municipality or municipalities. No councilors are permitted to sit on the board. The only staff allowed to sit on the board is the municipal treasurer or, in the case of a JIB, several treasurers provided they do not comprise more than 25% of the membership of the IB or JIB.

ONE Investment is creating ONE JIB to provide access to the prudent investor standard regime for municipalities that do not qualify for the standard on their own or for municipalities that do not wish to incur the up front and ongoing maintenance costs associated with the investment governance model on their own. ONE Investment will:

- Create and support ONE JIB
- Prepare draft agreements for municipalities interested in investing through ONE JIB
- Assist municipalities in writing their investment policies
- Support municipalities with draft reports and by-laws
- Support ONE JIB in creating municipal investment plans
- Provide robust reporting to municipalities on investment performance

**Dated May 9, 2018**

**MFOA SUMMARY OF ELIGIBLE MUNICIPAL INVESTMENTS UNDER PART I OF O. REG. 438/97 AS AMENDED (HEREAFTER REFERRED TO AS THE "REGULATION")**

LAST REVIEWED: MARCH 2018 NTD: 1) References to "a term of more than 2 years" means a 'remaining term to maturity greater than 2 years'.
2) References to "a term of 2 years or less" means a 'remaining term to maturity of 2 years or less'.
3) Eligible investments for the proceeds of the sale of shares of the City of Ottawa's corporation incorporated under section 142 of the *Electricity Act, 1998* are not included.

| Eligible Investment (and regulatory authority) Security | Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| **Section 2, paragraph 1**. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by: | **i.** Canada, a province or a territory of Canada | • Applies to all municipalities | | |
| | **ii.** an agency of Canada, a province or territory of Canada | • Applies to all municipalities | | |
| | **iii.** a country other than Canada | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*[A] if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| | **iv.** a municipality in Canada, including the municipality making the investment | • Applies to all municipalities | | |
| | **v.** a school board or similar entity in Canada | • Applies to all municipalities | | |

[A] Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

| Eligible Investment (and regulatory authority) Security | Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| | **vi.** a local board as defined in the *Municipal Affairs Act* (excluding a school board or municipality) or a conservation authority established under the *Conservation Authorities Act* | • Applies to all municipalities | | |
| **Section 2, paragraph 1. cont'd.** | **vii.** Municipal Finance Authority of British Columbia | • Applies to all municipalities | | |
| | **iv.1** Ontario Infrastructure and Lands Corporation (OILC) | • Applies to all municipalities | | |
| | **v.1** a university in Ontario that is authorized to engage in an activity described in s. 3 of the *Post-secondary Education Choice and Excellence Act, 2000* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| | **v.2** a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |

*A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

| **Eligible Investment (and regulatory authority)** **Security** | **Issuer** | **Conditions** | **Minimum Security Ratings** | **Minimum Municipal Debt/Credit Rating or Other Requirement** |
|---|---|---|---|---|
| | **vi.1** a board of a public hospital within the meaning of the *Public Hospitals Act* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| | **vi.2** a non-profit housing corporation incorporated under s. 13 of the *Housing Development Act* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| | **vi.3** a local housing corporation as defined in s. 24 of the *Housing Services Act, 2011* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| **Section 2, paragraph 2.** Bonds, debentures, promissory notes or other evidence of indebtedness ("Corporate Debt") | a corporation | • Applies to all municipalities<br>• Corporate Debt must be secured by the assignment to a trustee of payments sufficient to meet amounts payable under the Corporate Debt[1] | | |

[1] Corporate Debt must be secured by the assignment to a trustee (as defined in the Trustee Act) of payments that Canada or a province or territory thereof has agreed to make or is required to make under a federal, provincial or territorial statute and such payments must be sufficient to meet the amounts payable under the Corporate Debt, including the amounts payable at maturity.

*A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

| Eligible Investment (and regulatory authority) Security | Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| **Section 2, paragraph 3.** Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments ("Deposit Securities") (with a term of 2 years or less) issued, guaranteed or endorsed by: | **i.** a bank listed in Schedule I, II or III of the *Bank Act* (Canada) | • Applies to all municipalities<br>• May be expressed or payable in US$<br>6(3) | | |
| | **ii.** a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act* | • Applies to all municipalities<br>• May be expressed or payable in US$<br>6(3) | | |
| | **iii.** a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies ("Credit Union or League") | • Applies to all municipalities<br>• May be expressed or payable in US$<br>6(3)<br>• If a municipality's total investments in Deposit Securities issued by a Credit Union or League, regardless of the term have, in the opinion of the treasurer, a value in excess of $250,000, the municipality is prohibited from making any further investment in such Deposit Securities with a term greater than 2 years unless the Credit Union or League meets the financial requirements set forth in the regulation within 30 days before the investment is made[2]<br>3(2.0.1) – 3(2.0.4) | | |

[2] The Credit Union or League is to provide: (i) audited financial statements indicating that the following financial indicators are met or (ii) written certification that all of the financial indicators mentioned below are met:

1. Positive retained earnings in its audited financial statements for its most recently completed fiscal year
2. Regulatory capital of at least the percentage of its total assets obtained by adding 1% to the minimum percentage set out in paragraph 1 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General) made under the *Credit Unions and Caisses Populaires Act, 1994*
3. Regulatory capital of at least the percentage of its total risk weighted assets obtained by adding 1% to the minimum percentage set out in paragraph 2 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General)
4. Positive net income in its audited financial statements for 3 of its 5 most recently completed fiscal years.

| Eligible Investment (and regulatory authority)<br>Security | <br>Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| **Section 2, paragraph 3.1.** Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments ("Deposit Securities") (<u>with a term of more than 2 years</u>) issued, guaranteed or endorsed by: | **i.** a bank listed in Schedule I, II or III of the *Bank Act* (Canada)<br>*B | • Applies to all municipalities<br>• Securities must be rated<br>• May be expressed or payable in US$ 6(3)<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard 3(6) | • DBRS: A(low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(2) | |
| | **ii.** a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*<br>*B | • Applies to all municipalities<br>• Securities must be rated<br>• May be expressed or payable in US$ 6(3)<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard 3(6) | • DBRS: A(low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(2) | |
| **Section 2, paragraph 4.** Bonds, debentures, promissory notes or other evidence of indebtedness ("Debt Securities") <u>(with a term of 2 years or less)</u>[*D] issued or guaranteed by: | **i.** a bank listed in Schedule I, II or III of the *Bank Act* (Canada) | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |

[A] Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

*B Deleted a Credit Union or League.

*C Minimum credit ratings were reduced from AA- and equivalents.

*D Formerly, there was no differentiation for Debt Securities in credit ratings based on term (all Debt Securities required a minimum rating of AA- or equivalents).

| Eligible Investment (and regulatory authority)<br>Security | <br>Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| | **ii.** a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act* | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard<br>3(6) | • DBRS: AA(low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>3(1) | |
| **Section 2, paragraph 4.1**. Bonds, debentures, promissory notes or other evidence of indebtedness ("Debt Securities") (with a term of more than 2 years)[*D] issued or guaranteed by: | **i.** a bank listed in Schedule I, II or III of the *Bank Act* (Canada)<br>*B | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard<br>3(6) | • DBRS: A(low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(2) | |
| | **ii.** a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*<br>*B | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan[*A] if investment falls below standard<br>3(6) | • DBRS: A(low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(2) | |

*A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

*B Deleted a Credit Union or League.

*C Minimum credit ratings were reduced from AA- and equivalents.

*D Formerly, there was no differentiation for Debt Securities in credit ratings based on term (all Debt Securities required a minimum rating of AA- or equivalents).

| Eligible Investment (and regulatory authority)<br>Security | <br>Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| **Section 2, paragraph 4.2.**<br>Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments ("Deposit Securities") (with a term of more than 2 years)[*E] issued, guaranteed or endorsed by: | a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies ("Credit Union or League") | • Applies to all municipalities<br>• May be expressed or payable in US$ 6(3)<br>• If a municipality's total investments in Deposit Securities issued by a Credit Union or League, regardless of the term have, in the opinion of the treasurer, a value in excess of $250,000, the municipality is prohibited from making any further investment in such Deposit Securities with a term greater than 2 years unless the Credit Union or League meets the financial requirements set forth in the regulation within 30 days before the investment is made[2]<br>• Must sell excess Deposit Securities with a term of more than 2 years within the expected timelines set out in the Workout Plan[*F] if the $250,000 threshold is exceeded and the Credit Union or League cannot meet the prescribed financial requirements<br>3(2.0.1) – 3(2.0.4)<br>3(6.1.1) – 3(6.1.2) | | |

[2] The Credit Union or League is to provide: (i) audited financial statements indicating that the following financial indicators are met or (ii) written certification that all of the financial indicators mentioned below are met:

Positive retained earnings in its audited financial statements for its most recently completed fiscal year

Regulatory capital of at least the percentage of its total assets obtained by adding 1% to the minimum percentage set out in paragraph 1 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General) made under the Credit Unions and Caisses Populaires Act, 1994

Regulatory capital of at least the percentage of its total risk weighted assets obtained by adding 1% to the minimum percentage set out in paragraph 2 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General)

Positive net income in its audited financial statements for 3 of its 5 most recently completed fiscal years.

*E Formerly, all Deposit Securities (of a Cdn. bank, a Loan or Trust Corporation or a Credit Union or League) with a term of more than 2 years had a minimum rating requirement of AA- or equivalents.

*F Formerly, municipalities had to sell downgraded securities within 180 days. Now, if a municipality holds Deposit Securities of a Credit Union or League in excess of the $250,000 limit and the Credit Union or League cannot meet the prescribed financial requirements, the municipality shall create a plan, including expected timelines for selling the Deposit Securities with a term of more than 2 years in excess of the $250,000 limit ("Workout Plan") and shall sell such securities in accordance with the Workout Plan. To determine the value of the investments, the value of all such Deposit Securities with a term of 2 years or less shall be counted as part of the total first, followed by the value of all such Deposit Securities with a term of more than 2 years.

| Eligible Investment (and regulatory authority) | | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|---|
| **Security** | **Issuer** | | | |
| **Section 2, paragraph 4.3.** Bonds, debentures, promissory notes or other evidence of indebtedness ("Debt Securities") issued or guaranteed by:[*H] | a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies ("Credit Union or League") | • Applies to all municipalities<br>• Credit Union or League must meet the prescribed financial requirements set forth in the regulation[2]<br>• Must sell the investment within the expected timelines set out in the Workout Plan[*G] if the Credit Union or League cannot meet the prescribed financial requirements<br>3(2.0.1) – 3(2.0.5)<br>3(6.1.1)<br>3(6.1.3) | | |
| **Section 2, paragraph 5.** Short-term securities, (term of 3 days or less) that are issued by: | **i.** a university in Ontario that is authorized to engage in an activity under s. 3 of the *Post-secondary Education Choice and Excellence Act, 2000* | • Applies to all municipalities | | |
| | **ii.** a college established under the *Ontario College of Applied Arts and Technology Act, 2002* | • Applies to all municipalities | | |
| | **iii.** a board of a public hospital within the meaning of the *Public Hospitals Act* | • Applies to all municipalities | | |

[2] The Credit Union or League is to: provide (i) audited financial statements indicating that the following financial indicators are met or (ii) written certification that all of the financial indicators mentioned below are met:

Positive retained earnings in its audited financial statements for its most recently completed fiscal year

Regulatory capital of at least the percentage of its total assets obtained by adding 1% to the minimum percentage set out in paragraph 1 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General) made under the Credit Unions and Caisses Populaires Act, 1994

Regulatory capital of at least the percentage of its total risk weighted assets obtained by adding 1% to the minimum percentage set out in paragraph 2 of subsection 15(3) of O. Reg. 237/09 (General) as of the date of the latest audited financial statements, calculated in accordance with O. Reg. 237/09 (General)

Positive net income in its audited financial statements for 3 of its 5 most recently completed fiscal years.

*G Formerly, municipalities had to sell downgraded securities within 180 days. Now, if a municipality holds Debt Securities of a Credit Union or League and the Credit Union or League can no longer meet the prescribed financial requirements, the municipality shall create a plan, including expected timelines for selling the Debt Securities ("Workout Plan") and shall sell such securities in accordance with the Workout Plan.

*H Formerly, there was no differentiation for Debt Securities and no special requirements for Credit Unions or Leagues (a Cdn. bank, a Loan and Trust Corporation and a Credit Union and League all required a minimum rating of AA- or equivalents).

| **Eligible Investment (and regulatory authority)**<br>**Security** **Issuer** | **Conditions** | **Minimum Security Ratings** | **Minimum Municipal Debt/Credit Rating or Other Requirement** |
| --- | --- | --- | --- |
| **Section 2, paragraph 6.**<br>Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development (IBRD) | • Applies to all municipalities | | |
| **Section 2, paragraph 6.1.**<br>Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization other than the IBRD | • Applies to all municipalities<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: AAA<br>• Fitch: AAA<br>• Moody's: Aaa<br>• S & P: AAA<br>3(2.1) | |
| **Section 2, paragraph 7.**<br>Securities that are arrangements for the sale of assets that entitle the purchaser to an undivided beneficial interest in a pool of assets (formerly described as asset-backed securities)*I | • Applies to all municipalities<br>• Securities must be rated<br>• Municipal debt or credit rating must meet prescribed levels<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard[3]<br>3(6)<br>3(6.1) | Term of more than 1 year:<br>• DBRS: AAA<br>• Fitch: AAA<br>• Moody's: Aaa<br>• S & P: AAA<br>3(3)<br>Term of 1 year or less:<br>• DBRS: R-1 (high)<br>• Fitch: F1+<br>• Moody's: Prime-1<br>• S & P: A-1+<br>3(4) | • DBRS: AA (low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>4.1(1)(a)<br>OR<br>• Through the One Investment Program<br>4.1(1)(b)<br>4.1(2) |

[3] Requirement to sell in accordance with the Workout Plan does not apply to an investment made on a day before subsection 3(6.1) came into force, i.e., July 31, 2009. 3(6.1)

*A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

I The current definition was previously set out in subsection 50(1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the Loan and Trust Corporations Act
which regulation was revoked on August 1, 2008.

| Eligible Investment (and regulatory authority)<br><br>Security Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|
| **Section 2, paragraph 7.1.**<br>Cdn. Corporate Debt – bonds, debentures, promissory notes or other evidence of indebtedness issued by a Cdn. corporation (<u>with a remaining term to maturity of more than 5 years</u>) | • Corporate issuer must be incorporated under the laws of Canada or a Cdn. province<br>• Securities must be rated<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: A (low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(4.1) | • Security is only eligible if the investment is made through the One Investment Program<br>4.1(1.1)<br>4.1(2) |
| **Section 2, paragraph 7.2.**<br>Cdn. Corporate Debt – bonds, debentures, promissory notes or other evidence of indebtedness issued by a Cdn. corporation (<u>with a remaining term to maturity of more than 1 year and not more than 5 years</u>) | • Applies to all municipalities<br>• Corporate issuer must be incorporated under the laws of Canada or a Cdn. province<br>• Securities must be rated<br>• Municipal debt or credit rating must meet prescribed levels<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: A (low)<br>• Fitch: A-<br>• Moody's: A3<br>• S & P: A-<br>*C<br>3(4.1) | |

A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

*C Minimum credit ratings were reduced from AA- and equivalents.

| Eligible Investment (and regulatory authority)<br>Security Issuer | Conditions | Minimum Security Ratings | Minimum Municipal Debt/Credit Rating or Other Requirement |
|---|---|---|---|
| **Section 2, paragraph 8.**<br>Cdn. corporate negotiable promissory notes or commercial paper other than securities referred to in paragraph 7 (with a term of 1 year or less) | • Applies to all municipalities<br>• Corporate issuer must be incorporated under the laws of Canada or a Cdn. province<br>• Securities must be rated<br>• Municipal debt or credit rating must meet prescribed levels<br>• Must sell within the expected timelines set out in the Workout Plan*A if investment falls below standard<br>3(6) | • DBRS: R-1 (mid)<br>• Fitch: F-1+<br>• Moody's: Prime-1<br>• S & P: A-1+<br>3(5) | • DBRS: AA (low)<br>• Fitch: AA-<br>• Moody's: Aa3<br>• S & P: AA-<br>4.1(1)(a)<br>OR<br>• Through the One Investment Program<br>4.1(1)(b) |
| **Section 2, paragraph 8.1.**<br>Shares of a Cdn. corporation | • Corporate issuer must be incorporated under the laws of Canada or a Cdn. province | | • Security is only eligible if investment is made through the One Investment Program<br>4.1(1.1)<br>4.1(2) |
| **Section 2, paragraph 9.**<br>Bonds, debentures promissory notes and other evidences of indebtedness of a corporation incorporated under s. 142 of the *Electricity Act, 1998* | • Must meet the requirements set out in the Regulation<br>3(7)–3(10) | | |
| **Section 2, paragraph 10.**<br>Any security acquired as a gift in a will or as a donation not made for a charitable purpose | • Applies to all municipalities<br>• Security must have been first acquired as a gift in a will or as a donation not made for a charitable purpose<br>• Must sell within the expected timelines set out in the Workout Plan*J<br>3(11) | | |

*A Formerly, municipalities had to sell downgraded securities within 180 days. Now, when a security falls below the required standard, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan.

*J Formerly, municipalities had to sell downgraded securities within 180 days. Now, if a security acquired as a gift or in a will in accordance with the Regulation does not constitute an eligible security under the Regulation, the municipality shall create a plan, including expected timelines for selling the security ("Workout Plan") and shall sell the security in accordance with the Workout Plan. In the event the security does constitute an eligible investment under the Regulation, the applicable provisions of the Regulation apply to such security.

| **Eligible Investment (and regulatory authority)**<br>**Security** **Issuer** | **Conditions** | **Minimum Security Ratings** | **Minimum Municipal Debt/Credit Rating or Other Requirement** |
|---|---|---|---|
| **Section 2, paragraph 11.**<br>**revoked** | | | |
| **Section 2, paragraph 12.**<br>Shares of a corporation-court ordered | • Applies to all municipalities<br>• Corporation that issued the shares must have debt payable to the municipality<br>• Under a court order, the corporation must have received protection from its creditors<br>• The acquisition of the shares in lieu of a debt must have been authorized by the court order<br>• The treasurer is of the opinion that the debt is uncollectable unless the debt is converted into shares under the court order | | |
| **Section 2.1.**<br>Securities subject to a court ordered plan of compromise and arrangement as described in s. 2.1 | • Applies to all municipalities<br>• Investment must have been made before January 12, 2009 | | |

11470133.5

Appendix B: Municipalities that quality for the prudent investor standard
*Source: MMA presentation at the MFOA 2018 Annual Conference*

| # | Municipality | Total Balance | Financial Assets |
|---|---|---|---|
| 1 | Durham R | 1,924,151,122 | 882,061,171 |
| 2 | Halton R | 1,765,881,957 | 1,099,120,746 |
| 3 | Mississauga C | 883,868,413 | 491,864,626 |
| 4 | Hamilton C | 790,720,269 | 83,958,423 |
| 5 | London C | 463,070,565 | 196,514,232 |
| 6 | Brampton C | 355,388,120 | 453,375,585 |
| 7 | Richmond Hill T | 330,801,789 | 274,373,367 |
| 8 | Oakville T | 327,208,610 | 267,683,951 |
| 9 | Greater Sudbury C | 290,916,767 | 173,318,271 |
| 10 | Guelph C | 227,313,124 | 74,614,042 |
| 11 | Markham C | 197,742,752 | 430,096,225 |
| 12 | Burlington C | 186,124,594 | 174,611,608 |
| 13 | Brantford C | 177,616,667 | 82,124,812 |
| 14 | Waterloo C | 148,854,104 | 126,754,766 |
| 15 | Kitchener C | 139,030,212 | 206,623,776 |
| 16 | Haldimand County | 137,676,262 | 66,588,213 |
| 17 | Milton T | 106,423,550 | 89,276,539 |
| 18 | Peterborough C | 94,488,006 | 81,853,383 |
| 19 | Aurora T | 83,950,425 | 53,346,916 |
| 20 | Cambridge C | 72,632,342 | 97,654,165 |
| 21 | Clarington M | 55,768,350 | 55,046,267 |
| 22 | Pickering C | 49,423,158 | 114,844,670 |
| 23 | Ajax T | 40,801,450 | 113,388,413 |
| 24 | Essex Co | 34,876,841 | 77,430,400 |

| | | | |
|---|---|---|---|
| 25 | Kenora C | 32,825,228 | 72,344,711 |
| 26 | Woodstock C | 29,225,274 | 59,348,269 |
| 27 | Niagara Falls C | 26,888,545 | 103,123,951 |
| 28 | Whitby T | 21,323,178 | 134,161,722 |
| 29 | Vaughan C | 19,847,806 | 343,301,204 |
| 30 | Newmarket T | 5,000,000 | 61,442,214 |
| 31 | Windsor C | - | 138,643,000 |
| 32 | Oxford Co | - | 75,235,535 |
| 33 | Sault Ste. Marie C | - | 59,617,723 |
| 34 | York R | 2,318,411,139 | -1,438,122,970 |
| 35 | Peel R | 1,468,103,288 | -147,035,207 |
| 36 | Ottawa C | 1,387,643,332 | -1,676,685,624 |
| 37 | Niagara R | 402,792,313 | -69,117,584 |
| 38 | Waterloo R | 162,072,560 | -568,631,111 |
| 39 | Kingston C | 128,890,480 | -168,774,329 |