



Attachment #3



**Town of Whitby**  
**Investment Plan (Draft)**

Date: June 1, 2020



200 University Ave., Suite 801  
Toronto Ontario M5H 3C6 Canada

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## 1. Definitions

**Act:** means the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended from time to time.

**Asset Allocation (Asset Mix):** Proportion of each asset class in a portfolio.

**Asset Class:** a group of securities with similar characteristics and expected behaviours. Examples include Canadian stocks and global bonds.

**Benchmark** means an independently verifiable index that is representative of a specific securities market (e.g., the S&P/TSX Composite Index, the FTSE/TMX 91 Day T-bill Index, etc.) against which investment performance can be compared. Performance benchmarks refer to total return indices in Canadian dollar terms. A Benchmark can be a single Index or a combination of one or more indices.

**Custodian:** A specialized financial institution that is responsible for safeguarding a municipality's investments and is not engaged in "traditional" commercial or consumer/retail banking. Global custodians hold investments for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks ("sub-custodians" or "agent banks"). ONE Investment's custodian is CIBC Mellon.

**Environmental, Social and Governance (ESG) Investing** means considering and integrating ESG factors into the investment process, rather than eliminating investments based on ESG factors alone. Integrating ESG information can lead to more comprehensive analysis of a company.

**External Portfolio Managers:** means external third-party investment management firms whose investment offerings are accessed by ONE JIB directly or through services provided to a ONE Investment Pool. External Portfolio Managers are agents authorized by ONE JIB in accordance with Part II of the Regulation;

**Investment Policy Statement (IPS):** The investment policy adopted by Council and updated annually determines Whitby's money that it requires immediately (Short-Term Funds) and money that it does not require immediately (Long-Term Funds), and sets out, among other things, Whitby's objectives and risk tolerances.

**Long-Term Funds:** Money not required immediately by Whitby.

**Municipal Client Questionnaire:** A document which shall be completed by the Commissioner, Corporate Services & Treasurer of each participating municipality and which includes information on municipal investments and risk preferences that must be reviewed annually.

**ONE Investment:** A not for profit organization that will serve as an agent of the ONE JIB to operationalize the investment activities of the ONE JIB and provide associated administration.

**ONE Joint Investment Board (ONE JIB):** Established by certain founding municipalities as a municipal services board under section 202 of the Municipal Act as required under Part II of the Regulation, and is the duly appointed Joint Investment Board for Whitby, as constituted from time to time and acting pursuant to the Terms of Reference set out in the ONE JIB Agreement.

**ONE JIB Agreement:** means the agreement effective as of June 1, 2020, entered into in accordance with the requirements of the Regulation, pursuant to which ONE JIB has control and management of Whitby's Long-Term Funds.

**Prudent Investor Standard:** Requires ONE JIB, when investing money under section 418.1 of the Act, to exercise the care, skill, diligence and judgement that a prudent investor would exercise in making such an investment, but does not restrict the securities in which a municipality can invest. The Prudent Investor standard applies to the entire portfolio of Whitby's Long-Term Funds under control of the ONE JIB rather than to individual securities.

**Regulation:** means Ontario Regulation 438/97.

**2. Purpose of Investment Plan**

As required under the Act's Prudent Investor regime, this Investment Plan (Plan) establishes how ONE Joint Investment Board (ONE JIB) will invest The Town of Whitby's (The Town) money that it does not require immediately (Long-Term Funds or MNRI). These Long-Term Funds have been determined to be not immediately required (MNRI) by Whitby after considering cash flow and budget requirements. This Plan complies with Whitby's Investment Policy Statement (IPS) adopted by Council on March 9, 2020 and is based on the information in the Municipal Client Questionnaire dated February 24, 2020 attached as Appendix A. This Plan applies to all investments that are directly controlled and managed by ONE JIB on behalf of Whitby.

At least annually, following Council's review of its IPS, ONE JIB shall review this Plan and update it as needed. This current Investment Plan should be reviewed by March 9, 2021.

**3. Responsibility for Plan**

This Plan is the responsibility of ONE JIB, which has authorized its agent ONE Investment to exercise its administrative investment functions in accordance with the Regulation. ONE JIB oversees ONE Investment staff using procedures, reports and regular audits to ensure compliance with the Act and the Regulation in addition to The Town's IPS and ONE JIB's own investment policies and standards.

This Plan is dependent on clear communication between The Town, ONE JIB and ONE Investment regarding Whitby's needs, which is especially important when investment needs change. To ensure clear communication, ONE Investment employs a Municipal Client Questionnaire as part of its annual review. It is the responsibility of Whitby to ensure that ONE Investment is aware of any needs that are not addressed in the Municipal Client Questionnaire and, as soon as practicable, of any material changes that occur during the year. It is the responsibility of ONE JIB and ONE Investment to provide liquidity to the extent possible, to adjust to changing needs in a timely fashion and to communicate any difficulties in so doing as soon as possible to Whitby. The process for communicating changes in the Municipal Client Questionnaire, IPS and other issues is set out in Appendix B [NTD: Appendix B]. The process for moving funds in/out of ONE Investment is outlined in Appendix E.

**4. Custodian**

Save for Town owned hydro assets, all investments under the control and management of ONE JIB shall be held for safekeeping in the name of Whitby by CIBC Mellon.

**5. Investment Goals and Objectives**

Whitby’s total portfolio includes all of its MNRI. Returns have an impact on municipal revenues, as well as a longer-term impact on future years’ budgets and should, at a minimum, keep pace with inflation over the long run.

Investments may consist of liquid and non-liquid assets depending on future obligations. Expected investment risks and returns are balanced to create outcomes that provide a high probability that Whitby’s investment objectives can be achieved.

MNRI will be invested to generate any or all of the following outcomes:

- a. Funding contingencies, where returns are reinvested with a view to growing principal over the long term for large withdrawals in unpredictable situations;
- b. Creating stable returns, where principal is maintained and a reliable stream of returns may be available for to spend as/if needed; and
- c. Funding target date projects, where Whitby has some definition of an obligation for a specific project at a specific time.

Whitby’s investment objectives for MNRI are broadly categorized as follows:

<b>Reserve Classification</b>	<b>Objective</b>	<b>Risk Tolerance, Liquidity</b>	<b>Investment Horizon</b>
Contingency	Contributions for unexpected events	Higher risk with emphasis on growth, liquid	very long (but readily available as needed)
Stable Return	To generate stable returns to fund recurring needs	Moderate risk with emphasis on stable returns, liquid	long (5+ years)
Target Date	Contributions toward specific projects, mitigate inflation impacts and meet target funding requirements. May also include contributions to asset management reserves	Lower risk, liquid	< 5 years
		Moderate risk with emphasis on stable returns, liquid	5 to 10 years
		Higher risk with emphasis on growth, liquid	Greater than 10 years

The above table summarizes The Town’s investment needs as detailed in the IPS which provides guidance relevant to how the ONE JIB will determine the investment allocations. Additional context from the Municipal Client Questionnaire and dialogue from the Commissioner, Corporate

Services & Treasurer was used to interpret the details in the table above to construct allocations that are reflective of the municipality's current goals, objectives, circumstances and risk tolerance.

While Whitby's reserve and reserve funds require liquidity (individually), collectively the municipality has considerable flexibility that should allow some exposure to less liquid investments as/if needed. This is more relevant for reserve and reserve funds with longer investment horizons. This currently has no impact on the how investments will be selected as all ONE Investment funds are fully liquid investment vehicles. Less liquid investment vehicles may become available through ONE Investment at a later date.

The Town has significant spending needs through 2025, and this large cash outflow will be funded with MRI balances retained by the Town and potentially by drawing down MNRI invested with ONE Investment. In total, during the first 5 years of the investment plan approximately \$48 million is anticipated to be drawn down from MNRI to fund known spending needs. The Investment Plan has contemplated the need for these drawdowns during this time frame. The remaining portion of MNRI, which represents in excess of 50% of the initial portfolio, will be invested for longer term time horizons. Nearer term spending is related to the large planned expenditures on facilities, road infrastructure, parks and fleet and equipment. Significant projects include an estimated \$45M for the Whitby North Sports Complex, \$43M for the Whitby Civic Centre, \$39M for road construction in West Whitby & Brooklin, \$11MM for parks design and development and \$8M for a new financial system/ERP. The Town also anticipates a significant spending need in the 5 to 10 year period related to the residential development and spending on related infrastructure in Brooklin. Ongoing migration to the Town will lead to continued population growth and densification, requiring ongoing spending for expansion of community infrastructure.

## 6. Investment Allocations

### 6.1 Asset Allocations

Asset allocations for each solution are expected to be relatively stable until the next annual review. Any changes to the amounts in each account must be communicated formally as outlined in Appendix B.

The goals, objectives, constraints and circumstances of the municipality are taken into consideration when assigning asset allocations for the municipality via ONE Investment's outcome based approach. These decisions are informed by the requirement to use the Prudent Investor Standard as defined in the Municipal Act. This Standard identifies several key considerations that need to be incorporated in the decision making process, including:

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

The following comments explain how ONE JIB is taking these considerations into account:

- Current economic conditions can be characterized as broadly positive, with modest economic growth, low interest rates and modest inflationary pressures. It would seem

that the global economy is in the later stages of an economic expansion, and there is some potential for deceleration of economic growth going forward and potential for global trade tensions or other macro-economic risks to adversely affect growth.

- Inflationary pressures in Canada remain relatively benign and it is reasonable to expect that inflation as measured by the Consumer Price Index (CPI) will remain broadly in the range of 2% per annum. However, to protect the purchasing power of existing monies invested with the ONE JIB returns will also need to consider the change in Non-Residential Construction Price Index (a version of the inflation index that is most relevant for the municipality). Allocations to equity investments in Whitby’s plan should help to achieve this goal. Achieving such results will require Whitby to achieve higher returns than seem currently available within fixed income investment opportunities. As such, a meaningful allocation to equities will be appropriate to achieve this goal.
- Investment allocations will be diversified to help reduce the volatility of the investment portfolio and offer suitable risk return characteristics for Whitby.
- Return assumptions have been provided in section 6.6. These return assumptions were based on allocations that the Investment Manager believes to be appropriate for Whitby. As the portfolios will be broadly diversified, these potential returns are expected to be achieved while still maintaining a risk profile that is appropriate for the municipality.

**6.2 Account Structure**

The amounts of Money Not Required Immediately, as disclosed in Whitby’s Municipal Client Questionnaire dated February 24, 2020 have been allocated into investment outcome categories to provide guidance to the ONE JIB when investing these monies.

In summary, the total allocation to each outcome is:

<b>Outcome</b>	<b>Allocation</b>
Contingencies	\$ 16,849,175
Stable returns	4,440,760
Target Date 2 to 3 years	247,472
Target Date 4 to 5 years	47,749,872
Target Date June 30, 2025	26,692,047
Target Date June 30, 2030	10,625,164
Target Date June 30, 2035	<u>1,350,442</u>
<b>Total MNRI</b>	<b>\$ 107,954,933</b>

These outcomes will be generated using ONE Investment Pools and products to create solutions via specific asset allocations. Descriptions of the ONE Investment Pools and the asset allocations for each solution are in Appendix C and D.

The process of moving from the current investments to the target weights, both noted below, is outlined in the Transition Plan in Appendix E.

**6.3 Contingency Solution**

Whitby has identified a need to generate long-term growth for funds within the Contingency Solution that may be drawn upon during times of unexpected need. Emphasis on the preservation of purchasing power / inflation considerations is a key consideration and therefore growth in value of their investments is emphasized. Considering the risk profile of the Town, it is appropriate for Whitby’s Contingency outcome allocations to be invested in the ‘moderate risk’ profile outcome at this time. (further detail about the contingency outcome allocations is described in Appendix C). As the monies in the nearer term target date outcomes described in section 6.5 are drawn down over time, the risk profile of the overall portfolio will drift higher. This may give reason to revisit the risk profile assigned to the Contingency Solution at a later date. These funds will be invested based on the following asset mix and will be rebalanced to ensure a consistent risk profile. All income will be reinvested to facilitate continued long-term growth in the assets until they are needed.

<b>Asset class</b>	<b>% Weight</b>			<b>Benchmark</b>
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	
ONE Unconstrained Bond Fund	40	50	60	Index A
ONE Canadian Gov’t Bond Fund	0	10	15	Index B
ONE Canadian Equity Fund	0	5	10	Index C
ONE Global Equity Fund	25	35	45	Index D
Total	100			

Benchmark: 50% x Index A + 10% x Index B + 5% x Index C + 35% Index D  
 Contingency Solution returns and risk are discussed in section 6.6.

**6.4 Stable Return Solution**

Whitby has identified a need to generate a stable return on certain funds while also growing principal sufficiently to offset inflation. The Stable Return Solution allocation of approximately \$4M is designed to generate income that could be used to fund regular spending needs, and all income generated is intended to be reinvested. Based on the expressed risk tolerances and current circumstances of the municipality, the Investment Manager has assigned the ‘low risk’ Stable Return Solution (which has a relatively low allocation to equities). Details of all asset mix ranges are available in Appendix C. Stable return funds will be invested based on the following asset mix and will be rebalanced to ensure a consistent risk profile.

<b>Asset class</b>	<b>% Weight</b>			<b>Benchmark</b>
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	
ONE Unconstrained Bond Fund	50	60	70	Index A
ONE Canadian Gov’t Bond Fund	15	20	25	Index B
ONE Canadian Equity Fund	0	0	0	Index C
ONE Global Equity Fund	10	15	20	Index D
Total	100			

Benchmark: 60% x Index A + 20% x Index B + 0% Index C + 15% x Index D  
 Stable Return Solution returns and risk are discussed in section 6.6.



**6.5 Target Date Solution**

Target date outcomes will be managed with the objective of providing for the return of principal and income and capital gains at a target date in the future. All income will be reinvested to ensure growth of the investments to meet the target date outcome.

Most of Whitby’s MNRI is intended to be invested into target date solutions. The most prominent use of funds in coming years will be to finance the infrastructure for Facility, Roads and Related Park, Fleet and Equipment and Information Technology assets. In excess of \$70 million will be spent on these initiatives through 2025, with additional spending needs anticipated in for several years thereafter. These projects will be funded with a combination of monies from MRI and MNRI. Target date allocations are designed to provide liquidity of approximately \$48M to finance anticipated expenditures funded within the next 5 years. Whitby’s longer term planning includes expended spending to accommodate population growth. As the Town continues to expand and residential development intensifies, additional spending will be required to extend and expand infrastructure. Brooklin, in the north end of the Town will be a focal point as development ramps up in the next 5 to 10 years. However, as some of these large expected funding needs are shorter term in nature, the Commissioner, Corporate Services & Treasurer will need to supplement the balances retained in MRI with funds from MNRI to finance some of the near term spending requirements. This means that MNRI will be impacted by large spending needs near term as balances are drawn down for capital projects. The remaining monies will be invested primarily for longer-term growth. The monies invested in Target Date Solutions will be split into several separate target date allocations which collectively are reflective of the need for growth while being reflective of the time horizon on which the funds are required.

Approximately \$247,000 will be allocated into the shortest date solution, which is intended to provide some liquidity for the projects through 2022. The 2-3 Year Target Date Solution is invested such that the capital is not subject to volatility in the financial markets, and hence there is no risk that drawing down these funds would realize capital gains/losses. Income is earned on the balances in this solution based on very short-term interest rates. It is anticipated that the entire balance in this target date solution will be drawn down in coming years. Investment allocations for this solution are as follows:

**2 – 3 Year Target Date Solution**

Asset class	% Weight			Benchmark
	Minimum	Target	Maximum	
ONE High Interest Savings Account	0	100	100	Index A
Total		100		

Benchmark: 100% x Index A.

2-3 Year Target Date Solution returns and risk are discussed in section 6.6.

The Town has other known spending needs within the next 5 years which will need to be funded. Approximately \$ 48 million will be invested in the 4-5 Year Target Date Solution to help fund these needs. Due to the relatively short term time horizon, the monies invested in this target date solution will attempt to mitigate the potential for capital loss by investing only in fixed income investments. Equity investments are not appropriate for this target date solution due to the potential for higher volatility. Equities are included only in target date solutions with a time horizon in excess of 5 years. It is anticipated the entire balance will be drawn down in coming years.

**4-5 Year Target Date Solution**

Asset class	Minimum	% Weight		Benchmark
		Target	Maximum	
ONE Global Unconstrained Bond Fund	35	40	45	Index A
ONE Canadian Corporate Bond Fund	35	40	45	Index B
ONE Canadian Government Bond Fund	15	20	25	Index C
Total		100		

Benchmark: 45% x Index A + 40% x Index B + 20% x Index C.  
 4-5 Year Target Date Solution returns and risk are discussed in section 6.6.

Approximately 25%, or \$26.7 M, of the MNRI will be invested in the 2025 Target Date Solution, which is appropriate for investments with an investment horizon between 6 and 10 years. For this and other longer time horizon target date solutions the funds will be invested in building block funds that follow a glide-path of progressively lower risk over time. The glide path is explained in Appendix D. Amounts will be allocated to two target date outcomes that reflect the intended time horizon and risk profile that for the other reserve accounts where near term liquidity is less relevant.

**Target Date June 30 2025 Solution**

Asset class	Minimum	% Weight		Benchmark
		Target	Maximum	
ONE Global Unconstrained Bond Fund	35	45	55	Index A
ONE Canadian Corporate Bond Fund	25	30	35	Index F
ONE Canadian Equity Fund	0	5	10	Index C
ONE Global Equity Fund	15	20	25	Index D
Total		100		

Benchmark: 45% x Index A + 30% x Index F + 5% x Index C + 20% x Index D  
 Target Date June 30 2025 Solution returns and risk are discussed in section 6.6.

Approximately 9% of MNRI will be invested in the 2030 Target Date Solution for investments with an investment horizon of 11- 15 years. This target date solution has an overall allocation to equity of about 35%, which should provide an opportunity for the funds invested to grow in value. As a these funds will primarily be used for construction/development projects in the future this growth is highly relevant as it will help preserve the purchasing power for monies invested. The need for investment returns to at least match inflation is a key consideration for monies allocated to these longer dated target date solutions (2030 and 2035). Based on discussions with the Commissioner, Corporate Services & Treasurer and input from the Municipal Client Questionnaire, allocations to the 2030 target date outcome for the Town’s reserve and reserve funds are lower due to uncertainties related to Bill 108; specifically the change from Development Charges to Community Benefit Charges.

***Target Date June 30 2030 Solution***

<b>Asset class</b>	<b>% Weight</b>			<b>Benchmark</b>
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	
ONE Global Unconstrained Bond Fund	35	45	55	Index A
ONE Canadian Corporate Bond Fund	15	20	25	Index F
ONE Canadian Equity Fund	0	5	10	Index C
ONE Global Equity Fund	25	30	35	Index D
Total		100		

Benchmark: 45% x Index A + 20% x Index F + 5% x Index C + 30% x Index D  
 Target Date June 30 2030 Solution returns and risk are discussed in section 6.6.

At this time, \$1.4M in MNRI will be invested in the 2035 Target Date Solution which is appropriate for reserve and reserve funds with longer time horizons. The Municipality's cash flow forecasting is very detailed for the next 10 year period, but planning beyond this window is not as well defined. The amounts mapped to this very long time horizon target date solution are based on an understanding of the long-term nature of certain MNRI balances rather than reflective of known spending on specific projects. Based on discussions with the Commissioner, Corporate Services & Treasurer and input from the Municipal Client Questionnaire, relatively small allocations to the 2035 target date outcome were identified as an appropriate outcome given the uncertainty of the Town's reserve and reserve fund balances beyond the next 10 years.

***Target Date June 30 2035 Solution***

<b>Asset class</b>	<b>% Weight</b>			<b>Benchmark</b>
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	
ONE Global Unconstrained Bond Fund	35	45	55	Index A
ONE Canadian Corporate Bond Fund	5	10	15	Index F
ONE Canadian Equity Fund	0	5	10	Index C
ONE Global Equity Fund	35	40	45	Index D
Total		100		

Benchmark: 45% x Index A + 20% x Index F + 5% x Index C + 40% x Index D  
 Target Date June 30 2035 Solution returns and risk are discussed in section 6.6.

**6.6 Projected Investment Returns**

The prospects for improved returns with acceptable levels of investment risks are a key consideration for any municipality investing in the Prudent Investor regime. The table below provides a projection of the annual returns of the investment outcomes (and consolidated outcomes). These estimates were derived from an analysis of long-term returns based on conservative capital market assumptions and economic forecasts. These return details are presented for information purposes only and actual investment outcomes may differ materially from those shown below:

<b>Recommended Portfolio (17.3% Equities)</b>		
<b>Outcome</b>	<b>Weight</b>	<b>Expected Return</b>
<b>Contingency (Medium)</b>	15.6%	4.4%
<b>Stability (Medium)</b>	4.1%	3.8%
<b>Target Date 2-3</b>	0.2%	2.2%
<b>Target Date 4-5</b>	44.2%	2.7%
<b>Target Date 2025</b>	24.7%	3.8%
<b>Target Date 2030</b>	9.8%	4.2%
<b>Target Date 2035</b>	1.3%	4.6%
<b>TOTAL</b>	<b>100.0%</b>	<b>3.5%</b>

The return profile of MNRI projected above is biased downward due to the large balances that are earmarked to be used to fund capital projects over the next 5 years, which limits the ability of the JIB to invest these monies for long term growth. As the near term Target Date balances are drawn down, the overall investment time horizon of MNRI balances will increase and hence a higher rate of return will likely be achieved as the portfolio transitions to a more growth oriented portfolio. Note that the Town recognizes unrealized gains/losses in investment portfolios on an annual basis, so returns or losses will directly impact the municipal budget.

Other investment allocations were evaluated for use in this Investment Plan which are presented below for comparative purposes. Reference to these alternate allocations will appear only in the Draft Investment Plan and any reference to them will be omitted from the final Investment Plan to avoid confusion. These are provided for discussion purposes only.

<b>Low Risk Portfolio (15.3% Equities)</b>			<b>High Risk Portfolio (20.4% Equities)</b>		
<b>Outcome</b>	<b>Weight</b>	<b>Expected Return</b>	<b>Outcome</b>	<b>Weight</b>	<b>Expected Return</b>
<b>Contingency (low)</b>	15.6%	4.2%	<b>Contingency (High)</b>	15.6%	5.0%
<b>Stability (low)</b>	4.1%	3.4%	<b>Stability (Medium)</b>	4.1%	3.8%
<b>Target Date 2-3</b>	0.2%	2.2%	<b>Target Date 2-3</b>	0.2%	2.2%
<b>Target Date 4-5</b>	44.2%	2.7%	<b>Target Date 4-5</b>	44.2%	2.7%
<b>Target Date 2025</b>	24.7%	3.8%	<b>Target Date 2025</b>	24.7%	3.8%
<b>Target Date 2030</b>	9.8%	4.2%	<b>Target Date 2030</b>	9.8%	4.2%
<b>Target Date 2035</b>	1.3%	4.6%	<b>Target Date 2035</b>	1.3%	4.6%
<b>TOTAL</b>	<b>100.0%</b>	<b>3.4%</b>	<b>TOTAL</b>	<b>100.0%</b>	<b>3.6%</b>

## **6.7 Other Accounts**

[this section does not apply]

## **7. Constraints**

Besides those listed here, there are also constraints specific to each externally managed portfolio that are available on the ONE Investment website.

### **7.1 Environmental, Social and Governance (ESG) Investing**

ONE JIB supports ESG investing and incorporates those principles into its investment decision-making through its due diligence processes when choosing External Portfolio Managers. External Portfolio Managers are assessed for their ESG policies. ONE JIB recognizes the practical difficulties of negative screening, whereby securities are excluded based on the nature of their business. ONE JIB's preference is to integrate social responsibility into the investment process by looking holistically at potential investments and influencing companies to change their behaviour, where appropriate. ONE JIB's approach will necessarily vary by External Portfolio Manager based on a number of factors, including the degree of control exercised by ONE JIB, contractual restrictions and the nature of the investment. Accommodating all requests for specific ESG considerations will not be possible due to availability, costs or other factors.

### **7.2 Securities Lending**

Unitized vehicles that are controlled by an External Portfolio Manager may engage in securities lending if their policies permit such an action. ONE JIB intends to consider securities lending and may introduce a formalized policy to allow securities lending.

### **7.3 Derivatives**

Derivatives may be used for the investment of Long-Term Funds where they are fully covered by a backing asset. Examples of such uses of derivatives include, but are not necessarily limited to: the ability to replicate investments otherwise permitted in the Plan and in the IPS, to equitize cash, to hedge currency exposures, to manage risk exposures, to change portfolio duration or to engage in covered call strategies. Derivatives may not be used for speculative purposes or to increase the risk of the portfolio.

## **8. External Portfolio Managers**

ONE Investment uses External Portfolio Managers to create the portfolios and Funds (the ONE Investment Pools) used as building blocks in the asset allocation for each outcome. These External Portfolio Managers are chosen and monitored based on a due diligence process with oversight by ONE JIB and One Investment and input from an external consultant knowledgeable in the asset classes and in the range of investment options and portfolio managers suitable for institutional investors.

## **9. Rebalancing**

Each account's asset mix will be monitored on a periodic basis by ONE Investment's management and staff. Should the asset mixes deviate outside the minimum or maximum weights noted in

appendix C, the account will be rebalanced as soon as practicable to bring it within the minimum/maximum range. Given variations in market liquidity, transactions are to be completed as soon as reasonably viable, taking into account the investment objectives. Cash inflows / outflows are used to rebalance as much as possible; if they are insufficient, investments will be sold in a commercially reasonable manner and reallocated as required.

ONE Investment will rebalance all accounts as close as practicable back to target weights twice annually based on a fixed time schedule. ONE JIB has established rebalance dates of April 15 and October 15. Accounts that are within a 2% threshold of the intended targets would not need to be rebalanced as part of this periodic rebalancing process.

**10. Accommodating Cash flow Needs**

This Investment Plan is intended to be dynamic and responsive to changing needs of Whitby. Once informed of changing needs at Whitby by the Commissioner, Corporate Services & Treasurer or designated staff, ONE JIB may need to revise allocations, deploy incoming monies or sell fund units accordingly. Additionally, income from investments will be automatically reinvested into the investment outcomes where appropriate and cash flow needs of Whitby are expected to be financed with the sale of fund units. Any fee discounts that apply for Whitby are intended to be reinvested into the Stability Outcome or as otherwise directed by the Commissioner, Corporate Services & Treasurer.

**11. Non-Liquid Assets**

**11.1 Legacy Investments / Strategic Investments**

There are certain investments made by Whitby that have a strategic purpose beyond solely generating investment returns. These investments often involve provision of services within the community or may have resulted from legacy assets of the municipality. While technically these assets are part of the responsibility of ONE JIB, ONE JIB will not be exercising discretion in the management of these investments. While the value of these assets may count towards the AUM thresholds as stipulated in appropriate legislation governing the Prudent Investor regime, the JIB will not exercise control of such investments. The Commissioner, Corporate Services & Treasurer has expressed a desire to be actively involved with the Hydro investments (described below) for which the JIB is supportive. These investments will remain under the control and custody of the municipality.

<b>Investment in Local Distribution Company.</b>	
Hydro Shares	\$ 53,261,000

**11.2 Transitional Investments**

MNRI that Whitby will transfer to the JIB will be funded out of available cash and through liquidation of the ONE Investment legal list portfolios. Principal Protected Notes valued at \$6M will be included as part of their contribution to the ONE JIB.

The transition of monies into MNRI will involve the sale of some or all of ONE Investment portfolios. As these are highly liquid investment vehicles monies can be made available to fund the transfer of MNRI to the JIB within a few days.

**12. Comments by Investment Manager**

Certain qualitative factors were considered in assigning the investment allocations. Whitby's reserve and reserve fund balances over the next few years will be impacted by ongoing expenditures related to the Whitby North Sports Complex, Whitby Civic Centre, road construction in West Whitby & Brooklin, parks, new financial system/ERP and related activities. Whitby's MNRI is expected to be drawn down significantly through 2025 and periodically throughout the next 10 year period to accommodate a 40% increase in the Town's population by 2032. The Town appears to have strong cash flow to fund future needs and large balances of MRI to address recurring operating needs and provide some flexibility to finance unexpected needs. This strong financial footing should allow the MNRI to be invested with a relatively long time horizon and assume a reasonable amount of investment risk. This offers the municipality flexibility to invest monies for the long term, but as all investments are fully liquid, access to the funds will be retained for any unforeseen circumstances.

One of the investment objectives for Whitby is to achieve growth for the monies invested, with above-inflation returns. Due to the longer term time horizon for some of the municipality's reserve and reserve funds and the need for returns to exceed inflation, a meaningful allocation to equities is appropriate. In the short to medium term there is limited need for recurring income from the investment portfolios and all income generated is intended to be reinvested.

The municipality has cash flow flexibility in coming years as approximately 50% of MNRI will not need to be utilized in the next 5 years. Additionally, the objective to achieve growth for the monies invested, with above-inflation returns was recognized as an important goal for the municipality. This helped influence the level of risk assigned in the allocations and was factored into the size of allocations made into each target date solution. Aside for the funding for the specified near term needs, the municipality has the flexibility to assume a moderate risk profile for the consolidated portfolio, and investment allocations are also influenced by the relatively long time horizon associated with the MNRI. The investment manager has exercised discretion when choosing ONE Investment Outcomes to use in the portfolio and the overall risk profile of the portfolio was considered the most important consideration. At the time of writing, the recommended overall exposure to equity within the portfolios was targeted at 17.3%, effectively doubling the Town's overall exposure to equity investments vs allocations within legal list regime. This level of diversified equity exposure appropriate for the municipality.

Signed by:

\_\_\_\_\_  
Keith Taylor, Investment Manager  
ONE Investment

\_\_\_\_\_  
[Name], Chair  
ONE Investment Joint Investment Board



**Appendix A: Most Recent Municipal Client Questionnaire**

Please refer to Appendix 2 of Council Report CS 01-20 Investment Policy Statement and Transition to Prudent Investor Regime via ONE Joint Investment Board





**Appendix B: Process for Communicating Changes in Investment Needs**

For effective investment management it is imperative that material changes in Whitby's investment needs be communicated to ONE JIB on a timely basis. These include changes in:

- Risk tolerance;
- The IPS;
- Timeframes and/or estimated amounts for financial obligations, including sooner-than-expected amounts and longer timeframes;
- Desired end use of funds, especially if that is likely to affect the investment approach
- Changes in authorized personnel responsible for investments

These changes must be communicated in writing using the Municipal Client Questionnaire on the ONE Investment website to [name] at [email address]. They cannot be considered received without a formal return email acknowledgement from ONE Investment.



**Appendix C: Description of ONE Investment Pools, Products and Solutions**

Following is a list of the ONE Investment Pools and products used to achieve target asset allocations. For more information on how these ONE Investment Pools and solutions are managed, please see further detail on the ONE Investment website.

<b>ONE Investment Pool or Product</b>	<b>External Portfolio Manager</b>	<b>Mandate</b>	<b>Asset Allocation</b>
<b>High Interest Savings (HISA)</b>	CIBC Commercial Banking	Savings account	Savings account
<b>ONE Canadian Government Bond Fund</b>	MFS	Bonds of < 5 years' maturity that meet the Legal List requirements	100% short-term government bonds
<b>ONE Canadian Corporate Bond Fund</b>	MFS	Canadian Bond exposure inclusive of corporate credit	Canadian Fixed Income
<b>ONE Global Unconstrained Bond Fund</b>	[Not Disclosed]	Global Unconstrained Fixed Income	Global Fixed Income
<b>ONE Global Equity Fund</b>	[Not Disclosed]	Global Equities inclusive of Emerging Markets exposure	Global Equities
<b>ONE Canadian Equity Fund</b>	Guardian	Canadian Equity with conservative investment approach	Canadian Equities



**Solutions**

The asset allocations for ONE Investment’s solutions are the following. Rebalancing will be managed for these asset allocations as explained in the Plan.

**Contingency Solution**

	Default			Duration (Years)	Moderate Risk % Weight			Higher Risk % Weight		
	Lower Risk % Weight				Min	Target	Max	Min	Target	Max
	Min	Target	Max							
ONE Global Unconstrained Bond Fund	50	60	70	2.0 – 6.0	40	50	60	25	35	45
ONE Canadian Government Bond Fund	0	10	15	1.6 – 3.6	0	10	15	0	5	10
ONE Canadian Corporate Bond Fund				3.0 – 6.9						
<b>Total fixed income</b>	<b>66</b>	<b>70</b>	<b>74</b>		<b>54.5</b>	<b>60</b>	<b>64.5</b>	<b>35</b>	<b>40</b>	<b>45</b>
ONE Canadian Equity Fund	0	5	10		0	5	10	5	10	15
ONE Global Equity Fund	15	25	35		25	35	45	40	50	60
<b>Total equity</b>	<b>26</b>	<b>30</b>	<b>34</b>		<b>35.5</b>	<b>40</b>	<b>45.5</b>	<b>55</b>	<b>60</b>	<b>65</b>

**Stable Return Solution**

	Default			Duration (Years)	Low Risk % Weight		
	Lowest Risk % Weight				Min	Target	Max
	Min	Target	Max				
ONE Global Unconstrained Bond Fund	50	60	70	2.0 – 6.0	50	60	70
ONE Canadian Government Bond Fund	25	30	35	1.6 – 3.6	15	20	25
ONE Canadian Corporate Bond Fund				3.0 – 6.9			
<b>Total fixed income</b>	<b>88</b>	<b>90</b>	<b>92</b>		<b>76.5</b>	<b>80</b>	<b>83.5</b>
ONE Canadian Equity Fund	0	0	0		0	5	10
ONE Global Equity Fund	8	10	12		10	15	20
<b>Total equity</b>	<b>8</b>	<b>10</b>	<b>12</b>		<b>16.5</b>	<b>20</b>	<b>23.5</b>

Asset allocations for target date solutions are in Appendix D.



**Appendix D: Target Date Solutions' Glide-path Asset Allocations**

Investments with target dates will be managed to reduce risk as the end date approaches. This is known as following a glide-path. Below is the asset allocation glide-path that will be followed with a view to generating asset growth for long term holdings and shifting gradually to safety of principal for shorter term holdings.

	Term to Target Date in Years																			
	2 to 3			4 to 5			6 to 10			11 to 15			16 to 20			> 20				
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max		
ONE High Interest Savings Account	0	100	100																	
ONE Global Unconstrained Bond Fund				35	40	45	35	45	55	35	45	55	35	45	55	30	40	50		
ONE Canadian Government Bond Fund	0	0	100	15	20	25														
ONE Canadian Corporate Bond Fund				35	40	45	25	30	35	15	20	25	5	10	15	0	5	10		
<b>Total Fixed Income</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>90</b>	<b>100</b>	<b>100</b>	<b>71.25</b>	<b>75</b>	<b>78.75</b>	<b>60.75</b>	<b>65</b>	<b>69.25</b>	<b>50.25</b>	<b>55</b>	<b>59.75</b>	<b>40</b>	<b>45</b>	<b>50</b>		
ONE Canadian Equity Fund				0	0	0	0	5	10	0	5	10	0	5	10	0	5	10		
ONE Global Equity Fund				0	0	0	15	20	25	25	30	35	35	40	45	40	50	60		
<b>Total Equity</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>21.25</b>	<b>25</b>	<b>28.75</b>	<b>30.75</b>	<b>35</b>	<b>39.25</b>	<b>40.25</b>	<b>45</b>	<b>49.75</b>	<b>50</b>	<b>55</b>	<b>60</b>					
Expected return	2.2%			2.7%			3.8%			4.2%			4.6%			4.9%				



**Appendix E: Transition Plan**

At the writing of this Plan (02/12/2020), Whitby’s holdings in ONE Investment legal list products were the following.

<b>Account</b>	<b>Current Holdings</b>	<b>Amount</b>
Account 1	ONE Investment HISA	\$ 61,915,658
Account 2	ONE Equity Portfolio	10,303,376
		<u>\$ 72,219,334</u>

The objective is to move from existing investment to the current allocations recommended in this Investment Plan (as noted below) as quickly as practicable. The Town will liquidate the securities above and the proceeds will be contributed to the JIB. The settlement cycle on ONE Investment portfolios & HISA is very short so no special considerations will need to accommodate the transition of ONE Investment legal list holdings to the JIB investments.

Below is a summary of the intended ONE Investment allocations under prudent investor. The town will use

<b>Account</b>	<b>Target Holdings</b>	<b>Amount</b>
Account A: Contingency	ONE Investment Contingency Solution	\$ 16,849,175
Account B: Stable Return	ONE Investment Stable Return Solution	4,440,760
Account C: Target Date 1	ONE Investment 2-3 Year Target Date	247,472
Account D: Target Date 2	ONE Investment 4-5 Year Target Date	47,479,872
Account E: Target Date 3	ONE Investment 2025 Target Date Solution	26,692,047
Account F: Target Date 4	ONE Investment 2030 Target Date Solution	10,625,164
Account G Target Date 5	ONE Investment 2035 Target Date Solution	1,350,443
		<u>\$ 107,954,933</u>

Target holding weights will be maintained within the asset allocation bands identified in section 6 of this document until instructed otherwise. The purchase of these funds will be financed by the \$72 million from the liquidation of ONE Investment legal list products with the balance being funded by a cash contribution from the Town

The Town also holds \$ 6 million of principal protected notes that will be contributed to the JIB in-kind, representing part of their MNRI. As these securities mature over time the proceeds will be invested into ONE Investment Outcomes.

<b>Security</b>	<b>Maturity</b>	<b>Amount</b>
Scotiabank 5 Year PPN	January 3, 2024	\$ 1,000,000
Scotiabank 7 Year PPN	January 18, 2027	5,000,000
		<u>\$ 6,000,000</u>

\_\_\_\_\_  
Date

\_\_\_\_\_  
Commissioner, Corporate Services  
& Treasurer

\_\_\_\_\_  
Keith Taylor, Investment Manager

ONE Investment

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**Appendix F: Transferring Funds**

Document here how funds will be transferred in/out of ONE JIB and into what municipal short-term account they will come from/go to.

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**Appendix G: ONE JIB's Investment Approach**

**Investment Approach**

**Investment Approach**

1. Our Investment solutions are designed to address 3 key investment outcomes. Each one of these outcomes will have a unique asset mix and investment objective. These are intended to be used instead of having an asset mix defined in the IPS.
  - o Contingency: needs that function like insurance, entail unpredictable, infrequent bullet payments. Clients may have target sizes for these reserves, so that when the investments grow to that size, either funds can be diverted out or contributions can be reduced. For these reasons, a growth profile is preferred.
  - o Stable Return: these are used to fund ongoing capital investments and are needed to generate a consistent reliable return stream. May be needed at different risk levels and tolerances for dipping into principal.
  - o Target Date Projects: these are savings vehicles for projects with predictable (but perhaps not perfectly predictable) target dates where the risk of meeting the required payment is clearly defined. Includes sinking fund debentures and serial bonds.
  - o As appropriate the JIB can create custom asset mixes to accommodate specific municipal needs, but it is anticipated that the Contingency, Stable Return and Target Date outcomes will be sufficient for most municipalities.
2. ONE Investment will use a series of building block asset class funds managed externally using off-the-shelf pooled funds as much as possible. This approach facilitates the following:
  - a. Managers can be added and subtracted in an asset class easily at any point in time;
  - b. New asset classes can be added as new building block funds;
  - c. Risk profiles and solutions can be added/changed without creating new funds.
  - d. The Joint Investment Board will be able to tell easily whether clients are invested in appropriate risk exposures.

**Capital Markets Beliefs**

**Asset Allocation**

1. Theoretical underpinnings:
  - a. Modern Portfolio theory provides a useful conceptual construct that demonstrates the value of diversification for investment portfolios. Diversification is a key feature that helps reduce risk in investor portfolios.
  - b. We believe in Prudent Investing as a process.
2. Our investment objectives will vary with each need we are trying to meet. The following issues are taken into account for each need and their weights will vary depending on the target outcome and risk tolerance:
  - a. Safety of principal
  - b. Adequate liquidity
  - c. Diversification by geographic exposure, asset class, sector, issuer, credit quality and term to maturity.
  - d. Capital appreciation.

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e. Income generation

3. Long-term asset allocation is the most important portfolio component driving risk and return. Higher returns generally entail taking more risk. Over most long-term periods, equities have outperformed fixed income. Given their higher risk profile, equities should outperform fixed income over the longer term. In setting asset allocation, consideration is given to macro risks, such as inflation, economic growth and interest rates.
4. Tactical Asset Allocation (market timing) at the total portfolio level is unlikely to consistently add value. In some extreme cases, it may be useful.
5. For clients who present us with a substantial sum for investing, we do not believe that dollar cost averaging into stock markets will generate optimal returns. Because stock markets tend to go up over time dollar cost averaging represents a delay in entering markets and receiving returns. However, some clients may view dollar cost averaging as a way of managing timing risk and we will not oppose those who do.

**Asset Classes and Asset Class Strategies**

6. ONE Investment clients are non-taxable and are therefore indifferent as to the source of return (interest, dividends, capital gains) except where covenants require use of dividends only. However, as municipalities are required to balance their budgets annually and because they do not recognize unrealized investment gains, they may occasionally have to sell holdings that have risen in value to generate “income” for fiscal purposes. There may be less opportunity to plan the recognition of gains/losses when investing in our Prudent Investor offerings.
7. Our range of client offerings is expected to expand over time, starting with initial offerings in the public equity and public and private debt markets. Other asset classes, including possibility real and private assets, will be considered in due course.
8. Cash and cash equivalents can be used to manage risk and enhance liquidity. Staying in cash for long periods to avoid risk may not be a prudent strategy as it entails an opportunity cost.
9. The use of fixed income during periods of rising interest rates may be appropriate for the following reasons:
  - a. To manage volatility;
  - b. To match maturities to cash needs;
  - c. To generate income; and,
  - d. Provide diversification benefits.
10. For fixed income and target return investing, it is not prudent to set a target return or yield and then find an instrument or portfolio that will generate that yield. It is preferable to define a risk level and accept the return or yield associated with it.
11. We are comfortable holding low quality securities in mandates if their weights are constrained. Such allocations can offer correlation benefits that can improve overall portfolio risk metrics while potentially increasing overall portfolio returns.

12. Clients prefer portfolio stability and are quite sensitive to losses. Investment recommendations are not solely focused on return potential but also consider risk. Historical drawdowns experience is a highly relevant consideration when selecting external investment managers.
13. We expect our clients prefer absolute to relative returns. Outperforming a given benchmark is of little consolation if the client is losing money.
14. For benchmark-relative investing, active management makes sense if the manager can add net value (after fees) on a risk-adjusted basis.
15. Derivatives will not be used for speculative purposes. They may be used to manage risk or to replicate specific asset classes, but only where they are fully covered by a backing asset, e.g., as for currency hedging or covered call strategies.
16. Some exposure to foreign currencies may be desirable to improve diversification and potentially enhance returns. Therefore, it shall not be a violation if global mandates are unhedged, in whole or in part, where the diversification benefits embedded in the currency exposure are considered to be beneficial or desirable by ONE JIB. While the ONE JIB does not intend to implement a currency hedging strategy directly, the external portfolio managers hired to manage the funds may use currency hedging as part of their investment strategy.

### **Investment Managers**

17. Success with active mandates is more likely with strong conviction and less constrained mandates.
18. Considerations included in evaluating managers:
  - Performance
  - Corporate changes
  - Service levels
  - Adherence to portfolio parameters and stated philosophies
  - Appropriate benchmarks
  - Insights and research capabilities
  - Internal controls and operational processes
  - Comprehensive investment management process
  - Risk management
  - Depth of management team
- Cost is an important consideration when choosing a strategy or investment manager, but not in isolation: we will consider value for money in decision-making. We will aim for competitive costs, including tiered pricing. We may consider a performance-based fee structure where the base is equivalent to a passive fee and the bonus is paid in accordance with performance delivered net of fees above the benchmark.

### **Other**

19. Securities lending is permitted by legislation for Legal List investors. For Prudent Investors, we require minimum collateral of 102% with guidelines to be specified later.
20. Borrowing, including shorting, is not allowed. This does not include mortgages on real estate, which we will address when we review the possibility of investing in that asset class.
21. The ONE JIB supports ESG investing and incorporates those principles into its investment decision-making through its due diligence processes when choosing investment managers. Investment managers are assessed for their ESG policies. ONE JIB does not necessarily endorse sole use of negative screening, whereby securities are excluded based on the nature of their business. ONE JIB's preference is to integrate social responsibility into the investment process by looking holistically at potential investments and influencing companies to change their behaviour, where appropriate. ONE JIB's approach will necessarily vary by manager based on a number of factors, including the degree of control exercised by the ONE JIB, contractual restrictions and the nature of the investment. Accommodating all requests for specific ESG considerations may not be possible either due to availability or to costs. We may be able to provide client reporting on this subject. Future offerings may include more specific responsible offerings.