



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer and
Colin Macdonald, Manager of Investments
Date: June 23, 2020
Re: Investment Report and Investment Plan – Town of Bracebridge
Report: 20-015

1. RECOMMENDATIONS

It is recommended that:

1. The Board approve Bracebridge's Investment Plan (Attachment 1)
2. The Chief Investment Officer notify the Board of any in-year changes to Bracebridge's Investment Policy Statement and any related implications for the Investment Plan
3. The Chief Investment Officer review the Investment Plan in Q1 2021 and present a revised Investment Plan for approval by Q2 2021
4. The Chief Investment Officer develop a performance report for Bracebridge Council for the Board's consideration by Q1 2021

2. SUMMARY

Bracebridge has agreed to be a Founding Municipality in the creation of the ONE Joint Investment Board (ONE JIB). As part of the process under the applicable provincial regulation, the Board must develop and approve an Investment Plan for the Town of Bracebridge.

Key Points:

- Bracebridge will initially allocate \$5.6 million to the Prudent Investor Standard
- The Town is expecting to be able to contribute an additional \$500,000 to \$1 million annually for the next ten years
- Bracebridge does not anticipate any withdrawals during the next 10 years
- Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 5.1%.

- Bracebridge's Investment Policy Statement (IPS) and Municipal Client Questionnaire (MCQ) were presented and received by the ONE JIB at its May 20, 2020 meeting. Details can be found in ONE JIB Report #20-011 -Investment Outcomes - Appendix 3.
- The Investment Plan includes a quick transition of funds to ONE JIB, as Bracebridge's contribution is mostly invested in the ONE Legal List Investment Program

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

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE Canadian Equity Fund	1,136,250	20.3
ONE Global Equity Fund	2,651,250	47.3
ONE Canadian Government Bond Fund	271,875	4.9
ONE Canadian Corporate Bond Fund	271,875	4.9
ONE Global Bond Fund	1,268,750	22.7
Total	5,600,000	100.0

Locked-In Investments	Estimated Value (\$)
Lakeland Holdings Ltd. (LDC)	29,684,154

3. BACKGROUND

Council has approved the application of the Prudent Investor Standard to a portion of Bracebridge's investments

The Town's staff have worked with ONE staff and other Founding Municipalities to prepare the documentation and obtain the approvals needed to establish the ONE JIB. This included completing the Municipal Client Questionnaire and developing an Investment Policy Statement.

Council considered the transition to the Prudent Investor Standard on three occasions. On June 12, 2019, Council approved further due diligence to determine the best approach to move to the Prudent Investor Standard, including participation as a Founding Municipality in the establishment of the ONE JIB. On October 16, 2019, Council approved the development of an Investment Policy Statement and the preparation of documents to establish the ONE JIB with other Founding Municipalities. On December 18, 2019, Council approved its Investment Policy Statement, which permits investment under the Prudent Investor Standard, and authorized execution of the Initial Formation Agreement and the ONE JIB Agreement. Council also received for information the draft Investment Plan prepared by ONE staff.

Bracebridge's investment objective is long-term growth and returns in excess of inflation. The Town can assume an above average risk profile to achieve these objectives.

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

- Preservation of capital
- Adequate liquidity that takes into account the needs of financial obligations and reasonably anticipated budgetary requirements
- Diversification by asset class, market, sector, issuer, credit quality and term to maturity
- Income and capital appreciation
- Macro risks, such as inflation, economic growth and interest rates.

Bracebridge's Investment Policy Statement verifies that the Town has taken these considerations into account in setting its investment objectives, and the Investment Plan provides further explanation.

The Town's overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns based on the Consumer Price Index. Returns will also need to consider the change in Non-Residential Construction Price Index, a measure of inflation that is also a consideration for the Town.

ONE JIB uses an outcome-based approach to translate municipal needs and goals into investment allocations. A draft of the Outcomes Framework was presented to Council for information at its December 18, 2019 meeting. Once the ONE JIB was legally constituted and able to deliberate the Outcomes Framework it was refined and approved May 20, 2020 (see ONE JIB Report #20-O11 - Investment Outcomes). Table 1 below shows details of the ONE JIB approved Outcomes Framework, which classifies investments into four Outcome categories: Cash, Contingency, Stable Return and Target Date outcomes. The revised outcomes are in alignment with Bracebridge's investment objectives, risk profile and time frames. Bracebridge's Investment Plan assigns investment allocations based on the outcome mapping in Table 1. The allocations are reflective of the objectives, characteristics and investment horizon and risk tolerance of the Town. The characteristics of the Town's reserves, reserve funds or other balances were considered when building investment allocations in the Investment Plan.

Table 1 - Investment Objectives and Outcomes

Outcome Category	Outcome Strategy	Objective	Risk Tolerance, Liquidity	Investment Horizon
Cash	Cash	Preservation of capital	Low risk; high liquidity	< 3 years
Stable Return	Stable Return	Income generation: To generate returns to fund recurring needs	Moderate risk with emphasis on growth and stable returns, regular liquidity	> 5 years (Perpetual)
Contingency	Contingency	Contributions for unexpected and infrequent events	Higher risk, emphasis on longer-term capital growth with some liquidity	> 5 years (Perpetual)
	Asset mgt reserves	Contributions to generate returns to fund asset management reserves	Higher risk, emphasis on longer-term capital growth; low liquidity	> 10 years (Perpetual)
Target Date	Target Date 3-5 yrs	Preservation of capital	Low risk; high liquidity	3 - 5 years
	Target Date 5-10 yrs	Contributions toward capital projects, mitigate inflation impacts and meet target funding requirements	Moderate risk, liquid	5 - 10 years
	Target Date 10+ yrs	Contributions toward capital projects, mitigate inflation impacts and meet target funding requirements	Higher risk, emphasis on long term inflation-adjusted growth	> 10 years

Bracebridge - Local Distribution Company shareholder

Bracebridge has approximately \$29.7M in shares in Lakeland Holdings Limited, the local distribution company (LDC).

The Investment Policy Statement recognizes this investment as Long-Term Funds (or MNRI) that fall under the Prudent Investor Standard. However, the Investment Policy Statement provides direction to the ONE JIB with respect to the treatment of these funds.

LDC shares are considered restricted, special assets and remain in the custody of the Town. The Town is actively involved in shareholder meetings and plans to vote its shares. The LDC shares are to be viewed as separate standalone investments and are not to be included in calculations of asset allocations.

4. ANALYSIS

Bracebridge has approximately \$5.6 million in MNRI

At the end of 2019, the Town had reserves and reserve funds totalling approximately \$14.8 million. However, the Town expects a significant drawdown of its reserves in 2020 to finance pre-planned capital expenditures resulting in a balance of \$5.6 million in MNRI.

The Town has used a time-based threshold of 18 months to define MNRI.

Under the Act, municipalities can only invest MNRI, whether they choose to invest in the legal list or under the Prudent Investor Standard. For the purpose of the Prudent Investor Standard, it is

necessary to define MNRI within the Investment Policy Statement because control of the funds is delegated to an investment board. ONE Investment provided guidance on best practices in determining the definition of MNRI and the Town determined that 18 months was appropriate.

Bracebridge anticipates significant growth in its investments over the next ten years

After the 2020 drawdown, Bracebridge plans to rebuild its reserves. Capital reserves, which are mainly the target date reserves, are expected to grow by more than 5% annually from about \$2.9 million in 2020 to \$17 million by 2030. Other reserve levels are expected to remain roughly constant over the next three years.

The Town does not anticipate liquidating any of its investments over the next ten years. This implies a very long investment horizon which should allow the Town to assume an above average risk profile.

The Investment Plan contains an asset allocation and allocations to specific funds

The Investment Plan provides asset allocations according to Bracebridge's investment objectives and risk tolerance, as shown in Table 2. These allocations are based on the Town's Investment Policy Statement, which describes the objectives, risk tolerance, liquidity and investment horizon for the reserves that make up MNRI.

Table 2 - Asset Allocation

Outcome	Total Invested (\$)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	2,750,000	49.1	-	40	60	100
Target Date 10+ Years	2,850,000	50.9	-	25	75	100
Total	5,600,000	100.0				

The Investment Plan then allocates these amounts to ONE Prudent Investment Program fund offerings, as shown in Table 3. Table 4 provides the same information in percentage, showing how the fund holdings are held within each of the Outcomes. Table 5 provides a summary of the allocations by fund.

Table 3 - Investment Mix (Amounts in \$)

Outcome	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Contingency	495,000	1,155,000	165,000	165,000	770,000	2,750,000
Target Date 10+ Years	641,250	1,496,250	106,875	106,875	498,750	2,850,000
Total	1,136,250	2,651,250	271,875	271,875	1,268,750	5,600,000

Table 4 - Investment Mix (%)

Outcome	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Contingency	8.8%	20.6%	2.9%	2.9%	13.8%	49.1%
Target Date 10+ Years	11.5%	26.7%	1.9%	1.9%	8.9%	50.9%
Total	20.3%	47.3%	4.9%	4.9%	22.7%	100.0%

Table 5 - Summary of Allocations by Fund

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE Canadian Equity Fund	1,136,250	20.3
ONE Global Equity Fund	2,651,250	47.3
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The specific allocations to each one of the Outcomes noted above were based on input from the Investment Policy Statement and Municipal Client Questionnaire, as well as discussions with the Treasurer. The purpose and characteristics of each reserve and reserve account were mapped to each of these Outcomes, which determined the dollar amount assigned to each Outcome.

The risk profile of the allocations is above average, primarily due to the plan to rapidly rebuild reserve and reserve fund balances after the near-term drawdown. MNRI may double within 5 years, which reflects the financial flexibility of the Town.

The average annual expected return on Bracebridge's investments is approximately 5.1%

In its Municipal Client Questionnaire, Bracebridge expressed annual return expectations in the range of -5% to +5%.

The overall estimated annual return for the asset allocations and fund mix in the Investment Plan is 5.1%. The expected returns by investment objective (see May 20, 2020 -ONE JIB Report #20-O10 - Fund Offerings and Investment Managers for detail on the basis of the investment projections) are:

- Contingency Outcome: 4.9%
- Target Date 10+ Year Outcome: 5.3%.

5. CONCLUSION

Bracebridge's Council has approved an Investment Policy Statement and other documentation to enable it to adopt the prudent investor standard and become a Founding Municipality for the ONE JIB.

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

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

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

Approved for Submission by: Evelyn Foo, Chief Compliance Officer