



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 Innisfil
Report: 20-017

1. RECOMMENDATIONS

It is recommended that:

1. The Board approve Town of Innisfil's Investment Plan (Attachment 1)
2. The Chief Investment Officer notify the Board of any in-year changes to Innisfil'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 Innisfil Council for the Board's consideration by Q1 2021

2. SUMMARY

Innisfil 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 Innisfil.

Key Points:

- Innisfil will initially allocate \$15.0 million to the Prudent Investor Standard
- Innisfil does not anticipate MNRI declining for at least 5 years, or perhaps longer
- Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 4.9%
- Innisfil'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 5.

- The Town is experiencing significant growth and a significant portion of MNRI consists of development charge reserves. There is considerable uncertainty about when these monies will be spent.
- The Investment Plan includes a quick transition of funds to ONE JIB, as Innisfil's contribution is currently mostly invested in ONE Legal List Investment funds.

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	2,700,000	18.0
ONE Global Equity Fund	6,300,000	42.0
ONE Canadian Govt Bond Fund	900,000	6.0
ONE Canadian Corporate Bond Fund	900,000	6.0
ONE Global Bond Fund	4,200,000	28.0
Total	15,000,000	100.0

Locked-In Investments	Estimated Value (\$)
Innpower Corporation (LDC)	22,510,137
Innterprises Inc. (LDC Affiliate)	179,740

3. BACKGROUND

Council has approved the application of the Prudent Investor Standard to a portion of Innisfil'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, which together reflect the investment needs, objectives, risk tolerances and constraints of the Town. The Investment Plan reflects this context.

Council considered the transition to the Prudent Investor Standard on four occasions. On April 10, 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 November 13, 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 March 11, 2020, Council approved its Investment Policy Statement, which permits investment under the Prudent Investor Standard. On April 8, 2020 Council 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.

Innisfil's overall investment objective is moderate growth at moderate levels of risk, targeting above-inflation returns

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.

Innisfil'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.

ONE JIB uses an outcome-based approach, known as the Outcomes Framework, to translate municipal needs and goals into investment allocations. A draft of the Outcomes Framework was presented to Council for information at its April 8, 2020 meeting. Once the ONE JIB was legally constituted and able to deliberate the Outcomes Framework, it was refined and approved May 20, 2020. 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 Innisfil's investment objectives, risk profile and time frames. Innisfil'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

Innisfil holds shares in its Local Distribution Company

Innisfil has approximately \$22.5 million in shares in Innpower Corporation, the local distribution company (LDC), and \$180,000 in shares in its affiliate Innterprises Inc.

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

Innisfil has approximately \$15.0 million in MNRI

At the end of 2019, the Town had reserves and reserve funds totalling approximately \$68.6 million. The Town's growth needs are evolving, and the Town needs near term flexibility. The Treasurer has identified \$15.0 million as MNRI.

The Town has used a time-based threshold of 24 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. The 24-month threshold was determined by the Treasurer

and CFO to be an appropriate time frame for MRI, as it matches the time frame the Town uses for municipal planning purposes.

Innisfil anticipates that MNRI will be at or above \$15.0 million for the next five years

Through 2021-2024, the Town expects major pre-planned capital expenditures to proceed and has defined the associated reserves as MRI. Innisfil therefore expects its MNRI balance to remain very stable and cannot foresee the balances declining below \$15 million for at least five years, or perhaps longer.

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

The Investment Plan provides asset allocations according to Innisfil’s investment objectives and risk tolerance, as shown in Table 2. The allocations were informed by Innisfil’s Investment Policy Statement, Municipal Client Questionnaire and discussions with staff that elaborated on the objectives, risk tolerance, liquidity needs and investment horizon for reserves that make up MNRI.

Table 2 - Asset Allocation

Outcome	Total Invested (\$)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Contingency	15,000,000	100.0	-	40.0	60.0	100.0
Total	15,000,000	100.0				

The Investment Plan then allocates these amounts to ONE Investment’s fund offerings, as shown in Table 3. Table 4 provides a summary of the allocations by fund.

The specific allocation to the Contingency Outcome noted above was based on input from the Investment Policy Statement and Municipal Client Questionnaire as well as discussions with the Treasurer and the CFO. Other Outcomes may be considered in the future as the Town’s investment objectives evolve.

Table 3 - Investment Mix (Amount in \$ and %)

Outcome	ONE HISA	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Contingency (\$)	-	2,700,000	6,300,000	900,000	900,000	4,200,000	15,000,000
Total weight (%)	-	18.0%	42.0%	6.0%	6.0%	28.0%	100.0%

Table 4 - Summary of Allocations by Fund

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE Canadian Equity Fund	2,700,000	18.0
ONE Global Equity Fund	6,300,000	42.0
ONE Canadian Govt Bond Fund	900,000	6.0
ONE Canadian Corporate Bond Fund	900,000	6.0
ONE Global Bond Fund	4,200,000	28.0
Total	15,000,000	100.0

The strong growth in Innisfil has resulted in the Town receiving large amounts of development charge reserves where the spending timeline is difficult to predict. The allocation to the Contingency Outcome is intended to reflect municipal needs. The Contingency Outcome is intended to provide growth in investments over time to fund unexpected spending needs or to address revenue shortfalls. The allocation of 100% of the Town's MNRI to the Contingency Outcome was deemed most appropriate at this time. The risk profile of the allocations was determined to be moderate primarily due to the longer term nature of the MNRI balances. The relatively low risk approach reflected in the design of ONE JIB's fund offerings means that higher equity weights should still result in a risk level that is appropriate for the Town, especially considering the long-term nature of its MNRI.

The average annual expected return on Innisfil's investments is approximately 4.9%

In its Municipal Client Questionnaire, Innisfil 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 4.9% (see May 20, 2020 ONE JIB Report #20-010 Fund Offerings and Investment Managers for detail on the basis of the investment return projections).

5. CONCLUSION

Innisfil'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