



# 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 – City of Kenora  
Report: 20-018

---

## 1. RECOMMENDATIONS

It is recommended that:

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

## 2. SUMMARY

Kenora 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 City of Kenora.

Key Points:

- Kenora will initially allocate \$43.3 million to the Prudent Investor Standard, including \$38.3 million to be invested immediately by the ONE JIB
- A significant portion of the City's MNRI is attributable to the Citizens' Prosperity Trust Fund (CPTF), consisting of \$21.8 million in ONE prudent investment program products and \$5 million in in-kind securities

- Kenora’s will also have a ‘general account’ that represents the remaining portion of its MNRI with \$16.5 million in ONE prudent investment program products.
- Kenora anticipates that \$7.3 million of MNRI may be required within five years to fund capital projects. If needed the \$5 million of in-kind securities could be transferred back to the City and liquidated to fund these capital projects. Additional funds could be withdrawn from allocations in the Target Date 3-5 Year Outcome.
- Expected annual returns based on the allocations in the proposed Investment Plan are approximately 4.1%
- Kenora’s Investment Policy Statement and Municipal Client Questionnaire 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 6.
- The Investment Plan includes a quick transition of funds to ONE JIB. Kenora’s contribution is split between ONE Legal List products and securities held at RBC Dexia.

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

<b>ONE Investment Funds &amp; HISA</b>	<b>Total Invested (\$)</b>	<b>Portfolio Weight (%)</b>
ONE HISA	2,780,000	7.3
ONE Canadian Equity Fund	4,475,741	11.7
ONE Global Equity Fund	10,443,395	27.3
ONE Canadian Government Bond Fund	3,084,914	8.1
ONE Canadian Corporate Bond Fund	3,084,914	8.1
ONE Global Bond Fund	14,396,263	37.6
<b>Total</b>	<b>38,265,226</b>	<b>100.0</b>

<b>Locked-In Investments</b>	<b>Estimated Value (\$)</b>
Securities Transferred In-Kind (not invested in ONE Fund)	5,000,000
Synergy North Corporation	10,000,000

### 3. BACKGROUND

Council has approved the application of the Prudent Investor Standard to a portion of Kenora’s investments

The City’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 April 16, 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 September 17, 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 February 18, 2020, Council approved its new Investment Policy Statement, which permits investment under the Prudent Investor Standard. On March 31, 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.

**The City's overall investment objective is moderate growth with modest levels of risk, resulting in 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.

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

Additionally, Kenora's investments are intended to generate a stream of income for the annual municipal budget; the current annual income target is \$1.1 million.

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 Feb 18, 2020 meeting. Once the ONE JIB was legally constituted and able to deliberate, the Outcomes Framework 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 Kenora's investment objectives, risk profile and time frames. Kenora's Investment Plan assigns investment allocation based on the outcome mapping in Table 1. The allocations are reflective of the objectives, characteristics and investment horizon and risk tolerance of the City. The characteristics of the City'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

## 4. ANALYSIS

Kenora has approximately \$43.3 million in MNRI

At the end of 2019, the City had reserves and reserve funds totalling approximately \$17.1 million, \$16.5 million of which it has deemed MNRI. This in addition to the \$21.8 million of CPTF available for immediate investment, and \$5 million in in-kind bonds to be held to maturity.

Kenora's MNRI are subdivided into two categories: (1) general municipal funds, and (2) Citizens' Prosperity Trust Funds

In 2008 Kenora sold its municipal telephone system and established the Citizens' Prosperity Trust Fund (CPTF) worth approximately \$40.8 million at the time. The Citizens' Prosperity Fund is expected to generate \$1.1 million in income each year, which the Town uses to mitigate the need for property tax increases. The City often uses the CPTF as a source of internal debt financing, borrowing money from the CPTF at an interest rate of 3.0%. The interest payments from inter-city borrowing from the CPTF in combination with investment returns on the ONE Prudent Investment holdings should generate sufficient returns to meet the \$1.1 million objective. The portion of the CPTF available for long-term investment is \$21.8 million. Kenora will also be providing \$5 million in in-kind bonds designated to the CPTF which are intended to be held to maturity. The target return for all CPTF money is 3.0%. Due to the perpetual nature of the CPTF, City staff prepares a separate report annually on its performance and health. As such, MNRI will be segregated to facilitate separate reporting on each subcategory of funds.

The majority of MNRI has a very long time horizon

MNRI invested in the CPTF have a very long-term time horizon. The Municipal Client Questionnaire notes that \$26.7 million of MNRI will not be required by the municipality within the

next 10 years. This reflects the long-term nature of the CPTF balances. This trust is intended to be a perpetual trust that generates recurring returns/income that can fund a portion of annual municipal spending. The MNRI in the CPTF is very long-term in nature and investment allocations should reflect this.

### The City 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 in 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 City determined that twenty-four (24) months was appropriate.

### Kenora holds shares in its Local Distribution Company

Kenora has approximately \$10 million in shares of Synergy North Corporation, 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 City. The City 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.

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

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

*Table 2 -Asset Allocation*

<b>Outcome</b>	<b>Total Invested (\$)</b>	<b>Portfolio Weight (%)</b>	<b>HISA (%)</b>	<b>Fixed Income (%)</b>	<b>Equities (%)</b>	<b>Total (%)</b>
Stable Return	21,800,000	57.0	10	60	30	100
Contingency	13,465,226	35.2	-	40	60	100
Target Dates 3-5 yrs	3,000,000	7.8	20	70	10	100
<b>Total</b>	<b>38,265,226</b>	<b>100.0</b>				

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 HISA	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	Total
Stable Return	2,180,000	1,962,000	4,578,000	1,962,000	1,962,000	9,156,000	21,800,000
Contingency	-	2,423,741	5,655,395	807,914	807,914	3,770,263	13,465,226
Target Dates 3-5 yrs	600,000	90,000	210,000	315,000	315,000	1,470,000	3,000,000
<b>Total</b>	<b>2,780,000</b>	<b>4,475,741</b>	<b>10,443,395</b>	<b>3,084,914</b>	<b>3,084,914</b>	<b>14,396,263</b>	<b>38,265,226</b>

*Table 4 - Investment Mix (%)*

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
Stable Return	5.7%	5.1%	12.0%	5.1%	5.1%	23.9%	57.0%
Contingency	0.0%	6.3%	14.8%	2.1%	2.1%	9.9%	35.2%
Target Dates 3-5 yrs	1.6%	0.2%	0.5%	0.8%	0.8%	3.8%	7.8%
<b>Total</b>	<b>7.3%</b>	<b>11.7%</b>	<b>27.3%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>37.6%</b>	<b>100.0%</b>

*Table 5 - Summary of Allocation by Fund*

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	2,780,000	7.3
ONE Canadian Equity Fund	4,475,741	11.7
ONE Global Equity Fund	10,443,395	27.3
ONE Canadian Government Bond Fund	3,084,914	8.1
ONE Canadian Corporate Bond Fund	3,084,914	8.1
ONE Global Bond Fund	14,396,263	37.6
<b>Total</b>	<b>38,265,226</b>	<b>100.0</b>

The specific allocations to each one of the Outcomes noted above (Cash, Contingency, Stable Return or Target Date) are 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, reserve account and other balances were mapped to each of these outcomes, which determined the dollar amount assigned to each Outcome.

The City's risk profile reflects its circumstances. Their income targets necessitate a sufficient equity allocation to generate growth, which still fits within the City's risk profile, given their long investment time horizon and the conservative nature of the equity funds. As near-term capital spending is completed MNRI balances will start growing and the in-kind holdings (bonds) will mature. This will lead to a somewhat higher allocation risk profile that will likely lead to a higher allocation to equities over time.

The average annual expected return on Kenora's investments is approximately 4.1%

In its Municipal Client Questionnaire, Kenora expressed annual return expectations in the range of 0% to +2%. However, the explicit return expectation on their CPTF funds is at least 3%, with principal protection as their key risk measure.

The overall estimated annual return for the asset allocations and fund mix in the Investment Plan is 4.1%. The expected returns by investment objective (see May 20, 2020 -ONE JIB Report #20-010 - Fund Offerings and Investment Managers for detail on the basis of the investment projections) are:

- Stable Return Outcome: 3.8%
- Contingency Outcome: 4.9%
- Target Date 3-5 Year Outcome: 3.0%.

## 5. CONCLUSION

Kenora'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 City's Investment Policy Statement. The proposed asset mix and fund allocations reflect the City'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 City's objectives, risk tolerance, time horizons and available MNRI.

The consolidated ONE Investment Prudent Investor Portfolio (excluding the \$5 million of in-kind bonds) has an equity weight of 39.0% and expected annualized returns of 4.1%. 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*