



# 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 – District of Muskoka  
Report: 20-019

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## 1. RECOMMENDATIONS

It is recommended that:

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

## 2. SUMMARY

Muskoka 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 District of Muskoka.

Key Points:

- Muskoka will initially allocate \$127.8 million to the Prudent Investor Standard, with \$125.5 million available for investment.
- Muskoka's Investment Policy Statement (IPS) and Municipal Client Questionnaire (MCQ) were presented and received by the ONE JIB at the May 20, 2020 meeting. Details can be found in ONE JIB Report #20-011 -Appendix 7.
- The District holds \$2.3 million of Muskoka debentures that have been repurchased in the market, which represent MNRI investments. These debentures will be held until maturity.

- Muskoka’s investment is expected to grow by 3 to 4% annually beginning in 2023, after near-term reserve drawdowns for major capital projects.
- Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 4.0%.
- The Investment Plan includes a quick transition of funds to ONE JIB, as Muskoka’s contribution is mostly invested in the ONE Legal List Investment Program and other liquid assets.

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	11,179,648	8.9
ONE Canadian Equity Fund	13,146,388	10.5
ONE Global Equity Fund	30,674,904	24.4
ONE Canadian Government Bond Fund	10,577,758	8.4
ONE Canadian Corporate Bond Fund	10,577,758	8.4
ONE Global Bond Fund	49,362,869	39.3
<b>Total</b>	<b>125,519,324</b>	<b>100.0</b>

<b>Other</b>	<b>Estimated Value (\$)</b>
Muskoka Debentures Owned	2,268,000

### 3. BACKGROUND

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

The District’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 District. The investment plan reflects this context.

Council considered the transition to the Prudent Investor Standard on three occasions. On May 21, 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 Joint Investment Board. On November 18, 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 25, 2020, 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.

**The District's overall investment objective is moderate growth at moderate 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.

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

The majority of Muskoka's MNRI is very long term in nature. Investment allocations should be reflective of the longer-term nature of the underlying reserves and reserve accounts. Some liquidity will be required within the Investment Plan, as a portion of their MNRI will be used to fund known near term spending. The District's overall investment objective is moderate growth at moderate levels of risk, resulting in above-inflation returns based on the Consumer Price Index.

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 March 25, 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 #20-011 - Appendix 7). 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 Muskoka's investment objectives, risk profile and time frames. Muskoka'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 District. The characteristics of the District'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

### Muskoka repurchases their own debentures, which impacts MNRI

Muskoka issues publicly traded debentures, which they will repurchase prior to maturity when it is attractive to do so. These debentures holdings are recognized as MNRI if the remaining term to maturity exceeds 18 months. Currently the District holds about \$2.3 million of repurchased debentures with maturities exceeding 18 months. The District will retain custody of these debentures and will inform ONE JIB when other debenture repurchases take place. Holdings of repurchased debentures will not affect the investment allocation of other MNRI discussed in the Investment Plan. Muskoka's IPS prohibits ONE JIB from selling repurchased debentures without the consent of the District.

## 4. ANALYSIS

Muskoka has approximately \$125.5 million in investible MNRI

At the end of 2019, the Municipality had reserves and reserve funds totalling approximately \$162.8 million, with approximately \$127.8 classified as MNRI. After accounting for the approximately \$2.3 million in repurchased debentures, the District has approximately \$125.5 million available to be invested by ONE JIB. Beginning in 2020-21, the District has major pre-planned capital expenditures with an estimated total project cost of \$33 million.

The District 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 District determined that 18 months was appropriate.

Muskoka anticipates significant growth in its investments over the next eight years

After the completion of near-term projects leading to a decline in total MNRI, the District expects capital reserves to grow by approximately 3-4% annually. These reserves are expected to reach approximately \$280 million by 2028.

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

The Investment Plan provides asset allocations according to Muskoka's investment objectives and risk tolerance, as shown in Table 2. These allocations are based on the District'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 (%)
Cash	1,929,952	1.5	100	-	-	100
Contingency	5,259,979	4.2	-	40	60	100
Target Date 3-5 yrs	46,248,480	36.8	20	70	10	100
Target Date 5-10 yrs	72,080,913	57.4	-	50	50	100
<b>Total</b>	<b>125,519,324</b>	<b>100.0</b>				

The Investment Plan then allocates these amounts to ONE Prudent Investment's 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
Cash	1,929,952	-	-	-	-	-	1,929,952
Contingency	-	946,796	2,209,191	315,599	315,599	1,472,794	5,259,979
Target Date 3-5 yrs	9,249,696	1,387,454	3,237,394	4,856,090	4,856,090	22,661,755	46,248,480
Target Date 5-10 yrs	-	10,812,137	25,228,320	5,406,068	5,406,068	25,228,320	72,080,913
Target Date 10+ Years	-	-	-	-	-	-	-
<b>Total</b>	<b>11,179,648</b>	<b>13,146,388</b>	<b>30,674,904</b>	<b>10,577,758</b>	<b>10,577,758</b>	<b>49,362,869</b>	<b>125,519,324</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
Cash	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%
Contingency	0.0%	0.8%	1.8%	0.3%	0.3%	1.2%	4.2%
Target Date 3-5 yrs	7.4%	1.1%	2.6%	3.9%	3.9%	18.1%	36.8%
Target Date 5-10 yrs	0.0%	8.6%	20.1%	4.3%	4.3%	20.1%	57.4%
<b>Total</b>	<b>8.9%</b>	<b>10.5%</b>	<b>24.4%</b>	<b>8.4%</b>	<b>8.4%</b>	<b>39.3%</b>	<b>100.0%</b>

*Table 5 - Summary of Allocations by Fund*

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	11,179,648	8.9
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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 consolidated allocations have an overall exposure of 34.9% to equity investments, which is appropriate considering Muskoka's goals to generate moderate growth with a moderate level of risk. The risk profile may move higher over time as monies deployed for relatively near-term funding needs are drawn down.

**The average annual expected return on Muskoka's investments is approximately 4.0%**

In its Municipal Client Questionnaire, Muskoka 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 4.0%. The expected returns by investment objective (see May 20, 2020 ONE JIB Report 20-010 for details on the basis of the investment projections) are:

- Cash Outcome: 0.9%
- Contingency Outcome: 4.9%
- Target Date 3-5 Year Outcome: 3.0%
- Target Date 5-10 Year Outcome: 4.6%

**The Investment Plan contemplates moving to the Prudent Investor Standard investment allocations as quickly and cost effectively as possible**

Most of Muskoka's MNRI that is moving to the ONE JIB is in ONE Legal List Investment funds. As these investments can be liquidated in a few days, no special considerations will be needed to accommodate the transition of these investments to the ONE JIB. The District may provide additional funding from cash and other short-term investments. This transition plan is elaborated in greater detail in appendix E of the Investment Plan.

## 5. CONCLUSION

Muskoka'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 District's Investment Policy Statement. The proposed asset mix and fund allocations reflect the District's investment objectives and risk preferences expressed in its Investment Policy Statement and Municipal Client Questionnaire. Initial allocations to equities under the Investment Plan will be 34.9% but as MNRI is drawn down over the next five years, overall equity weight will increase. Considering the relatively low risk profile of the ONE JIB's fund offerings, the consolidated allocations have a modest risk profile.

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

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Approved for Submission by: Evelyn Foo, Chief Compliance Officer