



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 Whitby
Report: 20-020

1. RECOMMENDATIONS

It is recommended that:

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

2. SUMMARY

Whitby 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 Whitby.

Key Points:

- Whitby will initially allocate \$114.0 million to the Prudent Investor Standard, with \$108.0 million available for investment and \$6.0 million locked into Principal Protected Notes.
- Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 4.0%

- Whitby'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 8.
- Whitby anticipates significant capital expenditures over the next 10 years to accommodate projected population growth, with capital reserves and reserve funds dropping by almost \$100 million by 2023, \$47.7 million of which is comprised of MNRI that will be invested by the JIB.
- The Investment Plan includes a quick transition of funds to ONE JIB, in the form of \$71 million in ONE Legal List Investment Program products, \$6.0 million in Principal Protected Notes, and the remainder being funded by a cash contribution from the Town.
- The Commissioner of Corporate Services & Treasurer indicated a possibility that MNRI could be revised lower to reflect changing circumstances related to the COVID-19 pandemic. It is unlikely that adjustments to MNRI due to COVID-19, if any, will be required the next six months.

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

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	9,988,261	9.25
ONE Canadian Equity Fund	11,443,310	10.6
ONE Global Equity Fund	26,701,057	24.7
ONE Canadian Government Bond Fund	8,973,346	8.3
ONE Canadian Corporate Bond Fund	8,973,346	8.3
ONE Global Bond Fund	41,875,614	38.8
Total	107,954,934	100.0

Locked in investments	Estimated Value (\$)
Securities Transferred In-Kind (not invested in ONE Funds)	6,000,000
Whitby Hydro Shares	53,261,000

3. BACKGROUND

Council has approved the application of the Prudent Investor Standard to a portion of Whitby'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. This provides context that was reflected in the Investment Plan.

Council considered the transition to the Prudent Investor Standard on three occasions. On April 15, 2019, Council approved further due diligence to determine the best approach to move to the Prudent Investor Standard, including participation as a founding member in the establishment of the ONE JIB. On September 23, 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 9, 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.

Whitby's overall investment objective is moderate growth with moderate risk levels, 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
- Income and capital appreciation
- Diversification by asset class, market, sector, issuer, credit quality and term to maturity
- Macro risks, such as inflation, economic growth and interest rates.

Whitby'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. 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.

Over the next five years Whitby has several projects that will require funding from MNRI of approximately \$47.7 million. These significant funding needs limit the amount of MNRI that can be invested long-term.

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 9, 2020 meeting. Once the ONE JIB was legally constituted and able to consider the Outcomes Framework, it was refined and approved on 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 Whitby’s investment objectives, risk profile and time frames. Whitby’s Investment Plan assigns investment allocation based on the outcome mapping in Table 1. The allocations reflect the Town’s 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

Whitby holds shares in its Local Distribution Company

Whitby has approximately \$53.26 million of shares in Whitby Hydro Electric 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 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

Whitby has approximately \$108.0 million in investible MNRI

As of February 2020, the Town’s MNRI is \$167.3 million. This is comprised of \$53.3 million in shares in their LDC, and \$114.0 million in funds to be transferred to ONE JIB.

This \$114.0 million is the portion of their \$213.0 million in reserve and reserve funds they have determined to have a timeframe of greater than 18 months, \$6.0 million of which is invested in two illiquid principal protected notes (PPNs). The two PPNs valued at \$1.0 million and \$5.0 million mature in January 2024 and January 2027, respectively. This leaves approximately \$108.0 million for immediate investment by the ONE JIB.

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 because control of the funds is delegated to an investment board. ONE Investment staff provided guidance on best practices in determining the definition of MNRI and the Commissioner of Corporate Services & Treasurer determined that 18 months was appropriate.

Whitby’s capital plan indicates that most of the MNRI will be required between years 4 and 10

Whitby anticipates significant growth-related capital projects in the next 10 years. The Town expects its capital reserves to decline by greater than 5% per year and expects its capital expenditures to grow by greater than 5% per year in the long term (4.2% in the short term).

Whitby anticipates that they will need to access 43% of their MNRI in the 4 to 5 year range and 42% in the 6 to 10 year range, with the remaining 15% having a timeframe of greater than 10 years. Table 3 provides more detail.

Table 2 - Cash Flow Time Horizons

Time frame	Percentage of MNRI	Approximate Dollars (Millions)*
2-3 years	0%	\$0.4
4-5 years	43%	\$48.7
6-10 years	42%	\$48.4
Greater than 10 years	15%	\$16.4

*figures include \$1 million PPN in 4-5 year time frame and \$5 million PPN in 6-10 year time frame to align with percentages in MCQ

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

The Investment Plan provides asset allocations according to Whitby’s investment objectives and risk tolerance, as shown in Table 4. 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 3 - Asset Allocation

Outcome	Total Invested (\$)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	438,287	0.4%	100	-	-	100
Contingency	4,359,392	4.0%	-	40	60	100
Asset Management Reserves	238,729	0.2%	-	10	90	100
Target Date 3-5 Years	47,749,872	44.2%	20	70	10	100
Target Date 5-10 Years	43,350,407	40.2%	-	50	50	100
Target Date 10+ Years	11,818,247	10.9%	-	25	75	100
Total	107,954,934	100%				

The Investment Plan then allocates these amounts to ONE Prudent Investment Program fund offerings, as shown in Table 5. Table 6 provides the same information in percentage, showing how the fund holdings are held within each of the Outcomes. Table 7 provides a summary of the allocations by fund.

Table 4 - 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	438,287	-	-	-	-	-	438,287
Contingency	-	784,691	1,830,945	261,564	261,564	1,220,630	4,359,392
Asset Management Reserves	-	64,457	150,399	3,581	3,581	16,711	238,729
Target Date 3-5 Years	9,549,974	1,432,496	3,342,491	5,013,737	5,013,737	23,397,437	47,749,872
Target Date 5-10 Years	-	6,502,561	15,172,642	3,251,281	3,251,281	15,172,642	43,350,407
Target Date 10+ Years	-	2,659,106	6,204,580	443,184	443,184	2,068,193	11,818,247
Total	9,988,261	11,443,310	26,701,057	8,973,346	8,973,346	41,875,614	107,954,934

Table 5 - 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	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Contingency	0.0%	0.7%	1.7%	0.2%	0.2%	1.1%	4.0%
Asset Management Reserves	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.2%
Target Date 3-5 Years	8.8%	1.3%	3.1%	4.6%	4.6%	21.7%	44.2%
Target Date 5-10 Years	0.0%	6.0%	14.1%	3.0%	3.0%	14.1%	40.2%
Target Date 10+ Years	0.0%	2.5%	5.7%	0.4%	0.4%	1.9%	10.9%
Total	9.3%	10.6%	24.7%	8.3%	8.3%	38.8%	100.0%

Table 6 - Summary of Allocations by Fund

ONE Investment Funds & HISA	Total Invested (\$)	Portfolio Weight (%)
ONE HISA	9,988,261	9.25
ONE Canadian Equity Fund	11,443,310	10.6
ONE Global Equity Fund	26,701,057	24.7
ONE Canadian Government Bond Fund	8,973,346	8.3
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Total	107,954,934	100.0

The specific allocations to each one of the Outcomes were based on input from the Investment Policy Statement and Municipal Client Questionnaire, as well as discussions with the Commissioner of Corporate Services & 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 Outcomes assigned were based on an understanding of the time horizon and characteristics of the reserve/reserve accounts involved. The risk level for Outcomes are reflective of the Town's overall risk profile.

After assigning respective investment Outcomes, the consolidated outcomes were re-evaluated to ensure exposure was appropriate, considering the Town's overall circumstances and needs.

The risk profile of the allocations is relatively conservative, primarily due to pre-planning capital expenditures within the next five years. Allocation to Target Date Outcomes with shorter investment horizons accommodate their significant spending needs. As these balances are drawn down in coming years, the investment horizon of overall MNRI will tend to increase. Initial consolidated equity allocations will be 35.3%, but after the Cash Outcome and Target Date 3-5 Year Outcome balances are drawn down, the equity allocations will increase.

The average annual expected return on Whitby's investments is approximately 3.5%

In its Municipal Client Questionnaire, Whitby 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 ONE JIB Report 20-010 - Appendix 4.b.6 for details on the basis of the investment projections) are:

- Cash Outcome: 0.9%
- Contingency Outcome: 4.9%
- Asset Management Reserves Outcome: 5.8%

- Target Date 3-5 Year Outcome: 3.0%
- Target Date 5-10 Year Outcome: 4.6%
- Target Date 10+ Year Outcome: 5.3%

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

Most of Whitby's MNRI that is moving to the ONE JIB consists of holdings of ONE Legal List 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 Town also holds \$6 million of PPNs that will be contributed to the ONE JIB in-kind, representing part of their MNRI. As these securities mature over time the proceeds will be invested into ONE Investment Outcomes. The Town will provide additional funding from cash and other short-term investments. This transition plan is elaborated in greater detail in Appendix D of the Investment Plan.

5. CONCLUSION

Whitby's Council has approved an Investment Policy Statement and supporting 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. The initial allocation to equities will be 35.3%, but as MNRI is drawn down over the next five years, the overall equity weight will increase. Considering the relatively low risk profile of the ONE Investment prudent investor funds, the consolidated allocations have a modest risk profile.

As 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