

To: ONE Joint Investment Board
 From: Keith Taylor, Chief Investment Officer, ONE Investment
 Date: June 1, 2023
 Re: City of Thunder Bay Annual Investment Plan Review
 Report: ONE JIB 2023-017

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the City of Thunder Bay's Investment Policy Statement (Attachment 1).
2. Receive the City of Thunder Bay's Municipal Client Questionnaire (Attachment 2).
3. Approve the City of Thunder Bay's proposed Investment Plan (Attachment 3).

2. SUMMARY

The City of Thunder Bay has completed its first annual review process and provided an updated Municipal Client Questionnaire (MCQ), which provides information on its MNRI and the investment horizons associated with its reserve balances. The time horizon associated with MNRI balances is largely unchanged, and the City will not be contributing additional MNRI at this time. The updated Investment Plan does not currently require changes to investment allocations.

The overall allocation to equities in this Investment Plan is 43.3%, which reflects a relatively conservative investment allocation. The proposed investment allocations, which reflect consolidated holdings across ONE Investment Outcomes, are shown in the table below:

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	\$ 10.0	8.7
ONE Canadian Equity Fund	14.9	13.0
ONE Global Equity Fund	34.7	30.3
ONE Canadian Government Bond Fund	8.2	7.2
ONE Canadian Corporate Bond Fund	8.2	7.2
ONE Global Bond Fund	38.5	33.6
Total	\$ 114.5	100.0

3. BACKGROUND

Thunder Bay's annual Investment Policy Statement (IPS) review resulted in minor housekeeping changes that will have no material impact on the Investment Plan

The City of Thunder Bay completed its annual IPS review on May 15, 2023. Council approved modifications to the IPS. The modifications were housekeeping items consistent with the ONE JIB IPS template. The modifications clarify language and give ONE JIB more flexibility to modify the product offerings used in the Prudent Investment Program.

Thunder Bay will not be making any contribution or withdrawal of MNRI this year and the investment horizons associated with municipal reserves are largely unchanged

Thunder Bay's MCQ did not include contributions or withdrawals from MNRI as part of the annual update process. The overall time horizon of reserves is largely unchanged, and investment allocations remain appropriate as a result. Thunder Bay's MNRI totals \$114.5 million. Table 1 below, which was informed by Section 4.1 of the MCQ, provides a summary of the time horizon associated with MNRI.

Table 1: MNRI by Type, Category and Time Horizon, adapted from MCQ section 4.1 (\$ thousands)

Reserve Type	Brief Description	MNRI Amount	Investment Horizon of MNRI			
			2 years to 3 years	3-5 years	5-10 years	10+ years
Capital Reserves	Program Reserves and Capital Reserves	\$75,620.1	\$9,223.2	\$14,689.1	\$35,978.6	\$15,729.2
Obligatory Reserve Funds	Building Permit Reserve Fund, Gas Tax Reserve Funds, Ontario Community Infrastructure Fund, Subdivider Contributions	\$7,585.5	\$385.1	\$4,178.1	\$2,668.4	\$353.8
Stabilization & Contingency	Operating Reserve Funds, Vested Property Rehabilitation Reserve	\$31,993.0	\$3,681.6	\$5,185.0	\$18,658.8	\$4,467.6
MNRI Total		\$115,198.6	\$13,289.9	\$24,052.3	\$57,305.8	\$20,550.6

The majority of Thunder Bay's MNRI has an investment horizon that exceeds five years

The City's investment horizon is long, as almost 70% of MNRI has an investment horizon that exceeds five years. The Treasurer noted uncertainty about the timing and magnitude of some drawdowns identified in the MCQ, especially the anticipated near-term drawdowns. Drawdowns identified as having an investment horizon of less than three years include spending on capital projects that may be delayed or may not materialize. Table 2 shows the current estimates of potential drawdowns from or contributions to MNRI for Thunder Bay.

Table 2: Forecast contributions and withdrawals - adapted from MCQ 4.2 (\$ thousands)

Type	Next year	< 3 years	3-5 Years	5-10 Years	Greater than 10 Years
Anticipated MNRI Drawdowns	-	(\$13,289.9)	(\$24,052.3)	(\$57,305.8)	(\$20,550.6)
Anticipated MNRI Contributions	-	-	-	-	-
Net change in MNRI	-	(\$13,289.9)	(\$24,052.3)	(\$57,305.8)	(\$20,550.6)

4. ANALYSIS

The mapping of MNRI to Outcomes and resulting asset allocation is consistent with Thunder Bay's cashflow forecasts, risk tolerances and objectives

The City has a significant number of planned capital projects over the next 10 years and has a long investment horizon. About \$16.1 million of capital project reserves have a time horizon greater than 10 years, which will allow the municipality to assume a higher risk profile on those funds. Reserves with a 5-to-10-year horizon can be invested at moderate risk levels, and reserves with shorter time horizons can be invested in less volatile securities, which will lower the portfolio's overall risk profile significantly. The updated MCQ indicates larger potential drawdowns within the next three years than the previous Investment Plan, but the Treasurer noted considerable uncertainty about the size and timeline of these potential drawdowns. This has been taken into consideration when assigning the investment allocations. No additional MNRI has been allocated to the Cash Outcome in the Investment Plan due to this uncertainty about potential near-term drawdowns.

Mapping the MNRI to outcomes relied on the MCQ and discussions with the Treasurer to ensure a common understanding of the uses and purposes of the MNRI. Asset allocations (Table 3 below) and fund allocations (Tables 4 and 5 below) were determined using the ONE JIB's Outcomes Framework.

Table 3: Proposed Outcome Mapping and Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	\$ 3.6	3.2	100	-	-	100
Contingency	25.1	21.9	-	40	60	100
Target Date 3-5 Years	31.7	27.7	20	70	10	100
Target Date 5-10 Years	37.0	32.3	-	50	50	100
Target Date 10+ Years	17.1	15.0	-	25	75	100
Total	\$ 114.5	100.0				

Table 4: Proposed Pooled Fund-Level Allocation

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	\$ 10.0	8.7
ONE Canadian Equity Fund	14.9	13.0
ONE Global Equity Fund	34.7	30.3
ONE Canadian Government Bond Fund	8.2	7.2
ONE Canadian Corporate Bond Fund	8.2	7.2
ONE Global Bond Fund	38.5	33.6
Total \$	\$ 114.5	100.0

Table 15: Proposed Pooled Fund Allocations by Outcome (values in \$ millions)

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	\$ 3.6	-	-	-	-	-	\$ 3.6
Contingency	-	4.5	10.5	1.5	1.5	7.0	25.1
Target Date 3-5 Years	6.3	1.0	2.2	3.3	3.3	15.5	31.7
Target Date 5-10 Years	-	5.5	12.9	2.8	2.8	12.9	37.0
Target Date 10+ Years	-	3.9	9.0	0.6	0.6	3.0	17.1
Total \$	\$ 10.0	\$ 14.9	\$ 34.7	\$ 8.2	\$ 8.2	\$ 38.5	\$ 114.5

5. CONCLUSION

The proposed Investment Plan is consistent with Thunder Boy's IPS. The proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. As a result, the Investment Plan is appropriate for the City's time horizons and available MNRI.

Drafted by: Jennifer Hess, Manager of Investment Services and Keith Taylor Chief Investment Officer
 Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEO