



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 6, 2023
Re: District Municipality of Muskoka's Investment Plan 2023
Report: ONE JIB 2023-045

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the District Municipality of Muskoka's Investment Policy Statement (Attachment 1).
2. Receive the District Municipality of Muskoka's Municipal Client Questionnaire (Attachment 2).
3. Approve the District Municipality of Muskoka's proposed Investment Plan (Attachment 3).

2. SUMMARY

The District Municipality of Muskoka has updated its Municipal Client Questionnaire (MCQ) to provide information on its MNRI and the investment horizons associated with its reserve balances. As part of its annual review process, District staff provided details of the changes in the investment horizon associated with MNRI and completed cashflow analysis. The updated Investment Plan accommodates for a MNRI withdrawal of \$5.5 million that was requested by Muskoka. MNRI from longer investment horizon Outcomes will be used to fund the withdrawal, which will slightly decrease the District's overall investment horizon, but the District will continue to have a very long investment horizon. The revised Investment Plan will have a consolidated equity allocation of 50.2%.

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

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	n/a	n/a
ONE Canadian Equity Fund	21.4	15.1
ONE Global Equity Fund	50.0	35.1
ONE Canadian Government Bond Fund	14.0	9.8
ONE Canadian Corporate Bond Fund	10.0	7.0
ONE Global Bond Fund	46.8	32.9
Total \$	\$142.3	100.0

3. BACKGROUND

The District Municipality of Muskoka’s Annual Investment Policy Statement review (IPS) resulted in only minor changes that have no material impact on its Investment Plan.

The District Municipality of Muskoka completed its annual IPS review on August 10, 2023, with council approving minor housekeeping modifications to the IPS that were consistent with revisions in the ONE JIB IPS template. These modifications clarify language and give ONE JIB more flexibility to modify the product offerings used in the Prudent Investment Program.

The District Municipality of Muskoka has MNRI of \$142.3 million after the \$5.5 million withdrawals of MNRI

The District Municipality of Muskoka had approximately \$147.8 million of MNRI invested in the ONE JIB Outcomes as of June 30, 2023, which is higher than the MNRI identified in its most recent MCQ. The District Municipality is planning to draw down \$5.5 million of MNRI because of revised cash flow forecasts.

Table 1 below provides a summary of the reserve categories and the associated investment horizon of these reserves as disclosed in Muskoka’s MCQ. As shown in Table 1 below, the bulk of MNRI has an investment horizon of 5 to 10 years, which includes MNRI that will be allocated to both target date outcomes and contingency outcomes. Overall, Muskoka has a long investment horizon.

Table 1: MNRI by reserve and time horizon forecast, adapted from table 4.1 of MCQ (in thousands of \$)

Reserve Type	Comments	MNRI Amount	Investment Horizon of MNRI			
			18 months to 3 years	3-5 years	5-10 years	10+ years
Development Charge Reserve Funds	Stable balances	8,103.3	-	3,694.8	4,408.6	-
Obligatory and fee-based reserve funds	Near-term drawdowns	7,326.4	-	1,831.6	5,494.8	-
Program Reserve Funds	Increasing after 2024	91,053.6	100.9	8,904.4	67,048.3	15,000.0
Debt Reduction Reserve Fund	Well defined funding needs	17,069.4	-	5,217.1	1,852.3	10,000.0
Stabilization Reserves	Stable balances	12,947.5	-	-	12,617.5	330.0
Contingency Reserves	Modest growth expected	5,926.4	-	-	5,926.4	-
MNRI Total		142,426.6	100.9	19,647.9	97,347.8	25,330.0

4. ANALYSIS

The District Municipality of Muskoka will drawdown \$5.5 million of its investments with ONE JIB this year to help fund nearer term capital projects

The updated MCQ indicates a reduction in MNRI of \$5.5 million. The Treasurer confirmed the District's intention to modestly reduce MNRI balances to make funding available for near-term capital projects. The District has two capital projects where the MNRI drawdown may be used, including a paramedic station and a long-term care home in Huntsville. Both projects may break ground within the next year.

The proposed mapping to Outcomes and resulting asset allocation are consistent with the time horizon of the District Municipality of Muskoka's cashflow forecasts

The District Municipality of Muskoka's reserves have a very long investment horizon, with almost \$125 million of MNRI having an investment horizon of 5 years or more. The changes resulting from the annual Investment Plan review suggest a slightly shorter overall investment horizon for the consolidated portfolio. The revisions to the Investment Plan will raise monies for the drawdown by reducing allocations to the longer-dated target date outcomes. Additionally, the allocations to the Target Date 3-5 Year Outcome would increase by about \$2.7 million, also funded by moving MNRI from longer investment horizon outcomes. These changes in allocation across outcomes should better align the Investment Plan allocations with Muskoka's updated cashflow forecasts. It is estimated that these changes to the Outcome allocations would lower consolidated equity allocations by less than 2%. As such, this is not a significant change to the overall Investment Plan and should have a marginal impact on the risk level of the consolidated portfolio.

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

Table 3: Proposed Outcome Mapping and Asset Allocation (values in \$ millions)

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	HISA (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	\$ 0.1	0.1	-	100	-	100
Contingency	18.9	13.3	-	40	60	100
Target Date 3-5 Years	19.5	13.7	-	90	10	100
Target Date 5-10 Years	78.8	55.4	-	50	50	100
Target Date 10+ Years	25.0	17.6	-	25	75	100
Total	\$ 142.3	100.0				

Table 4: Proposed Pooled Fund-Level Allocation (values in \$ millions)

ONE Investment Funds & HISA	Total Invested (\$ millions)	Portfolio Weight (%)
ONE HISA	n/a	n/a
ONE Canadian Equity Fund	21.4	15.1
ONE Global Equity Fund	50.0	35.1
ONE Canadian Government Bond Fund	14.0	9.8
ONE Canadian Corporate Bond Fund	10.0	7.0
ONE Global Bond Fund	46.8	32.9
Total \$	\$ 142.3	100.0

Table 1: 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	-	-	-	\$ 0.1	-	-	\$ 0.1
Contingency	-	3.40	7.94	1.13	1.13	5.3	18.9
Target Date 3-5 Years	-	0.59	1.37	5.95	2.05	9.6	19.5
Target Date 5-10 Years	-	11.82	27.58	5.91	5.91	27.6	78.8
Target Date 10+ Years	-	5.63	13.13	0.94	0.94	4.4	25.0
Total \$	-	\$ 21.4	\$ 50.0	\$ 14.0	\$ 10.0	\$ 46.8	\$ 142.3

5. CONCLUSION

The proposed Investment Plan is consistent with the District Municipality of Muskoka'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 District Municipality's time horizons and available MNRI.

ATTACHMENT

Attachment 1: The District Municipality of Muskoka's Investment Policy Statement
 Attachment 2: The District Municipality of Muskoka's Municipal Client Questionnaire
 Attachment 3: The District Municipality of Muskoka's proposed Investment Plan

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