



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer
Date: November 18, 2020
Re: Review of Investment Plan, Municipal Client Questionnaire and Investment Policy Statement Templates
Report: 20-O33

1. RECOMMENDATIONS

It is recommended that the Board:

- 1) Approve the amended Municipal Client Questionnaire template as attached
- 2) Approve the amended Investment Policy Statement template as attached
- 3) Approve the amended Investment Plan template as attached
- 4) Direct staff to bring the next annual review of the templates to ONE JIB in Fall 2021.

2. SUMMARY

- ONE Investment facilitated debrief sessions with Founding Municipalities to seek feedback and make improvements to the templates for the Municipal Client Questionnaire (MCQ), the Investment Policy Statement (IPS) and the Investment Plan (IP).
- The templates have been reviewed and improved based on the experience of the Founding Municipalities in the formation of the ONE JIB.

3. BACKGROUND

ONE Investment's goal is to create a turnkey Prudent Investment Program offering for municipalities

The intent of the Prudent Investment Program offering is to provide a turnkey solution for municipalities interested in accessing the prudent investment regime through ONE JIB.

ONE Investment, the Founding Municipalities and ONE's legal counsel worked collectively in the development of the IPS, MCQ and IP templates prior to the launch of the ONE JIB, with a focus on including the appropriate and necessary information as required by Part II of *Ontario Regulation 438/97*. All documents are now the responsibility of ONE JIB and should be reviewed at least annually.

ONE Investment supports municipalities with council report templates

To augment these documents, ONE Investment has developed municipal council reports that introduce the prudent investment regime to council and explain the IPS, MCQ and Investment Plan, along with *Municipal Act* requirements for becoming a Participating Municipality in the

ONE JIB. These are not the responsibility of ONE JIB, rather part of ONE's commitment to a complete turnkey service to municipalities. The on-boarding process involves a considerable amount of work for Treasurers. Creating standard templates for both investment documents and municipal council reports supports and simplifies the process for municipal staff while also expanding municipal staff capacity to take on a new initiative like the prudent investment regime.

The quality of Investment Plans depends on the quality of the Municipal Client Questionnaire and the municipality's Investment Policy Statement and the information they contain

Working together, municipal and ONE staff complete the MCQ and IPS during the on-boarding process, which provide foundational information for ONE JIB. Although the MCQ is not referenced in the *Municipal Act*, it is a key document in the investment industry known as a Know Your Client (KYC) Questionnaire. Prior to the launch of ONE JIB there was no template municipal KYC. ONE Investment created the template which we now refer to as MCQ. The MCQ was used by the Chief Investment Officer (in conjunction with the IPS) in the development the Founding Municipalities' Investment Plans.

The Revised Outcome Framework shown below in Table 1 is designed to be understandable for municipalities, yet still provide ONE JIB with a solid basis to allocate client Monies Not Required Immediately (MNRI), as identified in the MCQ, in an appropriate way. It provides a template that guides how information provided in the municipality's IPS and MCQ will be translated into investment allocations.

Table 1: Revised Outcomes Framework

Outcome Category	Outcome Strategy	Objective	Risk Tolerance, Liquidity	Investment Horizon	Allocation			Strategy Return	Strategy Std Dev
					Equity	Fixed Income	Cash		
Cash Plus	Cash < 3 yrs	Preservation of capital	Low risk; high liquidity	< 3 years			100%	0.9%	1.3%
	Cash Plus 3-5 yrs	Preservation of capital	Low risk; high liquidity	3 - 5 years	10%	70%	20%	3.0%	2.8%
Stable Return	Stable Return	Income generation: To generate stable returns to fund recurring needs	Moderate risk with emphasis on growth and stable returns, regular liquidity	> 5 years (Perpetual)	30%	60%	10%	3.8%	4.2%
Contingency	Contingency	Contributions for unexpected events	Higher risk, emphasis on longer-term capital growth with some liquidity	> 5 years (Perpetual)	60%	40%		4.9%	6.6%
	Asset mgt reserves	Contributions to generate stable returns to fund asset management reserves	Higher risk, emphasis on longer-term capital growth; low liquidity	> 10 years (Perpetual)	90%	10%		5.8%	9.1%
Target Date	Target Date 5-10 yrs	Contributions toward specific projects, mitigate inflation impacts and meet target funding requirements	Moderate risk, liquid	5 - 10 years	50%	50%		4.6%	5.8%
	Target Date > 10 yrs	Contributions toward specific projects, mitigate inflation impacts and meet target funding requirements	Higher risk, emphasis on long term inflation-adjusted growth	> 10 years	75%	25%		5.3%	7.9%

4. ANALYSIS

Debrief sessions were held with Founding Municipalities to obtain feedback on the Municipal Client Questionnaire and Investment Policy Statement

The Founding Municipalities are municipal leaders who are committed to helping ONE Investment create a full-service Prudent Investment Program offering. ONE Investment conducted a debrief session on September 10, 2020 to discuss the potential changes to the MCQ, IPS and IP templates to improve their efficiency and effectiveness.

The main issues discussed were intended to identify challenges or successes related to:

- The usefulness of the information
- Proposed process improvements
- Solicit feedback from Founding Municipalities to improve the documents

The Investment Policy Statement required only minor changes

The existing IPS is a comprehensive document. Very minor changes were required, such as the clarification of definitions. Each Founding Municipalities used the initial template as a basis and tailored it based on their specific circumstances. This process informed many of the changes in this version of the IPS, found in Appendix A, with small improvements from several Founding Municipalities' IPS incorporated. This improved wording in certain sections provided additional context and helped fine tune the IPS. The Revised Outcomes Framework was inserted into the IPS to standardize how Participating Municipalities define their investment needs. Previously, Founding Municipalities used a table to discuss the outcomes in their IPS, but defined outcomes and the associated time horizons for each outcome varied across the Founding Municipalities.

There is no universal definition of Money Not Required Immediately

Each Municipality should define MNRI in their IPS as there is no universally accepted definition. This means that municipalities may define it differently. In the initial IPS, ONE Investment recommended a time-based definition, which is reflective of how the Toronto Investment Board defined MNRI and how all six Founding Municipalities defined MNRI. Four of these municipalities used an 18-month basis and two used a 24-month basis. The IPS now notes that it is the Participating Municipality's responsibility to define the basis of MNRI in a way that is most appropriate for its circumstance.

The Municipal Client Questionnaire underwent extensive changes to improve relevance and understandability

The MCQ, as the working document, required many changes. The Founding Municipalities provided feedback based on ONE's initial recommendations that information be presented more succinctly. The document was refocused to request only information that was relevant to developing Investment Plans for the municipalities.

Certain questions were eliminated entirely from the MCQ, as the information was captured elsewhere, or were determined to not be relevant for the development of the Investment Plan. For example, some purely administrative details that were requested in the initial version of the MCQ were removed as ONE Investment already has access to the information. There was some additional simplification of the MCQ to streamline the process for the Treasurer to complete. For instance, the revised MCQ requests a copy of audited financial results instead of requesting the Treasurer to fill in a table with specific accounting details. Additionally, the specific financial details requested in the MCQ placed emphasis on cashflows affecting MNRI. Other financial details that did not provide insight on the MNRI nor helped provide insight on how MNRI should be invested were removed from the MCQ.

Another key change included removing questions that requested the Treasurer to subjectively

qualify risk preferences, and instead asked questions about risk preferences in a way that better defined the risk. For example, a question framing risk as high, medium or low was replaced with a question asking the acceptable one-year unrealized loss in percentage.

The Chief Investment Officer also noted that there was an implicit operational issue related to the valuation of securities transitioned into the ONE JIB. The initial contribution of municipalities to the ONE JIB included Legal List Program portfolios, whose value changes from day to day. The MNRI is defined as a value on a specified date, but the value of securities that were received later did not exactly match the MNRI disclosed in the MCQ. This section of the MCQ was reworded to eliminate this issue of market drift by specifying the value of contributed securities on a specific date as opposed to the date they are received.

The changes to the MCQ should make it easier for a Participating Municipality to complete and more relevant to staff when drafting the Investment Plan. The revised MCQ can be found in Appendix B of this report

The Investment Plan template did not require substantive change

Founding Municipalities' input on the Investment Plan was solicited before the final Investment Plans were approved by the ONE JIB on June 23, 2020. The draft Investment Plans were extensively reviewed and revised before they were finalized. At this time, no substantive changes in the template for Investment Plans are required. The Investment Plan template can be found in Appendix C.

The Founding Municipalities assisted ONE staff in revising Council Reporting templates

One last group of templates for which the Founding Municipalities have also helped inform changes are the council report templates prepared by ONE Investment. ONE Investment held a debrief session on September 29, 2020 to obtain feedback from Founding Municipalities on recommended improvements to reports and processes. ONE staff created these reports to assist Founding Municipalities present to and educate Council on the prudent investment regime, as well as help them navigate the necessary steps and authorizations required to create ONE JIB and become prudent investors as required under the *Municipal Act*. Based on the feedback from Founding Municipalities, the council report templates are being streamlined to remove redundancies and to reflect the existence of ONE JIB, which slightly reduces the level of effort for municipal councils contemplating becoming Participating Municipalities in the ONE JIB. Updated council report templates will be ready by early 2021.

5. CONCLUSION:

ONE Investment has updated the IPS, MCQ and IP based on the feedback received from the founding municipalities and ONE staff to create better documents for the use of new Participating Municipalities. ONE JIB's approval of the revised IPS, MCQ and Investment Plan will strengthen the process for onboarding new Participating Municipalities.

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