

To: ONE Joint Investment Board  
From: Jennifer Hess, Manager of Investment Services, MFOA  
Date: November 29, 2023  
Re: Town of Aylmer - Investment Policy Statement  
Report: ONE JIB 2023-O55

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

## 2. SUMMARY

The Town of Aylmer adopted an Investment Policy Statement (**Attachment 1**) for the purpose of entering the prudent investor regime on July 12, 2023. The policy is compliant with municipal legislation. The objectives, risk tolerances and investment horizons in the Investment Policy Statement (IPS) are aligned with the ONE JIB framework. The Town has also completed the Municipal Client Questionnaire (MCQ), which provides further detail on its return expectations and risk tolerances. The information provided in the IPS and the MCQ were considered when developing the proposed Investment Plan (see report 2023-O65).

## 3. BACKGROUND

**Municipal legislation requires that municipalities investing in the prudent investor regime develop an IPS**

Municipalities are required under paragraph 18 of Part II of *O Reg. 438/97* (the Regulation) to adopt and maintain an investment policy statement to participate in the prudent investor regime. This policy must include the municipality's:

1. objectives for return and risk tolerance
2. need for liquidity, particularly for planned projects and unanticipated contingencies.

The investment policy statement may also include other requirements or matters that council considers in the municipality's best interest. The investment policy statement must be reviewed at least annually.

**ONE Investment and ONE JIB have an IPS template**

ONE Investment and ONE JIB have developed a recommended IPS template for municipalities. It is designed to meet municipal legislative requirements. The template contains suggestions for

appropriate objectives, risk tolerances, and time horizons for different types of municipal reserves. ONE JIB uses an outcome-based approach to translate municipal reserves into investment allocations. Table 1 below shows details of the ONE JIB approved Outcomes Framework, which classifies investments into four Outcome categories: Cash, Stable Return, Contingency and Target Date outcomes.

*Table 1: ONE JIB Outcomes Framework*

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

ONE JIB uses a Municipal Client Questionnaire (MCQ) to further understand the information provided in the IPS

The ONE JIB has approved a MCQ that is designed to probe municipalities on their return expectations, risk tolerance, and investment experience. As the ONE JIB Outcomes Framework is designed to connect municipal reserves with appropriate investment strategies, the MCQ also poses questions with respect to municipal cashflows and capital planning to ensure that the funds are being invested in a manner that is consistent with the unique circumstances of the municipality.

#### 4. ANALYSIS

The Town of Aylmer's Council has adopted an IPS with objectives, risk tolerances and investment horizons that are aligned with the ONE JIB Outcomes Framework

On July 12, 2023, the Town of Aylmer's Council adopted an IPS that is based on the

recommended IPS template. Municipal staff have customized the IPS to reflect the municipality's circumstances, including removing sections that do not apply. The IPS, combined with the completed MCQ, reflects Aylmer's investment needs, objectives, risk tolerances and constraints.

### **The Town of Aylmer's IPS demonstrates that it has considered all matters required by legislation in setting its investment objectives**

Subsection 418.1(10) of the *Municipal Act* requires municipalities to consider the following matters under the prudent investor regime:

- General economic conditions.
- The possible effect of inflation or deflation.
- The role that each investment or course of action plays within the municipality's portfolio of investments.
- The expected total return from income and the appreciation of capital.
- Needs for liquidity, regularity of income and preservation or appreciation of capital.

Aylmer's IPS verifies that the Town has taken these considerations into account in setting its investment objectives.

### **The Town of Aylmer uses a 24-month time frame to define MNRI**

Under the *Municipal Act*, municipalities can only invest MNRI in the Legal List or under the Prudent Investor Standard. For the Prudent Investor Standard, it is necessary to define MNRI in the IPS before control of MNRI is delegated to an investment board. ONE Investment provided guidance on best practices in determining the definition of MNRI, and Aylmer determined that money not needed within 24 months was appropriate.

### **The Town of Aylmer's overall investment objective is low growth at low levels of risk**

In its MCQ (reference report 2023-O65), Aylmer defined its risk / return objectives as lower risk/return (question 3.1 in the MCQ):

- Objective is to: "Capital preservation is the main objective. Willingness to accept lower returns to reduce the likelihood of losses"
- Able to accept: "Conservative Approach: A small chance of loss of capital over a 5-year period"
- A tolerance for short-term (3 year) losses is: "less than 5% decline"

These responses provide guidance on how ONE JIB should be investing Aylmer's MNRI.

## **5. CONCLUSION**

Aylmer's IPS is based on the ONE JIB IPS template and is therefore aligned with the ONE JIB Outcomes Framework with respect to investment objectives, risk tolerances, and investment

horizons. The IPS demonstrates that the Town has considered all the elements required in the Regulation.

## **ATTACHMENT**

Attachment 1: Town of Aylmer Investment Policy Statement

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