



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: February 28, 2024
Re: City of Quinte West's Investment Plan 2024
Report: ONE JIB 2024-011

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the City of Quinte West's Investment Policy Statement (Attachment 1).
2. Receive the City of Quinte West's Municipal Client Questionnaire (Attachment 2).
3. Approve the City of Quinte West's proposed Investment Plan (Attachment 3).
4. Approve a 2024 mid-year drawdown of all MNRI in the Cash Outcome when requested by the Treasurer.

2. SUMMARY

The City of Quinte West has updated its Municipal Client Questionnaire (MCQ), which provides information on its MNRI and the investment horizons associated with its reserve balances. The MCQ indicates that significant drawdowns in MNRI will occur over the next two years that need to be considered when reviewing and updating the Investment Plan.

The City will not make a contribution or withdrawal of MNRI at this time but anticipates that there will be a mid-year drawdown in 2024 of MNRI of approximately \$4.8 million, and drawdowns totaling about \$11.4 million over the next two to three years. Adjustments in Outcome allocations will be deferred until 2025, when there may be greater clarity about the timing and size of drawdowns.

As the City's investment allocations will not be changing at this time, no trading will be immediately required to implement the updated Investment Plan. Equity allocations in the updated Investment Plan will be 40.2%. The proposed investment allocations, which reflect consolidated holdings across ONE Investment Outcomes, are presented below:

ONE Investment Funds	Total Invested (\$ millions)	Portfolio Weight (%)
ONE Canadian Equity Fund	\$ 4.2	12.0
ONE Global Equity Fund	9.8	28.1
ONE Canadian Government Bond Fund	8.4	24.0
ONE Canadian Corporate Bond Fund	2.2	6.3
ONE Global Bond Fund	10.3	29.5

Total	\$ 34.9	100.0
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3. BACKGROUND

The City’s annual Investment Policy Statement (IPS) review resulted in no changes to the IPS

The City completed its annual IPS review in December 2023, making no updates to the wording or content of the IPS. There have been no changes to the ONE JIB IPS template since the City last updated the plan in September 2022, so the recently approved IPS remains consistent with the ONE JIB approved template.

The City will not be making contributions or withdrawals of MNRI at this time, but indicated that mid-year drawdown of \$4.8 million this year is probable and further drawdowns are expected over the next two years

The City has approximately \$35 million of MNRI invested in the ONE JIB Outcomes and will not be making contributions or withdrawals as part of this Investment Plan update. The Treasurer is expecting to withdraw approximately \$4.8 million from MNRI in the latter half of 2024 to address funding requirements for capital projects.

Table 1: MNRI by reserve and time horizon forecast, adapted from Table 7 of the MCQ.

Reserve Name or Category	Brief Description or Purpose	Total MNRI Amount	Investment Horizon of MNRI			
			Less than 3 years	3 to 5 years	5 to 10 years	10+ years
Target	Development Charge RF, Federal Gas Tax, Parkland CIL, Parking Reserve, Capital Reserves etc.	30,721,340	4,839,108	6,619,317	14,403,185	4,859,730
Contingency / Stabilization	Tax Rate Stabilization, Winter Control, WSIB Neer, Social Services General, Elections, Municipal Elections Etc.	4,168,306			4,168,306	
	Total MNRI	34,889,646	4,839,108	6,619,317	18,571,491	4,859,730

The City anticipates additional drawdowns in 2025 and 2026 of \$7 million, although there remains some uncertainty about timing and amount involved

The City’s MCQ indicates that about \$7 million of MNRI withdrawals after 2024 will also be required, bringing total drawdowns over the next three years to \$11.4 million. It is anticipated that an adjustment in the allocation of MNRI across the outcomes will be required in 2025, which will be informed by updated cashflow details provided by the Treasurer. Greater clarity about the size and timing of these drawdowns will inform the reallocations required. Details of the City’s cashflow projections affecting MNRI balances are summarized in Table 2 below.

Additional drawdowns over the next two to three years are likely to occur, although there remains uncertainty relating to the ultimate size and timing of these drawdowns. Based on current municipal planning details, it is anticipated that total drawdowns of \$11.4 million will be required. Section 8 of the City’s MCQ provides details of the anticipated contributions/withdrawals of MNRI over the next 10 years, which are shown in Table 2 below.

Table 2: Anticipated Cash Flow Projections MNRI by year from table 8 of the MCQ.

	Next Year	2 years	3 to 5 years	5 to 10 years	Greater than 10 years
Anticipated MNRI Drawdowns	(4,839,107)	(5,000,000)	(2,000,000)	-	-
Anticipated MNRI Contributions	-	-	-	-	-
Net change in MNRI	(4,839,107)	(5,000,000)	(2,000,000)	-	-

4. ANALYSIS

There are multiple factors that have contributed to the City’s need to reduce MNRI, all of which reflect a change in circumstances that shorten the overall horizon of municipal reserves

The Treasurer identified several reasons behind the decision to start drawing down MNRI. There is less-than-expected funding from the provincial government to the City, which was estimated to be a \$2 million decline. The City also had to fund an emergency water main project that led to costs in the range of \$1.2 to \$2 million dollars. Additionally, the cost of growth projects has been affected by inflation, while Bill 23 has had a negative impact. Bill 23 limits the amount of development charges municipalities can collect to pay for growth-related infrastructure. Council has elected to deal with these budgetary constraints by drawing down reserves rather than by increasing taxes. As a result, MNRI will decline over the next few years, leading to drawdowns.

The Investment Plan seeks approval to facilitate a mid-year MNRI withdrawal of about \$4.8 million, as needed, to be funded by a full drawdown of the Cash Outcome

Currently, there are sufficient balances in the Cash Outcome to fund the anticipated drawdown that is expected in the latter half of 2024. The Cash Outcome would serve as a source of liquidity for this purpose. Approval of this drawdown will allow it to be implemented without requiring the ONE JIB to prepare a new Investment Plan when the Treasurer officially requests the drawdown. The current equity allocation would rise from 40.2% to about 46.6% when \$4.8 million is withdrawn from the Cash Outcome. This equity allocation remains appropriate considering the overall investment horizon of reserves.

Anticipated drawdowns in subsequent years can be evaluated in the 2025 Investment Plan, when there may be more clarity about the size and timing of subsequent cashflow needs

The current projections from the Treasurer indicate that \$7 million of MNRI will be required in the 2025–2026 timeframe, but there is currently less certainty about the timing and exact size of these drawdowns. Updates from the Treasurer in 2025 may provide more clarity on the size and timing of drawdowns, which can then be incorporated in the 2025 Investment Plan update. There will likely be a need to reallocate MNRI across outcomes at that time to accommodate the changes. With \$6.6 million currently allocated to the Target Date 3-5 Year Outcome and about \$7 million in drawdowns expected within 3 years, the investment horizon of Quinte West’s invested MNRI remains appropriate.

The mapping to Outcomes and the resulting asset allocation is consistent with Quinte West’s cashflow forecasts, risk tolerances and objectives

Quinte West continues to have a long investment horizon with over \$23 million of reserves identified as having an investment horizon greater than 5 years but, as noted above, a total of \$11.4 million in drawdowns is anticipated within the next 3 years, which may collectively reduce MNRI by one third. The current allocation of MNRI includes \$4.8 million in the Cash Outcome, which is expected to be withdrawn in the second half of 2024, and \$6.6 million in the Target Date 3-5 Year Outcome, which would be available to address the projected drawdowns in subsequent years. The current mapping of shorter investment horizon MNRI to Investment Outcomes is aligned with the timeline of expected drawdowns. As a result, repositioning of the Outcome allocations is not currently required to prepare for the MNRI outflow.

Mapping the MNRI to Outcomes was based on the information provided in the MCQ and discussions with the Treasurer. Asset allocations (Table 3) and fund allocations (Tables 4 and 5) were determined using the ONE JIB’s Outcome Framework.

Table 3: Proposed Outcome Mapping and Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	\$ 4.8	13.9	100	-	100
Contingency	4.2	11.9	40	60	100
Target Date 3-5 Years	6.6	19.0	90	10	100
Target Date 5-10 Years	14.4	41.3	50	50	100
Target Date 10+ Years	4.9	13.9	25	75	100
Total	\$ 34.9	100.0			

Table 4: Proposed Pooled Fund-Level Allocation

ONE Investment Funds	Total Invested (\$ millions)	Portfolio Weight (%)
ONE Canadian Equity Fund	\$ 4.2	12.0
ONE Global Equity Fund	9.8	28.1
ONE Canadian Government Bond Fund	8.4	24.0
ONE Canadian Corporate Bond Fund	2.2	6.3
ONE Global Bond Fund	10.3	29.5
Total	\$ 34.9	100.0

Table 5: Proposed Pooled Fund Allocations by Outcome (values in \$ thousands)

Outcome	ONE Canadian Equity Fund	ONE Global Equity Fund	ONE Canadian Govt Bond Fund	ONE Canadian Corp Bond Fund	ONE Global Bond Fund	Total
Cash	-	-	\$ 4.8	-	-	\$ 4.8
Contingency	0.8	1.8	0.3	0.3	1.2	4.2
Target Date 3-5 Years	0.2	0.5	2.0	0.7	3.2	6.6
Target Date 5-10 Years	2.2	5.0	1.1	1.1	5.0	14.4
Target Date 10+ Years	1.1	2.6	0.2	0.2	0.9	4.9
Total	\$ 4.2	\$ 9.8	\$ 8.4	\$ 2.2	\$ 10.3	\$ 34.9

5. CONCLUSION

The proposed Investment Plan is consistent with the City's IPS, and the proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. The investment allocations are able to address the known future drawdowns of MNRI anticipated by the City. Sufficient funds are available in the Cash Outcome to address an anticipated \$4.8 million drawdown when requested by the Treasure in 2024. The Investment Plan is appropriate for City's time horizons and circumstances, but further drawdowns in MNRI are expected within three years. Outcome allocations will be adjusted in the 2025 Investment Plan when there is greater certainty surrounding the size and timing involved.

ATTACHMENTS

Attachment 1: City of Quinte West's Investment Policy Statement

Attachment 2: City of Quinte West's Municipal Client Questionnaire

Attachment 3: City of Quinte West's proposed Investment Plan

Drafted by: Keith Taylor, Chief Investment Officer; Jennifer Hess, Manager Investment Services

Approved by: Judy Dezell and Donna Herridge, Co-presidents/CEOs, ONE Investment