



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 4, 2024
Re: District Municipality of Muskoka's Investment Plan
Report: ONE JIB 2024-045

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 including the CIO executing a mid-year drawdown of up to \$5 million (Attachment 3).

2. SUMMARY

The District Municipality of Muskoka has updated its Municipal Client Questionnaire (MCQ), which provides information on its MNRI and the investment horizons associated with reserve balances. Muskoka has also reviewed its Investment Policy Statement (IPS), which resulted in no changes to the IPS. Muskoka continues to have a long investment horizon, with three-quarters of MNRI having an investment horizon longer than five years.

The Investment Plan update does not result in new contributions to MNRI or drawdowns at this time, but the Treasurer has indicated the potential for a mid-year drawdown of approximately \$5 million. However, no change in the Investment Plan is recommended at this time. Consolidated equity allocations in the Investment Plan, which do not reflect the proposed drawdown, will remain at 50.5%. 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	\$ 24.2	15.1
ONE Global Equity Fund	56.5	35.3
ONE Canadian Government Bond Fund	15.5	9.8
ONE Canadian Corporate Bond Fund	11.2	7.0
ONE Global Bond Fund	52.3	32.8
Total	\$ 159.8	100.0

3. BACKGROUND

Muskoka’s annual IPS review resulted in no changes

Muskoka completed its annual IPS review on August 8, 2024, making no updates to the wording or content of the IPS. There have been no changes to the ONE JIB IPS template since its plan was last updated in 2023, so the recently approved IPS remains consistent with the ONE JIB approved template.

Muskoka’ overall investment horizon associated with MNRI remains long

Muskoka’s risk tolerances and investment objectives are unchanged from last year’s Investment Plan. About 75% of Muskoka’s MNRI has an investment horizon between 5-10 years, indicating that Muskoka continues to have a long investment horizon. Table 1 below provides more details on the investment horizon of MNRI, categorized by reserve type.

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

Investment Horizon of MNRI						
Reserve Name or Category	Brief Description or Purpose	Total MNRI Amount	Less than 3 years	3-to-5 years	5-to- 10 years	10+ years
Development Charge Reserve Funds	Stable Balances	28,100,000	3,169,000		12,931,000	12,000,000
Obligatory and fee-based reserve funds	Near-term drawdowns	7,327,000		1,832,000	5,495,000	
Program Reserve Funds	Increasing after 2024	62,730,000	(157,000)	8,796,000	24,491,000	29,600,000
Debt Reduction Reserve Fund	Well defined funding needs	(93,000)		5,218,000	(5,311,000)	
Stabilization Reserves	Stable balances	55,264,000	13,750,000		41,184,000	330,000
Contingency Reserves	Modest growth expected	6,358,000			6,358,000	
	Total MNRI	159,686,000	16,762,000	15,846,000	85,148,000	41,930,000

Muskoka may have a mid-year MNRI drawdown of \$5 million and additional drawdowns in 2026, with MNRI balances increasing significantly thereafter

The Treasurer indicated that Muskoka may draw down up to \$5 million of MNRI within the next twelve months to address short-term funding needs. If needed, the Treasurer will complete a mid-year MCQ update to initiate the drawdown. Additional drawdowns will be required in 2026, though there is uncertainty concerning the magnitude of this drawdown.

Muskoka anticipates significant contributions to MNRI from 2027 onwards as the District builds reserves to fund large capital projects, including the District’s share in a hospital to be built in 15 years. The financing of this project has not yet been finalized but may involve debenture issuance.

Details about the time horizon associated with municipal reserves are provided in Section 8 of the District’s MCQ. Details of the anticipated contributions and withdrawals of MNRI over the next 10 years 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	(4,953,844)	(22,103,552)			
Anticipated MNRI Contributions			61,369,637	127,837,285	
Net change in MNRI	(4,953,844)	(22,103,552)	61,369,637	127,837,285	0

4. ANALYSIS

Investment allocations in Muskoka’s updated Investment Plan remain unchanged

Muskoka’s investment horizon has changed somewhat as the updated reserve mapping identifies more MNRI with an investment horizon beyond 10 years and more MNRI with an investment horizon of less than 5 years. Overall, the average investment horizon of MNRI is unchanged. Significant contributions to MNRI are anticipated within 5 to 10 years that should increase MNRI and could extend the investment horizon of MNRI. No changes to the Investment Plan are recommended at this time, but this may be revisited in 2025, and as needed, changes can be implemented as part of the transition to the OCIO Offering. The anticipated mid-year MNRI drawdown will be fulfilled by reductions in the Cash and Target Date 3-5 Year Outcomes as needed.

The mapping of MNRI to Outcomes in the Investment Plan and the resulting asset allocation is appropriate considering Muskoka’s cashflow forecasts, risk tolerances and objectives

The District continues to have a long investment horizon, with modest near-term

drawdowns and significant MNRI contributions expected in the intermediate term. Considering this, there will be no changes in the mapping of MNRI to investment outcomes, the overall risk level is unchanged, and the overall allocation to equities at a consolidated level remains at 50.5%.

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 Outcomes Framework.

Table 3: Proposed Outcome Mapping and Asset Allocation

Outcome	Total Invested (\$ millions)	Portfolio Weight (%)	Fixed Income (%)	Equities (%)	Total (%)
Cash	\$ 0.1	0.1	100	-	100
Contingency	21.4	13.4	40	60	100
Target Date 3-5 Years	21.2	13.3	90	10	100
Target Date 5-10 Years	88.4	55.3	50	50	100
Target Date 10+ Years	28.7	18.0	25	75	100
Total	\$ 159.8	100.0			

Table 4: Proposed Pooled Fund-Level Allocation

ONE Investment Funds	Total Invested (\$ millions)	Portfolio Weight (%)
ONE Canadian Equity Fund	\$ 24.2	15.1
ONE Global Equity Fund	56.5	35.3
ONE Canadian Government Bond Fund	15.5	9.8
ONE Canadian Corporate Bond Fund	11.2	7.0
ONE Global Bond Fund	52.3	32.8
Total	\$ 159.8	100.0

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

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	-	-	\$ 0.09	-	-	\$ 0.09
Contingency	3.85	8.99	1.28	1.28	5.99	21.4
Target Date 3-5 Years	0.64	1.48	6.46	2.23	10.39	21.2
Target Date 5-10 Years	13.26	30.94	6.63	6.63	30.94	88.4
Target Date 10+ Years	6.46	15.07	1.08	1.08	5.02	28.7
Total	\$ 24.2	\$ 56.5	\$ 15.5	\$ 11.2	\$ 52.3	\$ 159.8

5. CONCLUSION

The proposed Investment Plan is consistent with Muskoka’s IPS, and the proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. If needed, the District may draw down up to \$5 million within the next 12 months. The MNRI drawdown, if requested, it will be funded from monies invested in the Cash Outcome and Target Date 3-5 Year Outcome. Significant contributions to MNRI beyond 2026 are expected that may extend the average investment horizon of Muskoka’s MNRI, but analysis from the District provided as part of this year’s annual Investment Plan update does not indicate that a change in investment allocations is required at this time. As a result, no changes are recommended to the Investment Plan at this point, but changes may be considered in 2025 when the transition to the OCIO Offering takes place. The allocations in Muskoka’s Investment Plan remain appropriate for the municipality considering its time horizons and circumstances.

ATTACHMENTS

Attachment 1: District Municipality of Muskoka’s Investment Policy Statement

Attachment 2: District Municipality of Muskoka’s Municipal Client Questionnaire

Attachment 3: District Municipality of Muskoka’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