



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: November 27, 2024
Re: Municipality of Red Lake's Investment Plan
Report: ONE JIB 2024-069

1. RECOMMENDATIONS

It is recommended that the Board:

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

2. SUMMARY

The Municipality of Red Lake has decided to join ONE JIB as a Participating Municipality. The Municipality has provided a Municipal Client Questionnaire (MCQ) to provide information on its MNRI and the investment horizons associated with its reserve balances which have informed the recommended allocations.

Red Lake will allocate \$2.2 million in MNRI to be invested under the care and control of ONE JIB. The investment allocation has been determined by reviewing the circumstances, needs and risk tolerance of the municipality. It also incorporates the treasurer's analysis of expected cashflows affecting municipal reserve balances. The resulting allocation described in the Investment Plan is appropriate for the municipality. A 40% allocation to equities has been recommended for Red Lake, Model D, as discussed at the October 1, 2024 New Product Committee Meeting. A summary is shown below:

MID TERM 40% EQUITY - MODEL D		
Asset Classes	Target Weight	Total Invested (\$)
Cash & Equivalent	0%	-
Canadian Fixed Income	45%	\$990,000
Global Fixed Income and Credit	15%	\$330,000
Canadian Equities	20%	\$440,000
Global Equities	20%	\$440,000
Alternatives	0%	-
Total	100%	\$2,200,000

3. BACKGROUND

Red Lake will be contributing \$2.2 million in MNRI to ONE JIB

Red Lake will contribute \$2.2 million of MNRI to invest in the OCIO model. The treasurer has provided details of the time horizon associated with reserve balances, which has informed the allocation decisions in the Investment Plan. Table 1 below provides a summary of the key reserves. As shown below, the majority of MNRI has an investment horizon estimated to be between 5 to 10 years.

Table 1: MNRI by reserve and time horizon forecast, adapted from table 3.1 of MCQ

Investment Horizon of MNRI				
Description (i.e. Funding Objective, Investment Purpose, or Municipal Reserve)	Total MNRI (\$)	Investment Horizon < 5 Years (\$)	Investment Horizon 5-10 Years (\$)	Investment Horizon >10 Years (\$)
Contingency	500,000		500,000	
Airport	1,700,000	825,000	875,000	
Total MNRI	\$2,200,000	\$825,000	1,375,000	

Red Lake anticipates meaningful drawdowns of MNRI in 2029

The analysis provided by the treasurer suggested that Red Lake anticipates a large drawdown in 2029 of \$750,000 to fund planned spending for the airport. Additional airport spending of \$75,000 per year on airport is anticipated in 2028, 2030, 2031, 2032, and 2033.

Table 2: Anticipated Cash Flow Projections, MNRI by year adapted from table 3.3 of MCQ.

	Next Year	2 years	3 years	4 years	5+ years
Anticipated MNRI Drawdowns				75,000	1,050,000
Anticipated MNRI Contributions					
Net change in MNRI	0	0	0	\$75,000	\$1,050,000

Model portfolios provided by the Phillips, Hager & North Institutional (PH&N) will guide Red Lake’s allocations

A set of model portfolios has been developed by PH&N that is designed to be appropriate for a wide range of Participating Municipalities needs. More detail on the decision history related to this report is available the New Products Committee Report ([2024-01](#)) October 1, 2024.

4. ANALYSIS

The mapping of MNRI to the OCIO model in the Investment Plan is consistent with Red Lake’s cashflow forecasts, risk tolerance and objectives

A review of Red Lake’s expected cashflows and expected future reserve balances was conducted as part of the annual review process. The municipality has a relatively long investment horizon with the majority of MNRI having an investment horizon between 5 to 10 years. The analysis also indicated an expected drawdown of \$750,000 in five years related to improvements at the Airport. Red Lake also has identified \$500,000 of MNRI as contingency reserves that represent contributions to fund unexpected and infrequent events. These contingency reserves should be invested to provide growth over time and are considered to have a long investment horizon. Overall, the municipality has a long investment horizon. The allocation decisions considered the cyclical nature of the local economy, as the local economy is heavily influenced by mining activity, and municipal cashflows will tend to be affected if the price of gold declines. This cyclical aspect of the local economy which provides a reason to retain financial flexibility. Furthermore, Red Lake’s municipal budget is impacted by activity in surrounding areas and communities which creates additional uncertainty for planning purposes.

The Investment Plan recommends Red Lake’s MNRI be invested in the model D, which has a 40% allocation to equity within a well-diversified portfolio

The investment allocations proposed in the Investment Plan reflect that most of the municipality’s MNRI has an expected investment horizon of 5 to 10 years with an expectation that about one-third of the MNRI will be required within 5 years. The CIO and OCIO have discussed the allocation and are recommending that an allocation designed for a medium-term investment horizon is most appropriate. The cyclical nature of the local economy is another factor that gives reason to have a relatively conservative investment allocation. The proposed allocation, model D, that has 40% exposure to equities is appropriate considering the municipality’s circumstances. Table 3 below provides some summary statistics of model D and Table 4 shows further detail on Red Lake’s investment allocations.

Table 3: Summary statistics for Model D

Summary Statistics	Model D	Notes: ¹ Annual Downside Risk (CVaR95) represents the expected loss during the worst 5% of return outcomes. Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized.
Long-Term Return	6.4%	
Annual Downside Risk ¹	-9.6%	
Annual Volatility	6.3%	
Sharpe Ratio	0.48	

Table 4: Proposed Pooled Fund-Level Allocation

MID TERM 40% EQUITY MODEL (D)				
Asset Classes	Minimum (%)	Target Weight (\$)	Maximum (%)	Total Invested (\$)
Cash & Equivalent	0	0	10	\$0
Canadian Fixed Income	35	45	55	\$990,000
Short-Term bonds		25		550,000
Universe Bonds		0		-
Corporate Bonds		0		-
Private Placement Corporate Debt		10		220,000
Commercial Mortgage		10		220,000
Global Fixed Income and Credit	0	15	25	\$330,000
High Yield Bonds		0		-
Global Multi-Asset Credit		15		330,000
Global Bonds		0		-
Emerging Markets Bonds		0		-
Canadian Equities	10	20	30	\$440,000
Canadian Equities		10		220,000
Canadian Low Volatility Equities		10		220,000
Global Equities	10	20	30	\$440,000
U.S. Equities		5		110,000
U.S. Low Volatility Equities		5		110,000
International Equities		10		220,000
Global Equities		0		-
Global Low Volatility Equities		0		-
Alternatives	0	0	0	\$0
Real Estate		0		-
Infrastructure		0		-
Total		100		\$2,200,000

5. CONCLUSION

The proposed Investment Plan is consistent with Red Lake's IPS, and the proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. The Municipality anticipates drawdowns that represent about one-third of MNRI within five years with the remaining MNRI having an investment horizon between five and ten years. The investment allocations can address the future drawdowns of MNRI anticipated by the Municipality if circumstances change. As a result, the Investment Plan is appropriate for the Municipality's time horizons and circumstances.

ATTACHMENTS

Attachment 1: Municipality of Red Lake's Investment Policy Statement

Attachment 2: Municipality of Red Lake's Municipal Client Questionnaire

Attachment 3: Municipality of Red Lake'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