



# REPORT

To: ONE Joint Investment Board  
From: Keith Taylor, Chief Investment Officer, ONE Investment  
Date: November 27, 2024  
Re: Township of Central Frontenac's Investment Plan  
Report: ONE JIB 2024-067

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the Township of Central Frontenac's Investment Policy Statement (Attachment 1).
2. Receive the Township of Central Frontenac's Municipal Client Questionnaire (Attachment 2).
3. Approve the Township of Central Frontenac's proposed Investment Plan (Attachment 3).

## 2. SUMMARY

The Township of Central Frontenac 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.

Central Frontenac will allocate \$2.8 million in MNRI to be invested under the care and control of ONE JIB. This MNRI contribution will be needed in future years primarily to fund anticipated capital spending on roadwork within the municipality. Central Frontenac anticipates that \$4,000,000 of MNRI may be required in 2029. This roadwork will require spending of \$8 million every eight years thereafter. Future annual contributions of \$500,000 are anticipated to accumulate monies for these recurring capital spending needs.

The proposed investment allocation in the Investment Plan has been determined by reviewing the municipal circumstances, needs and risk tolerance. 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 60% allocation to equities has been recommended for Central Frontenac, Model F, as discussed at the October 1, 2024 New Product Committee Meeting. A summary is shown below:

LONG TERM 60% EQUITY - MODEL F		
Asset Classes	Target Weight	Total Invested (\$)
Cash & Equivalent	0%	-
Canadian Fixed Income	30%	840,000
Global Fixed Income and Credit	10%	280,000
Canadian Equities	30%	840,000
Global Equities	30%	840,000
Alternatives	0	-
Total	100%	\$2,800,000

### 3. BACKGROUND

#### Central Frontenac will be contributing \$2.8 million in MNRI to ONE JIB

Central Frontenac will contribute \$2.8 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 proposed allocations in the Investment Plan. Table 1 below provides a summary. As shown below, MNRI is intended to be used primarily to fund the recurring spending related to roadwork and has a long investment horizon.

*Table 1: MNRI by reserve and time horizon forecast, adapted from Table 3.1 of the 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 (\$)
Fund Road 38	\$2,800,000			\$2,800,000
Total MNRI	\$2,800,000	0	0	\$2,800,000

#### Central Frontenac anticipates annual contributions of \$500,000 and expects to draw down \$4 million in 2029 and \$8 million about every eight years thereafter

The analysis provided by the treasurer suggested that every eight to ten years, Central Frontenac will be responsible for spending related to the maintenance of Road 38. The treasurer expects to draw \$4,000,000 in 2029, and it is anticipated that \$8,000,000 will need to be spent every eight years thereafter, though this is an estimate with some uncertainty about the timing and ultimate amounts involved.

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

	<b>Next Year</b>	<b>2 years</b>	<b>3 years</b>	<b>4 years</b>	<b>5+ years</b>
Anticipated MNRI Drawdowns					(\$4 million)*
Anticipated MNRI Contributions	\$500k	\$500k	\$500k	\$500k	\$500k
Net change in MNRI	\$500k	\$500k	\$500k	\$500k	(\$3,500k)

\* The treasurer indicated \$4 million drawdown between 2029 and 2032, then \$8 million every 8 years.

**Model portfolios provided by the Phillips, Hager & North Institutional (PH&N) will guide Central Frontenac’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 in the following New Products Committee Report ([2024-01](#)) October 1, 2024.

**4. ANALYSIS**

**The mapping of Central Frontenac’s MNRI in the Investment Plan is consistent with the Township’s cashflow forecasts, risk tolerance and objectives**

A review of Central Frontenac’s expected cashflows and expected future reserve balances was conducted as part of the review process. The Township has a long investment horizon with an MNRI balance reflecting reserves that will be used to fund road work. All Central Frontenac’s MNRI is associated with a specific capital reserve: the Road 38 Reserve. The proposed investment allocations are based on the expected capital spending pattern. Earning an adequate return on investments is key to ensuring monies are available for the expected spending.

**Central Frontenac’s MNRI has a targeted purpose: to fund recurring spending on a specific capital reserve that funds spending on Road 38.**

Central Frontenac will contribute \$2.8 million in MNRI to build reserves for the recurring capital spending on Road 38. It is also expected to start contributing \$500,000 of MNRI annually to the Road 38 Reserve next year.

The treasurer expects the first drawdown from the Road 38 Reserve of \$4.0 million to occur in 2029 and expects recurring spending of \$8 million about every eight years thereafter. There is some uncertainty about the timing of the spending and the potential for spending to be deferred, and there is also some uncertainty about the amount of spending

required. Due to these uncertainties, the size of annual contributions may need to be adjusted to reflect changing circumstances.

**The Investment Plan allocations have been specifically designed to address the pattern of contributions and drawdowns required for the expected capital spending**

Based on the expected contribution/drawdown pattern and spending needs of the Township, the annual contributions alone will be insufficient to build reserves for the eight-year capital spending cycle. Growth on the initial contribution is key for this financing plan to remain sustainable, and for modelling purposes, it has been assumed that the \$2.8 million contribution will not be drawn down, but growth on these balances will help provide funding for future expected spending. For this reason, a portion of the initial contribution would be considered to have a very long investment horizon. Subsequent annual contributions would effectively rebuild reserve balances for the next planned spending cycle.

The Investment Plan reflects a long investment horizon, with an allocation of 60% to equities (model portfolio F) within a well-diversified portfolio. The anticipated recurring \$500,000 annual MNRI contributions, which will start next year should also be deployed into model portfolio F.

There is an element of uncertainty to this modelling, as both the timing and magnitude of further drawdowns may change. There is also the risk that investment returns may not be sufficient to make this funding plan sustainable. For these reasons adjustments to the annual contributions could be required over time.

*Table 3: Summary statistics for Model F*

Summary Statistics	Model F	Notes:
Long-Term Return	7.0%	<p><sup>1</sup> Annual Downside Risk (CVaR95) represents the expected loss during the worst 5% of return outcomes.</p> <p>Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized.</p>
Annual Downside Risk <sup>1</sup>	-14.4%	
Annual Volatility	8.9%	
Sharpe Ratio	0.40	

*Table 4: Proposed Pooled Fund-Level Allocation*

LONG TERM 60% EQUITY MODEL (F)				
Asset Classes	Minimum (%)	Target Weight (\$)	Maximum (%)	Total Invested (\$)
<b>Cash &amp; Equivalent</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>\$0</b>
<b>Canadian Fixed Income</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>\$840,000</b>
Short-Term bonds		20		560,000
Universe Bonds		0		-
Corporate Bonds		0		-
Private Placement Corporate Debt		0		-
Commercial Mortgage		10		280,000

Table 4 (continued): Proposed Pooled Fund-Level Allocation

<b>LONG TERM 60% EQUITY MODEL (F)</b>				
<b>Asset Classes</b>	<b>Minimum (%)</b>	<b>Target Weight (\$)</b>	<b>Maximum (%)</b>	<b>Total Invested (\$)</b>
<b>Global Fixed Income and Credit</b>	<b>0</b>	<b>10</b>	<b>20</b>	<b>\$280,000</b>
High Yield Bonds		0		-
Global Multi-Asset Credit		10		280,000
Global Bonds		0		-
Emerging Markets Bonds		0		-
<b>Canadian Equities</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>\$840,000</b>
Canadian Equities		25		700,000
Canadian Low Volatility Equities		5		140,000
<b>Global Equities</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>\$840,000</b>
U.S. Equities		6		168,000
U.S. Low Volatility Equities		6		168,000
International Equities		18		504,000
Global Equities		0		-
Global Low Volatility Equities		0		-
<b>Alternatives</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0</b>
Real Estate		0		-
Infrastructure		0		-
<b>Total</b>		<b>100</b>		<b>\$2,800,000</b>

## 5. CONCLUSION

The proposed Investment Plan is consistent with Central Frontenac’s IPS, and the proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. The Township has a long investment horizon, which represents reserves for ongoing maintenance of Road 38. This involves recurring annual contributions of \$500,000, an anticipated drawdown of \$4,000,000 in 2029, and drawdowns of \$8,000,000 about every eight years thereafter. The allocations are designed to address the specific needs identified by Central Frontenac. As a result, the Investment Plan is appropriate for the Township’s time horizons and circumstances.

## ATTACHMENTS

- Attachment 1: Township of Central Frontenac’s Investment Policy Statement
- Attachment 2: Township of Central Frontenac’s Municipal Client Questionnaire
- Attachment 3: Township of Central Frontenac’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