



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: November 27, 2024
Re: Municipality of Clarington's Investment Plan
Report: ONE JIB 2024-066

1. RECOMMENDATIONS

It is recommended that the Board:

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

2. SUMMARY

The Municipality of Clarington has decided to join ONE JIB as a Participating Municipality. Clarington 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.

Clarington's initial \$20.0 million contribution of MNRI has a very long investment horizon of at least 10 years. The proposed investment allocation in the Investment Plan 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 70% allocation to equities has been recommended for Clarington, Model G, as discussed at the October 1, 2024 New Product Committee Meeting. A summary is shown below:

LONG TERM 70% EQUITY MODEL (G)		
Asset Classes	Target Weight	Total Invested (\$)
Cash & Equivalent	0%	-
Canadian Fixed Income	30%	\$6,000,000
Global Fixed Income and Credit	0%	-
Canadian Equities	35%	\$7,000,000
Global Equities	35%	\$7,000,000
Alternatives	0%	-
Total	100%	\$20,000,000

3. BACKGROUND

Clarington will be contributing \$20 million of MNRI to ONE JIB

Clarington will contribute \$20.0 million of MNRI to invest in the OCIO model. The treasurer has provided details of the time horizons associated with reserve balances, which have informed the allocations in the Investment Plan. Table 1 below provides a summary. The majority of MNRI is intended to be used to fund future capital spending 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 (\$)
Capital Growth	\$20,000,000			\$20,000,000
Total MNRI	\$20,000,000	0	0	\$20,000,000

Clarington's time horizon is very long, with no expected drawdowns of MNRI within the next ten years

Clarington will contribute \$20.0 million of MNRI to invest in the OCIO model, all of which have a very long time-horizon. This MNRI has an investment horizon that exceeds ten years. The Municipality noted that several capital projects are under consideration, limiting its ability to commit additional MNRI at this time.

The treasurer has provided details of the time horizons associated with reserve balances which have informed the allocations in the Investment Plan. Table 2 below provides a summary. As shown below, the majority of MNRI is intended to be used to fund capital spending with a long investment horizon. It is not anticipated that MNRI will be drawn down within the next 10 years.

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	0	0	0	0	\$16,500,000
Anticipated MNRI Contributions					
Net change in MNRI	0	0	0	0	\$16,500,000

* The Treasurer indicated that no MNRI drawdowns are expected within the next 10 years.

Model portfolios provided by the Phillips, Hager & North Institutional (PH&N) will guide Clarington'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 New Products Committee Report [\(2024-01\)](#) October 1, 2024.

4. ANALYSIS

Clarington may make incremental contributions to MNRI but does not have sufficient visibility at this time to allow the size and timing to be confirmed

Clarington staff have identified several capital projects that may require funding over the next few years that limit their ability to commit additional MNRI at this time. Staff are also in the process of liquidating certain existing Legal List portfolio holdings to address money required immediate spending needs. The treasurer suggested that Clarington may be able to make incremental contributions within two years. These contributions have not been included in Table 3.3 of the MCQ due to the uncertainties involved.

The mapping of Clarington's MNRI in the Investment Plan is consistent with its cashflow forecasts, risk tolerance and objectives.

A review of Clarington's expected cashflows and expected future reserve balances was conducted as part of the annual review process. The municipality has a long investment horizon, and it is not anticipated that any MNRI will need to be drawn down within the next 10 years. The investment allocation will address the need for MNRI to generate growth over time so reserve balances grow at a rate above inflation. Near-term liquidity needs are being addressed by money required immediately balances, so the liquidity of investments in the investment portfolio is not a high priority for Clarington.

The Investment Plan recommends Clarington's MNRI be invested in model G, which has a 70% allocation to equities within a well-diversified portfolio

Clarington has a very long investment horizon with all MNRI expected to remain invested for at least 10 years. The CIO and OCIO have reviewed Clarington's circumstances and discussed the allocation and are recommending that an allocation to model G. This model is designed for a long-term investment horizon and has a 70% allocation to equities, and which is appropriate considering the investment horizon involved. Table 3 below provides some summary statistics of model G and Table 4 shows further detail on Clarington's investment allocations.

Table 3: Summary statistics for Model G

Summary Statistics	Model G
Long-Term Return	7.1%
Annual Downside Risk ¹	-16.2%
Annual Volatility	10.0%
Sharpe Ratio	0.37

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.

Table 4: Proposed Pooled Fund-Level Allocation

LONG TERM 70% EQUITY MODEL (G)				
Asset Classes	Minimum (%)	Target Weight (\$)	Maximum (%)	Total Invested (\$)
Cash & Equivalent	0	0	10	\$0
Canadian Fixed Income	20	30	40	\$6,000,000
Short-Term bonds		20		4,000,000
Universe Bonds		0		-
Corporate Bonds		0		-
Private Placement Corporate Debt		0		-
Commercial Mortgage		10		2,000,000
Global Fixed Income and Credit	0	0	10	\$0
High Yield Bonds		0		-
Global Multi-Asset Credit		0		-
Global Bonds		0		-
Emerging Markets Bonds		0		-
Canadian Equities	25	35	45	\$7,000,000
Canadian Equities		35		7,000,000
Canadian Low Volatility Equities		0		-
Global Equities	25	35	45	\$7,000,000
U.S. Equities		7		1,400,000
U.S. Low Volatility Equities		7		1,400,000
International Equities		21		4,200,000
Global Equities		0		-
Global Low Volatility Equities		0		-
Alternatives	0	0	0	\$0
Real Estate		0		-
Infrastructure		0		-
Total		100		\$20,000,000

5. CONCLUSION

The proposed Investment Plan is consistent with Clarington's IPS, and the proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. Clarington has a long investment horizon with no anticipated withdrawals of MNRI expected within ten years. This initial \$20 million MNRI contribution, uses an allocation of 70% to equities (Model Portfolio G) within a well-diversified portfolio. The proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its IPS and MCQ. As a result, the Investment Plan is appropriate for the time horizons and available MNRI.

ATTACHMENTS

Attachment 1: Municipality of Clarington's Investment Policy Statement

Attachment 2: Municipality of Clarington's Municipal Client Questionnaire

Attachment 3: Municipality of Clarington'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