



# REPORT

To: ONE Joint Investment Board  
From: Keith Taylor, Chief Investment Officer, ONE Investment  
Date: February 25, 2025  
Re: City of Quinte West's Investment Plan  
Report: ONE JIB 2025-012

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## 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).

## 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 City has also reviewed its Investment Policy Statement (IPS) and has updated its IPS to reflect changes associated with the OCIO Offering.

The MCQ indicates the municipality will need to draw down \$5 million immediately and anticipates a withdrawal of another \$5 million of MNRI expected to take place in Q4 2025. Additional annual withdrawals of \$2 million are also expected from 2026-2029.

Quinte West's 2024 Investment Plan indicates that budgetary constraints are leading to a reduction in MNRI. Quinte West's 2024 Investment Plan approved a mid-year withdrawal of \$5 MNRI, but this drawdown was deferred. Instead, it will be incorporated into the financial planning associated with this year's Investment Plan update. The pattern of drawdowns reflects the Council's desire to finance anticipated capital spending by reducing reserve balances rather than increasing the tax levy.

Based on the circumstances, needs and investment horizon associated with Quinte West's reserve balances, it is recommended that investment Model D be used for Quinte West. This model, which has a 40% allocation to equities, will be implemented during the transition to the OCIO Offering that is planned to occur by the end of March. A summary is shown below:

<b>MID TERM / 40% EQUITY MODEL (D)</b>		
<b>Asset Classes</b>	<b>Target Weight</b>	<b>Total Invested (\$)</b>
Cash & Equivalent	0%	\$0
Canadian Fixed Income	45%	\$14,752,397
Global Fixed Income and Credit	15%	\$4,917,466
Canadian Equities	20%	\$6,556,621
Global Equities	20%	\$6,556,621
Alternatives	0	\$0
<b>Total</b>	<b>100%</b>	<b>\$32,783,105</b>

### **3. BACKGROUND**

#### **Quinte West’s annual review of its IPS resulted in changes to reflect the new IPS template that will be used under the OCIO Offering**

Quinte West completed its annual IPS review on January 22, 2025, updating the IPS with changes suggested in the most recently approved ONE JIB IPS template. The amendments to the IPS included necessary and relevant changes as the ONE JIB moves to the OCIO business model. In the IPS update, the municipality did not elect to allow alternative investments (real estate and infrastructure) as part of its MNRI investments.

#### **Investment Income may help provide Quinte West with an additional source of revenues**

Ontario municipalities are under significant pressure to provide new and improved infrastructure to residents (e.g., recreation facilities, fire halls, roads, libraries) while avoiding excessive property tax rate increases. In Quinte West’s case, the most recent 10-year capital forecast projects a need for \$371 million in spending to be funded from the tax base, Canada Community Building Fund (previously Federal Gas Tax), Ontario Community Infrastructure Fund, long-term debt, and existing reserves. The municipality’s 10-year capital plan for Water and Wastewater alone totals \$218 million.

For the City of Quinte West, a 1% increase in property taxes would bring in an additional \$750,000 in annual tax revenue, which limits its ability to fund the increasing costs of expected capital needs through tax increases alone. Investment returns can help the municipality meet its capital spending needs.

#### **Quinte West’s MNRI will be transitioned into the OCIO Offering using one model portfolio**

Quinte West’s MNRI will be transitioned into one of the ten model portfolios approved at the ONE JIB meeting on November 27, 2024. These ten models each have investment allocations that offer a range of risk and return attributes appropriate for most Participating Municipalities. Based on the client’s needs, circumstances and risk tolerances, one of the model portfolios will be assigned. PH&N Institutional has developed a set of model

portfolios appropriate for a wide range of Participating Municipalities’ needs. For more information about the decisions that led to this report, please see the New Products Committee Report ([2024-01](#)), dated October 1, 2024.

**Quinte West’s updated MCQ indicated that near-term drawdowns may be expected**

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, a significant portion of Quinte West’s MNRI has an investment horizon that exceeds 10 years, and a significant portion has a much shorter investment horizon.

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

<b>Investment Horizon of MNRI</b>				
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 (\$)
Reserves/Reserve Funds	\$32,783,105	\$13,000,000	\$9,800,000	\$9,983,105
<b>Total MNRI</b>	<b>\$32,783,105</b>	<b>\$13,000,000</b>	<b>\$9,800,000</b>	<b>\$9,983,105</b>

**Quinte West anticipates meaningful drawdowns of MNRI annually until 2029**

The analysis provided by the treasurer suggested that Quinte West anticipates significant drawdowns over the next few years, including an immediate drawdown of \$5 million in March 2025 and an expected drawdown of an additional \$5 million later in 2025. Drawdowns of \$2 million annually are also expected from 2026 to 2029.

Section 3.3 of Quinte West’s MCQ provides details of the anticipated contributions and withdrawals of MNRI over the next 10 years, shown in Table 2 below. The Treasurer has a high level of confidence in the forecasted drawdowns. Therefore, Quinte West’s investments will drop by about \$13 million (before investment returns) by 2029.

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

	Later in 2025	2026	2027	2028	2029
Anticipated MNRI Drawdowns	\$5,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Anticipated MNRI Contributions	-	-	-	-	-
<b>Net change in MNRI</b>	<b>(\$5,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>

## 4. ANALYSIS

### **Quinte West's planned drawdowns can be readily accommodated**

Quinte West's expected cashflows and future reserve balances were reviewed as part of the annual review process. Quinte West's MNRI is currently invested with a consolidated equity allocation of 40.7%, which remains appropriate considering its circumstances, needs and risk tolerance. The Municipality's circumstances include significant drawdowns in 2025 and smaller drawdowns for the next few years. The treasurer has good visibility on capital spending and the need for debt finance. This means there is strong confidence that the drawdowns noted in Table 3.3 of the MCQ will materialize as planned. The Municipality also maintains reserves as part of MRI to address contingencies, helping to limit the possibilities of unexpected drawdowns from MNRI.

During the transition to the OCIO Offering, planned in March 2025, the drawdown of \$5 million required immediately will be facilitated. This drawdown will be funded from the liquidation of ONE Investment Pooled funds needed to move MNRI into the OCIO Offering, so no additional trading activity will be required to facilitate this. For the anticipated drawdown expected later in 2025 and the expected drawdowns in subsequent years, there should be sufficient liquidity in the OCIO Offering to facilitate these drawdowns as needed.

### **The Investment Plan recommends Quinte West's MNRI be invested in Model D, which has a 40% allocation to equity within a well-diversified portfolio**

The investment allocations proposed in the Investment Plan indicate that Quinte West's MNRI has a relatively long investment horizon despite the near-term drawdowns. About 30% of the municipality's MNRI has an investment horizon between 5 to 10 years, and another 30% of its MNRI has an investment horizon that exceeds 10 years. Analysis of these updated cashflow forecasts associated with reserve balances and other input from the treasurer supported the decision that a 40% allocation to equities remains appropriate for the municipality. This means that as Quinte West's MNRI is transitioned into the OCIO Offering, its risk profile is essentially unchanged, and its MNRI investments should continue to offer a similar long-term growth profile. For any withdrawals needed during the year, investments will be sold to maintain the allocation weights associated with Model D. This process may also include rebalancing the portfolio to ensure it aligns with the target asset allocation.

The CIO and OCIO have discussed the allocation and recommend that an allocation designed for a medium-term investment horizon is most appropriate. The proposed allocation, model D, which has 40% exposure to equities, is appropriate considering the municipality's circumstances.

Table 3 below provides some summary statistics for model D, and Table 4 further details Quinte West's investment allocations.

Table 3: Summary statistics for Model D

Summary Statistics	Model D	Notes:
Long-Term Return	6.4%	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.
Annual Downside Risk <sup>1</sup>	-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 (\$)
<b>Cash &amp; Equivalent</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>\$0</b>
<b>Canadian Fixed Income</b>	<b>35</b>	<b>45</b>	<b>55</b>	<b>\$14,752,397</b>
Short-Term bonds		25		8,195,776
Universe Bonds		0		-
Corporate Bonds		0		-
Private Placement Corporate Debt		10		3,278,311
Commercial Mortgage		10		3,278,311
<b>Global Fixed Income and Credit</b>	<b>0</b>	<b>15</b>	<b>25</b>	<b>\$4,917,466</b>
High Yield Bonds		0		-
Global Multi-Asset Credit		15		4,917,466
Global Bonds		0		-
Emerging Markets Bonds		0		-
<b>Canadian Equities</b>	<b>10</b>	<b>20</b>	<b>30</b>	<b>\$6,556,621</b>
Canadian Equities		10		3,278,311
Canadian Low Volatility Equities		10		3,278,311
<b>Global Equities</b>	<b>10</b>	<b>20</b>	<b>30</b>	<b>\$6,556,621</b>
U.S. Equities		5		1,639,155
U.S. Low Volatility Equities		5		1,639,155
International Equities		10		3,278,311
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>\$32,783,105</b>

## **5. CONCLUSION**

Quinte West has a long investment horizon, with several MNRI drawdowns anticipated over the next few years. The Investment Plan provides for an immediate drawdown of \$5 million and an additional expected drawdown of \$5 million that may happen near the end of the year. Additional drawdowns of \$2 million per year through 2029 are also anticipated. There is sufficient liquidity in the assigned investment allocation to address this. Quinte West's MNRI will be transitioned into the OCIO Offering in March 2025 with a 40% allocation to equities (Model D). 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 Quinte West's circumstances and needs and reflects the time horizons of its MNRI.

### **ATTACHMENTS**

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

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

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

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