

# RURAL ONTARIO MUNICIPAL ASSOCIATION

## 2019 CONFERENCE

Eleonore Schneider – Program Manager  
Geri James – ONE Investment Committee Member  
Janet Wong – ONE Investment Program Co-ordinator

January 29, 2019

# TODAY'S AGENDA

1. Moving towards prudent investing – the Municipal process
2. ONE Investment's philosophy



# 1. MOVING TOWARDS PRUDENT INVESTING

## THE MUNICIPAL PROCESS





## WHAT IS ONE INVESTMENT?

- A new Not-for Profit Organization created in 2018 to provide a full suite of investment services and products
- Offering a **commingled** investment program for the Ontario public sector
- Established in 1993 and jointly operated as a program by not-for-profits:

- LAS (*a corporation of AMO*)



- CHUMS (*a subsidiary of MFOA*)



- Oversight provided by municipalities and investment industry experts
- 158 Ontario municipalities (and Boards) invest with ONE (35% of Ontario Municipalities)



# HOW MUNICIPALITIES CAN INVEST IN ONTARIO - O. REG 438/97?

## Legal List – Section 418

- Easy to monitor in theory
- Regulations can be difficult to interpret
- Time consuming to reflect evolving capital markets
- May provide a false sense of security
- Risk is determined by the Legal List
- Ability to diversify is limited

## Prudent Investor – Regulation 418.1

- Monitoring requires more detailed policies & procedures
- Evolves concurrently with capital markets
- Requires more detailed independent due diligence
- Consistent with fiduciary duty
- Risk can be determined and controlled at portfolio level
- Ability to provide greater diversification and risk reduction



## PRUDENT INVESTOR BENEFITS

- More diverse portfolio
- Greater choice, flexibility
- Ability to adjust to changes in financial environment or need
- Potential for better returns
- Risk managed specifically to meet your needs
- Professional management and oversight





# ONE INVESTMENT: BUSINESS MODEL

- **Joint Investment Board** formed by municipal governments that will allow any municipality to participate in prudent investor
- **ONE Roving Duo** a service team comprised of municipal finance and investment industry professional to support municipalities (capacity and expertise)
- **Portfolio management system** (financial statements, compliance, etc.) daily monitoring and reporting



# ONE INVESTMENT: BUSINESS MODEL (CONT')

- **Turnkey service** for ease including: Templates for by-laws and Investment policies
- **Educational opportunities** for municipal staff to educate the sector on investments through seminars and communications
- **Oversight** of Peer Advisory Committee continues to provide input and represent municipal sector



# ROLE OF JOINT INVESTMENT BOARD

## **Professional oversight and management of investments by a board of experts**

- Develop and maintain an investment plan for each municipality based on investment policy statement
- Engage professional investment services to implement investment plan and monitor performance
- Provide advice and insights to municipalities regarding:
  - Economic/investment environment, outlooks, trends
  - Municipal investment objectives, policies and procedure, risk

# ROLE OF JOINT INVESTMENT BOARD (CONT')

- Review and monitor investment performance
- Reporting requirements including performance reports, annual reports, etc.
- Regular review and updating of investment plans.
  - Ensure compliance with any changes in municipal IPS, financial needs, market environment, etc.

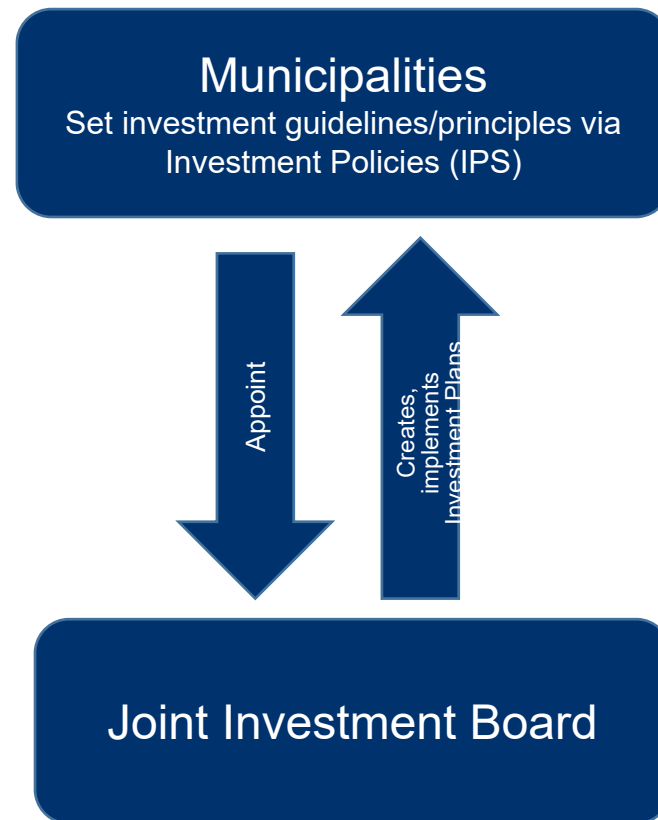


# WHO IS ON THE JIB?

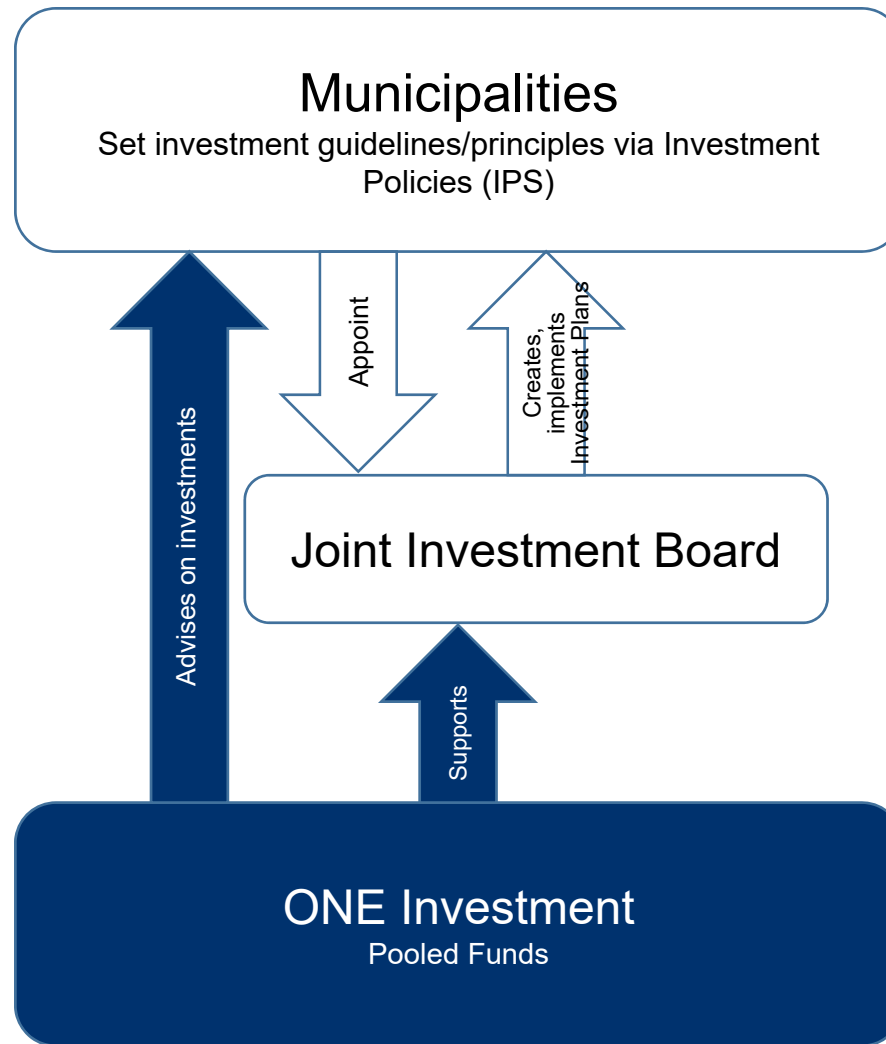
- Seven to 10 members in total
- Comprised of investment experts – e.g. legal, financial, prudent investor experience from pensions etc.
- Municipal staff to represent 25% of the board
- Board members approved by founding/participating municipalities
  - Based on recommendations of ONE Investment
  - Current ONE Investment Advisory Committee members are transitioning to JIB



# GOVERNANCE STRUCTURE



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# PRUDENT INVESTOR PROCESS

- Multi-step process that respects Council authority:
  - ❑ Staff educate Council on prudent investor standard
  - ❑ **Council** directs staff to participate in the prudent investor standard and to join the Joint Investment Board (JIB)
    - ONE Staff will assist the Municipality with the materials required for Council – by-law
  - ❑ **Council** receives staff reports for information: draft Investment Policy Statement, draft prudent investor by-law and draft JIB agreement for review, draft investment plan
  - ❑ **Council approves**: by-law authorizing prudent investor regime, finalized Investment Policy Statement and JIB agreement



# PROCESS OF MOVING TO PRUDENT INVESTING

1. Educate staff, council on:
  - a) Investing prudently (IPS template, presentation from ONE)
  - b) JIB composition, function (presentation from ONE)
2. Provide info on assets to ONE; draft investment plan from ONE
3. Pass by-law to enter JIB agreement (report template from ONE)
4. With advice from ONE, approve draft IPS
5. Pass by-law to invest prudently (report template from ONE)
6. Provide to JIB: IPS, information on long-term assets
7. ONE develops a transition plan: deemed disposition
8. Ongoing: quarterly reporting, portal to holdings, formal annual report and presentation by ONE, annual IPS/plan updates



## 2. INVESTMENT PHILOSOPHY

Geri James, CFA  
Investment Advisory Committee Member







# PRUDENT INVESTMENT APPROACH

Build and monitor portfolio's risk/return profile as a whole, not as individual securities

Match portfolio to investor's needs and desired outcomes

Risk is key; return is expectation based on level of risk

Legal list not prudent from investment perspective:

- Very restrictive; does not allow for diversification to reduce risk
- Considers only individual securities, not how overall portfolio is built
- Not current; updated infrequently



# PRUDENT APPROACH APPLIES TO FUNDS *NOT REQUIRED IMMEDIATELY*

To determine funds not required immediately, municipalities should consider:

- Money not required in the next 12-18 months
- Money not required for annual operations
- Contingency reserves likely not needed immediately

Funds not required immediately can be invested prudently to take advantage of modern portfolio theory

- Longer term investments generally provide higher returns
- Diversification can be used to reduce risk
- Longer term investments can still provide liquidity and safety



# INVESTING FOR OUTCOMES

Key to successful investing is to match investments to outcomes

For individuals outcomes might include:

- Saving for a lump-sum down payment for house
- Funding 4 years of university tuition for a child
- Funding a stream of income to replace work income during retirement

For municipalities, outcomes might include:

- Contingency/stabilization: long-term growth
- Regular, reliable returns: to fund operations
- Target date projects: specific amounts needed at specific times



# INVESTING FOR OUTCOMES

For any outcome, key considerations include:

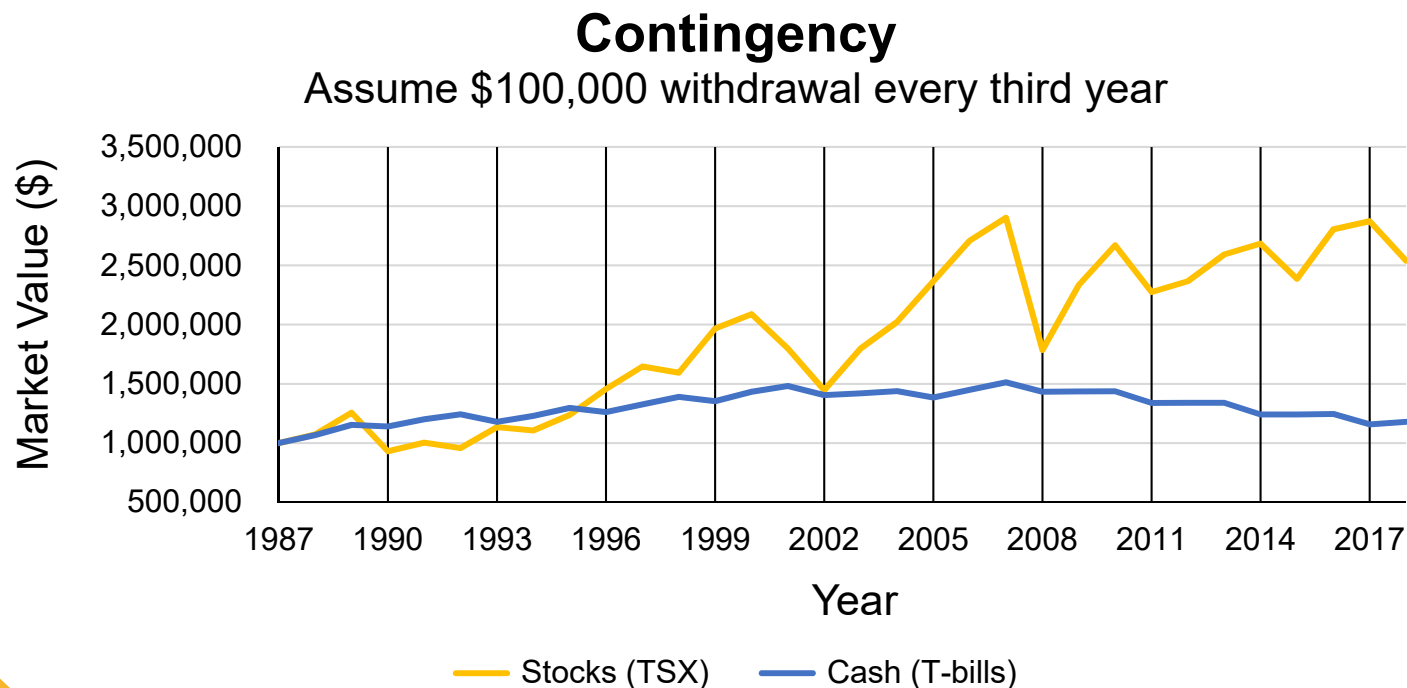
- Time horizon
- Risk appetite
- Consequences of failure
- Regulatory requirements
- Income requirements (reinvest or harvest income)
- Availability of investment options (“building blocks”)
- Asset mix
- Time, knowledge and skill
- Ongoing review and reassessment



# 1. CONTINGENCY OUTCOME

Used for reserves that cover unpredictable shocks (timing, amounts unknown in advance) such as contingency funds

- Entails infrequent, potentially large lump sum payments
- Need: conservative long-term growth; reinvested income

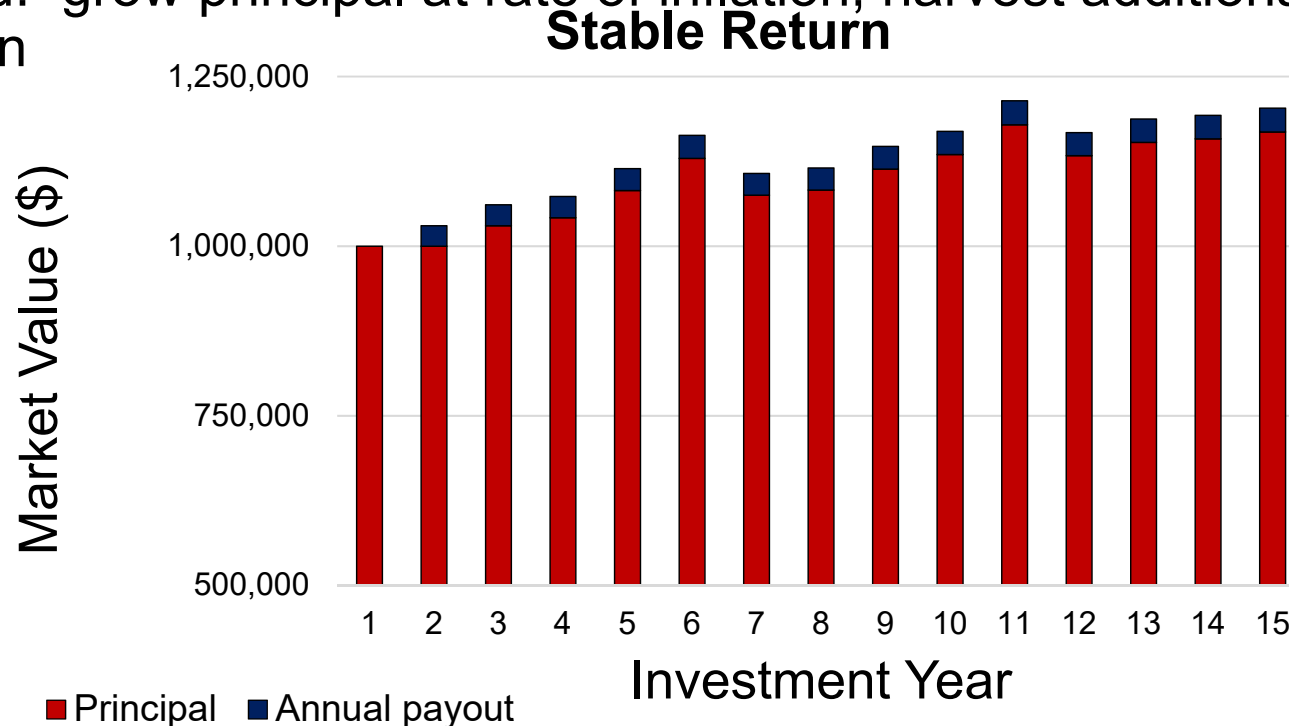




## 2. STABLE RETURN OUTCOME

Used to generate income while maintaining purchasing power of principal e.g., float, legacy fund, ongoing infrastructure maintenance

- Entails a regular, reliable return
- Need: grow principal at rate of inflation, harvest additional return

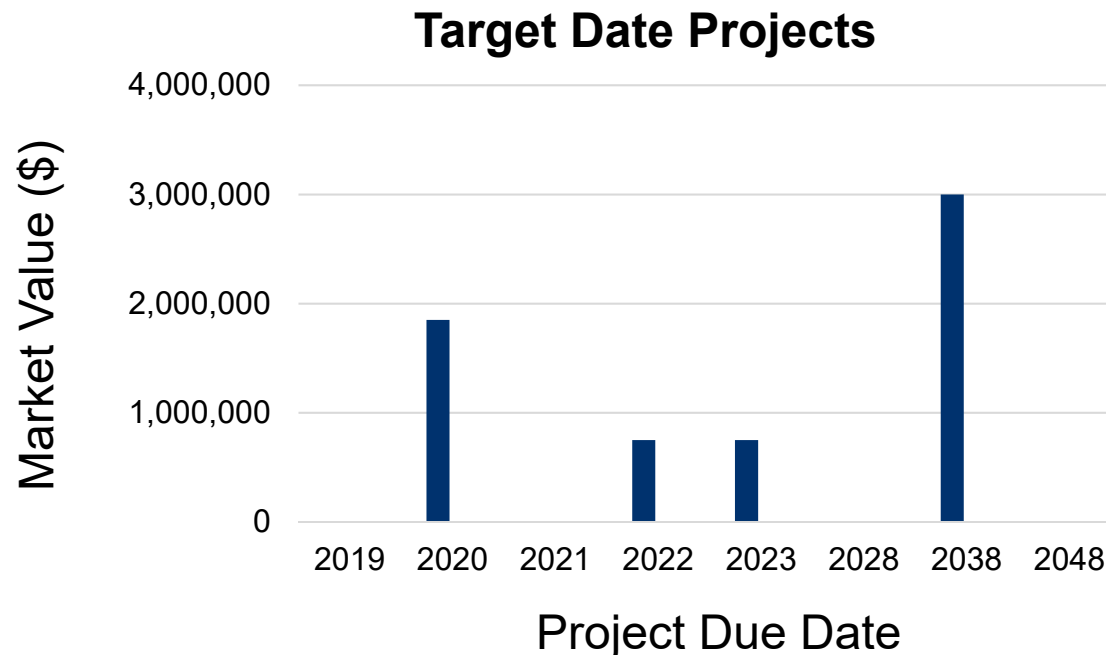




### 3. TARGET DATE OUTCOME

Used for savings for specific capital projects in the future

- Entails forecasting future amounts and timing with some (but not full) certainty
- Need: to be managed so that risk is reduced as time to use of money gets closer



# INVESTING IS A RISK-MANAGEMENT EXERCISE

ONE's risk management approach:

- Understanding municipality's needs and structuring investments to maximize probability of meeting return and risk targets
- Structuring asset allocation to match risk preference
- Diversification by asset class, securities
- Liquid asset classes to address changing needs
- Rebalancing
- Restrictions on certain investments
- Expert monitoring



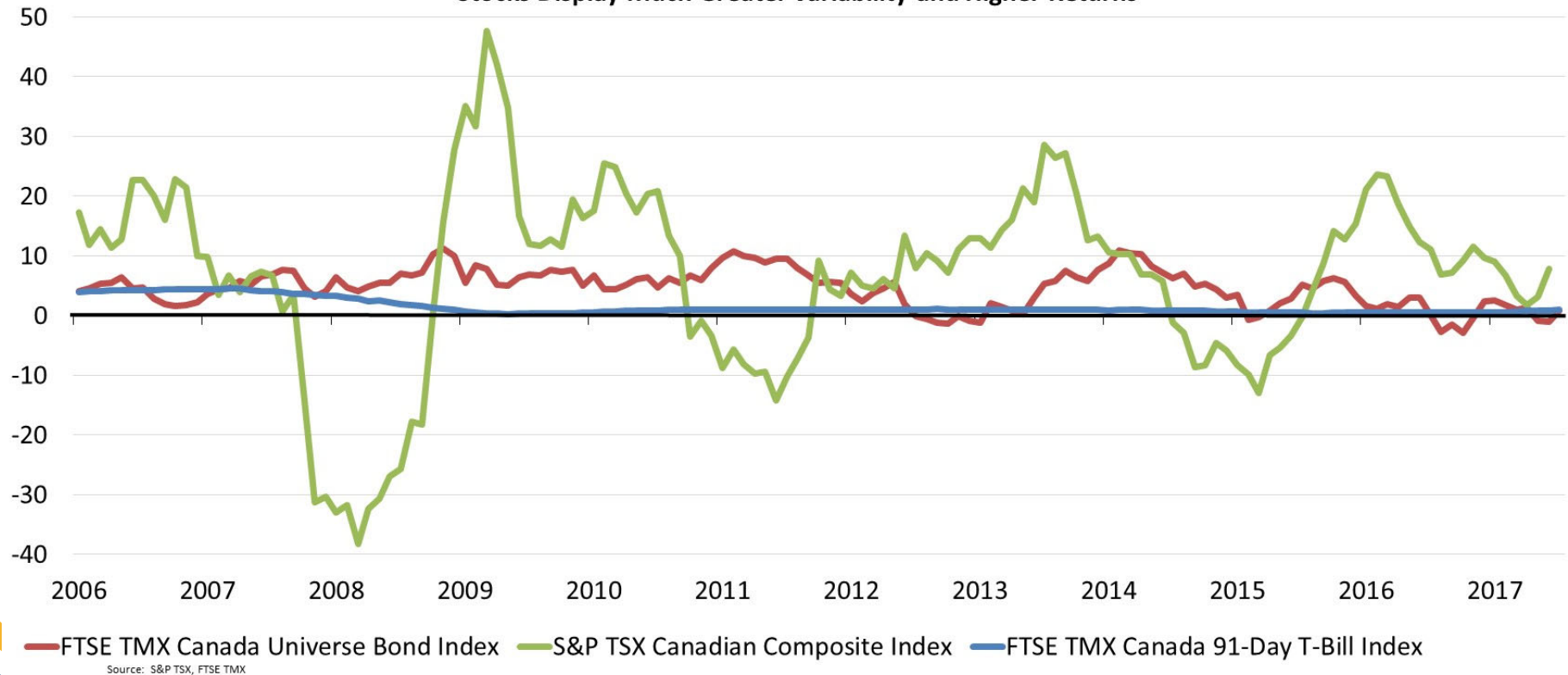
# EXPANDED INVESTMENT STRATEGIES

To meet the investment needs of municipalities, ONE plans to expand the investment options available:

1. World stocks for long-term growth
  - More diversification opportunities
  - Better return/return opportunities
2. Fixed income to generate stable return
  - Diversified among fixed income opportunities such as Canadian and global bonds, mortgages, higher yield bonds
  - Focus on maintaining purchasing power of principal and providing stable income
3. Other strategies we're reviewing:
  - Existing ONE Investment portfolios
  - Real estate
  - Infrastructure

# RISK RETURN OF VARIOUS ASSET CLASSES & THEIR CHARACTERISTICS

**% Rolling 1-Year Returns of Key Canadian Benchmarks  
January 2006 to June 2018**  
**Stocks Display Much Greater Variability and Higher Returns**





# THE ONE ADVANTAGE

Prudent approach increases opportunities to help municipalities better meet their investment needs

- ONE understands these needs
- Solutions will be dynamic, flexible to meet municipal operating needs

3 key “outcome oriented” solutions:

- Contingency reserves
- Stable return
- Target date projects

Holistic service proposition

- Educational support for staff and Council on investing
- All necessary documentation including staff reports, by-laws, presentations, ongoing reporting
- Joint Investment Board oversight
- Ongoing advice and consultation

