

ACHIEVE THE MOST FROM EVERY INVESTMENT DOLLAR

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Northern Caucus Lunch

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AGENDA

- Introduction to ONE Investment
- Prudent Investor Standard
- ONE's Value Proposition – A full Service Offering
- As Council - What can you do?
- Questions

INTRODUCTION TO ONE INVESTMENT

WHAT IS ONE INVESTMENT?

- A not-for-profit organization dedicated to serving the investment needs of the Ontario municipal sector

- Established in 1993 and jointly operated by not-for-profits:

- Local Authority Services
- CHUMS (*a subsidiary of MFOA*)



- Oversight provided by municipalities and investment industry experts

ONE'S BUSINESS PHILOSOPHY

- Full compliance with all legislation
- Committed to investment industry best practices
- Education and capacity building
- Turnkey service, with smaller municipalities in mind
- Commitment to timely communication with municipalities

WHO INVESTS WITH ONE?

At June 30, 2019 – Q2

Municipal Population	Number	%	Investment (\$ million)		% of Total Program Investment
			Avg. Per Municipality	TOTAL	
Non-Municipality	15	9%	\$6.44	\$96.6	5%
< 5,000	45	27%	\$1.78	\$80.5	4%
5,000 TO 25,000	60	36%	\$4.94	\$296.7	15%
25,001 TO 50,000	17	10%	\$17.15	\$291.6	15%
50,001 TO 100,000	12	7%	\$28.85	\$346.2	18%
100,000 +	19	11%	\$44.05	\$836.9	43%
TOTAL	165	100%		\$1,948.6	100%

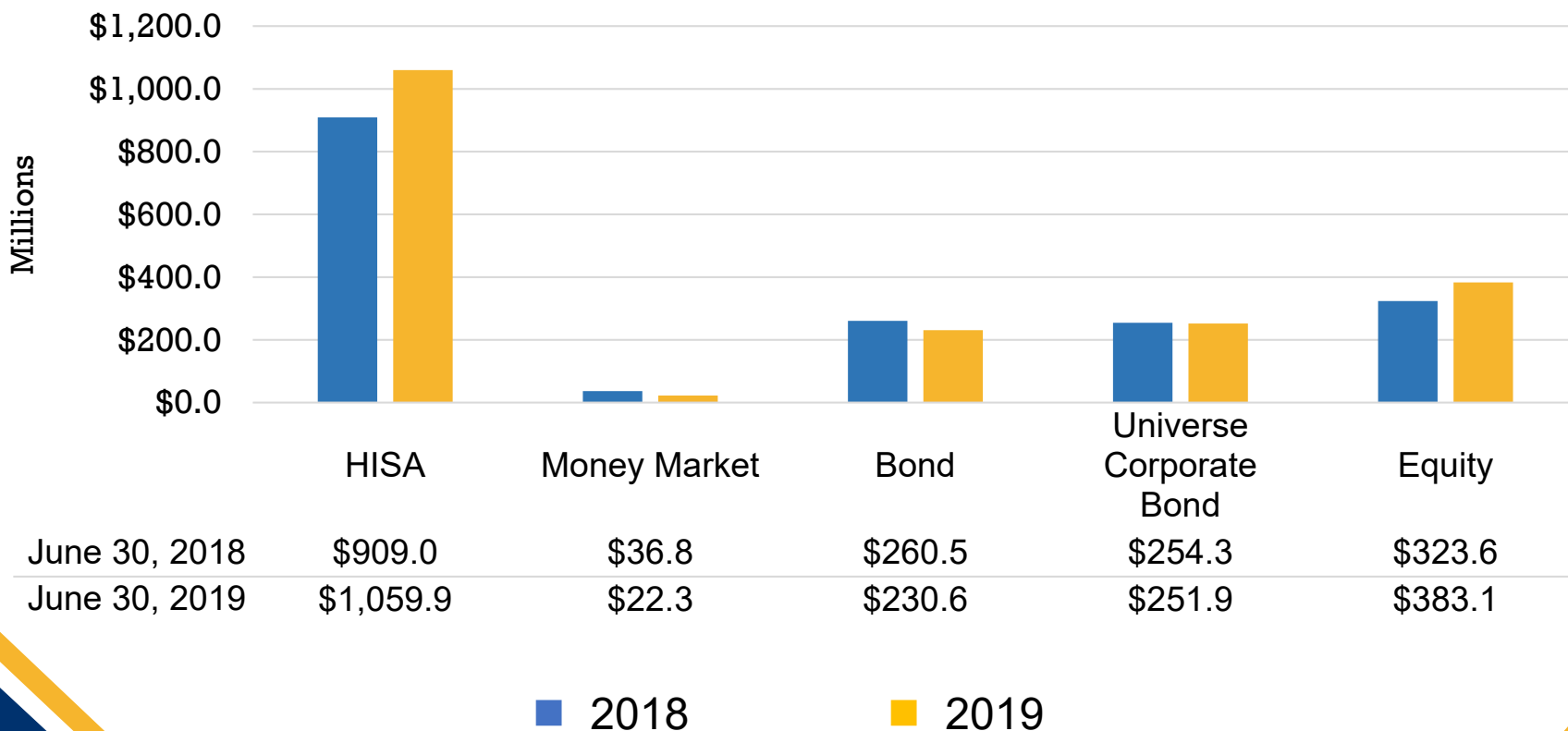
- Many small investors
- Municipalities with populations of <25,000 represent 63% of all ONE investors

INVESTMENT BY PORTFOLIO

June 30, 2019 vs. 2018

Total Assets Under Administration at ONE = \$1.9 Billion

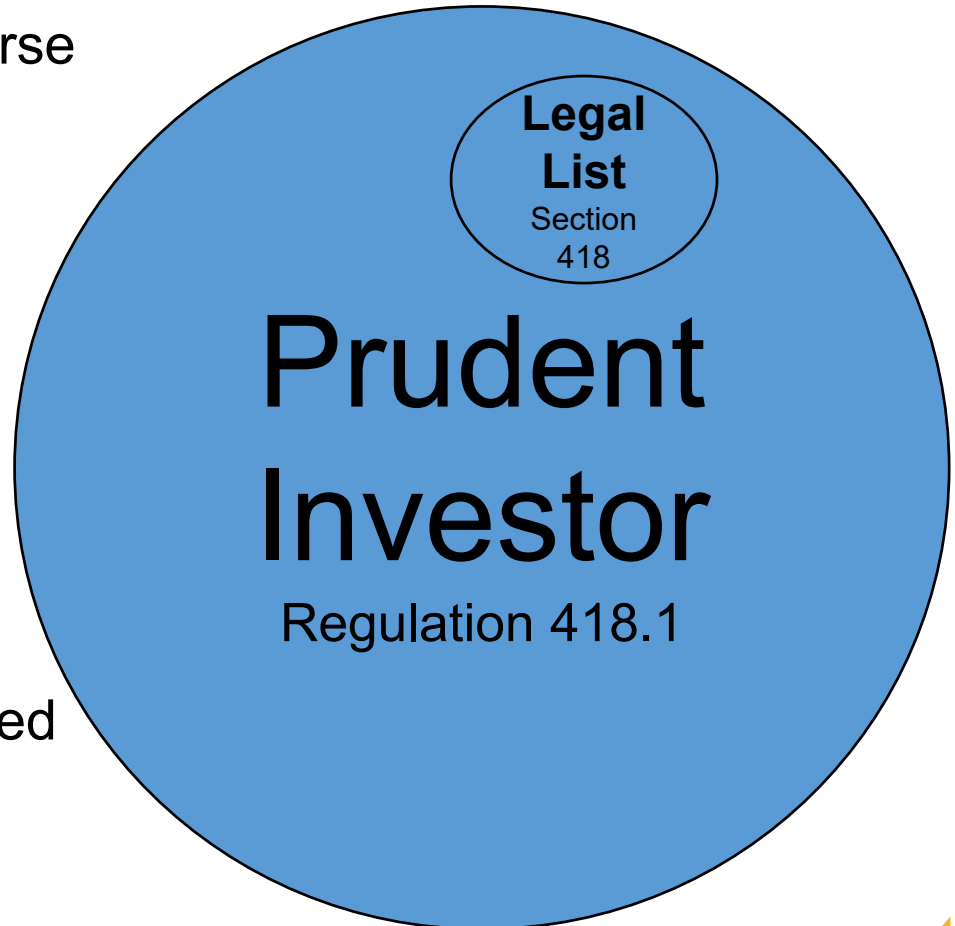
Year-over-Year Change due to Market Returns and Client Growth



WHAT IS NEW PRUDENT INVESTOR STANDARD

MUNICIPAL ACT CHANGES LEGAL LIST VS PRUDENT INVESTING

- Prudent Investing: more diverse portfolio
- Greater choice, flexibility
- Ability to adjust to changes in financial environment or need
- Potential for better risk adjusted returns



PRUDENT INVESTOR - MUNICIPAL ACT REQUIREMENTS

Municipalities may invest money not required immediately in any security so long as they:

1. Meet Eligibility criteria where one or more municipalities has:
 - \$100 million in investments OR
 - \$50 million in net financial assets
2. Follow specific duties
Exercise the **care, skill, diligence** and **judgment** that a prudent investor would exercise in making such an investment, including obtaining the **advice** that a prudent investor would obtain under comparable circumstances
3. Consider specific investment planning criteria
4. Establish a specific governance model

PRUDENT INVESTOR APPLIES TO LONG TERM MONEY

To determine money not required immediately, municipalities should consider:

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

Money 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

ONE INVESTMENTS' VALUE PROPOSITION

POOLED PRUDENT INVESTMENT SOLUTION

- ✓ Building a **new business model** to access to the prudent investor standard.
 - Will include pooled investments.
 - Tailored for smaller municipalities.

- ✓ Full support of the **Joint Investment Board**, as a municipal services board, as contemplated by the Municipal Act

- ✓ Assembling a **team of experts** to provide investors advice on:
 - Investments and portfolio structure
 - Building investments into a capital financing strategy

ONE Investment has exemption from the Ontario Securities Commission that allows us to provide investment advice!!

ONE'S JOINT INVESTMENT BOARD – FIRST IN THE SECTOR

- **Professional oversight and management of investments by a board of experts**
- 9 members in total - Comprised of investment experts – e.g. legal, financial, prudent investor experience from pensions etc
- Municipal Treasurer's 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

MUNICIPALITY'S ROLE UNDER PI

- Adopt **by-laws** to join ONE JIB, move to Prudent Investing
- Adopt **Investment Policy Statement** (IPS), update annually
 - Define short- & long-term funds, objectives and risk tolerances
- Keep ONE informed via Client Questionnaire; update annually, more often if needs change
- Minimum annual reporting to Council on results

ONE JIB'S ROLE

- **Municipal Service Board** with full clerical functions, public meetings
- Define investment beliefs and principles
- **Advise on asset allocation**, if desired by municipality
- Invest to **meet municipal IPS objectives**
 - For those without a target asset mix: define asset mixes for typical target outcomes
 - For those with a target asset mix: implement the defined mix
- **Delegate to agents** and oversee them, e.g.:
 - Legal
 - Consulting
 - ONE Investment on advice, implementation
 - Investment managers

ONE INVESTMENT'S ROLE

- Advise on investments as needed / support Municipal staff
- Create annual Investment Plans
- Create transition plans for Municipalities moving to Prudent
- Implement Investment Plans
- Create templates & guidance for turnkey solution
- Provide reporting
- Support ONE JIB

ONE INVESTMENTS' BELIEFS

- Most important risk to manage is timing of investment returns vs cash needs
- ***This is not pension money!*** Flexibility, liquidity key as timeframes may easily change
- Asset allocation is the main driver of returns
- Market timing at the total portfolio level unlikely to add value
- Rebalancing is an important way to manage risk
- 3 Key outcomes cover most municipal objectives; different risk levels

INVESTING FOR OUTCOMES

Key to successful investing is to match investments to outcomes

For individuals outcomes might include:

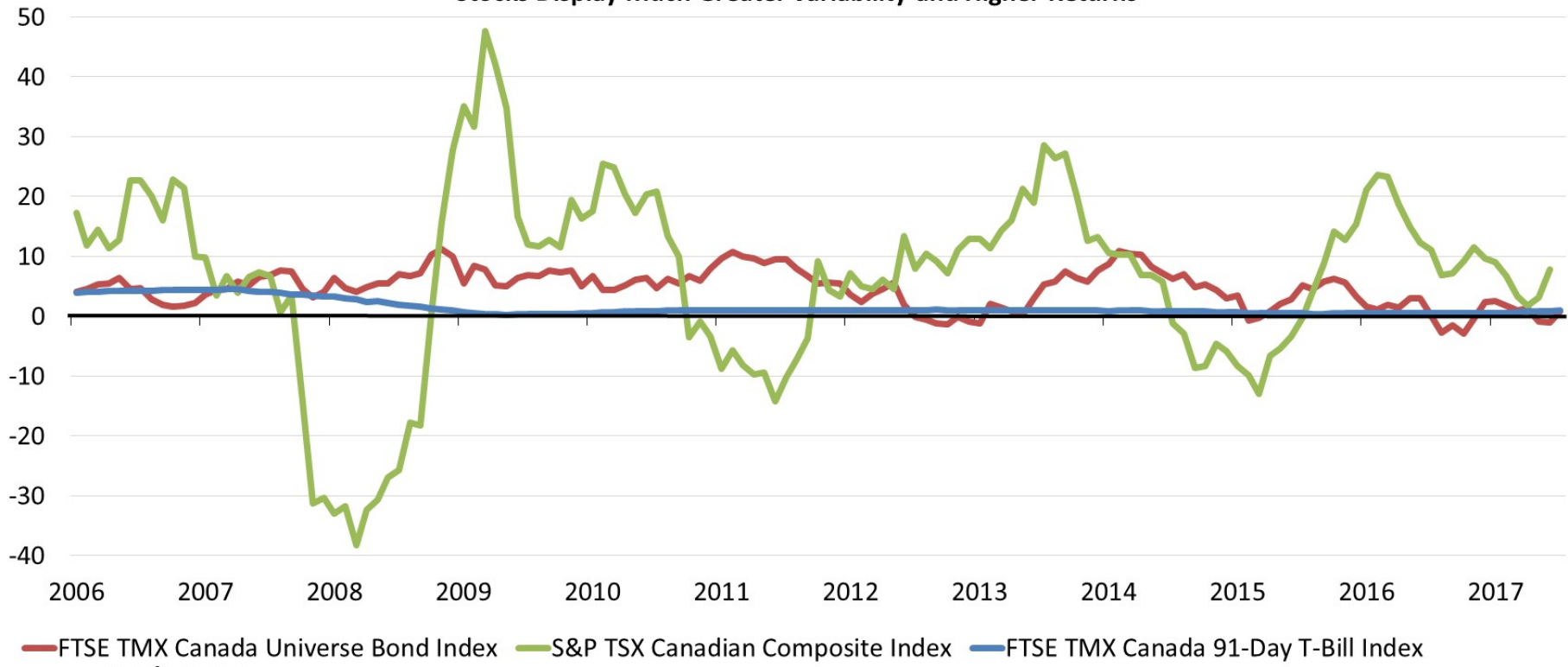
- Saving for a lump-sum down payment for house
- Funding 4 years of university tuition for a child
- Funding a stream of income to replace work income during retirement

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

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



Source: S&P TSX, FTSE TMX

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

FULL SERVICE OFFERING

ONE - BUILDING CAPACITY

- Providing investment assistance – CFA
 - Investment policy templates
 - Asset allocation advice
 - Turnkey solutions
- Providing municipal finance assistance
 - Integrating investment policy with capital budget, reserve policies, debt management strategies
- Providing Education
 - Seminars, webinars, conference sessions
 - Newsletters



THE ONE ADVANTAGE

Prudent opportunities can help municipalities better meet their investment needs – ONE understands these needs

3 “outcome oriented” solutions:

- Contingency reserves
- Stable return
- Target date projects

Holistic service proposition

- Educational support for staff and Council on investing
- Turnkey Solutions – Administrative support
- Governance - Joint Investment Board, compliance
- Professional investment advice and consultation

EXPRESSED INTEREST - FOUNDING MUNICIPALITIES

Council Resolutions passed to explore Prudent options

County of Essex

City of Kenora

Town of Innisfil

Municipality of Clarington

Town of Huntsville

Town of Whitby

District of Muskoka

Founding Municipalities will form 25% Treasurer component, which may join sub-committees:

- New products
- Appoint Treasurer representative
- Appoint new ONE JIB members

WHAT CAN COUNCIL DO?

ASK YOUR MUNICIPAL FINANCE STAFF

- Can your municipality identify your long term and short term funding requirements?
- Are your current investments in line with your capital requirements?
- Does your municipality have an asset management plan that outlines long term infrastructure needs?
- Is investment revenue being leveraged as part of our Municipalities' investment strategy?

Ask staff to provide more details regarding the Prudent Investor standard, it may be the right option for your municipality

ONE STAFF CAN ASSIST WITH ANY INQUIRIES - CONTACTS

- **Keith Taylor, CFA** – Investment Manager ktaylor@amo.on.ca
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THANK YOU

ENJOY THE AMO
CONFERENCE!