

# Corporate Report

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**REPORT NUMBER** 181-2025-Corporate Services-Finance

**DATE**

**PREPARED**

May 15, 2025

**FILE**

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**MEETING DATE**

July 14, 2025

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**SUBJECT**

Investment of Municipal Funds and Investment Policy Statement  
Update

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## **RECOMMENDATION**

WITH RESPECT to Report 185-2025-Corporate Services-Finance, it is recommended that the Investment Policy Statement (IPS), as amended and appended to this report as Attachment A, be approved and included in the Corporate Policy Manual;

AND THAT the necessary by-law be presented to City Council for ratification.

## **LINK TO STRATEGIC PLAN**

This Report supports the strategic direction to plan and deliver cost-effective services, with a focus towards long-term financial sustainability, accountability, and appropriate resource allocation.

## **EXECUTIVE SUMMARY**

The report includes information regarding the investment of municipal funds for the period January 1, 2024, to December 31, 2024.

At a minimum, Council is required to review and, if necessary, amend the Investment Policy Statement (IPS) annually. The IPS establishes a distinction between short-term funds or money required immediately (MRI) and long-term funds or money not required immediately (MNRI). The IPS (Attachment A) is a comprehensive overview that allows City Council to provide direction to the ONE Joint Investment Board (JIB).

It is through the IPS that Council ultimately controls MNRI. The IPS presented includes amendments as a result of the transition to the Outsourced Chief Investment Officer (OCIO) model through ONE Investment (agent of ONE JIB) in Q1 2025.

The consolidated portfolio rate of return for money not required immediately (MNRI) for 2024 was 8.5% and the rate of return for money required immediately (MRI) was an average of 5.0%.

Based upon a preliminary review of short-term obligations, long term projections, reserve fund balances and commitments, and 2025 budget implications, Administration does not anticipate the need for any change to MNRI. Administration will complete a more in-depth review and will be meeting with ONE Investment to confirm and review these plans to ensure investment strategies remain aligned with the broader financial framework and objectives.

ONE JIB must prepare an annual investment report for Council which is included as Attachment B.

## ***DISCUSSION***

### **Investment Policy Statement Review**

The Investment Policy Statement (IPS), as attached to this report as Attachment A, is a comprehensive statement that allows Council to provide direction to the ONE Joint Investment Board (JIB). Using the IPS, the ONE JIB designs and implements an Investment Plan. It is through the IPS that Council ultimately controls money not required immediately.

At a minimum, Council is required to review and, if necessary, amend the IPS annually. However, if Council priorities change or fiscal circumstances require, the IPS can be reviewed and amended at any point in time.

The IPS establishes a distinction between money required immediately (MRI) and money not required immediately (MNRI). Investments classified as MRI represent funds required within 24 months and continue to be invested in appropriate Legal List Securities (see Background section) with capital preservation and high liquidity of the utmost importance.

ONE JIB invests MNRI with the objective of attaining positive returns over the long term. In addition, the Prudent Investor regime allows for the opportunity for better risk adjusted returns by building more diverse portfolios of investments. Focusing on long term goals and maintaining a well diversified portfolio can help reduce volatility while providing for the potential for growth over the long term.

The IPS, presented as Attachment A, although consistent with the IPS approved by City Council in 2024, includes updates related to the transition to the Outsourced Chief Investment Officer (OCIO) model as well as language and terminology updates.

### **Transition to Outsourced Chief Investment Officer Model**

At its meeting on June 1, 2023, ONE JIB endorsed the transition to the Outsourced Chief Investment Officer (OCIO) model. This represents an approach where an external investment firm manages investment portfolios on behalf of clients such municipalities, foundations or pensions.

The primary purpose of ONE JIB engaging an OCIO partner was to help build an investment offering to attract large municipalities but also help ONE JIB scale up as more municipalities of all sizes join ONE JIB. This model will allow ONE Investment to focus on governance while leveraging the OCIO's expertise in investment management.

Following ONE JIB approval on July 19, 2023, ONE Investment conducted a competitive RFP process and selected PH&N Institutional (PH&N) to design and manage the OCIO solution. Participating municipalities transitioned to the new model in Q1 2025.

As sub-investment manager, PH&N is responsible for managing municipal portfolios in line with ONE JIB's approved Investment Plan and the *Municipal Act*. PH&N will work closely with ONE Investment, ONE JIB, and participating municipalities to align portfolios with municipal investment goals and risk profiles. ONE JIB will retain ultimate fiduciary responsibility under the *Municipal Act*, including responsibility to control and manage money not required immediately.

The OCIO model provides for broader investment options, including access to thirty plus funds, representing a significant increase from the five funds in the previous ONE JIB Prudent Investor program. These options also include alternative investments, such as real estate and infrastructure. Alternative investments tend to be higher-risk investments that offer potentially larger risk-adjusted returns but tend to have strong diversification benefits for longer term investment horizons.

The amended IPS permits investments in alternative investments for the purpose of management of MNRI under ONE JIB, noting that opting in does not automatically mean they will be part of the Investment Plan. The City's investment horizon and risk tolerance is taken into consideration if ONE JIB approves or excludes an alternative investment.

Administration will continue working with the Chief Investment Officer (CIO) of ONE Investment and PH&N in order to draft the City's Investment Plan. Following City Council approval of the IPS, the IPS and Investment Plan will be presented to the ONE JIB at the next board meeting scheduled for September 4, 2025.

### Summary of Investments

The following chart shows the total market value of MNRI of \$130.1 million by investment product as well as the total value of MRI of \$120.2 million at December 31, 2024.

<b>Investment Product</b>	<b>\$ (millions)</b>	<b>% of Portfolio</b>
ONE Canadian Government Bond Fund	19.8	15.2%
ONE Canadian Corporate Bond Fund	8.8	6.8%
ONE Global Bond Fund	41.3	31.7%
ONE Canadian Equity Fund	19.0	14.6%
ONE Global Equity Fund	41.2	31.7%
<b>MNRI Total @ December 31, 2024</b>	<b>\$130.1</b>	<b>100.0%</b>
ONE Investment High Interest Savings Account	\$120.2	100.0%
<b>MRI Total @ December 31, 2024</b>	<b>\$120.2</b>	<b>100.0%</b>
<b>Total MNRI and MRI @ December 31, 2024</b>	<b>\$250.3</b>	

### Financial Results - MNRI

The following chart shows the total MNRI returns net of fees. MNRI is diversified among multiple asset classes which affects the risk and return characteristics of the investment portfolio. The ONE JIB invests MNRI with the objective of attaining positive returns over the long term.

The consolidated portfolio return for MNRI was 8.5% for 2024.

<b>Investment Product</b>	<b>Return (Net of Fees)</b>
ONE Canadian Government Bond Fund	4.4%
ONE Canadian Corporate Bond Fund	4.6%
ONE Global Bond Fund	3.9%
ONE Canadian Equity Fund	20.9%
ONE Global Equity Fund	11.2%
<b>Total @ December 31, 2024</b>	<b>8.5%</b>

The equity exposure for MNRI is 46.3%. When combined with MRI (\$120.2 million), the equity exposure for the entire portfolio (\$250.3 million) is 24.1%. The ONE JIB considers allocation by purpose and timeframe of the funds rather than a consolidated limit which permits a portfolio that is more tailored to the characteristics of the funds. The following chart shows the market value (MV) allocation by investment outcome and fund (in millions):

<b>Outcome</b>	<b>ONE Canadian Gov't Bond Fund</b>	<b>ONE Canadian Corporate Bond Fund</b>	<b>ONE Global Bond Fund</b>	<b>ONE Canadian Equity Fund</b>	<b>ONE Global Equity Fund</b>	<b>Total</b>
Cash	4.0	-	-	-	-	4.0
Contingency	1.6	1.6	7.7	5.8	12.4	29.1
Target Date: 3-5 years	10.6	3.5	16.3	1.3	2.8	34.5
Target Date: 5-10 years	2.9	3.0	13.9	7.2	15.3	42.3
Target Date: 10+ years	0.7	0.7	3.4	4.7	10.7	20.2
<b>Total \$ MV</b>	<b>19.8</b>	<b>8.8</b>	<b>41.3</b>	<b>19.0</b>	<b>41.2</b>	<b>130.1</b>
<b>Total Weight %</b>	<b>15.2%</b>	<b>6.8%</b>	<b>31.7%</b>	<b>14.6%</b>	<b>31.7%</b>	<b>100%</b>

Investment income for the ONE JIB Portfolio (MNRI) totalled \$4.6 million for the year ended December 31, 2024.

As of March 31, 2025, the total market value of MNRI is \$130.3 million.

### **Financial Results - MRI**

The total value of MRI at December 31, 2024, is \$120.2 million. MRI is held in ONE Investment's High Interest Savings Account (HISA) and the return ranged from 5.5% in the first quarter and 4.3% in the last quarter.

Investment income for the HISA (MRI) totalled \$5.2 million for the year ended December 31, 2024.

### **Investment Fees**

ONE Investment has a competitive cost structure. Fees are not invoiced to the municipality directly but are bundled into a single fee per investment pool, with management fees ranging from 0.35% to 0.75%. As a participating municipality through ONE Investment, the City received an asset tier discount rebate on fees of \$50,250 in 2024.

Fees with the OCIO model will include an investment management fee and ONE Governance Fee. The investment management fee is based on cumulative assets under management (AUM) for all municipalities. Therefore, as cumulative AUM increases, rate are tiered to decrease. Fees vary depending on the funds held and the current fee range is 0.08% to 0.43%. The ONE Governance Fee (custody, compliance, audits, administrative and governance related to ONE JIB) is a tiered level model with a base rate of 0.25% on average municipal AUM up to \$10 million, then discounted at certain AUM levels.

### **Investment Reporting Requirements**

The City's Investment Policy Statement requires the City Treasurer to report as to whether all investments were made in accordance with the IPS and as to whether all investments were made in accordance with the Investment Plan.

It is the professional opinion of the City Treasurer that all investments were made in accordance with the City's Investment Policy Statement (05-01-04) and the City's Investment Plan.

The regulation requires ONE JIB to submit an investment report to City Council in respect of the investment of long-term funds at least annually. The annual report is attached as Attachment B.

### **FINANCIAL IMPLICATION**

Investment income, after fees, for the year ended December 31, 2024, was \$9.8 million and allocated as follows: \$8.0 million to reserve funds; \$1.0 million to operations; and \$0.8 million to trust funds.

The review and update of the IPS has no immediate financial implications.

### **CONCLUSION**

It is concluded that the Investment Policy Statement (Attachment A) should be approved and the Annual Investment Report for the period ended December 31, 2024 (Attachment B) be presented for information purposes.

### **BACKGROUND**

The City invested money not required immediately (MNRI) under the Legal List to March 31, 2022, and effective April 1, 2022, transitioned MNRI to the ONE Joint Investment Board (ONE JIB) in accordance with By-law 17/2022, the "Prudent Investor Enabling By-Law".

ONE Investment is the City's investment manager for the Legal List HISA and ONE JIB is the investment manager, with PH&N acting as the sub-investment manager, for the Prudent Investment portfolio.

On March 6, 2018, the Minister of Municipal Affairs announced reforms to the municipal eligible investment regulations. Effective January 1, 2019, municipalities could pass a by-law authorizing the use of the new investment power under the Prudent Investor Standard. Rather than investing in a Legal List of eligible investments set out by the province, qualifying municipalities could invest in any security, as long as it is prudent for their situation.

The Legal List is a relatively narrow list of allowable investments prescribed under Part 1 of Ontario Regulation 438/97. It restricts municipalities to low-risk, high-quality fixed income investments and limited participation in Canadian equities:

1. Government debt
2. Bank and financial institution debt, deposit receipts and notes
3. Corporate debt
4. Canadian equities through ONE Investment
5. A limited range of asset-backed securities

Investments also must have a sufficiently high credit rating. The Legal List works well for municipalities whose main objective is the preservation of capital.

The purpose of the reform is to give municipalities the opportunity to earn improved risk-adjusted rates of return by building more diverse portfolios of investments.

In addition, a municipality must diversify its investments to an extent that is appropriate for general economic and capital market conditions. It also has a duty to obtain the advice that a prudent investor would obtain under comparable circumstances. Under the Prudent Investor Standard, municipalities must delegate the management of their “money not required immediately” to an external investment board. The municipality would continue to have oversight over “money required immediately” (e.g., short-term money required for operating purposes).

A municipality that passes a by-law to adopt the Prudent Investor Standard cannot revoke that by-law and return to the Legal List unless the Lieutenant Governor in Council authorizes the municipality to do so by regulation.

ONE Investment created a ONE Joint Investment Board in order to provide municipalities of all sizes access to the Prudent Investor Standard. On May 14, 2020, ONE Investment launched Ontario’s first Joint Investment Board with six founding municipalities: Bracebridge, Huntsville, Innisfil, Kenora, Muskoka, and Whitby. Any municipality can become a participating member of the board. It is designed for municipalities that wish to invest under the Prudent Investor Standard, but do not qualify on their own or are cautious about the work and cost of going it alone.

The ONE Joint Investment Board is affiliated with ONE Investment, a not-for-profit corporation formed by CHUMS Financing Authority, which is wholly owned by the Municipal Finance Officers’ Association of Ontario (MFOA), and Local Authority Services (LAS), the business services arm of the Association of Municipalities of Ontario (AMO). ONE Investment currently offers investment products for Ontario municipalities under the Legal List and the Prudent Investor Standard. ONE Investment provides services to the ONE Joint Investment Board. The Board consists of a mix of investment experts and municipal finance experts.

***REFERENCE MATERIAL ATTACHED***

Attachment A: Corporate Policy 05-01-04 – Investment Policy Statement

Attachment B: Annual Investment Report for the period ended December 31, 2024

Attachment C: Municipal Council Memo OCIO Transition

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***REPORT SIGNED AND VERIFIED BY***

Keri Greaves, CPA, Commissioner – Corporate Services & City Treasurer

Date 06/13/2025 (MM/DD/YEAR)