

# Town of Whitby

## Staff Report

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### Report Title: Annual Investment Policy Statement Review and Transition to Outsourced Chief Investment Officer Offering

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**Report to:** Committee of the Whole

**Date of meeting:** February 24, 2025

**Report Number:** FS 07-25

**Department(s) Responsible:**

Financial Services Department

**Submitted by:**

Fuwing Wong, Commissioner, Financial Services & Treasurer x 4314

**Acknowledged by M. Gaskell,  
Chief Administrative Officer**

**For additional information, contact:**

Raymond Law, Manager, Development Finance x 2909

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#### 1. Recommendation:

1. That Council approve updates to F 100 the “Investment Policy Statement” (“IPS”) included as Attachment 1 of Staff Report FS 07-25; and
2. That the Treasurer be directed to sign a copy of the IPS to indicate Council’s approval and to forward a copy of this IPS to the ONE Joint Investment Board (“ONE JIB”).

#### 2. Highlights:

- Ontario Regulation 438/97: Eligible Investments, Related Financial Agreements, and Prudent Investment (the “**Regulation**”) requires Council to review the IPS annually and update it as necessary. As part of the annual review of the Corporation of the Town of Whitby’s IPS, several updates, and removals of definitions and sections have been made to align with the ONE JIB’s Outsourced Chief Investment Officer (“**OCIO**”) offering.
- The OCIO offering aims to replicate the current market and risk factor exposures by maintaining similar risk metrics, such as duration and credit

rating while providing access to a broader range of investment options and enhancing diversification at the same or lower cost.

- Phillips, Hager & North Investment Funds Ltd. (“**PH&N**”) was identified as One Investment’s OCIO Partner to manage and monitor the Town’s (and all other municipal members of ONE JIB’s) investment performance of money not required immediately.
- The Regional Municipality of Durham was the first investor to adopt the OCIO offering in June 2024.
- The Town will transition to the OCIO offering by the end of Q1 2025, subject to market conditions.
- A revised IPS is included as Attachment 1 to this report, and the specifics of the changes are documented in the tracked changes version of the policy, included as Attachment 2.

### 3. Background:

On September 23, 2019 Council directed Town staff to collaborate with ONE Investment to establish a new Joint Investment Board (“**ONE JIB**”) and adopt the Prudent Investor regime, in accordance with the Town’s Investment Policy Statement and the annual projections of “Money that is Not Required Immediately” (“**MNRI**”) and “Money that is Required Immediately” (“**MRI**”). This initiative was intended to facilitate more diversified long-term investment options for MNRI. Up until 2025, the management and oversight of long-term investment funds were the responsibility of the ONE Investment’s Chief Investment Officer, who defined and managed asset allocation through External Portfolio Managers based on municipal forecasts of MNRI and under the direction of the ONE JIB. Starting in March 2025, ONE JIB is transitioning all municipal members to their Outsourced Chief Investment Officer offering with PH&N as the service provider.

#### IPS Updates

The IPS governs the investment of the Town’s Money that is Not Required Immediately and Money that is Required Immediately. It is intended to direct the Treasurer in the investment of MRI and to direct ONE JIB in the investment of MNRI under section 418.1 of the Municipal Act, 2001, and Ontario Regulation 438/97 – Eligible Investments, Related Financial Agreements and Prudent Investment.

The Regulation requires that Council review the IPS annually and update it as needed. This process enables the revision of the Town’s investment objectives and risk tolerances concerning the investment of MRI and MNRI funds in response to changes in municipal circumstances. The annual review of the IPS was previously included in the Annual Investment Report to Council. However, to align with the timing of the OCIO offering transition, Staff have prepared this report, in advance of the Annual Investment Report, to outline the changes related to the transition. A revised copy of the IPS to incorporate recommended

updates to definitions and clarifications from ONE JIB/ONE Investment about this transition is also provided.

#### OCIO Offering Transition

The Town adopted the Prudent Investor (“PI”) regime with Council’s approval in March 2020. This allows ONE JIB to manage the Town’s MNRI through long-term investments. The Treasurer manages the Town’s MRI, which are needed to meet financial obligations within the next 24 months, through short-term investments.

As ONE JIB aims to increase assets under its management by approximately \$3 billion by 2028, ONE Investment has adapted its investment strategy to attract larger municipal investors and enhance its capacity to manage the increased number of portfolios. To facilitate this, ONE Investment has selected PH&N as their provider for the ONE Investment OCIO offering. The new model will provide participating municipalities, including the Town, with broader investment options at the same or lower cost.

#### **4. Discussion:**

##### IPS Updates

Through the recommendations of ONE JIB, Staff have updated the IPS to reflect changes and new definitions related to the OCIO offering. The key updates include:

- Additional definitions and clarification to various sections of the policy have been revised to include changes related to the OCIO offering.
- Sub-section 5.2 MNRI has been expanded to include Restricted Special Assets, such as the Town’s investment in Elexicon Corporation (more information below).
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- Sub-section 5.6 Investment Constraints has been expanded to include the Alternative Asset Class, where the Town has opted for alternative investments.

Sub-section 5.5.6 Prohibited Investments, which included a Letters of Credit section, has been removed as it is now covered under the Development Agreement Securities Policy.

A revised IPS recommended for approval is attached to this report as Attachment 1. Details of the proposed changes to the IPS are available in a tracked changes version of the policy, which is attached as Attachment 2.

##### OCIO Offering Transition

Under the current PI regime, the Town invested its MNRI into five (5) Prudent Investment Funds offered by ONE Investment. However, with the introduction of the new OCIO offering, the number of available Prudent Investment Funds has

increased to 34, which provides more flexibility when designing the Town's investment portfolios and aligning with the Investment Plan. The new OCIO model aims to replicate the market and risk factor exposures of the ONE Investment funds by maintaining the same asset mix, which includes:

- Constant risk metrics (duration, credit rating) for fixed income.
- Consistent benchmarks for equities with improved diversification.

Despite increasing investment options to better diversify the Town's investment portfolio, the portfolio is expected to consist of only seven (7) to ten (10) funds.

The OCIO offering model introduces a new investment class called Alternative Assets, which encompasses investments such as natural resources, real estate and infrastructure. These assets are less liquid than traditional investments and usually require a longer investment horizon. Often, this asset class provides returns uncorrelated with traditional investments, thereby enhancing diversification and lowering overall portfolio risk. This approach can ultimately lead to improved risk-adjusted returns. Staff recommend including Alternative Assets in its investment strategy. However, these investments are not automatically included in the Investment Plan. Considerations for inclusion will involve an assessment of the Town's investment horizon and risk tolerance, as well as approvals from ONE's Chief Investment Officer, ONE JIB, and PH&N.

The transition to the OCIO offering will also include updates from PH&N via quarterly and annual investment statements, which will now contain more detailed information on investment performance and fees.

The new OCIO offering was initially tested with the Regional Municipality of Durham, which became the first investor to adopt it in June 2024. The Town is proposed to transition to the OCIO offering by the end of Q1 2025 (i.e. March 2025), but is subject to change based on market conditions.

Attachment 3 includes an informational memorandum from ONE JIB to the participating municipalities regarding changes related to the OCIO offering transition.

#### Town's Investment In Elexicon Corporation now a Restricted Special Asset in IPS

Currently, the Town's investment in Elexicon Corporation, the parent company of Elexicon Energy Inc. which is a local distribution corporation incorporated under Section 142 of the Electricity Act, 1998, is classified as MNRI with special restrictions preventing ONE JIB from selling, transferring, assigning, or pledging these securities. The revised IPS (Sub-section 5.2) now classifies the Town's investment in Elexicon Corporation as a Restricted Special Asset. Restricted Assets also includes the Town's investment in Municipal Services Corporations, such as the Whitby Tourism Development Corporation, and promissory notes.

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ONE JIB is not responsible for any investment activities or performance concerning Restricted Special Assets, Third-Party Trust Funds, or Designated Funds.

**5. Financial Considerations:**

The transition to the OCIO offering will require the Town to divest its holdings in ONE Investment Prudent Investment Funds before investing in PH&N Funds. The Chief Investment Officer of ONE Investment has indicated that this transition may result in a realized loss of individual funds within the Town’s existing ONE Investment portfolio. When Town staff reviewed the OCIO transition with ONE Investment staff in December 2024, there was an unrealized loss in one of the (bond) investment funds. However, over the entire investment period and accounting for all revenues, the Town has achieved a net gain through investment in each fund. The 2024 Annual Investment Report to Council in quarter 2, 2025, will provide 2024 investment performance and will further outline the financial impact of the OCIO Offering transition on each fund within the Prudent Investment Portfolio.

The new OCIO model will include PH&N’s management fees, which are charged on each type of security and deducted from investment funds, along with ONE Investment’s administrative/governance fees. The new offering will honour the Town’s 4% Founding Municipality Discount until 2030. This transition will not result in any additional cost for the Town, and it may decrease investor fees by leveraging economies of scale with the new participating municipalities. Additionally, there is the potential to recover a portion of HST on the investor fees paid.

**6. Communication and Public Engagement:**

For transparency, the approved policy will be made publicly available on the Town’s website and included under the Finance Policies section of the Town Policies webpage.

**7. Input from Departments/Sources:**

Not Applicable

**8. Strategic Priorities:**

Not Applicable

**9. Attachments:**

- Attachment 1** F 100 Investment Policy
- Attachment 2** F 100 Investment Policy – Tracked Changes