

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 14, 2021
Re: Amendment to Kenora's Investment Plan
Report: ONE JIB-023-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Direct staff to revise Kenora's Investment Plan to incorporate a new contribution of approximately \$11.75M from the Citizens' Prosperity Trust (CPTF), subject to confirmation of Kenora Council's August 24th approval and receipt of a revised Municipal Client Questionnaire
2. Direct staff to bring the revised Investment Plan to the ONE JIB for approval at its next meeting
3. Authorize the CIO to invest the new MNRI in the holdings comprising the Stable Return Outcome for the Citizens' Prosperity Trust, in the event that Kenora makes a contribution prior to the next ONE JIB, subject to confirmation of Kenora Council's August 24, 2021 approval and receipt of a revised Municipal Client Questionnaire
4. Authorize the CIO to make other adjustments consistent with the authorization in recommendation 3 and the Investment Plan approved by the ONE JIB on July 14, 2021.

2. SUMMARY

Due to a large potential change by the City of Kenora to internal financing arrangements with the Citizens' Prosperity Trust Fund, the implementation of Investment Plan approved by the ONE JIB in July was suspended, and the ONE JIB Chair and Secretary were informed by ONE Investment accordingly.

3. BACKGROUND

On July 27, 2021, the Treasurer of the City of Kenora informed ONE Investment of a significant change in circumstances that would affect its Investment Plan. After ONE JIB's approval of the Investment Plan on July 14, 2021, Kenora's Council decided to make changes in the City's internal financing arrangements with the Citizens' Prosperity Trust Fund that would reclassify approximately \$11.75 million as MNRI. These changes were done in conjunction with the City entering into a "Letter Agreement" with Toronto-Dominion Bank, for a new multiple draw loan facility. Council approved the changes on August 24, 2021.

4. ANALYSIS

ONE Investment is awaiting an update to Kenora's MCQ to reflect this change

ONE Investment has not yet received an updated MCQ or official confirmation of any changes in MNRI but is expecting them in September. It is anticipated that the only change will be a contribution of **about** \$11.75 million from the Citizens' Prosperity Trust, with the exact timing of the contribution yet to be determined. It is possible that this change may result in minor adjustments to MNRI in the General Account also.

Idle cash from accumulated coupon income on in-kind bonds was deployed to the Stable Return Outcome

The Investment Plan approved on July 14, 2021, included transactions to invest cash into the Stable Return Outcome. The in-kind bond portfolio, which reflects some of the holdings of the CPTF, has accumulated cash from bond coupon interest paid. The CIO implemented transactions to invest \$101,000 of this cash into the Stable Return Outcome. This was used to increase the ONE Global Bond Fund holding, which was below its target weight in that Outcome.

Other transactions identified in the Investment Plan have not been executed

All other transactions in the Investment Plan approved on July 14, 2021 were not implemented. Considering the prospective change in circumstances, it was prudent to wait for further clarity before implementing trades. Trades for the both the CPTF and the General account will be implemented when such clarity is provided.

Accounts have drifted outside of asset class limits during the quarter

Strong performance in the ONE Global Equity Fund pushed the equity allocation higher, with the Stable Return Outcome and the Target Date 3 to 5 Year Outcome moving outside of their asset class tolerance bands. While such an event should prompt the CIO to initiate a rebalance in the Outcome, due to the circumstances, no rebalance was initiated. The Target Date 3 to 5 Year Outcome was approximately 0.25% above the maximum equity weight of 12%, while the Stable Return Outcome was 1.0% above its maximum equity weight of 34%. The CCO approved the CIO's request that no action be taken to resolve these compliance breaches. These compliance breaches will be resolved with any trading required to implement the Investment Plan.

ONE Investment seeks approval to revise the Investment Plan, to invest approximately \$11.75 million of new MNRI into the Stable Return Outcome, and to make minor adjustments, as needed, to implement other elements of the Investment Plan approved on July 14, 2021

The current information available from Kenora indicates that there will be a \$11.75 million contribution of new MNRI into the Citizens' Prosperity Trust Fund account. Further clarity on the timing is expected in September. The CIO recommends that this amount be invested in the Stable Return Outcome, which is how the current CPTF balances under the control of ONE JIB are invested.

The pending contribution to the CPTF and financing decisions could have a minor impact on the City's other investments, which could require additional transactions. It is possible that the Treasurer may elect to make some adjustments across accounts now that the City is eliminating self-financing from the CPTF. The transactions in the Investment Plan approved on July 14, 2021, included several transfers between the CPTF and General Account related to interest payments (the General Account traditionally has borrowed from the CPTF with 3% interest rate). These transactions, if required, could modestly affect the amounts invested in the Target Date 3 to 5 Year Outcome and the Target Date 10+ Years Outcome.

To expedite the investment of new MNRI and implement the required changes in the Investment Plan, the CIO is requesting latitude to update and implement the July 14, 2021, Investment Plan prior to approval of the revised plan by the ONE JIB.

5. CONCLUSION

As a result of significant changes to Kenora's financing strategy, which will result in a contribution of approximately \$11.75 million of new MNRI, implementation of the Investment Plan approved by ONE JIB on July 14, 2021 was suspended. In addition to this new investment in the Citizens' Prosperity Trust, there could be some smaller adjustments to the amounts in the General Account. The report's recommendations provide a way to deal with this contribution in advance of the board's approval of a revised Investment Plan.

Drafted by: Keith Taylor, Chief Investment Officer, ONE Investment

Approved by: Judy Dezell and Donna Herridge, Co-presidents and CEOs, ONE Investment