REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 14, 2021
Re: Investment Plan Implementation Update
Report: ONE JIB-025-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The updated Investment Plans that were approved by the ONE JIB on July 14, 2021, were implemented in early August. This report summarizes the trading activities related to the implementation of these Investment Plans.

3. BACKGROUND

The July 14, 2021 annual review and update of the investment plans required adjustments to investment allocations for most Participating Municipalities

As required by the Regulation, each participating municipality must review its Investment Policy Statement annually, and then the ONE JIB needs to update its Investment Plan. As part of this annual review process, three Participating Municipalities made new contributions to MNRI. As a result of revisions to the Investment Plans, five of the Participating Municipalities required adjustments to their investment allocations.

Implementation of the updated Investment Plans resulted in an additional $37.5 million being invested by Participating Municipalities

Collectively, the new MNRI contributions represented over $37.5 million. To deploy new MNRI contributions and reposition existing MNRI in alignment with the new Investment Plans, ONE Investment executed 45 trades in the ONE Investment Funds, in addition to multiple transactions between HISA accounts. Transactions across all accounts and clients were coordinated so that they were done at the same time. The series of transactions involved considerable complexity.

4. ANALYSIS

Overall, the transactions reduced fixed income allocations and increased equity allocations

The implementation of the revised Investment Plans allocated $37.5 million across the Outcomes and remapped money across Outcomes, which in aggregate led to a net reduction in fixed income allocations of about $3.5 million and an increase in equity allocations of about $30.6 million. Table 1 summarizes the aggregate transactions.

As the Global Bond Fund's underlying holding is a pooled fund (Manulife), units needed to be sold in the underlying pooled fund in advance of the ONE Investment fund transactions to finance the redemptions. The $21.5 million deployed to the Global Equity Fund was invested in the Mawer pooled fund after the money became available. This underscores the planning and coordination involved in these types of transactions.

Table 1 – Aggregate impact of implemented trades on Fund balances

ONE HISA	ONE Canadian Government Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	ONE Canadian Equity Fund	ONE Global Equity Fund
10,472,920	(345,500)	(305,400)	(2,860,572)	9,040,580	21,561,600

Bracebridge's Investment Plan update did not result in changes to allocations

The Investment Plan update for Bracebridge did not change the allocations to investment Outcomes and no trades were required.

Huntsville's Investment Plan implementation resulted in 10 fund trades, deploying $1 million in new money and shifting $2 million from the Cash Outcome to various longer-term Outcomes

An additional $1 million was contributed by the Town, which was deployed to the Target Date 5 to 10 year Outcome. The $2 million balance of the Cash Outcome was reallocated to other Outcomes, including $300,000 that was deployed to the Contingency Outcome, $361,000 that was redeployed to the HISA account associated with the Target Date 3 to 5 Year Outcome and approximately $1.7 million was invested in the ONE Investment pooled funds associated with the Target Date 3 to 5 Year Outcome. The implementation of trades eliminated notable drift in the allocation weights of the Target Date 3 to 5 Year Outcome. Ten fund transactions were required, along with several HISA transactions.

Innisfil's Plan implementation required five trades to deploy $10 million in new money to the Target Date 5 to 10 Year Outcome

Innisfil's Investment Plan update involved an injection of $10 million to the Target Date to 5 to 10 Year Outcome. The transactions were straightforward as no money had previously been deployed to this Outcome for Innisfil. The five ONE Investment Funds were bought in proportion to their target weights in this Outcome.

Muskoka's Investment Plan implementation was complicated by the account structure of the Outcomes and HISA-related manual administration and resulted in 15 trades plus HISA transactions

The annual update for Muskoka did not involve any injection of new MNRI, but the Investment Plan update required a redeployment of money across Outcomes that involved some complexity due to the account structure of the Outcomes.

The changes in the Investment Plan involved reducing the allocation to the Target Date 3 to 5 Year Outcome by $31.5 million, with $18 million being redeployed to the Cash Outcome and $13.5 million to the Contingency Outcome.

The new $18 million deployed to the Cash Outcome was funded by a combination of a movement of $2 million from the HISA account associated with the Target Date 3 to 5 Year Outcome and $16 million from reducing positions in three of the ONE Investment Funds in the Target Date 3 to 5 Year Outcome.

The $13.5 million reallocated from the Target Date 3 to 5 Year Outcome to the Contingency Outcome was funded by offsetting buy and sell transactions in each of the five ONE Investment Funds that redeployed $9.7 million. Approximately $3.9 million in additional purchase transactions for the Contingency Outcome were funded from HISA balances associated with the Target Date 3 to 5 Year Outcome.

Operational limitations related to the integration of HISA into the Outcomes added a layer of complexity to the implementation. The Chief Investment Officer needed to manually adjust the trade tickets to match buys and sells within the same ONE Investment Fund across two of the Outcomes. This was because the custodian required intra-account rebalancing of pooled funds to be segregated from transactions that required HISA funding. Five sell tickets within the Target Date 3 to 5 Year Outcome were manually created with five matching sized buy tickets in the Contingency Outcome. The trades that required fund movement were separated from these self-funded trades. Manual transactions were a result of operational limitations as the funding source involved HISA, which is not held at the ONE's custodian. Table 2 shows these trade details.

Table 2: Splitting of Muskoka's trades

Outcome	ONE HISA	ONE Canadian Government Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	ONE Canadian Equity Fund	ONE Global Equity Fund	Funding required (provided)	Notes
Contingency Outcome	na	-	-	-	1,041,000	2,803,000	3,844,000	
Contingency Outcome	na	837,000	830,000	3,886,000	1,351,000	2,752,000	9,656,000	Matched trade
Target Date 3 - 5 Year	na	(837,000)	(830,000)	(3,886,000)	(1,351,000)	(2,752,000)	(9,656,000)	Matched trade
Target Date 3 - 5 Year	(5,875,000)	(2,235,000)	(2,192,000)	(11,542,000)	-	-	(21,844,000)	
Cash Outcome	18,000,000	na	na	na	na	na	18,000,000	
Total Changes	12,125,000	(2,235,000)	(2,192,000)	(11,542,000)	1,041,000	2,803,000	-	

Raising $31.5 million from the Target Date 3 to 5 Year Outcome restored this Outcome's allocations to target weights as amounts were trimmed from each of the ONE Investment Funds and the associated HISA account.

Kenora's Investment Plan implementation has been deferred because of a pending material change to the City's MNRI since the plan was approved. Cash from coupon income received was allocated.

Kenora's approved Investment Plan's implementation was suspended, as ONE Investment was notified of a pending material change to MNRI. This issue will be discussed separately in ONE JIB report ONE Staff - ONE JIB-023-21. Coupon income from the in-kind bond portfolio was invested into the Stable Return Outcome to mobilize this idle cash. This was the only part of their updated Investment Plan implemented, and the transaction was implemented separately from other client transactions.

Whitby's Investment Plan implementation required 10 trades to deploy new MNRI

Whitby's annual update to its Investment Plan involved an injection of $26.6 million into the investment Outcomes. About $8.7 million of this new MNRI was assigned to the Asset Management Reserve Outcome, and $17.8 million to the Target Date 10 Year + Outcome. This required ten purchase transactions of the ONE Investment Funds. The transactions also used $600 from the HISA account associated with the Target Date 3-5 Year Outcome.

5. CONCLUSION

Except for Kenora's Investment Plan, all the updated Investment Plans were implemented successfully. While the transactions were less involved than the initial transition of Founding Municipality's MNRI into the Investment Plans in July 2020.The implementation of the Investment Plans was complex and required extensive planning by staff to execute.

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