



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer
Date: June 23, 2020
Re: Benchmarks for Prudent Investor Funds - Global Bond and HISA
Report: 20-013

1. Recommendations

It is recommended that the Board:

1.1. Approve the following benchmarks for the Prudent Investor investment options:

Investment Option / Fund	Benchmark
ONE HISA	Bank of Canada 1 Year GIC Rate (series: V80691339).
ONE Canadian Government Bond Fund	95% the DEX All Government Short Bond Index and 5% the DEX91 Day T-Bill Index
ONE Canadian Corporate Bond Fund	48% FTSE TMX Canada All Government Bond Index, 40% FTSE TMX Canada Short Term Corporate A Index, 10% FTSE TMX Canada Universe Corporate AAA/AA Index and 2% FTSE TMX Canada 91 Day T-Bill Index.
ONE Canadian Equity Fund	S&P/TSX Composite Total Return Index
ONE Global Bond Fund	Bloomberg Barclays Multiverse Index
ONE Global Equity Fund	MSCI ACWI (net)

1.2. Notwithstanding the foregoing approval, ONE Investment is authorized and instructed to continue to review and monitor these benchmarks and their use by ONE JIB, including with respect to fees and costs. If a modification is warranted, ONE Investment will so advise ONE JIB.

2. Key Points

- ONE JIB needs to select appropriate benchmarks for the Prudent Investor products for the purposes of performance measurement.



- ONE JIB directed staff to report back on performance benchmarks at its June 23, 2020 meeting.
- Selection of benchmarks is subject to a variety of considerations, including cost.
- Except for HISA, which has no external manager, each of the benchmarks proposed is the benchmark used by the external fund managers.
- Recommended benchmarks for ONE Canadian Government Bond Fund, ONE Canadian Corporate Bond Fund and ONE Canadian Equity Fund are the same benchmarks currently used for the corresponding ONE Legal List Investment Program products.
- Unconstrained global fixed income mandates do not have a standard, widely used benchmark and their highly active mandates mean that no established benchmark will be a perfect proxy
- A one-year GIC rate is an effective proxy for cash holdings like ONE HISA
- The unhedged version of the benchmark used by the external manager (the mandate's primary benchmark) for the Global Bond Fund and the one-year GIC rate for ONE HISA are recommended.
- The Global Bond Fund and ONE HISA are used in the construction of blended benchmarks to evaluate the performance of municipal investments, so it is appropriate to have benchmarks for them, as well as for ONE JIB's other investment options

3. Background

ONE JIB needs to select benchmarks for the Prudent Investor Standard products for the purposes of performance measurement

ONE JIB intends to select benchmarks to evaluate the performance of its external investment managers. ONE JIB will use blended benchmarks in proportion to their asset allocation weights to measure performance of ONE Investment Outcomes. Benchmarks will not be used in any promotional material.

At its May 20, 2020 meeting, ONE JIB referred Report 20-O12, "Investment Manager Benchmarks," to staff for further development

ONE JIB directed staff to conduct additional analysis and provide advice on two matters: (1) whether the benchmark for the Global Bond Fund should be hedged or unhedged, and (2) an appropriate benchmark for the ONE HISA.



4. Analysis

Unconstrained global fixed income mandates do not have a standard, widely used benchmark and their highly active mandates means that no established benchmark will be a perfect proxy

The performance of traditional bond mandates is largely a reflection of the impact of changes in interest rates and changes in credit spreads. Unconstrained global fixed income mandates are very different as they are highly active and less dependent on interest rates to generate returns. In many cases, managers of these funds do not specify a performance benchmark because the mandate's approach is adaptive and more dynamic than typical bond funds which makes it very dissimilar to traditional bond benchmarks. Occasionally benchmarks for global unconstrained bond funds will have a cash return plus a certain percentage target or an absolute return target.

In the absence of a widely accepted, broad market index, ONE JIB asked that staff consider use of short-term interest rates (example e.g., 30-day CDOR) as a benchmark for Global Bond Fund. A short-term interest rate benchmark, such as the one-year GIC rates published by the Bank of Canada, is also a viable choice, because the nature of the unconstrained mandate effectively means the manager is attempting to generate returns in excess of cash returns, and the pattern of returns is intended to be dissimilar to performance of traditional fixed income benchmarks. Short-term interest rates could assist ONE JIB in evaluating the value-add, in terms of excess performance, delivered by the external investment manager.

The external investment manager has adopted, as the primary performance benchmark for the ONE Global Bond Fund, the unhedged version of the Barclays Bloomberg Multiverse Index. The Bloomberg Barclays Multiverse Index provides a broad-based measure of the global fixed income bond market. The index represents a blend of the Global Aggregate Index and the Global High Yield Index and captures investment grade and high yield securities in all eligible currencies. This index was adopted by the external manager in April 2007 to facilitate comparability with its peers. Prior to April 2007 the external manager's composite benchmark for its global unconstrained fixed income mandate was 45% ML US High Yield Master II Index / 35% JP Morgan Global Bond (Non-US) / 20% ML US Treasury Master. The external manager also provides a CAD hedged version of the Bloomberg Barclays Multiverse Index benchmark for its Canadian clients.

The information presented by Manulife at manager selection interviews showed that the mandate's pattern of performance did not closely track either the hedged nor the unhedged version of its chosen benchmark.



Without strong evidence to support diverting from the manager's chosen benchmark, adopting the external manager's benchmark for performance reporting purposes makes sense. The unhedged version of the benchmark chosen provides greater comparability to the Global Bond Fund's peers, and the CAD hedged version of the benchmark provides no discernable advantages in comparability. Therefore, the unhedged Bloomberg Barclays Multiverse Index is a reasonable benchmark for the ONE Global Bond Fund.

A one-year GIC rate with its short-term interest rates is an effective proxy for cash holdings like ONE HISA

ONE HISA is effectively a demand deposit product and not an actively managed investment product. As cash is included in several of the outcome allocations, blended benchmarks for these allocations require a return proxy for cash. For this reason, it will be necessary to have a benchmark for ONE HISA returns even though manager performance is not a factor in returns. The interest earned on ONE HISA is bank prime less a fixed percentage.

The one-year GIC rate published by the Bank of Canada is a reasonable benchmark for ONE HISA.

5. Conclusion

Benchmarks are needed to enable ONE JIB to assess the performance of the investment managers, the outcomes in the Outcomes Framework, and municipal investments.

Each of the benchmarks are reputable and widely recognized in the investment industry. In selecting these recommended benchmarks, the external managers of each mandate were consulted by ONE Investment's Chief Investment Officer. The review included historical tracking of these benchmarks against similar mandates managed by the external managers; these reviews confirmed the applicability of the recommended benchmarks. Therefore, these benchmarks represent an appropriate standard against which to measure the performance of the external managers and ONE Prudent Investor investment options.

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