



# REPORT

To: Joint Investment Board  
From: Evelyn Foo, Chief Compliance Officer  
Date: September 16, 2020  
Re: Prudent Investor Transition  
Report: 20-024

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## 1. RECOMMENDATIONS

It is recommended that:

- (1) ONE staff seek the perspective of the Founding Municipalities on the Transition Plan implementation and report back to the ONE JIB.
  
- (2) The Chief Compliance Officer regularly meet with CIBC Mellon to ensure future issues are avoided.

## 2. SUMMARY

Summary of Prudent Investor Transition:

- \$300 million was successfully moved from HISA, Legal List funds and in-kind cash contributions into the Prudent Investment Funds based on the outcomes identified in each municipality's Investment Plan.
- Issues encountered with CIBC Mellon have been discussed between CIBC Mellon and ONE's Co-President/CEOs. CIBC Mellon understands what ONE Investment's expectations are on a go forward basis.

## 3. BACKGROUND

On July 2, 2020, the new Prudent Investment funds were launched. The funds were populated with the money not required immediately of the six Founding Municipalities: Bracebridge, Huntsville, Innisfil, Kenora, Muskoka, and Whitby. The funds form the basis of ONE JIB's Prudent Investment Program. This program is a legally compliant implementation of the prudent investor regime as described in section 418.1 of the *Municipal Act, 2001*. The program is designed to be scaled to accommodate investing needs of any municipality in Ontario.. To facilitate the scaling of the program, ONE JIB designed an Outcomes Based Framework, consisting of five different outcomes that can be used in a modular fashion to design a unique investment plan for each municipality based on their Investment Policy Statements (IPS) and Municipal Client Questionnaires (MCQ). The level of municipal customization is viewed as critical to the Prudent Investment Program's success. The approach does, however, increase the complexity of implementing transition plans as each outcome has its own unique mix of funds and weighted

allocations.

## 4. ANALYSIS

The transition took place on July 2 and 3, 2020 to accomplish the funding and settlement of the proceeds in the associated outcomes in the Prudent Investment funds. This transition was complex due to the multiple types of funding and subsequent allocation of trades to the appropriate outcomes for each municipality.

Operationally, the transition plans called for:

- \$300 million to be moved to Prudent Investment funds: \$155 million from HISA, and \$145 million in redemptions from ONE Investment's Legal List program portfolios ( \$81 million securities in-kind and \$64 million cash);
- The submission of 13 withdrawal orders for Legal List portfolios and the placement of 85 purchase orders for the new Prudent Investment funds;
- The co-ordination, timing and matching of the securities list between CIBC Mellon and the external managers for over 200 securities for the portion of withdrawal orders transacted through securities transferred in kind; and,
- The review and completion of documentation for CIBC Mellon, the external managers, in addition to the tax forms required for the new Prudent Investment funds.

Two issues were experienced during the transition:

- On June 30, 2020, ONE Investment was advised by CIBC Mellon they can only accept monies related to the PI Funds and could not accept or direct monies to a HISA bank account. This impacted the movement of \$128 million PI funding. ONE Investment and CIBC Mellon worked to revise the original process for the movement of PI monies in order to facilitate the transition. Founding Municipalities were notified of the process change for approval and authorization.
- CIBC Mellon held Legal List redemption instructions to liquidate the Legal List funds of \$145 million. These instructions were authorized by Founding Municipalities and redemptions were to be held by the CIBC Mellon Trust Account for redeployment to PI funds. CIBC Mellon inadvertently transferred the proceeds of the redemptions to municipalities' bank accounts. An additional communication was sent to Founding Municipalities by ONE Investment advising them of the error and requesting authorization for the retraction of said funds by CIBC Mellon.

On August 5, 2020 the Co-President/CEOs and Chief Compliance Officer met with Ash Tahbazian, Chief Client Officer with CIBC Mellon to discuss the issues experienced by ONE Investment during the transition. The discussion was productive, and CIBC Mellon has re-committed to improving customer service to ONE Investment. A follow-up meeting with the Co-President/CEOs will be scheduled in three months' time to re-evaluate CIBC Mellon's progress. The Chief Compliance Officer has scheduled monthly meetings with CIBC Mellon to ensure issues are addressed in a timelier fashion.

## 5. CONCLUSION

The operational issues encountered with CIBC Mellon on the transition days were effectively handled by ONE Investment staff to ensure appropriate workaround solutions and communication to the Founding Municipalities. As a result, no financial losses occurred as a result of these issues.

ONE successfully launched the Prudent Investment funds financed through a combination of proceeds from HISA, ONE Investment Legal List fund portfolios, and additional external proceeds from the Founding Municipalities.

Drafted by: Evelyn Foo, Chief Compliance Officer

Approved for submission by: Judy Dezell and Donna Herridge, Co-Presidents/CEO