

To: ONE Joint Investment Board,
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 6, 2023
Re: Allocations and Benchmarks for Outcome Framework - Update
Report: ONE JIB 2023-041

1. RECOMMENDATIONS

The ONE Joint Investment Board has approved replacing High Interest Saving Account (HISA) with the ONE Canadian Government Bond (the “**Fund**”) for the purposes of the ONE Prudent Investment Program. In this connection, it is recommended that the Board:

1. Confirm the intent to use the Fund in place of HISA, and to eliminate HISA as an investment component of ONE Investment’s Prudent Investment Outcome Framework, such replacement and elimination to be applicable to the Investment Plans of all Participating Municipalities and also generally on a go-forward basis;
2. Approve and adopt the following ancillary changes:
 - a. a revised benchmark for the Fund made up of 60% FTSE Canada Short Government Bond Index + 40% FTSE Canada 91-Day Treasury Bill Index;
 - b. necessary modifications to the Outcome Framework Allocations and Allocation Ranges and Benchmark Details of Outcomes;
3. Authorize and direct ONE Investment, acting through its duly appointed officers, to take such further actions as may be required to give full effect to the foregoing, and to provide for consistency throughout the ONE Prudent Investment Program.

2. SUMMARY

ONE JIB at its November 30, 2022, meeting approved the removal of HISA from the Outcomes Framework to be replaced with allocations to the Fund and directed that the changes be implemented. In conjunction with this, the Fund will be reoriented to focus on shorter-term government bonds, with no exposure to corporate credit. This affects the allocations used in the Outcomes Framework, the asset class allocation ranges (minimum and maximum allowable weights), and the blended benchmark of the Fund. As the Fund is featured in every Outcome, there is a corresponding change to the blended benchmark for all Outcomes.

At inception, the Fund was intended to closely track, in portfolio composition and performance, the ONE Canadian Government Bond Portfolio which is offered by ONE Investment as part of the Legal List Program. The mandate of the Fund will be revised, effective October 1, 2023, after

which the investment orientation of the ONE Canadian Government Bond Portfolio and the Fund will diverge.

3. BACKGROUND

ONE JIB has approved changes that replace allocations to ONE HISA in the Outcomes Framework with incremental allocations to the Fund

Following recommendations from the New Products Committee on November 7, 2022, ONE JIB approved replacement of the current allocations to HISA with investment in the Fund. As a result, HISA would no longer be represented among the available components in the Outcome Framework. Thus, the Cash Outcome (which is retained) will have a 100% allocation to the Fund. Allocations to HISA in the Stable Return Outcome and Target Date 3-5 Year Outcome will similarly be replaced. Any residual HISA balances which remain due to interest payments being made in arrears will be cleared out in due course, and latest by year-end.

The mandate of the Fund is being revised to shorten the maturity profile and consist only of government related securities.

ONE Investment has coordinated with MFS, the investment manager of the Fund, to revise the investment guidelines of the mandate, which will reorient the investment exposure. This will reduce both the credit risk in the Fund and its sensitivity to changes in interest rates. With these changes, the Fund will provide cash-like exposure. More detail on the specific details of the new mandate can be found in the June 21, 2023 [New Products Committee report](#).

Other Ancillary Changes.

In connection with the above, investment allocations, benchmarks, and compliance rules will require modification. ONE JIB has effected the changes to the Investment Plans of each of the Participating Municipalities through a deeming provision such that all references to HISA are, as at the Effective Date, read as references to the Fund. To complete this transition, ONE Investment will also change, or deem changed, all references to HISA as references to the Fund for purposes of all other program documents, including template investment plans for newly onboarded municipalities and municipalities contemplating prudent investment. Other such necessary changes, to benchmarks and Outcome Allocations contained in the Investment Plans and elsewhere in the Program documents will be made as the need arises.

4. ANALYSIS

Replacing HISA with the Fund affects allocations for three Outcomes

Replacing HISA only affects three Outcomes where HISA currently is a holding. The Cash Outcome's only holding is HISA, which will be replaced by the Fund. The Stable Return Outcome and Target Date 3 to 5 Year Outcome, which have allocations to both HISA and the ONE Canadian Government Bond Fund, will increase their allocations to the Fund (by 10% and 20% respectively) when HISA is removed. Details of the changed allocations can be found in

Attachment 1 to this report. As a result of these changes, the asset class 'Cash', which has been represented by HISA balances will no longer exist as a separate asset class in the Outcomes Framework. As a result of these changes, The Cash Outcome, will hold the Fund, which is a component of the Fixed Income asset class.

Replacing HISA with the Fund affects allocation weights and asset class allocation weights / ranges for trading and compliance purposes, necessitating revisions

The current Investment Plan template contains details of the target weights of holdings and asset classes and provide minimum and maximum asset allocation ranges that govern how the outcomes are invested. The replacement of HISA will result in changes. Attachment 2 shows the revised target weights and asset allocation ranges, with the changes highlighted in red. Allocation target weights have been updated to reflect the larger allocation to the Fund. The minimum and maximum asset allocation ranges, which are used for compliance monitoring purposes, have been updated in a consistent manner as the previous allocation ranges. The minimum and maximum ranges were designed to trigger a rebalance of the outcomes when an asset class outperforms or underperforms other asset classes by 20% or more. This ensures that allocations of outcomes remain close to target weights, even in volatile markets.

The Fund's mandate change requires a new blended benchmark

The Fund's revised mandate will result in a portfolio with a shorter maturity profile. The target duration is now about 1.75 years, and blended benchmarks have been constructed with this target in mind. The new benchmark was derived by changing the weights of the components in the existing benchmark, as noted in Table 1 below. The change is effective October 1, 2023.

Table 1 - benchmark changes - ONE Canadian Government Bond Fund

OLD :	95% FTSE Canada Short Government Bond Index + 5% FTSE Canada 91-Day Treasury Bill Index.
NEW :	60% FTSE Canada Short Government Bond Index + 40% FTSE Canada 91-Day Treasury Bill Index.

Changes to the benchmark of the Fund results in corresponding changes to the benchmarks of all Outcomes

The Fund is found in every Outcome in the Outcomes Framework, and revisions to its benchmark index will require corresponding revisions to the benchmarks of all Outcomes. Such revisions are shown in Attachment 2, as footnotes to the outcome allocation tables. (For ease of reference, the weights used in the blended benchmarks that have changed are highlighted in red.)

5. CONCLUSION

The elimination of HISA and its replacement by a changed Fund necessitates changes to other affected ONE Prudent Investment Program documents. This report summarizes such changes and is intended to provide ONE JIB members with additional clarity particularly with respect to the allocations of Outcomes in the Outcomes Framework, the asset class allocation ranges, and

the benchmarks.

ATTACHMENTS

Attachment 1: Changes in Outcome Framework Allocations

Attachment 2: Allocation Ranges and Benchmark Details of Outcomes

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