

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 6, 2023
Re: ONE HISA and ONE Canadian Government Bond Fund – Implementation Update
Report: ONE JIB 2023-043

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

At its meeting on November 30, 2022, the ONE JIB approved recommendations from the New Products Committee resulting in certain modifications to the Outcomes Framework with respect to the roles of HISA and ONE Canadian Government Bond Fund as components. These changes, when implemented, eliminate ONE HISA from the investment outcomes, replacing it with incremental allocations to ONE Canadian Government Bond Fund. Concurrently, the investment mandate of ONE Canadian Government Bond Fund will change, so that the portfolio has a very short maturity profile and very high credit quality. The Fund will thus be a closer substitute for cash. This report sets out the steps which ONE Investment proposes to take in implementing these changes, which are to take place in September 2023.

3. BACKGROUND

ONE JIB has previously approved changes that would redeploy existing ONE HISA balances of Participating Municipalities into ONE Canadian Government Bond Fund

ONE Investment's High Interest Savings Account (HISA) is currently one of the building blocks used in the Outcomes Framework. HISA is a deposit account maintained at a Canadian Schedule I Bank and its inclusion in the ONE Prudent Investment Offering presents certain operational challenges. All the other investment options in the Outcomes Framework are pooled fund units with a uniform trading and settlement cycle. Switching between the various ONE Prudent Investment Pooled Funds is seamless; however, switching between a Pooled Fund and HISA is a manually intensive process which leads to operational issues that complicate investment transactions and the reporting of returns. There is thus a greater risk of error. To resolve these challenges and mitigate risk, ONE JIB has directed that ONE HISA balances should be applied to the purchase of ONE Canadian Government Bond Fund with the revised investment mandate.

The mandate of the ONE Canadian Government Bond Fund will be modified to remove corporate credit exposure and reduce the interest rate sensitivity

Concurrently with the redeployment of HISA balances, the investment mandate of ONE Canadian Government Bond Fund will be modified. The modified portfolio will no longer have exposure to corporate credit and will maintain very high credit quality, and the maturity profile will be reduced to dampen the interest rate sensitivity of the Fund. The target duration of the mandate would be 1.75 years, and the Fund would only hold government-related securities. The overall result is that the Fund will be a closer substitute for cash.

Full details of the approved changes in the investment mandate can be found in the decision history links provided below: is report.

Link 1: [June 21, 2023 - New Product Committee 2023 Workplan Report](#)

Link 2: [June 21, 2023 - New Products Committee Meeting Report](#)

Link 3: [October 5, 2022 Options for replacement of HISA Report](#)

Link 4: [November 30, 2022 - New Product Committee Meeting Report](#)

The foregoing changes will be implemented at the end of the third quarter of 2023

The New Products Committee recommended at its June 21, 2023 meeting that the transition of ONE HISA balances to ONE Canadian Bond Fund take place by September 30, 2023. The changes in the investment mandate of ONE Canadian Government Bond Fund will be effective concurrently with the portfolio rebalancing. ONE JIB approved these recommendations at its July 19, 2023 meeting.

The implementation plan will apply HISA balances to the purchase of units of ONE Canadian Government Bond Fund on the last trading day of the month, September 29th. The change in the investment mandate of ONE Canadian Government Bond Fund will be effective October 1st.

4. ANALYSIS

Converting ONE HISA balances to ONE Canadian Government Bond Fund and effecting revisions to the investment mandate involves a series of steps

While the plan at a high level is simple (move HISA balances and change the Fund's mandate), implementation requires careful planning for a smooth transition. Staff of ONE Investment have engaged the assistance of legal counsel and is coordinating with the trustee of the ONE Investment Pooled Funds, MFS as the external investment manager, and CIBC as the bank at which HISA is maintained, and others. Certain internal operational changes must be planned and put into place, including changing investment allocations, modifying compliance rules, and revising benchmarks. Attachment 1 to this report provides an overview of the planning, which shows all the relevant steps involved.

The transition will lead to about \$50 million in HISA balances being redeployed into the ONE Canadian Government Bond Fund

Currently, HISA is held in three investment Outcomes, including the Cash Outcome, the Target

Date 3-5 Year Outcome, and the Stable Return Outcome. HISA balances held across these three outcomes for all Participating Municipalities were \$50,688,932.41 in the aggregate at the end of July 2023. These balances will be used to purchase units of the ONE Canadian Government Bond Fund at the end of September 2023.

The transition will take place over the quarter end to simplify analysis of fund returns and reporting

The transition is designed so that the changes in the benchmark and mandate of the ONE Canadian Government Bond Fund occur at quarter-end. If the transition occurred mid-quarter, the benchmark changes would also need to change mid-quarter. A performance benchmark for the quarter would need to be constructed using the two different benchmarks with an appropriate time weighting for each. This would make the evaluation of performance for the quarter more complicated. For this reason, the transition will take place over quarter end, permitting the Fund to complete the third quarter with one benchmark and begin the fourth quarter with the new benchmark.

The necessary steps to facilitate the changes are under way

Changes in the investment mandate of the ONE Canadian Government Bond Fund will require a revision of the investment guidelines of the Fund as reflected in the Pooled Fund Trust Agreement, and revisions to the Investment Management Agreement. Legal counsel has been engaged to make these revisions, and discussions with the investment manager, MFS, have occurred.

Plans are in place to announce the changes to clients and counterparties. The Trustee of the Fund has been informed of the changes in the investment mandate; Participating Municipalities have been given notice of the changes; the custodian has been informed of the transition planning; the ONE HISA vendor (CIBC) has been alerted to the pending \$50 million drawdown; and MFS, the investment manager of the ONE Canadian Bond Fund, has been involved in the planning.

HISA balances to be transitioned into the ONE Canadian Government Bond Fund at end of September 2023, and the Fund's mandate change will be effective at start of fourth quarter

Trading related to these changes will be conducted in late September, with HISA balances to be used to purchase ONE Canadian Government Bond Fund on September 29, 2023, the last trading day of the quarter. This will result in large cash balances in ONE Canadian Government Bond Fund that the investment manager can use to purchase T-bills to generate interest over the weekend. On the first trading day of the fourth quarter, October 2nd, the investment manager will liquidate the Treasuries and rebalance the mandate according to the revised investment guidelines.

With respect to Investment Plans coming forward to the September 6, 2023 ONE JIB meeting, if the Investment Plans are approved portfolio modifications will be implemented at the same time, with trades taking place within the last few days of the month. This will lead to incremental purchases of the ONE Canadian Government Bond Fund beyond the \$50 million in HISA balances mentioned earlier.

Compliance rules and allocations targets would be updated on the Portfolio Management System about 2 weeks prior to the transition to allow trades to be modelled and reviewed

Changes to the HISA and ONE Canadian Government Bond Fund effectively remove an asset class, namely cash, and increase the allocation weight of the ONE Canadian Government Bond Fund. Allocations to HISA effectively disappear. For the trading to be modelled in the portfolio management system, the new allocation targets will need to be updated in the system. Compliance rules embedded in the portfolio management system will also be updated so the Chief Investment Officer and Chief Compliance Officer can validate that the trades that are being modelled are aligned with the updated compliance rules.

5. CONCLUSION

This report describes the steps that will be taken to implement the changes to the ONE HISA and ONE Canadian Government Bond Fund approved by the ONE JIB at its July 19, 2023, meeting. These changes, when implemented, eliminate ONE HISA from the investment outcomes and replace it with incremental allocations to ONE Canadian Government Bond Fund, with its revised mandate.

ATTACHMENT

Attachment 1: Implementation Steps - ONE HISA and ONE Canadian Government Bond Fund

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