



# REPORT

To: ONE Joint Investment Board  
From: Keith Taylor, Chief Investment Officer  
Date: September 16, 2020  
Re: Overview of Canadian Fixed Income Mandates  
Report: 20-O25

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## 1. RECOMMENDATIONS

It is recommended that:

- 1) The Board receive this report for information.
- 2) ONE staff complete an annual review of ONE JIB Prudent Investment Program offerings in 2021
- 3) ONE staff develop draft terms of reference for a ONE JIB Committee to review product offerings for ONE JIB consideration in 2021

## 2. SUMMARY

For over two decades, MFS Investment Management (MFS) has partnered with ONE Investment in providing municipalities fixed income portfolio options compliant with the Legal List restrictions under the Municipal Act. The Canadian Government Bond Fund and the Canadian Corporate Bond Fund mandates used in the ONE Prudent Investor offering are based on existing Legal List mandates and are largely managed using the same restrictions. The manager will provide a summary of the mandates and a review of the design and performance of the funds. MFS also has some suggestions on how these mandates could be modified for ONE JIB's Prudent Investment Program offering. This discussion is intended to lay the groundwork for annual product review discussions, the first of which is proposed for Spring 2021.

## 3. BACKGROUND

### **MFS is a long standing ONE Investment fund manager**

Based on the longstanding relationship between MFS and ONE Investment and the success in managing Canadian fixed income mandates under the Legal List Program, MFS was asked to manage similar Prudent Investment Program fund mandates for ONE JIB.

MFS manages two Canadian fixed income funds under the Prudent Investment Program with mandates that mirror the Legal List ONE Canadian Government Bond Portfolio and the ONE Canadian Corporate Bond Portfolio. While the Prudent Investment mandates have similar mandates to the Legal List Program offerings, they are not subject to the same restrictions. It is

expected that there will be divergence between the Prudent Investment Program offering and the Legal List Program offering as the manager exercises greater flexibility of investment choices in the Prudent Investor regime. It is hoped that this divergence will lead to improved investment outcomes.

## 4. ANALYSIS

### **The Canadian fixed income portfolios in the Prudent Investment Program are intended to provide diversification and potential for investment gains with low risk mandates**

The high credit quality of the Canadian Government Bond Fund and the Canadian Corporate Bond Fund provide exposure that has low correlation with equity exposure, which produces diversification benefits for the clients. These funds hold low risk securities. As the securities in these funds are all denominated in Canadian dollars, there is no foreign currency risk associated with these holdings. This helps create stability in the client investment portfolios.

### **ONE's Investment Advisory Committee (IAC) regularly monitors and is satisfied with Manager's performance under the Legal List Program**

MFS is a longstanding partner with ONE Investment and has helped with the design and management of specialized mandates for municipalities. The IAC is familiar with MFS, its offerings, and has comfort with the manager. External consultants have reviewed manager performance and presented results to the IAC. No major issues or concerns have been identified, and the manager has quickly addressed any minor items noted by the IAC. The IAC has been satisfied with MFS's performance and approach to managing the mandates in its ongoing reviews.

### **The Canadian Fixed Income mandates under the Prudent Investment Program have not been formally reviewed by the ONE JIB**

It is appropriate that ONE JIB deliberate about the purpose and orientation of the mandates and recommend changes as appropriate.

During the negotiations of the Investment Manager Agreements related to the Prudent Investment Program offerings, MFS raised the point that the mandate for the funds could be repositioned to use the additional flexibility permitted under the Prudent Investor regime. The minimum exposure to Government of Canada securities of 25% was dropped, as was the requirement to meet *Municipal Act* requirements and the sector limits. The overall purpose of the mandate has not changed. ONE JIB should consider changes to the mandates. Options include but are not limited to:

- Reducing the credit quality floor on the funds to include all investment grade bonds (e.g., adding BBB bonds).
- Reorienting the duration of bonds in the funds.
- Reducing overlap between the funds by changing the proportion of corporate versus sovereign ratios in each of the funds, perhaps establishing "pure play" mandates.

- Combining the two Prudent Investor Canadian fixed income funds into a single fund and mandate.
- Repurposing one of the mandates to give different exposure (e.g. money market, green bonds etc.)
- Considering other ideas that would improve risk adjusted returns or improve the Prudent Investment Program offering as a whole.

## 5. RECOMMENDATIONS

The Prudent Investment Program offerings have been funded for just over 60 days. The first report on the Prudent Investment Program performance will be available in November. The CIO recommends that ONE JIB consider adjusting the fixed income mandates adapted from ONE's Legal List program. It is recommended that these discussions be scheduled for Spring 2021 to ensure that ONE staff has adequate time and information available to appropriately prepare for product reviews and deliberations. Further, it is recommended that the ONE JIB Prudent Investment Program offerings be reviewed annually beginning in Spring 2021 to coincide with the mandate review discussions.

Drafted by: Keith Taylor, Chief Investment Officer

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