



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: November 29, 2023
Re: Investment Plan Implementation Update - Q3 2023
Report: ONE JIB 2023-069

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

Investment Plans for three municipalities were approved at the September 6, 2023, ONE JIB meeting. They included:

- An initial Investment Plan for the Town of Aurora, which became ONE JIB's newest Participating Municipality with an initial MNRI contribution of \$42.8 million.
- Muskoka's Investment Plan, which reduced its MNRI by \$5.5 million and involved a reallocation of MNRI across the investment outcomes to reflect a slightly shorter investment horizon.
- Bracebridge's Investment Plan, which resulted in no changes in investment allocations.

This report will discuss the implementation of trades related to the recently approved Investment Plans for Aurora, Muskoka and Bracebridge.

ONE Investment staff implemented the necessary changes to replace HISA with the Canadian Government Bond Fund and modify the mandate of the ONE Canadian Government Bond Fund to reduce its interest rate sensitivity and remove corporate credit exposure. The implementation of the Investment Plans was coordinated with the changes to HISA and the Canadian Government Bond Fund to minimize transactions.

3. BACKGROUND

Bracebridge's Investment Plan update did not require any trades to implement

Bracebridge did not contribute or withdraw MNRI as part of its annual Investment Plan review. As the investment horizon of reserves was largely unchanged and circumstances were broadly similar, no changes to Bracebridge's Investment Plan were required. As a result, Bracebridge's

Investment Plan did not require any trading to implement.

Aurora joined ONE JIB as a Participating Municipality in September and contributed \$42.8 million in MNRI, which was allocated across four investment outcomes.

Aurora's contribution of \$42.8 million of MNRI was allocated in accordance with the Investment Plan, with the bulk of MNRI allocated to the Target Date 5-10 Year Outcome and Contingency Outcome, as shown in Table 1. Aurora's Legal List HISA account was drawn down to fund the purchase of units of ONE Investment pooled funds.

Table 1 – Initial Allocation of Aurora's MNRI

Outcome	Allocation	Allocation Weight
Contingency	\$ 13,200,000	30.8%
Target Date 3-5 Years	11,000,000	25.7%
Target Date 5-10 Years	15,000,000	35.0%
Target Date 10+ Years	3,600,000	8.4%
Total	\$ 42,800,000	100.0%

Muskoka's Investment Plan reduced MNRI by \$5.5 million, and slightly shortened its investment horizon

The update to Muskoka's Investment Plan reflected changes in cashflow forecasts associated with municipal reserves. Collectively, this led to a modestly shorter investment horizon. Additionally, Muskoka withdrew \$5.5 million of MNRI as part of the Investment Plan update. MNRI was reallocated across the investment outcomes, as shown in Table 2.

Table 2 – Changes in Muskoka's Investment Plan

Outcome	Allocations (June 30, 2023)	Plan Changes	Allocations after withdrawal
Cash	\$ 37,539	+ 43,094	\$ 80,633
Contingency	19,776,324	- 876,324	18,900,000
Target Date 3-5 Years	16,776,327	+ 2,723,673	19,500,000
Target Date 5-10 Years	82,574,119	- 3,774,119	78,800,000
Target Date 10+ Years	28,616,323	- 3,616,323	25,000,000
Total \$	\$ 147,780,633	- 5,500,000	\$ 142,280,633

HISA balances held in allocations of Participating Municipalities have been transitioned into the ONE Canadian Government Bond Fund

To implement the decisions of ONE JIB, allocations to HISA have been removed from Prudent Investment Offering client accounts, with the proceeds being redeployed into the ONE Canadian Government Bond Fund. Allocation ranges, compliance rules, and the ONE JIB Outcomes Framework have been modified to accommodate this change. More detail on the decision history

related to this change is available via the following hyperlinks:

Link 1: [September 6, 2023 - ONE HISA and ONE Canadian Government Bond Fund Implementation Update](#)

Link 2: [September 6, 2023 - Allocations and Benchmarks for Outcome Framework - Update](#)

4. ANALYSIS

The transition of HISA balances into the ONE Canadian Government Bond Fund occurred at the end of September, with the new investment guidelines for ONE Canadian Government Bond Fund effective at the start of the third quarter

All HISA balances were redeployed into the ONE Canadian Government Bond Fund on September 29, 2023, the last trading day of the quarter. These balances were held by the manager (MFS) in Canadian Treasury bonds while the mandate was being reoriented. In early October, the manager initiated trades in the pooled fund to eliminate corporate credit exposure and reduce the maturity profile of the fund, in line with the revised investment guidelines. MFS's compliance team confirmed on October 6, 2023, that the ONE Canadian Government Bond Fund transition to the new guidelines had been completed. Changes in blended benchmarks for the ONE Canadian Government Bond Fund and the investment outcome allocations were designed to occur at the end of the third quarter.

All transactions were implemented at the end of the third quarter to coordinate the Investment Plan implementation with the HISA/ONE Canadian Government Bond Fund transition

The Investment Plans approved at the September 6, 2023, ONE JIB meeting were implemented at the same time as the HISA transition. This means that the trading to implement the updated Investment Plans reflected allocations in the Outcomes Framework that became effective on October 1, 2023. This also allowed trading for the Investment Plan updates to coincide with the HISA to ONE Canadian Government Bond transition, so trading activities could be coordinated.

As HISA accounts pay interest in arrears, special measures were required to allocate accrued interest that was paid into HISA accounts in October

The payment of interest in arrears for HISA accounts created a nuance that complicated the liquidation of HISA accounts. While balances in client Prudent Investment Offering HISA accounts had a zero balance at the end of September, interest for the month of September was paid in early October. These residual interest accounts were manually allocated into investment Outcomes at the start of November. These special arrangements were initiated to ensure that HISA balances were fully removed from client accounts while ensuring that Participating Municipalities received their accrued HISA interest for the month of September. Due to the small size of Bracebridge's HISA balance, cash will be remitted directly to the client.

All transactions to implement Investment Plans were implemented seamlessly

Trading to implement Aurora's initial Prudent Investor allocations was straight-forward with 20 purchase transactions in ONE Investment's pooled funds. Money was drawn directly from Aurora's Legal List HISA account to settle the transactions.

The trade implementation for Muskoka was more nuanced, as movements of HISA balances were involved and there was movement between outcomes. Implementing Muskoka's trades involved 13 pooled fund transactions and several HISA transactions.

No trading was required to implement Bracebridge's updated Investment Plan.

The bulk of Muskoka's drawdown was funded from HISA balances that were eliminated from its investment outcomes

Investment Plan implementation took place at the end of September, coinciding with the timing of a transition of Prudent Investor HISA balances into the ONE Canadian Government Bond Fund. Transactions were initiated to move HISA balances held in outcomes to the ONE Canadian Government Bond Fund. These transactions affected the HISA balances of all participating municipalities. For Muskoka, these movements of HISA balances were conducted in concert with the above-noted plan changes. Muskoka's \$5.5 million drawdown was funded from two sources, as shown in Table 3.

Table 3 – Source of funds for Muskoka's Drawdown of MNRI

Raised from sale of pooled funds	\$ 1,811,291
HISA balances held in Muskoka's Outcomes	3,688,709
Amount raised from MNRI and remitted to Muskoka	\$ 5,500,000

Investment Plan implementation trades partially or fully rebalanced all of Muskoka's investment outcomes back to their target allocation weights

As trades occurred in each of Muskoka's investment outcomes, they all were nudged towards target weights. These transactions helped to rebalance all the outcomes towards their asset allocation target weight, but in some outcomes, the trade size was not sufficiently large to fully rebalance the outcomes. The most significant allocation misweights were diminished in every outcome as a result of the trade implementation.

Aurora's Investment Plan involved a contribution of in-kind securities

The Treasurer at Aurora coordinated with two investment brokers to liquidate long-term securities in September, with the understanding that any long-term securities not liquidated by the end of September 2023 would be deemed in-kind contributions of MNRI. These securities would continue to be held with the brokers, but management and control would be with ONE JIB. As securities mature over time, proceeds would be reinvested into the ONE Investment pooled funds. The securities deemed in-kind contributions are summarized in Table 4 below.

Table 4– Aurora’s In-Kind contribution of securities

Account	Bond Description	Expected Maturity (last call date if market value less than book value)	Book Value (\$)	Market Value September 29, 2023 (\$)
CIBC Wood Gundy	CDN IMPERIAL BK OF COMMERCE AUTO-EXT 2031 FIX CPN DEP NT 2% JUL 09 2025-JUL 09 2031 DUE: JUL 09 2025 2.000%	July - 2031	1,500,000.00	1,101,705.00
CIBC Wood Gundy	CDN IMPERIAL BK OF COMMERCE FXD 2022 FL TG 2030 1 0YR FXD TO CAPPED NTS DUE: AUG 31, 2030	August - 2031	1,000,000.00	846,160.00
CIBC Wood Gundy	CDN IMPERIAL BK OF COMMERCE CALL LINEAR ACCRUAL SENIOR NTS DUE: MAR 09 2031, CALL: MAR 09 2024	March - 2031	4,000,000.00	3,199,280.00
CIBC Wood Gundy	PRINCIPAL PROTECTED NOTES BNS CAN BANKS AC DEPOSIT S9 PP DSC MATURITY: MAY 05, 2031	May - 2031	1,000,000.00	771,700.00
CIBC Wood Gundy	PRINCIPAL PROTECTED NOTES NBC EXTENDIBLE STEP UP DEPOSIT NTS (2760), MATURITY: JUNE 03,2021	May - 2031	750,122.95	615,625.95
CIBC Wood Gundy	PRINCIPAL PROTECTED NOTES CDN IMPERIAL BK OF COMMERCE CDN BC AUTO DPNT DUE: MAY 27 2030	May - 2030	997,700.00	918,791.91
BMO Wealth Management	PRINCIPAL PROTECTED DEPOSIT NOTES BMO CANADIAN EQUITY 5379 (3071) 03/22/2030 - JHN3071 DSC	March - 2030	2,000,000.00	1,713,220.00
BMO Wealth Management	PRINCIPAL PROTECTED DEPOSIT NOTES BMO GROWTH S421 (3134) 06/24/2030 - JHN3134 DSC	June - 2030	750,000.00	687,517.50
BMO Wealth Management	PRINCIPAL PROTECTED DEPOSIT NOTES BMO S&P /TSX COMP LOW VOL S9 (1966) MAT: 04/05/2027 JHN1996 DSC	April - 2027	1,750,000.00	1,661,380.00
BMO Wealth Management	PRINCIPAL PROTECTED DEPOSIT NOTES CIBC AUTO CALL CDN IDX S1 (30030) 09/24/2029 DSC CBL30030	September - 2029	2,000,000.00	1,722,800.00
BMO Wealth Management	BMO EXT 08/24/2031 STEP UP NOTES 2%-2.5% 08/24/2022 08/24/2031 DUE: 08/24/2022 2.100%	August - 2031	500,000.00	388,600.00
BMO Wealth Management	NATIONAL BANK OF CDA GIC COMPOUND-ANNUAL DUE: 04/08/2026 2.800%	April - 2026	1,000,000.00	1,229,518.00
BMO Wealth Management	NATIONAL BANK OF COA GIC ANNUAL DUE: 08/23/2027 2.890%	August - 2027	1,000,000.00	1,000,000.00
BMO Wealth Management	BMO EXT 09/01/2027 ACCRUAL NOTE 1.37% 09/01/21 09/01/27 DUE: 09/01/2027 1.370%	September - 2027	1,000,000.00	871,830.00
BMO Wealth Management	CITY OF TORONTO DUE :11/09/2029 2.650%	November - 2029	233,574.12	208,369.98
BMO Wealth Management	BMO EXT 07/02/2030 ACCRUAL NTS 20/o 07/02/2021 07/02/2030 DUE: 07/02/2030 2.000%	July - 2030	1,134,000.00	938,929.32
BMO Wealth Management	BMO EXT 03/12/2031 STEP UP NTS 2.15%-2.650/o 03/12/22 03/12/31 DUE: 03/12/2031 2.250%	December - 2031	4,000,000.00	3,185,640.00
BMO Wealth Management	BMO EXT 08/13/2031 STEP UP NTS 2.00%-2.500/o 8/13/22 8/13/31 DUE: 08/13/2031 2.100%	August - 2031	3,000,000.00	2,333,910.00
BMO Wealth Management	BMO EXT 03/15/2032 ACCRUAL NOTE 3.62% 03/15/2023 03/15/2032 DUE: 03/15/2032 3.620%	March - 2032	2,500,000.00	2,193,175.00
BMO Wealth Management	CITY OF TORONTO GREEN BOND DEB DUE: 09/24/2039 2.600%	September - 2039	794,400.00	569,634.40
Grand Total			\$30,909,797.07	\$26,157,787.06

5. CONCLUSION

The trading associated with the implementation of Aurora's and Muskoka's Investment Plans was coordinated with the transition of HISA balances into the ONE Canadian Government Bond Fund. This was a complicated set of transactions that required considerable planning. The trading for Aurora and Muskoka was completed successfully and as intended on September 30, 2023, -. Aurora's initial Prudent Investor allocations reflect the target weights for its outcome allocations. Trading to implement Muskoka's updated Investment Plan helped restore allocation weights toward target weights for their outcomes. The process of allocating HISA balances to the ONE Canadian Government Bond Fund was timed with changes to Investment Plans and was implemented seamlessly. The transition of HISA balances into the ONE Canadian Government Bond Fund was completed as planned, and HISA is no longer a building block in the Outcomes Framework

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Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEO, ONE Investment