

ONE Joint Investment Board Statement of Policy			
Policy:	Policy for Reviewing External Investment Managers	Date approved: Date of Next Review:	Person Most Responsible: Chief Investment Officer

Purpose statement

The purpose of this policy is:

- To provide a framework that helps guide the regular review of the performance of the External Investment Managers to ensure that their performance meets the expectations of the ONE Joint Investment Board (ONE JIB).
- To provide mechanisms for identifying and resolving issues arising from reviews of the external investment managers. The external investment managers should meet industry best practices with respect to how the mandates are managed, and they should be managed in a manner consistent with the ONE JIB’s expectations and direction.

Scope and Responsibilities

The policy and procedure apply to all external investment managers engaged to manage investment portfolios on behalf of the ONE JIB. The application of this policy could result in a range of recommendations including changes in investment approach. It could also result in termination in certain circumstances.

ONE Investment is responsible for reporting to the ONE JIB in relation to this policy. The Chief Investment Officer and the Chief Compliance Officer will lead the review of the external investment managers and liaise with the managers to communicate and implement any direction approved by the ONE JIB. The ONE JIB is responsible for making recommendations that may arise from the external investment managers review process.

Definitions

- **External Investment Managers** refer to the investment managers approved by the ONE Joint Investment Board and hired by ONE Investment to manage the money invested by Participating Municipalities in the Prudent Investment Offering. External investment managers are responsible for investment strategy and the associated purchase and sale of securities within each pooled investment fund.
- **Environmental, Social and Governance (ESG)** means considering and integrating ESG factors into the investment process, rather than eliminating investments based on ESG factors alone. Integrating ESG information can lead to more comprehensive analysis of a company.
- **HISA** refers to ONE Investment's High Interest Savings Account (HISA) and may refer to other products or accounts that may be developed in the future that provide a vehicle for cash allocations.
- **Investment Management Agreement** refers to the Investment Management Agreement that ONE Investment has signed with each external investment managers. The agreement contains guidelines on how each investment mandate is to be managed and places restrictions on the investment choices the fund manager may implement. The agreement also details the fee structure for each Prudent Investment Offering.
- **Money Not Required Immediately (MNRI)** means long-term funds that belong to a Participating Municipality and are delegated to the ONE JIB to control and manage. Each Participating Municipality has discretion to define Money Not Required Immediately in a way that is appropriate for their circumstances.
- **ONE Investment** is the entity that is responsible for the creation, administration and compliance associated with the investment products available for the participating municipalities. The ONE JIB authorizes and empowers ONE Investment to direct the day-to-day operations of the prudent investment program, subject to the supervision and overriding authority of the ONE JIB.
- **Outcomes Framework** refers to a framework of investment goals used by the ONE JIB to guide the development of Investment Plans for Participating Municipalities. The framework assigns specific asset mixes to each Outcome that are appropriate to the Outcome's goals. The framework is used to distribute the MNRI of participating municipalities in a manner consistent with their Investment Policy Statement.
- **ONE JIB** refers to the ONE Joint Investment Board that was formed on May 19, 2020 to manage the investments of Ontario municipalities under the prudent investor regime.
- **ONE JIB Agreement** means the agreements with each Participating Municipality, entered into in accordance with the requirements of the Regulation,

pursuant to which ONE JIB has control and management of each Participating Municipality’s Money Not Required Immediately.

- **Participating Municipality** refers to municipal investors having entered into a ONE JIB Agreement for the investment of their **MNRI**.
- **Prudent Investment Offering** refers to the suite of investment products and services used to invest the Participating Municipalities’ money not required immediately. It includes the pooled funds that have been formed for this purpose, HISA accounts associated with ONE JIB activities, and the investment Outcomes of the ONE JIB.

Policy

Review criteria

ONE Investment and ONE JIB will continuously monitor the external investment managers to ensure they are investing according to the investment guidelines and remain in compliance with the constraints identified in the Investment Management Agreement and any other applicable investment restrictions. Primary or secondary investment benchmarks for each mandate and associated return attribution analysis will aid in the review of each manager’s performance. The key criteria that are relevant for the evaluation of external investment managers are detailed in table 1. The evaluation may incorporate other considerations, as appropriate.

Table 1 – Criteria for External Investment Manager Review

Firm Changes:	Ownership, people, responsibilities, investment philosophy, fees, reputational issues.
Strategy Changes:	Investment strategy/style, processes, size of strategy, cash flows in/out, trading frequency.
Compliance:	Adherence to the mandate’s stated policies. Compliance with Investment Management Agreement.
ESG Considerations:	Appropriateness of ESG policies and alignment with ONE JIB's views. Integration of ESG into investment decision making. Degree to which manager promotes ESG best practices within owned securities. Implementation of proxy voting process.
Client Service Related:	Quality and timeliness of information provided to the ONE JIB or ONE Investment staff. Frequency and value of educational opportunities offered.
Performance metrics:	Absolute return, Risk level assumed, Risk-adjusted returns. Return against benchmarks (benchmark relative performance). Return against Outcome Framework allocation expectations.
Attribution of Returns:	Explanation of the key drivers of investment performance. Explanation of how returns differ from benchmark returns. Demonstration of how investment constraints & manager style impact relative performance.

As part of any review, the ONE JIB will assess its overall level of satisfaction with the investment manager. A low level of satisfaction or persistent weak performance should, at minimum, lead to discussions to determine the reasons for the problem.

It is possible that performance issues could be a result of constraints imposed by the Investment Management Agreement. Modifications of the investment guidelines in the Investment Management Agreement may remedy the issues. It is also possible that a change in the investment manager might be required in some situations.

Non-Compliance

In the event that an external investment manager is not in compliance with the Investment Management Agreement or other direction from the ONE JIB, the manager is required to advise ONE Investment's Chief Investment Officer and Chief Compliance Officer immediately. The investment manager should describe the nature of the noncompliance and recommend an appropriate remedy.

The Chief Investment Officer and the Chief Compliance Officer will inform the ONE JIB in writing of the non-compliance and the recommended remedy as soon as possible. The Chair of the ONE JIB should advise ONE Investment in writing of actions to be taken with respect to the noncompliance, on a temporary basis, until the ONE JIB can make a decision on a course of action. This may mean the investment manager remains out-of-compliance on a temporary basis until the issue can be discussed by the ONE JIB.

Termination of External Investment Manager

The ONE JIB may decide to terminate an external investment manager, under certain circumstances. Reasons to terminate an investment manager include, but are not limited to, the following:

- Performance of the mandate is consistently below its benchmark and the ONE JIB's expectations over a reasonable time-period
- Failure to adhere to the investment guidelines in the Investment Management Agreement or other direction provided by the ONE JIB.
- Changes in personnel, firm structure, ownership, fees, investment philosophy, style or approach that could adversely affect the potential return and/or risk level of the
- Any material reputational or solvency events affecting the external investment manager

- Changes in the structure of the Prudent Investment Offering or Outcome Framework that mean the investment manager's services are no longer required or no longer fit the offering or framework.

Terminations of external investment managers require planning and coordination. Typically, there is a required notice period before a manager is terminated, and it may take considerable time to select and hire a new investment manager. In the event that the ONE JIB is considering the termination of an investment manager, the ONE JIB should work with ONE Investment to formulate a termination plan prior to terminating the manager. This may include creating a transition plan, hiring a transition manager, hiring a consultant to facilitate the search for a new manager, or other steps to ensure the smooth transition of money invested under the ONE JIB.

Reporting

Quarterly External Investment Manager Reviews

A quarterly review undertaken by the Chief Investment Officer and the Chief Compliance Officer shall ensure that the external investment manager is managing the mandate within the parameters of the Investment Management Agreement. Each manager will provide a 'certificate of compliance' to ONE Investment that validates compliance with the IMA.

ONE Investment shall report to ONE JIB on a quarterly basis, identifying any issues arising from the quarterly review of the external investment managers. The report will include a brief summary of the positioning of the mandate, information on investment performance, an explanation of the drivers of performance, and commentary to explain the performance and market context. The report should also identify any related compliance issues or other relevant concerns that the ONE JIB should be aware of.

ONE Investment will follow-up with the external investment managers on any issues that arise from the discussion of these quarterly reports and report back to the ONE JIB, as appropriate.

Annual Investment Manager Presentation to the ONE JIB

External investment managers are expected to make a presentation to the ONE JIB, at least annually, in which they would be expected to discuss the basic features of the mandate, the current positioning of the mandate and investment performance, and answer questions posed by the board.

Periodic Review of External Investment Managers

At least once every two years, the ONE JIB should consider conducting a more comprehensive review of each external investment manager

When the ONE JIB decides that comprehensive review is required, ONE Investment will organize this review based on the scope of the review requested by ONE JIB. This review is likely to be conducted by an external consultant capable of providing a 'deep dive' into the manager. For example, the review could examine potential breaches in compliance, discrepancies in investment implementation versus investment guidelines, absolute and relative performance, fee structure, changes in investment personnel or any other pertinent matters. The consultant would provide a report to ONE Investment and the ONE JIB.

Review of this policy

This policy shall be reviewed at least once every three years.