



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: February 17, 2021
Re: Delegation of Authority Policy
Report: 21-011

1. RECOMMENDATIONS

It is recommended that the Board:

1. Direct ONE Investment staff to bring forward a Delegation of Authority Policy to the next ONE JIB meeting that reflects the direction received today.

2. SUMMARY

The Delegation of Authority Policy is intended to clearly define the responsibility of the Chief Investment Officer to perform portfolio management activities for the Monies Not Required Immediately (MNRI) of Participating Municipalities. This may involve relatively small transactions to facilitate the day-to-day management of the Prudent Investment Offering. It will also define the scope of the authority that the Chief Investment Officer has to implement transactions, without specific direction from ONE Joint Investment Board (ONE JIB), which may be larger in scale and more likely to have a material impact on the allocations within or across the Outcomes Framework.

3. BACKGROUND

ONE JIB has already agreed to delegation through the ONE JIB Services Agreement

Contained within Article 2 Management Services of the ONE JIB Services Agreement is a broad delegation of authority to ONE Investment. The full Article can be found in Appendix A. The discussions surrounding delegation of authority were sparked when two municipalities suggested that they may need to make timely adjustments to MNRI and the Chief Investment Officer wanted to explore how much latitude he had to initiate transactions without explicit direction from ONE JIB to expedite such requests.

To provide further clarity, scoping the delegation authority would be beneficial

This led to a broader discussion of how the investment authority of the Chief Investment Officer is

defined and to what degree transactions can be initiated on behalf of ONE JIB. Further clarity would be appropriate to ensure that both ONE JIB and ONE Investment understand the scope of authority involved, which primarily relate to routine portfolio management activities. It is hoped that direction can be captured in a delegation of authority policy to guide day-to-day operations and provide the Chief Investment Officer sufficient latitude to execute the necessary transactions or activities.

Separately, it is appropriate to document the limitations of how the Chief Investment Officer can react to an updated Municipal Client Questionnaire without specific direction of ONE JIB. A clear understanding of how such requests from Participating Municipalities are processed and the limitations involved would be to the benefit of the Participating Municipalities, ONE JIB and the Chief Investment Officer.

4. ANALYSIS

Scenario 1 – Residual cash

At times, there is residual cash in a municipality's account. This may arise due to interest on monies, transitioned to ONE JIB, which earned one-day interest prior to transfer to a Fund or Outcome. Since the interest is paid in arrears, the one-day interest remains unallocated. For example, during the transition, monies were transferred through the High Interest Savings Accounts (HISA), associated with the Cash Outcomes, and these Outcomes received interest payments in early August. In many cases, the Investment Plan did not allocate money to the Cash Outcome, but the residual cash was still in the account.

Discussion points:

- a. Is ONE JIB comfortable with delegating authority to the Chief Investment Officer to allocate residual cash to an appropriate Outcome(s)?
- b. Are there any parameters around such allocations that need to be followed by the Chief Investment Officer?

Scenario 2 – Cashflows

ONE Investment may hold bonds or other securities on behalf of a municipality that periodically pays interest or generates other forms of cashflows. If Investment Plans do not clearly identify how such cashflows are to be deployed, should staff exercise discretion to allocate the cashflows into investment Outcomes? For example, Kenora has received approximately \$35,000 of coupons. These monies are currently sitting in a non-interest-bearing account.

Discussion points:

- a. Is ONE JIB comfortable with delegating authority to the Chief Investment Officer to move these funds to an interest-bearing account or an appropriate Outcome?

Scenario 3 – Rebalancing

There are several issues around the rebalancing of accounts that require clarification or direction from ONE JIB. Each topic will be discussed separately.

Rebalancing by ONE JIB

The Investment Plans identify April 15 and October 15 as the formal timing for the Outcomes to be

rebalanced. The intent of this rebalancing rule was to ensure the mandates were reviewed at least semiannually and that any meaningful drift in allocation weights was reviewed and addressed as appropriate. The Chief Investment Officer has noted allocations have in certain cases already drifted outside the range that would require a rebalance on these specific dates, but the wording of the rebalance rule indicates that rebalancing is not allowed on dates other than the two specified dates.

Discussion Points:

- a. Is it appropriate for the Chief Investment Officer to have flexibility to determine the timing of rebalancing transactions?

Rebalancing by the Chief Investment Officer

There is, currently, no direction for either ONE JIB or the Chief Investment Officer to consider more frequent rebalancing due to market conditions. Such rebalancing may allow ONE Investment to take advantage of and realize market gains on behalf of a municipality. While it seems impractical for ONE JIB to review performance on a more frequent basis than semi-annually, the Chief Investment Officer continuously reviews performance and can readily identify when market conditions suggest rebalancing may be in order.

Discussion Point:

- b. If target ranges are exceeded outside the normal semi-annual review by ONE JIB, can the Chief Investment Officer be delegated authority to move Outcomes back towards the target range?
- c. Is it appropriate that the Chief Investment Officer exercise discretion in determining which accounts to rebalance, and allow flexibility to initiate trades to promote consistency in the allocation weights across municipalities or Outcomes?

Rebalancing Parameters

Monitoring the allocations and rebalancing them back towards target is a basic portfolio management activity which helps ensure that the risk attributes of the Outcomes remain consistent. It is the role of ONE Investment Chief Investment Officer and Chief Compliance Officer to monitor and as appropriate react to ensure the allocations remain within the context of their target allocations. While rules-based approaches can help guide this process, ultimately there is some discretion involved. It is appropriate for ONE JIB to give clear direction to ensure that the authority for such routine activities are clearly defined and unambiguous.

Discussion Points:

- a. Must the Chief Investment Officer wait until a rebalancing trigger is breached before initiating a rebalance? Can they react preemptively?
- b. Should the decision to rebalance be constrained by predefined rebalancing time frames?
- c. Should rebalancing attempt to make allocations consistent across municipalities, and should accounts that have not reached rebalancing thresholds be traded for this purpose?
- d. Is it appropriate to initiate trades that might make allocations converge towards target, or should trades always be designed to rebalance exactly back to target? Nudging back

towards target tends to minimize trading. Is this appropriate?

Deposits and Redemptions

Participating Municipalities may make deposits that should be documented with an updated Municipal Client Questionnaire. This should provide guidance to ONE JIB about how these new funds should be deployed into ONE JIB's Outcome Framework. There is little direction in current policies about the need to call special meetings of ONE JIB to consider deposit and redemption requests.

Discussion Point:

- a. Can ONE Investment accept newly deposited funds prior to consulting with ONE JIB and updating the Investment Plan?
- b. Can ONE Investment deposit the funds into interest bearing accounts with out the consent of ONE JIB while waiting for direction from ONE JIB about how the funds are to be invested?
- c. If an amended Municipal Client Questionnaire is submitted and there is no ONE JIB meeting scheduled within 30 days, should the Chief Investment Officer request the ONE JIB Chair to call a special meeting to deal with the Municipal Client Questionnaire?

Participating Municipalities are required to provide 30 days' notice of any intended redemptions to allow the ONE JIB to review and assess which monies should be redeemed.

Discussion Point:

- d. If there is no ONE JIB meeting scheduled within 30 days, should the Chief Investment Officer request ONE JIB Chair to call a special meeting?
- e. If the municipality wishes to withdraw MNRI and the municipality has sufficient balances in the Cash Outcome to satisfy the request, should ONE Investment have the authority to transfer such funds to the municipality prior to getting official approval from ONE JIB?
- f. Are there any circumstances where ONE Investment would have authority to remit a portion of the MNRI back to the Participating Municipality based on an updated Municipal Client Questionnaire without explicit direction from ONE JIB?

5. Conclusion

The Delegation of Authority Policy is not intended to delegate authority to the Chief Investment Officer to make changes in the allocation of MNRI across Outcomes. Any decisions to change the allocations of Participating Municipalities, other than the items noted above, remains at the sole discretion of ONE JIB. Any trades initiated by the Chief Investment Officer, for the implementation of Investment Plans as directed by ONE JIB or for reasons identified in the Delegation of Authority Policy, will require approval from the Chief Compliance Officer before being placed, which ensures oversight.

ONE Investment staff will develop a Delegation of Authority Policy for ONE JIB's consideration based on the discussion questions contained within this report.

Drafted by: Keith Taylor, Chief Investment Officer

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

Appendix A – Excerpt ONE JIB Services Agreement

ARTICLE 2 MANAGEMENT SERVICES

2.1 **Services Required for ONE Prudent Investment Program.** ONE JIB hereby appoints ONE as its agent as permitted under section 22 of the Regulation to provide ONE JIB with such management, administrative, secretarial and support services as ONE JIB may require in connection with the provision of the One Prudent Investment Program to Participating Municipalities and other Eligible Investors. ONE is hereby authorized and empowered to direct the day-to-day business, operations and affairs pertaining to the ONE Prudent Investment Program on a continuing basis, subject to the provisions of the Act and the Regulation as amended from time to time. ONE hereby accepts such appointment.

2.2 **Duties and Responsibilities.** In the performance of its duties and responsibilities hereunder, ONE shall at all times and in all material respects, carry out and give effect to the provisions of any investment policy of a Participating Municipality and the corresponding investment plan. In accordance with Applicable Law, ONE shall provide certain investment advisory services required in the operation of the ONE Prudent Investment Program and shall provide all such services to or on behalf of ONE JIB as described below.

Without limiting its general rights and obligations but subject to the terms and conditions hereof, ONE shall:

- (a) take direction from ONE JIB with respect to the provision of portfolio advisory and investment management services for Participating Municipalities in accordance with the applicable investment policies and investment plans;
- (b) monitor the performance of and evaluate any investment or portfolio advisors appointed by ONE JIB under the ONE Prudent Investment Program and provide such reports thereon to ONE JIB as ONE JIB may reasonably request from time to time;
- (c) provide, or cause to be provided, advice and assistance in connection with the operation of ONE Savings Accounts to be made available as part of the ONE Prudent Investment Program, including but not limited to the HISA;
- (d) monitor the performance of the ONE Savings Accounts and the creditworthiness of the financial institutions providing the ONE Savings Accounts and provide such reports thereon to ONE JIB as ONE JIB may reasonably request from time to time;
- (e) make arrangements for all dealings with the assets under the control and management of ONE JIB under the ONE Prudent Investment Program including execution of all portfolio transactions, selection of markets, dealers or brokers and the negotiation, where applicable, of commissions, subject always to the direction of ONE JIB and, in connection therewith, execute or arrange for execution of all documents evidencing or relating to any portfolio securities;
- (f) arrange for the purchase and sale, exchange, transfer or other disposition of any property or securities held under the ONE Prudent Investment Program and make decisions as to the execution of all portfolio transactions;
- (g) execute all such documents (including all new account, margin and other agreements with brokers or other financial institutions) and perform any and all other acts as may be in its judgment necessary or appropriate, except as otherwise contemplated hereby;
- (h) exercise all rights, powers, options, privileges, including conversion privileges, and other powers incidental to ownership of the securities held under the ONE Prudent Investment Program as may be exercised by any person owning such property or securities in their own right, but subject always to the direction and supervision of ONE JIB;
- (i) determine whether and in what manner to vote, and execute or cause to be executed proxies respecting the voting of, securities held under the ONE Prudent Investment Program at all

meetings of holders of such securities, but subject always to the investment policies and any direction from ONE JIB;

- (j) advise ONE JIB promptly of all information which is relevant to the valuation of the portfolio investments, any circumstances of which it is or should be aware which would necessitate an adjustment to a valuation, and any adjustments to the valuation of investments which are subject to a hold period, resale restriction or similar constraint; and
- (k) provide all other incidental or ancillary services required in connection with the investment management of securities held under the ONE Prudent Investment Program.

2.3 Ancillary Services. In connection with the investment advisory services set out in section 2.2, ONE JIB may request ONE to provide, and ONE agrees to provide as requested, the following ancillary and supplemental services:

- (a) provide or arrange for all clerical, accounting and administrative functions and maintain or arrange for the maintenance of proper and complete books and records in connection with the provision of the ONE Prudent Investment Program;
- (b) conduct day-to-day relations on behalf of ONE JIB with other persons, including other service providers;
- (c) administer or cause to be administered, the payment of net income or other distributions from securities under the control and management of ONE JIB under the ONE Prudent Investment Program;
- (d) provide, or cause to be provided, statistical and research services relating to the ONE Prudent Investment Program;
- (e) provide, or cause to be provided, services in respect of any or all of the daily operations of the ONE Prudent Investment Program, including the processing of applications for admission, the collection and remittance to the custodian of monies received, and the processing of requests for redemptions or withdrawal or transfer of monies;
- (f) arrange for the provision of such directors and officers liability insurance or other contracts of indemnity for the benefit of ONE JIB and its members as ONE JIB considers to be reasonable;
- (g) provide, or cause to be provided all other administrative and other services and facilities required in relation to Eligible Investors, including the preparation for and holding of meetings of Eligible Investors, and the maintenance of records regarding transactions of Eligible Investors;
- (h) arrange for the preparation, execution and filing of all returns, reports and filings which may be required from time to time by any municipal, provincial, federal or other governmental authority, including, without limitation, the preparation and filings which may be required pursuant to the Income Tax Act (Canada) and Applicable Securities Law; and
- (i) appoint, and negotiate contracts with third party service providers, including but not limited to custodians, administrators, valuation agents, registrar and transfer agents, sub-advisors, auditors, consultants and printers.

2.4 Conduct of Business. ONE agrees to comply in all material respects with Applicable Securities Law and the Parties shall work together so that the ONE Prudent Investment Program is at all times in compliance with, in all material respects, the Act, the Regulation, Municipal Legislation and Applicable Securities Law.

2.5 Regular Reporting to ONE JIB. Notwithstanding any other provision hereof, ONE shall report at least annually to ONE JIB as to its activities performed as agent of ONE JIB, as required by paragraph 22(2)(b) of the Regulation. Such report may be a summary or compilation of reports delivered to ONE JIB through the year, but in any event shall be such as to enable ONE JIB to monitor ONE's performance as required by subsections 22(3) and (4) of the Regulation.

2.6 Standard of Care. In the provision of its management and administrative services hereunder, ONE shall exercise its powers and discharge its duties hereunder honestly, in good faith and with a view to the best interests of the Eligible Investors and shall exercise the degree of care, skill, diligence and judgment that a reasonably prudent person would exercise in the circumstances.