



REPORT

To: ONE Joint Investment Board
From: Judy Dezell, Co-President/Co-CEO, ONE Investment
Date: February 28, 2024
Re: Outsourced Chief Investment Officer (OCIO) Offering
Report: ONE JIB 2024-003

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The development of the Outsourced Chief Investment Officer (OCIO) Offering is well underway with the potential for the first investor by Q3 2024.

ONE Investment will work with the New Products Committee on the design of the funds under the OCIO Offering.

3. BACKGROUND

Implementing a key objective of ONE JIB's Strategic Plan

ONE JIB's Strategic Plan includes a strategic objective of growing assets under management (AUM) by approximately \$3 billion over the next five years. One of the identified ways to achieve this goal was to develop an offering to attract Prudent Investment Program investments from municipalities with more than \$500 million in money not required immediately.

The OCIO Offering provides the scale and specialization larger municipalities are looking for. It also resolves a key concern about how to avoid overwhelming ONE's staff capacity while providing specialized services such as custom asset allocations in a cost effective manner. It allows ONE Investment the efficiency it needs to scale up. Phillips, Hager & North Investment Funds Ltd. (PH&N) was identified through a competitive RFP process to be ONE Investment's OCIO Offering (formerly known as Large Municipality Offering) Partner.

Development of the OCIO Offering is well underway

As ONE JIB's agent, ONE Investment has been working to put structure to the OCIO Offering. This includes signing an Investment Management Agreement with PH&N. The design of the funds under the Offering will be discussed with the New Products Committee

in March 2024, as directed by ONE JIB.

The governance framework for the Offering is largely in place already, with some fine tuning required to the ONE JIB Agreement to acknowledge the new service offering. ONE Investment continues to seek ways to find efficiencies as the Prudent Investment Offering grows, with plans underway to be ready to service fifty or more municipalities.

4. ANALYSIS

ONE Investment is in negotiations with a large municipal investor

The Regional Municipality of Durham’s council has directed staff to negotiate with ONE Investment to become the first participating municipality under the OCIO Offering. The negotiations have been productive and are ongoing. There is a strong case for the Region to become a participating municipality with the ONE JIB, including the governance framework ONE JIB provides in compliance with the *Municipal Act*, competitive fees, and the potential for higher risk-adjusted returns under prudent investing. ONE Investment is making tentative plans, subject to a Council decision, to bring the Region’s Investment Plan to the May 2024 ONE JIB meeting, with the first investments completed effective July 1, 2024. Regional staff are to report back to Council in April 2024.

The rollout of the OCIO Offering will take place over 18 to 24 months

ONE Investment recognizes that changes to its current operations will be needed to achieve scale for the Prudent Investment Offering. The OCIO Offering provides a path forward to achieve scale and maximize the existing resources ONE Investment has by leveraging the resources PH&N brings to the table.

Currently, the plan is to fully transition to the OCIO Offering as the only Prudent Investment Offering in three phases, see Figure 1. The timing of the phases will be subject to discussions with ONE JIB.

Figure 1- OCIO Offering Roll Out

	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Phase 1: Large municipality onboarded						
Phase 2: New smaller municipalities onboarded						
Phase 3: Start transitioning existing 11 Participating Municipalities						

ONE Investment is ONE JIB's agent

As ONE JIB's agent, ONE Investment has negotiated an Investment Management Agreement with PH&N that will guide the investment function. ONE Investment has maintained its existing custodian and recordkeeper – CIBC-Mellon and it will continue to feed investment data into its portfolio management system for the purposes of monitoring performance. PH&N will be providing quarterly performance reports to municipalities and ONE JIB along with annual audited financial statements of all the funds deployed by municipal investors through ONE JIB. Once fully implemented, this will achieve efficiency for ONE Investment in servicing municipalities. The structure of the funds is yet to be determined – ONE Investment's goals are to design an efficient fund structure to support both the growth of AUM and maximize operational efficiency. Feedback is being sought from existing Participating Municipalities, potential new large municipal investors and the New Products Committee as directed by ONE JIB at its September 6, 2023 meeting.

The Investment Management Agreement with PH&N outlines the fees that will be charged by PH&N on each type of security. These fees will be collected from the funds in addition to ONE Investment's administrative fees for providing the *Municipal Act* compliant governance framework that allows municipalities to access the prudent investor standard. These fees are being referred to as "Governance Fees" and are explained in more depth in the separate report provided by WeirFoulds LLP on changes to the ONE JIB Agreement.

ONE JIB responsibilities through the *Municipal Act* remain unchanged

PH&N will not assume any of the responsibilities ONE JIB has through the *Municipal Act*, including the fiduciary responsibility to control and manage municipal money not required immediately. ONE JIB will continue to work with municipalities to define their objectives through the municipal council approved Investment Policy Statement and ONE JIB approved Investment Plan. PH&N will take that direction and identify investment strategies, undertake quantitative analysis including allocation studies and, once the strategy is implemented, adapt the strategy to the evolving market. ONE Investment, through its Chief Investment Officer, would remain the key contact for municipalities. Figure 2 provides more detail on the various roles and responsibilities of municipalities, ONE Investment, ONE JIB and PH&N.

PH&N will execute direction provided by ONE JIB's approved Investment Plan

As the OCIO, PH&N will work with ONE's Chief Investment Officer to understand the long-term needs of the municipality and translate that into the appropriate asset mix that respects the municipality's risk tolerance and the approved ONE JIB Investment Plan. PH&N will be appearing quarterly before ONE JIB to update on fund performance and build a relationship with ONE JIB members. It is currently planned that these quarterly meetings will start in Q2 2024.

Figure 2 - OCIO Offering Roles and Responsibilities

Municipality	ONE Investment	ONE JIB	PH&N
<ul style="list-style-type: none"> • Council: Overall responsibility for municipal investments, risk tolerance and authorization of Investment Policy Statement • Council: Delegate control and management of investments of money not required immediately to either an investment board or joint investment board • Treasurer: Develop and review investment policy statement for recommendation and approval by council • Treasurer: May be appointed to a municipal investment board or joint investment board • Treasurer: Annually report on consistency of investments with Investment Policy Statement • Treasurer: Report non-compliance of any investment portfolio within 30 days of becoming aware • Treasurer: Invest money required immediately in order to meet daily operational and liquidity needs • Treasurer: Annual investment report to council • Treasurer: Cash Flow discussions with OCIO and ONE Investment 	<ul style="list-style-type: none"> • Ontario Securities Commission exemption - allowing for investment advice to be provided • Primary municipal contact and onboarding of prudent investor standard municipalities • Facilitate legal advice to ONE JIB • Marketing • Ongoing education and training • Bridge the conversation of municipal finance goals with investment strategy • Support to municipal staff reporting to Council when opting into the prudent investor standard and regularly (at least annually) thereafter • Conduit for aggregation of investment costs to reduce overall municipal cost of going prudent investor standard • Support ONE JIB including report writing, Board Secretarial Services, Integrity Commissioner, Closed Meeting Investigator • Appoint/discharge agents including auditors, legal, custodian, fund managers and PH&N • CHUMS and LAS agent 	<ul style="list-style-type: none"> • Compliance: <i>Municipal Act</i> compliant governance framework for prudent investor standard • Control and management of municipal monies not required immediately • Adopt and maintain an Investment Plan consistent with municipal Investment Policy Statement • Provide An annual investment report to each municipality • Work with PH&N to develop the investment strategy consistent with the municipal Investment Policy Statement • Supply PH&N with approved changes in Policy (facilitated by ONE Investment at least annually) • Monitor performance of PH&N • Monitor evolving investment product offerings for alignment and fit with municipalities as institutional investors. 	<ul style="list-style-type: none"> • Investment Strategy: e.g., asset allocation studies to inform Investment Plan • Asset allocation: Allocate assets among available funds based on approved Investment Plan • Investment selection: individual security selection within parameters of the Investment Plan • Risk Management: ongoing monitoring, on at least a quarterly basis, the portfolio Asset Mix and investment performance, rebalance as required • Performance monitoring and reporting: track the performance of investments, with quarterly reporting • Compliance: ensure investment activities comply with relevant laws and regulation and investment plans • Oversight: evaluate, on at least an annual basis, Investment Manager performance. Establish a set of guidelines within which each Fund is expected to operate, including discretion limits, diversification and quality standards, and performance expectation.

5. CONCLUSION

ONE JIB is on the strategic path to growing AUM as contemplated in its Strategic Plan. The OCIO Offering provides the skills and depth required to onboard both large and small municipalities and the scale to service them efficiently.

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