



REPORT

To: ONE Joint Investment Board
From: Evelyn Foo, Chief Compliance Officer, ONE Investment
Date: February 17, 2021
Re: Procedures for Annual Distributions and Prudent Investment Funds - Distribution Policy
Report: 21-009

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Prudent Investment Funds Distribution Policy, attached as Appendix A.

2. SUMMARY

The proposed distribution policy calls for quarterly distribution of interest income from bonds, annual distributions of dividends from equities, and annual distribution of net realized gains for all Prudent Investment Funds. The first annual distribution took place on December 31, 2020.

3. BACKGROUND

The distribution policy was presented to the ONE JIB for consideration at its meeting of December 15, 2020. Several suggestions for improvement were made by the members. These suggestions have now been incorporated into the policy.

4. ANALYSIS

A standard process is undertaken to determine and allocate income to individual investors for each fund

ONE Investment products receive income over the course of the fiscal year and realize periodic gains or losses, upon either the sale or maturity of the different securities. Such fixed income will be distributed quarterly while all other income and net realized gains will be distributed annually. The annual distributions involve a thorough process, including verification checks, undertaken on the last two business days of the fiscal year.

On the second last business day of the fiscal year, a “record day run” is generated by the Custodian (CIBC Mellon), providing the number of investors and the quantity of units held by each investor. This information enables the calculation of the percent allocation for dividends and net realized gains to be used on the distribution date.

On the last business day of the year, after the close of markets, the Custodian determines the total income and net realized gains for the year, at the portfolio level. From this income, the Custodian deducts any expenses (management fees, custody fees, etc.) to determine net income. As part of this process, the Custodian distinguishes between interest income, dividend income, and net realized gains for reporting and tax purposes; however, for the purposes of this report, interest, dividend income and net realized gains will be referred to jointly as net income.

The Custodian then allocates the net income on a per unit basis, deriving a value per unit based on the total number of units determined the previous day as part of the record day run. This rate is loaded into the record unit holder system and applied against the units held by each investor. The total portfolio market value immediately prior to the distribution equals the total portfolio market value after the distribution. This is because the effects of this process are to increase the adjusted cost base, drop the net asset value by a per unit amount equivalent to the distribution, and increase the number of units held by each investor.

The distribution calculations were verified for compliance and the actual distribution took place as scheduled on December 31, 2020

PwC, auditors for CIBC Mellon, as well as ONE's Chief Compliance Officer, review the distribution calculations determined by CIBC Mellon on the last day of the fiscal year prior to the actual distribution to the individual investors. This is a detailed review that can take a number of hours to complete, providing a high level of confidence in the distribution process.

Mock distribution calculations were performed at the end of October by CIBC Mellon. These calculations were reviewed using this process and no issues were identified.

After completion of the verification process described above, the actual distribution was performed on December 31, 2020

5. CONCLUSION

The process for the distribution of income and net realized gains for the Prudent Investment Offerings is in place and meets all compliance requirements.

Drafted by: Suzanna Dieleman, Manager, Investment Services (A)

Reviewed by: Evelyn Foo, Chief Compliance Officer

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