



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: May 29, 2024
Re: Regional Municipality of Durham's Investment Plan
Report: ONE JIB 2024-037

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the Regional Municipality of Durham's Investment Policy Statement (Attachment 1).
2. Receive the Regional Municipality of Durham's Municipal Client Questionnaire (Attachment 2).
3. Approve the Regional Municipality of Durham's proposed Investment Plan (Attachment 5).

2. SUMMARY

The Regional Municipality of Durham will join the ONE JIB as the first Participating Municipality under the newly created OCIO Offering. The OCIO Offering will offer Durham access to a wide range of investment products and will allow greater customization of investment solutions. Durham's Investment Plan is tailored to its specific circumstances. Durham will contribute a total of \$1.85 billion in MNRI with ONE JIB that will be deployed in stages over the next eight months.

Durham has provided an Investment Policy Statement (IPS) and a Municipal Client Questionnaire (MCQ) that provide information on Durham's circumstances, its investable MNRI, and the investment horizons associated with its reserve balances. Durham has a low risk tolerance for assuming investment losses but has a very long investment horizon. Allocations to equity investments in this Plan will be capped at less than 30% based on Durham's instructions. Alternative investments may be considered for inclusion at a later date. These limitations will be revisited in successive Investment Plan updates. The attached Investment Plan provides details on how Durham's MNRI will be deployed under the OCIO Offering. A summary of the account structure and consolidated portfolio are provided in Tables 1 and 2 on the following page.

INVESTMENT SUMMARY

Table 1: Account Structure

MNRI Horizon	Risk Tolerance	Allocation (\$ millions)
3 – 5 Years	Risk tolerance is low	95.20
6 – 10 Years	Risk tolerance is low to moderate	63.79
10+ Years	Risk tolerance is low to moderate	1,692.85
Total		1,851.84

Table 2: Consolidated Portfolio, (when fully invested)

All Horizons		
Asset Classes	Aggregate Weight	Aggregate Amount (\$)
Fixed Income		
Short-Term Bonds	19.55%	\$366,175,250
Universe Bonds	16.14%	\$296,248,750
Corporate Bonds	0.93%	\$19,040,000
Private Placement Corporate Debt	9.77%	\$180,424,000
Commercial Mortgages	9.77%	\$180,424,000
High Yield Bonds	0.23%	\$4,760,000
Global Multi-Asset Credit	15.00%	\$277,776,000
Total Fixed Income	71.39%	\$1,324,848,000
Equities		
Canadian Equities	7.15%	\$131,748,000
Canadian Low Volatility Equities	7.15%	\$131,748,000
U.S. Equities	4.77%	\$87,832,000
U.S. Low Volatility Equities	4.77%	\$87,832,000
International Equities	4.77%	\$87,832,000
Total Equities	28.61%	\$526,992,000
Total	100%	\$1,851,840,000

3. BACKGROUND

ONE Investment has engaged an OCIO to help design and manage an investment offering suitable for large municipalities

ONE Investment is in the process of setting up an OCIO Offering as part of the process of onboarding larger municipalities to ONE JIB. The complexity and sophistication of larger municipalities require additional resources and capabilities, and by partnering with Phillips, Hager & North (PH&N), ONE Investment will better be able to service the needs of both larger and smaller municipalities.

This will lead to a change in approach that will lead to greater flexibility for the overall investment offering available under the Prudent Investment Offering. More tailored investment solutions can be designed under the OCIO Offering for larger municipalities. The benefits of the OCIO will also extend to existing Participating Municipalities. PH&N has been engaged as a submanager to ONE Investment, which will enhance the investment capabilities available to Participating Municipalities.

The OCIO Offering will provide access to 34 investment funds identified in the Investment Management Agreement (IMA). Durham's proposed portfolios have been informed by modelling provided by PH&N.

Durham's initial investment allocations under the Prudent Investor regime are very conservative, reflecting municipal circumstances and direction from Durham's staff

The design of Durham's Investment Plan reflects specific direction in Durham's MCQ that highlights Durham's sensitivity to losses. Durham has given direction regarding overall exposure to equity, which will be constrained to a maximum of 30% under this Investment Plan. The initial Investment Plan will not include allocations to alternative investments based on direction from Durham staff. The initial allocation emphasizes limiting risk rather than growth. Investment plan updates in future years may place greater emphasis on growth in investments.

Durham's MNRI will be allocated based on the time horizon of municipal reserves

Durham's IPS defines MNRI based on a time-based threshold that includes money and investments with a horizon of three or more years. Durham has also allocated reserves that represent MNRI into three time-based groupings. The account structure detailed in Section 8.2.1 of the IPS shows how Durham has grouped reserves by investment horizon and set risk tolerances accordingly. Investments in the Investment Plan will include three accounts that reflect each of these groupings.

4. ANALYSIS

Durham's MNRI will be deployed in stages over the next 12 months

Durham's MNRI will be transitioned to ONE JIB by January 15, 2025, and will include a contribution of in-kind investments and quarterly cash contributions. While the Plan identifies about \$1.4 billion in MNRI that will be deployed to the OCIO Offering, the initial cash contribution on July 15, 2024, will be \$500,000,000, with additional contributions on October 15, 2024, and January 15, 2025. The Investment Plan identifies in-kind contributions of long-term bonds, GICs, and holdings in the Legal List Equity Portfolio. Table 3 below summarizes the timing of the contributions that will be invested in the OCIO Offering and Table 4 summarizes the details of in-kind securities contributions. In-kind GIC securities designated as MNRI will continue to be held by Durham until the securities are reclassified as MRI. Durham intends to reclassify these GIC securities in the 2025 Investment Plan when the remaining term to maturity of these securities will be less than 3 years, and cash will be contributed to MNRI in lieu.

Table 3: Summary cash contributions

Date Of Contribution	Amount Invested
July 15, 2024	\$ 500,000,000
October 15, 2024	256,863,878
January 15, 2025	442,324,803
Sale of Equity Portfolio*	\$ 243,136,122
* Transition planned for Q3 2024	
MNRI to be Invested in OCIO Offering	\$ 1,442,188,681

Table 4: Summary of in-kind securities

Details	Custody	Amount	Comments
Long term GICs	At Durham	\$ 394,747,855	To be reclassified as MRI 2025
Various long-term	With OCIO	14,807,000	To be held to maturity
ONE Equity Portfolio	With OCIO	\$ 243,136,122	To be liquidated by Oct 15, 2024

The Investment allocations in Durham's Investment Plan were generated by the OCIO based on an optimization process that incorporated Durham's investment goals, constraints and circumstances

The OCIO was actively involved in the discussions with Durham related to the drafting of the Investment Plan. They were also involved in preparing investment allocations that were guided by these discussions. Several rounds of modelling were required before the final allocations were agreed on.

The model portfolios were generated using a portfolio optimization process that builds well-diversified portfolios that are efficient (superior returns versus all other allocations with the same risk level). The securities used in the optimization process were limited to the 34 funds available under the OCIO Offering. Constraints were applied to ensure that the optimized portfolios met the investment criteria that were appropriate for Durham. This

process helped identify which securities were to be included in the portfolios and guided the weights involved. A constraint in the overall allocation to equity imposed by Durham led to larger allocations in each of the fixed-income securities held in the allocations. Details related to the construction of the optimized portfolios and other analyses are provided in the appendix to Durham's Investment Plan.

Durham will require a sinking fund solution - ONE Investment and PH&N will be designing an investment solution for sinking funds in 2025

Durham issues debentures from time to time that reflect the financing needs of the Region and its area municipalities. As sinking funds associated with these debentures hold securities or monies that are MNRI, a plan for addressing sinking fund requirements is required. Currently, no MNRI has been committed in this Investment Plan to address sinking fund obligations. A sinking fund strategy will be developed for Durham's 2025 Investment Plan update. The specific investment criteria for investments held in sinking fund accounts will need to be identified, and investment allocations will be tailored for the time horizons involved. A nuanced approach may be needed due to the complexity of the solution required.

5. CONCLUSION

The Regional Municipality of Durham has requested to join ONE JIB as a Participating Municipality. It will be the first investor in ONE JIB's OCIO Offering. Approximately \$1.85 billion of Durham's MNRI will be contributed to ONE JIB including cash installments over the next 8 months and in-kind contributions. Durham's MNRI will be deployed into the OCIO Offering according to allocations that were designed by the OCIO. These allocations were tailored to meet Durham's investment goals and constraints using an optimization process. The initial allocations under the OCIO Offering for Durham are conservative, in keeping with Durham's current risk preferences and circumstances.

ATTACHMENTS

- Attachment 1: Regional Municipality of Durham's Investment Policy Statement
- Attachment 2: Regional Municipality of Durham's Municipal Client Questionnaire
- Attachment 3: MCQ 17 and 18 Supplementary Information
- Attachment 4: PH&N MNRI for MCQ Question 7
- Attachment 5: Regional Municipality of Durham's proposed Investment Plan

Drafted by: Keith Taylor, Chief Investment Officer; Jennifer Hess, Manager Investment Services
Approved by: Judy Dezell and Donna Herridge, Co-presidents/CEOs, ONE Investment