



# REPORT

To: ONE Joint Investment Board  
From: Keith Taylor, Chief Investment Officer, ONE Investment  
Date: May 11, 2021  
Re: Compliance Reports: Asset Class and Target Weight Allocations  
Report: **21-028**

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the Portfolio Asset Mix and Allocation Drift Monitoring reports for information.

## 2. SUMMARY

ONE Investment is introducing two new internal compliance reports, delivered quarterly, to allow ONE JIB to monitor the holdings and asset class weights and to better understand the positioning of the actual asset mix weights relative to target weights.

## 3. BACKGROUND

ONE Investment, in its role as the service agent for ONE JIB, monitors Participating Municipalities' investments to ensure they remain consistent with the approved Investment Plans.

ONE Investment's portfolio management system generates compliance reports and has compliance rules to enable the Chief Investment Officer and the Chief Compliance Officer to monitor the asset mix weights of each Participating Municipality. Asset mix target weights (by holding) and tolerance bands (by asset class) are established at the Outcome level in the Participating Municipality Investment Plans. If actual weights differ from their target weights, rebalancing may be required. The rules and procedures that govern when and how such rebalancing should take place are embedded in Appendix B of each municipality's Investment Plan. Details in section 9 of the investment plans also discuss rebalancing. Both can be found in Appendix 3 to this report.

This report focuses on compliance monitoring. The associated compliance reports that show actual weights relative to target weights at the end of Q1 2021 can be found in Appendices 1 and 2 to this report.

## 4. ANALYSIS

**The portfolio management system generates two reports to monitor actual weights versus target weights**

The portfolio management system generates two reports that facilitate the monitoring of

allocations. These reports show how the weight of each holding or asset class compares to its intended target. These reports help the Chief Investment Officer and the Chief Compliance Officer understand when corrective action may be required.

**The Portfolio Asset Mix Report identifies when the asset classes are outside of tolerance bands**

Each Outcome has tolerance bands for each asset class (Cash/Equity/Fixed Income) that specify a target weight for the asset class, along with minimum and maximum weights. Should the asset class weights move outside the tolerance band, the portfolio management system will issue an alert that signals that the asset class weights need to be restored to target weight, triggering an unscheduled rebalance. The Portfolio Asset Mix report is used to monitor whether the weights of asset classes are within the tolerance band. ONE Investment's portfolio management system will generate this report each month, and it will be used for internal review.

**The Allocation Drift Monitoring Report monitors deviations in allocation weights of the holdings versus their target weights**

Each fund (or cash allocation) within each Outcome has a target weight (but not a tolerance band). These target weights are monitored by the Chief Investment Officer and the Chief Compliance Officer. If the actual weight deviates significantly from the target weight the Chief Investment Officer may consider rebalancing holdings within the Outcome to reduce the magnitude of the deviation from the target weight.

This report evaluates the holding weights in relation to target weights based on two criteria: target weight plus/minus 2% and relative deviation (where allocation weight deviates from target weight by at least 10% of target weight). For example, with a target weight of 3% the 2% tolerance band implies a tolerance band of 1% to 5%. This tolerance band is not very helpful for a small allocation weight. In this example the holding with a 3% weight would need to appreciate almost 70% before it hits the 5% tolerance band. The second monitoring criteria will identify a deviation when the holding appreciates 10% relative to its target weight, or in this case when the weight reaches 3.3%. The report will be generated by the portfolio management system monthly for internal review.

**These two compliance reports will be provided to the ONE JIB on a quarterly basis**

These reports will be provided to ONE JIB on a quarterly basis to allow ONE JIB to monitor the allocations and understand the positioning of the Outcomes relative to the asset class and holding target weights. The reports will also help the ONE JIB understand the mechanics of rebalancing the Outcomes.

## 5. CONCLUSION

ONE Investment uses its portfolio management system to monitor deviations from asset class and holding target weights in ONE JIB's Outcomes. The attached reports provide ONE JIB a picture of the positioning of asset classes and individual holdings at the end of the first quarter.

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