



REPORT

To: ONE Joint Investment Board
From: Keith Taylor, Chief Investment Officer, ONE Investment
Date: September 4, 2024
Re: Investment Plan Implementation Report Q3 2024
Report: ONE JIB 2024-054

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report detailing the implementation of the first tranche of Durham's Investment Plan.
2. Approve the recommended amendments to Durham's Transition Plan detailed in the attachment to this report.
3. Authorize the Chair and the Vice-Chair to approve any further changes to the Transition Plan that may be required before the next Board meeting.

2. SUMMARY

Investment Plans for two municipalities were approved at the May 29th ONE JIB meeting including:

- Whitby's Investment Plan, which involved no changes to allocations. No trading was required to implement Whitby's Investment Plan
- Durham's Investment Plan, which involves a Transition Plan that will deploy the arriving MNRI into investments in several tranches between July 2024 and the first quarter of 2025.

Durham's first tranche of \$500 million of MNRI was transitioned into the OCIO Offering in July 2024. This report provides a summary of the transactions involved with this transition. To facilitate a smooth transition for subsequent tranches of MNRI, some revisions to the Transition Plan have been proposed. This report discusses these proposals, the details of which are outlined in Attachment 1 of this report.

3. BACKGROUND

Whitby's Investment Plan update did not require any trading to implement

Whitby neither contributed nor withdrew MNRI as part of its annual Investment Plan review. As the investment horizon of reserves was largely unchanged and circumstances

were broadly similar, no changes in its Investment Plan were required. As a result, Whitby's Investment Plan did not require any trading to implement.

Durham's recently joined ONE JIB as the first investor under the OCIO Offering

Durham's MNRI will be invested in a different set of investments than existing Participating Municipalities, as it is the first investor under ONE's OCIO Offering. The investments will be deployed into funds offered by PH&N Institutional based on allocation models that were tailored to suit Durham's needs.

Durham's Transition Plan involved three tranches of cash, the liquidation of Durham's holdings in the ONE Equity Portfolio and the transfer of in-kind securities

Due to the size of the MNRI being transferred to ONE JIB, the Transition Plan contemplated three separate cash transfers, spread out over several quarters, with the transition to be completed in the first quarter of 2025. In-kind securities were also to be transferred to ONE JIB, and there were plans to liquidate holdings in the ONE Canadian Equity Portfolio. The cash transfers and proceeds of the liquidation of the ONE Canadian Equity Portfolio were to be invested in the OCIO Offering.

In July 2024, the first tranche of \$500 million in cash was transferred and invested in the OCIO Offering, and in-kind securities were received. Planning for the liquidation of the ONE Canadian Equity Portfolio was also conducted, with implementation planned for September 2024.

4. ANALYSIS

The initial contribution of \$500 million cash received on July 15, 2024 was transitioned into the OCIO Offering over a two week period

Due to the size of the initial contribution, the fund trades were designed to minimize the potential market impact of buying the underlying securities in the pooled funds while also being respectful of the impact that the cash inflows would have on other unitholders of the pooled funds. These considerations were more relevant for Canadian fixed income allocations but were not relevant for equity-oriented pooled funds. On July 16th, \$300 million of the arriving MNRI was deployed, with full allocations immediately achieved for the equity-oriented funds. The remaining monies were deployed into fixed income-oriented funds over the subsequent two-week period to ensure an orderly deployment of monies into the underlying Canadian fixed income markets. Treasuries were held to ensure the MNRI was productively invested during the two-week period. The summary on the following page provides details of the transition that was prepared by the Chief Compliance Officer:

Execution of the \$500M in cash from Durham on July 15, 2024 Timeline

- 1) \$300M was deployed into PH&N funds and \$200M was deployed in T-Bills on July 16.
- 2) \$500M and \$200M earned interest at 3.75% in the custody account on July 15 and July 16 respectively.
- 3) \$100M T-Bills were sold to be deployed into PH&N funds on July 23.
- 4) \$100M T-Bills were sold to be deployed into PH&N funds on July 30.

Use of T-Bills

T-Bills were utilized as the Canadian fixed income market, which is a small and sensitive market, was not able to handle the large tranche that came across. The investment in the T-Bills is intended to ensure a smooth transition, earning 4.50% until their deployment.

Substitute Securities*

There is a queue for the following funds, necessitating interim substitutions until there is an opening:

PH&N Commercial Mortgage Fund
substitution → PH&N Short Term Bond and Mortgage Fund

PH&N High Yield Fund
substitution → RBC High Yield Bond Fund

** Securities substitutions may lead to compliance breaches until final allocations are achieved*

Planning Points for Subsequent Transitions

- Timeline to get into funds – tranches for investment will be sized accordingly to ensure participation in the market within the PH&N funds.
- Flexibility with regards to timing of execution of transitions for IPS presented to JIB.

Adjustments to the transition plan have been proposed to provide additional flexibility that should allow for an orderly deployment of MNRI to the intended funds

An updated Transition Plan has been attached to this report to highlight changes that may help facilitate a smooth transition of Durham's future tranches of MNRI into the OCIO Offering. The recommended changes in the attachment are highlighted in red. Broadly speaking, the adjustments are intended to provide additional flexibility with the implementation that may allow ONE Investment and PH&N Institutional to better coordinate the required trading. Thematically, these adjustments include:

- Accelerating the second tranche of cash contributions to be conducted in September and coordinated with the liquidation of the ONE Canadian Equity Portfolio.
- Allowing for a cash redemption of the ONE Canadian Equity instead of an in-kind

- wind-down, as the cost savings of an in-kind transaction are limited.
- A less precise description of the transition dates to allow for pragmatic adjustments to the trading timeline as needed.
 - Allowing the timing of the cash transfers from the client to be coordinated with the intended timeline of the fund purchases. This should alleviate the need to use T-bills as part of the transition.
 - Providing flexibility for required adjustments to the transition planning for events that cannot be foreseen. The timing of trading and other specific details about the transition will be implemented in the most prudent fashion, which may require adjustments that are ultimately in the best interests of the client.
 - The Q1 2025 tranche of the transition may take place over two or more weeks.
 - Allowing for an adjustment in the size of the Q1 2025 tranche to compensate for the deviations in the proceeds from the liquidation of the ONE Canadian Equity Portfolio vs. the value identified in the Investment Plan.
 - Allow for pragmatic adjustments to the Transition Plan to be done without seeking ONE JIB reapproval, (authority for the Chair and Vice-Chair to approve change will facilitate this).

5. CONCLUSION

The first tranche of MNRI was deployed into the OCIO Offering over a two-week period following the July 15, 2024, effective date. This report summarizes key details of how the MNRI was deployed during the two-week period, demonstrating some of the pragmatic adjustments that were required. The experience has informed how future tranches of MNRI will be transitioned into the OCIO Offering, and adjustments in the Transition Plan have been proposed to help ensure seamless implementation for future tranches.

ATTACHMENTS

Attachment 1: Amended Durham Transition Plan

Drafted by: Keith Taylor, Chief Investment Officer; Evelyn Foo, Chief Compliance Officer
Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEOs, ONE Investment