



# REPORT

To: ONE Joint Investment Board  
From: Judy Dezell, Co-President/Co-CEO, ONE Investment  
Date: September 4, 2024  
Re: ONE JIB In-Kind Securities Policy  
Report: ONE JIB 2024-025

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the ONE JIB In-Kind Securities Policy.

## 2. SUMMARY

When discussing potential MNRI prior to joining ONE JIB, municipalities are seeking guidance on how to define MNRI and whether to include in-kind securities. There is no legal definition of MNRI. This creates flexibility for municipalities in establishing MNRI but also can lead to confusion. To help municipalities identify MNRI, ONE Investment has worked with WeirFoulds LLP to develop an MNRI guidance document.

ONE Investment is recommending ONE JIB establish an In-Kind Securities Policy.

The guidance document reflects an evolution in thinking that expands the scope of how to identify MNRI, but also introduces a new concept referred to as restricted special assets. If the In-Kind Securities Policy is approved, the existing 11 Participating Municipalities will need to transition to the new approach.

## 3. BACKGROUND

### **ONE Investment's Ontario Securities Commission exemption contains restrictions, including prohibition of discretionary portfolio management**

The first restriction limits ONE Investment to providing investment management or advisory services to the municipal sector (known in the exemption as Eligible Investors) and its related agencies, boards and commissions (e.g., conservation authorities). The second restriction is that neither ONE JIB nor ONE Investment may engage in discretionary portfolio management –such discretionary portfolio management may only be carried out by registered portfolio managers. There is a carve-out which allows ONE JIB and ONE Investment to select the Investment Pools for Eligible Investors and to rebalance

portfolios by purchasing and selling units of the Investment Pools. But neither ONE JIB nor ONE Investment may manage securities that are held in the Investment Pools nor can ONE JIB or ONE Investment manage a segregated account for an Eligible Investor. This includes in-kind securities. With the move to the OCIO Offering and the partnership with PH&N Institutional as the Sub-Investment Manager, PH&N Institutional is a registered portfolio manager able to engage in discretionary portfolio management.

### **Participating Municipalities have transferred control and management of in-kind securities to ONE JIB**

Transfer of the control and management of in-kind securities (as part of MNRI) has been a common practice for municipalities as they join the Prudent Investment Program. This has meant that the CIO needed to be able to track performance, reinvest income and any proceeds from repayment of capital in accordance with the municipality's approved ONE JIB Investment Plan. As ONE JIB continues to grow assets under management, a policy is needed that addresses the types of securities ONE JIB can receive and are available for investment as MNRI. The policy would provide guidance for ONE staff in working with potential Participating Municipalities. Further, PH&N Institutional as the Sub-Investment Manager needs clear direction on what to do with in-kind securities.

### **Proceeds and income from in-kind securities, if accepted as MNRI, come under the control and management of ONE JIB**

For in-kind securities to form part of the MNRI under the control and management of ONE JIB, proceeds from these securities (any distributions as well as proceeds received at maturity or on redemption or other disposition) should ultimately be invested in the ONE Prudent Investment Offering pooled funds. The proposed policy is designed to establish principles governing the treatment of in-kind securities from Participating Municipalities consistent with the relevant ONE JIB approved Investment Plans. It provides clarity with respect to any disposition of in-kind securities, if appropriate, prior to maturity. Such direction would be contained in a Securities Acceptance Plan agreed to by the municipal treasurer.

## **4. ANALYSIS**

### **MNRI is not a defined term in legislation**

Without a legislative definition of MNRI, the responsibility for defining MNRI becomes that of the municipality before finalizing the amount that will be transferred to ONE JIB for control and management. Currently, most Participating Municipalities have relied on a time-based concept to define MNRI ranging from 18 months to three years. However, other factors such as the source of the money and the purpose for which monies have been collected or set aside and are to be used, the extent to which control over the asset can be freely given to ONE JIB, or any combination of those factors can be considered by a municipal council in determining its MNRI.

To help municipalities define MNRI, ONE Investment has worked with WeirFoulds LLP to develop a guidance document, Attachment 1, for potential Participating Municipalities. The

guidance document outlines the different criteria that could be considered in identifying money required immediately, MNRI and restricted special assets. Restricted special assets are securities held by a municipality which if transferred to ONE JIB would not allow ONE JIB true control and management of the security. For example, local distribution company shares have been held by ONE JIB since its launch in May 2020, but they are neither controlled nor managed by ONE JIB.

### **ONE JIB has a fiduciary obligation to control and manage MNRI of Participating Municipalities**

The In-Kind Securities Policy, Attachment 2, states that the control and management of MNRI is ONE JIB's fiduciary obligation. That obligation must include the real ability to control and manage the securities including the monitoring and control of performance. Securities that preclude ONE JIB from monitoring and controlling performance should not be included as MNRI and identified by the municipality as restricted special assets.

Further, holdings in the ONE Canadian Equity Portfolio (which are MNRI) must be liquidated by a date to be agreed upon by the Participating Municipality and ONE JIB through ONE Investment pursuant to the signed Prudent Effective Date Agreement and the proceeds will be invested in accordance with the relevant Investment Plan. Based on recent experience in accepting ONE Canadian Equity Funds in-kind the economics did not bare out in favour of the municipality as would be expected. It is more economically efficient to cash out and transfer the money.

Finally, certain debt securities should be considered as MNRI on the basis that ONE JIB has the real ability to control and manage the security. As in-kind securities that are debt securities mature, ONE JIB through ONE Investment would invest the proceeds in accordance with the relevant Investment Plan, unless the Participating Municipality designates the in-kind security as not constituting MNRI in which case ONE JIB through ONE Investment will have no further control and management of that security and it will be returned to the Participating Municipality.

### **A Securities Acceptance Plan will be used to facilitate the efficient transition from the current practice**

Participating Municipalities always retain the ability to define money required immediately, MNRI and restricted special assets. When a Participating Municipality's MNRI is transferred to the OCIO Offering then, subject to concurrence from the municipal treasurer, it is expected that in-kind securities will be assessed by the Sub-Investment Manager and dealt with in a manner consistent with the overall management of that Participating Municipality's portfolio (which may include disposition to enable the Sub-Investment Manager to include proceeds from an in-kind security as part of its asset management approach to pursue more attractive opportunities). Or the Participating Municipality may direct that the in-kind securities are restricted special assets or possibly money required immediately. This will be fully documented and shared with ONE JIB through a Securities Acceptance Plan.

**There will be quarterly reporting to ONE JIB on in-kind securities up to the implementation of the Securities Acceptance Plan**

The CIO will report quarterly to ONE JIB on the holding of in-kind securities up until implementation of any Securities Acceptance Plan, including the following information:

- i. List of In-Kind Securities held;
- ii. In-Kind Securities performance; and,
- iii. List of In-Kind Securities sold (pursuant to a Securities Acceptance Plan).

**5. CONCLUSION**

As ONE JIB continues to grow assets under management, having a clear policy on in-kind securities which may form part of MNRI is important to fully meet ONE JIB's duties and responsibilities to the Participating Municipalities.

**ATTACHMENTS**

Attachment 1: ONE Investment Guidance Document on MNRI

Attachment 2: ONE JIB In-Kind Securities Policy

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