



REPORT

To: ONE Joint Investment Board
From: Judy Dezell, Co-President/Co-CEO, ONE Investment
Date: September 4, 2024
Re: Transition to OCIO Business Model
Report: ONE JIB 2024-038

1. RECOMMENDATIONS

It is recommended that the Board:

1. Direct ONE Investment to bring a business transformation plan to ONE JIB's next meeting for approval.

2. SUMMARY

ONE Investment is undertaking a complex business transformation to the OCIO Offering to allow it to scale up over the next few years.

ONE JIB, as the *Municipal Act* required governance framework, plays a key role in the business transformation. Having ONE JIB's perspective will assist ONE Investment in successfully transforming its business model.

3. BACKGROUND

ONE Investment staff capacity has reached its limit

Work for ONE Investment staff in supporting the existing 11 Participating Municipalities has been automated as much as possible for efficiency. But tasks like quarterly performance reporting commentary take a significant amount of time from staff that could instead be focused on supporting the needs of existing investors or onboarding new investors. The annual review of a municipal Investment Policy Statement is also a labour-intensive exercise. As the number of municipalities joining ONE JIB grows, there will need to be increased focus on supporting this annual cycle to meet *Municipal Act* requirements. Staff are also looking at ways to streamline the annual review for ONE JIB because its workload will also increase as the number of Participating Municipalities increases.

ONE Investment chose an OCIO model as it sought to attract larger municipalities to its Prudent Investment Offering

To attract larger municipalities, ONE Investment was faced with a choice of either significantly expanding its staff complement to attract the large investors or, as it has always done, hiring the expertise required to attract and support large investors. ONE

Investment chose to hire the expertise through an OCIO Offering. That does not mean that ONE Investment is ruling out the creation of in-house expertise, but right now it is critical to provide the depth of expertise in areas such as asset allocation studies and breadth of investment options sought by large municipalities.

At the same time, ONE Investment was seeking a prudent investor product offering that could be scaled to the small and medium-sized municipalities that already invest through the Prudent Investment Offering and those looking to join. The OCIO model helps address the capacity challenges ONE Investment is already experiencing due to the growth of the Prudent Investment Program.

ONE Investment is committed to maintaining a strong governance framework

ONE Investment is ONE JIB’s agent with obligations that it is committed to appropriately resourcing. Drafting reports that provide the right details for ONE JIB to make informed decisions takes time. Appropriately supporting ONE JIB is a priority for ONE Investment. Relying on PH&N Institutional to undertake the quarterly performance analysis required for municipalities along with rebalancing and other similar functions will free up time for ONE Investment staff to focus on the key governance requirements such as municipal Investment Plans and assessing PH&N Institutional and the performance of its funds. It is also important to note the OCIO business model will continue to have a strong focus on a comprehensive compliance framework, which is fundamental to the good governance tone ONE JIB has established.

4. ANALYSIS

The rollout of the business transformation is taking place in three phases

Currently, the plan is to fully transition to the OCIO Offering as the only Prudent Investment Offering in three phases:

Phase	Activity	Status
Phase 1	Initial onboarding Durham Region	Completed
Phase 2	Onboarding new Participating Municipalities in Q4 2024	In Progress
Phase 3	Transition existing 11 Participating Municipalities in Q1 2025	In the planning stages

ONE Investment staff have been learning from the transition of Durham Region into the OCIO Offering. New business processes are evolving and existing templates have been revised to accommodate the new business model approach.

ONE Investment has documented several activities that need to occur over the next six months to successfully transform its business model from the existing platform to the

OCIO Offering. It is seeking ONE JIB's input on the transformation steps identified before it finalizes the transformation plan.

Legal Counsel is guiding the transition of the existing participating municipalities

ONE Investment has been working closely with WeirFoulds LLP in designing the transition of the existing Participating Municipalities over to the OCIO Offering.

It is ONE Investment's intention to transition all Participating Municipalities at the same time in early 2025. As agent for ONE JIB, it is ONE Investment's responsibility to hire fund managers. WeirFoulds LLP has laid out a process that should be followed in making the transition. The transition does not require each Participating Municipality's council to approve a new IPS, nor ONE JIB to revise the Investment Plan. The CIO and PH&N Institutional have reviewed all the approved IPS and Investment Plans to ensure each can be transitioned to the OCIO Offering without having to go back to each council to approve a new IPS, nor ONE JIB for the Investment Plan. To achieve this, PH&N Institutional has examined each municipality's Outcomes Framework approach, asset allocation and the funds – they have matched as closely as possible to RBC GAM funds. See Attachment 1 for details.

In 2025, as council does its annual review of the IPS, there will be also a conversation about the expanded opportunities through PH&N Institutional including alternative investment options. At that time, there may be a need for rebalancing for each municipality. To support this, ONE Investment is having regular meetings with Participating Municipalities to explain the transition and educate them on the new offering, including the availability of alternative investments. Concurrent to this work, the New Products Committee is currently reviewing model portfolios in the OCIO Offering. The model portfolios will need to be reviewed by ONE JIB. Timing for this is Q1 2025 to provide ONE JIB a framework for implementing, through the new Investment Plan template, revised IPS into the new approach of short-, medium- and long-term investments like the Region of Durham's ONE JIB approved Investment Plan.

With the business model transformation, there are new fund options available to ONE JIB to consider in setting asset allocations including alternative investments. To support ONE JIB, training on alternative investments will be offered in early Q4 2024.

ONE JIB approved templates will need to evolve

ONE staff have identified that for the most part the new Investment Plan and Investment Policy Statement formats used by Durham Region for its onboarding are scalable to the smaller municipalities and can be repurposed. ONE staff have also confirmed that both templates meet ONE Investment and ONE JIB's fiduciary obligations as well as having been reviewed by PH&N Institutional. The one template that will need to be revised is the Municipal Client Questionnaire to reflect information both the CIO and PH&N Institutional need to understand clients. ONE Investment must have know your client information on each municipal investor as a requirement of the Ontario Securities Commission

exemption. It is also staff's view, given the obligation to have know your client information, that the MCQ must remain an approved ONE JIB template. ONE JIB Report 2024-039 provides more details on the templates.

Some ONE JIB Policies will need to be revised

The OCIO Offering necessitates a review of some ONE JIB policies. The exceptions are those policies required under the *Municipal Act* (e.g., Sale and Disposition of Land, Hiring of Employees Policies). These will continue to be reviewed every five years or after relevant *Municipal Act* changes. Table 1 reflects the relevant ONE JIB policies that will need to be either rescinded or revised, from ONE Investment Audit Committee's perspective, to maintain an effective compliance framework for both ONE Investment and ONE JIB.

Table 1 - ONE JIB Policy Review

ONE JIB Policy	Policy Purpose	ONE Investment Audit Committee comments
Outcomes Framework	The scope of the policy is limited to the determination of MNRI as it applies to the annual investment plan review and updated as required under the Outcome Framework.	The Outcomes Framework will evolve into a marketing document to translate Municipal investment objectives into Bay Street Investment strategy. The Policy itself should be rescinded.
Distribution Policy	The policy establishes guidelines and processes for the distribution of Net Income and Net Realized Gains for the Prudent Investment Funds	PH&N Institutional will be responsible for handling of distributions. Staff to review PH&N Institutional's distribution policy and align ONE JIB's policy as appropriate with PH&N Institutional.
Rebalancing Policy	The policy establishes the principles governing the rebalancing of Investment Fund Allocation Weights to those established in the Participating Municipality Investment Plans.	PH&N Institutional will be responsible for rebalancing. Staff to review PH&N Institutional's rebalancing policy and align ONE JIB's policy as appropriate with PH&N Institutional.
Currency Hedging	Effectively establishes that there will be no currency hedging requirements imposed	PH&N Institutional will be responsible for currency hedging. Staff to review PH&N Institutional's currency

	on fund managers by ONE JIB.	hedging policy and align ONE JIB's policy as appropriate with PH&N Institutional.
External Fund Manager Review	The policy provides a framework that helps guide the regular review of the performance of the External Investment Managers to ensure that their performance meets the expectations of the ONE JIB.	The policy needs to be fully reviewed based on the new business model.
Withdrawal of Money Not Required Immediately	The policy establishes the principles governing withdrawals of MNRI.	The policy should remain in place and ONE Investment should ensure PH&N Institutional understands the policy purpose.

Changes to policies are scheduled for ONE Investment Audit Committee review in September 2024 with revised policies forthcoming to ONE JIB at its November 29, 2024 meeting to facilitate the transition of the existing Participating Municipalities to the new business model in early 2025.

Municipal Quarterly Performance Reporting will become the responsibility of PH&N Institutional

Quarterly reporting to municipalities will become the responsibility of PH&N Institutional. The quarterly performance reporting will be co-branded with PH&N Institutional and ONE Investment logos. The information being provided to municipalities is more than ONE Investment has typically provided, but ONE Investment staff see this as an opportunity to educate the municipal investors on how to read the statements for their local accounting and reporting purposes. A sample of the proposed quarterly reporting is found in Attachment 2. Ensuring continuity of performance since joining Prudent Investing is key for ONE Investment and the existing 11 Participating Municipalities. In December 2024 ONE Investment will share with PH&N Institutional monthly returns since inception so it can populate its performance system to ensure a continuous record of performance.

ONE Investment is also working with PH&N Institutional on ways to help ONE JIB with its workload on quarterly performance reporting. This is a work in progress with the goal of giving ONE JIB the right level of information in a succinct manner to make informed decisions.

PH&N Institutional, as a fund manager, will require a new review process to be established

As noted above in the Policy review section, the External Fund Manager Review Policy will need to evolve. This will include ONE Investment retaining the services of a firm that does not engage in OCIO offerings as a business line. Negotiations with a firm are currently underway to facilitate the first review of the new offering in Q2 2025.

Existing Prudent Investment Offering Funds to be wound down and a close out audit completed

ONE Investment will need to formally advise each fund manager that the Prudent Investment Offering funds will be wound down. Further, ONE Investment will engage PwC to conduct close-out audits of the existing funds.

Business transformation is a complex process that requires careful planning and risk management

ONE Investment is working with legal counsel and PH&N Institutional to identify all the activities that need to take place to appropriately manage risks and seamlessly transition the existing 11 Participating Municipalities into the new business model. ONE JIB will have an active role in the transformation as it will impact ONE JIB approved templates, policies and fiduciary obligations to the Participating Municipalities. Figure 1 below summarizes at a high level the activities that need to take place between now and the end of Q1 2025 to achieve a successful business transformation.

Figure 1 Summary of Business Transformation Activities

Activity	Q3 2024	Q4 2024	Q1 2025
ONE and PH&N Review Approved IPS and Investment Plans			
Revise IPS and MCQ Templates			
Review of ONE JIB Policies			
Business Transformation Plan to ONE JIB			
Approval by ONE JIB of IPS and MCQ Templates			
Noticification to Existing Fund Managers			
Approval of revised ONE JIB Policies			
Final Business Transformation Plan to ONE JIB			
Business Transformation execution			
Prudent Investment Funds Close Out Audit			
Model Portfolio Adoption by ONE JIB			

5. CONCLUSION

ONE Investment's business transformation to the OCIO Offering is an exciting opportunity to grow the Prudent Investment Offering and offer more to municipalities at the same or lower cost. Careful planning will contribute to a successful transformation.

ATTACHMENTS

Attachment 1: PH&N Institutional 11 Participating Municipalities DRAFT Transition Plan

Attachment 2: Sample Municipal Quarterly Performance Report

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