



REPORT

To: ONE Joint Investment Board
From: Judy Dezell, Co-President/Co-CEO, ONE Investment
Date: November 27, 2024
Re: Transition to OCIO Business Model
Report: ONE JIB 2024-058

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Transition Plan for the current 11 Participating Municipalities in Attachment 1 for execution by the end of Q1 2025.
2. Approve the OCIO Compliance Monitoring Policy in Attachment 2.
3. Approve the Policy for Reviewing the External Sub-Investment Manager in Attachment 4.
4. Rescind the External Fund Manager Review Policy, the Outcomes Framework Policy, the ONE JIB Distribution Policy, the ONE JIB Rebalancing Policy and the ONE JIB Currency Hedging Policy.

2. SUMMARY

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

This includes a transition plan for moving the 11 current Participating Municipalities to the OCIO model, deletions of several existing ONE JIB policies, and new compliance and external fund manager review policies.

3. BACKGROUND

ONE Investment business model transformation will provide scale as ONE JIB assets under management continue to grow

The business transformation planning to fully move to an OCIO model for the Prudent Investment Offering is well underway. The change in business direction is attracting both large and small municipal investors as planned as it offers more to municipalities at the same or lower cost. The transition of the existing 11 Participating Municipalities will mark the completion of the business transformation and on a go-forward basis there will only be reference to the Prudent Investment Offering.

ONE Investment is committed to maintaining a strong governance framework

ONE Investment is ONE JIB's agent with obligations that ONE Investment 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 Phillips, Hager & North Institutional (PH&N) to undertake the quarterly performance analysis required for municipalities. This, 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 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 monitoring 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 model as the only Prudent Investment Offering in three phases:

Phase	Activity	Status
Phase 1	Initial onboarding of 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 final planning stages

ONE Investment and PH&N have taken the lessons learned from the transition of Durham Region into the OCIO model to develop a transition plan for the 11 Participating Municipalities. It is seeking ONE JIB's approval of the transition plan for the 11 Participating Municipalities along with approval of two policies to support the new business model.

PH&N's transition plan maintains the Outcomes Framework for now with rebalancing to occur as ONE JIB approves Investment Plans in 2025

ONE Investment is seeking ONE JIB's approval of the Attachment 1 Transition Plan for all 11 Participating Municipalities which will be executed in the first quarter of 2025.

Throughout 2025, as each council of the Participating Municipalities does its annual review of the IPS, there will be also a conversation about the expanded opportunities through PH&N's model portfolios, including alternative investment options. At that time, there may be a need for rebalancing for each municipality. The New Products Committee is recommending model portfolios in the OCIO model. The model portfolios will need to be

approved by ONE JIB – they are covered under a separate report. The model portfolios provide ONE JIB a framework for implementing Investment Plans with short-, medium- and long-term investment horizons like the Durham Region’s ONE JIB approved Investment Plan.

Some ONE JIB Policies should be rescinded, and new compliance and external fund manager review policies should be adopted

The OCIO model necessitated 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). These will continue to be reviewed every five years or after relevant *Municipal Act* changes.

Most policies were developed in the context of ONE Investment being the investment fund manager. This is now the responsibility of PH&N Institutional. Once all 11 existing Participating Municipalities transition, ONE Investment staff are recommending the adoption of two new policies that reflect the compliance monitoring role ONE JIB and ONE Investment will take on in the OCIO business model and the replacement of the External Manager Review Policy with a Policy for Reviewing the External Sub-Investment Manager.

The Outcomes Framework, Distribution, Rebalancing and Currency Hedging Policies should all be rescinded. Table 1 below provides a summary of all ONE JIB Policies for reference.

OCIO Compliance Monitoring Policy will identify areas of focus for ONE JIB

In an OCIO model, ONE Investment is no longer an investment fund manager required to have an extensive compliance framework. Most obligations for compliance now rest with PH&N. ONE JIB will need to closely monitor PH&N’s adherence to its compliance framework. Attachment 2 is a draft OCIO Compliance Monitoring Policy along with Attachment 3 RBC GAM Policies and Procedures combined identify the key areas ONE JIB will monitor for compliance.

The External Manager Review Policy is being replaced with a Policy for Reviewing the External Sub-Investment Manager

ONE JIB still has a fiduciary obligation to monitor the performance of PH&N. Attachment 4 outlines in detail the Policy for Reviewing the External Sub-Investment Manager to reflect the new business environment and key areas ONE JIB will continue to monitor through engaging an independent third-party consultant.

PH&N Institutional, as a fund manager, will be reviewed starting with the partial year 2024

ONE Investment has engaged [Eckler Ltd.](#) to undertake an annual review of the OCIO

Table 1 - ONE JIB Policies

ONE JIB Policy	Policy Purpose	ONE Investment Recommendation
Sale and Disposition of Land	<i>Municipal Act</i> requirement.	Review five years from policy approval or changes to the <i>Municipal Act</i> .
Hiring of Employees Policies	<i>Municipal Act</i> requirement.	Review five years from policy approval or changes to the <i>Municipal Act</i> .
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 Outcomes Framework.	Rescind the policy.
Distribution Policy	The policy establishes guidelines and processes for the distribution of Net Income and Net Realized Gains for the Prudent Investment Funds	Rescind the policy.
Rebalancing Policy	The policy establishes the principles governing the rebalancing of Investment Fund Allocation Weights to those established in the Participating Municipality Investment Plans.	Rescind the policy.
Currency Hedging	Effectively establishes that there will be no currency hedging requirements imposed on fund managers by ONE JIB.	Rescind the policy.
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.	Rescind and replace with a Policy for Reviewing the External Sub-Investment Manager
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.
OCIO Compliance Monitoring Policy	The policy establishes metrics to monitor the sub-investment manager's performance on all matters related to compliance.	New ONE JIB Policy

provider, also known as the external sub-investment manager, PH&N. The reviews will be conducted based on performance of the previous calendar year as of December 31st. Eckler is an independent actuarial and consulting firm that does extensive consulting on identifying OCIO partners but offers no line of OCIO business, which makes it an objective reviewer. The first review of the new offering will be provided to ONE JIB in Q2 2025.

Existing Prudent Investment Offering Funds notice of wind down has been given

Effective September 5, 2024 ONE Investment has advised each fund manager that the Prudent Investment Offering funds will be wound down due to a change in ONE Investment’s business model, not the performance of the fund managers. Further, ONE Investment will engage PwC to conduct close-out audits of the existing funds in Q1 2025.

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			
Model Portfolio Adoption by ONE JIB			
Business Transformation execution			
Prudent Investment Funds Close Out Audit			

5. CONCLUSION

ONE Investment's business transformation to the OCIO model 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 FINAL Transition Plan

Attachment 2: OCIO Compliance Monitoring Policy

Attachment 3: RBC GAM Policies and Procedures

Attachment 4: Policy for Reviewing the External Sub-Investment Manager

Drafted by: Judy Dezell, Co-President/CEO

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