

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Investments, ONE Investment
Date: July 14, 2021
Re: Rebalancing Policy
Report: ONE JIB-O12-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Rebalancing Policy.

2. SUMMARY

ONE Investment has developed a draft Rebalancing Policy that incorporates many of the views expressed during the ONE JIB discussion on the Delegation of Authority Policy. The Policy uses a principles-based approach to provide guidance to the Chief Investment Officer (CIO) on managing rebalancing decisions in a manner aligned with the views of ONE JIB. The Policy also gives the CIO flexibility to exercise judgement when necessary.

3. BACKGROUND

The proposed Rebalancing Policy reflects ONE JIB input

On February 17, 2021, ONE JIB discussed various points with a goal of developing a Delegation of Authority Policy and directed ONE Investment to incorporate the feedback into a Policy that would be brought back to the Board for approval.

In considering ONE JIB's feedback and working to incorporate that into a revised Policy, ONE Investment noted that the Delegation of Authority Policy covered different topics and could be simplified if divided into a Rebalancing Policy and a Withdrawals of MNRI Policy.

Participating Municipalities' Investment Plans already consider rebalancing

Rebalancing is contemplated in section 9 of the Participating Municipality Investment Plans. There are two types of rebalances contemplated: (1) an unscheduled rebalance – where asset class allocation weights move away from their target weights and breach the asset class allocation thresholds, which are defined in the Investment Plans, and (2) a scheduled rebalance – where twice annually, in April and October, the CIO is to review the Investment Fund Allocation Weights in each Outcome to determine if they have moved by 2% or more from their Target Weights.

The CIO has noted concerns that a prescriptive approach to rebalancing may not contemplate the full complexity of managing the rebalances and has requested authorization to exercise judgement when adhering fully to the policy could yield unexpected and undesirable results.

4. ANALYSIS

ONE Investment is proposing a principles-based approach to the Rebalancing Policy

Consistent with best practices in the municipal sector, staff has developed a draft Policy that is focused on the principles that would govern rebalancing decisions. The draft Policy applies to the CIO and the Chief Compliance Officer to guide them in making decisions that are aligned with the direction of ONE JIB with respect to rebalancing. ONE Investment will also use the Policy to guide the development of an internal procedures document to be used for compliance and succession planning purposes.

The proposed Policy contains 11 principles that govern rebalancing decisions to ensure they are logical, prudent, and aligned with the direction of the ONE JIB

The proposed Policy, and the principles contained within, aim to accomplish the following:

- It places a high priority on acting prudently and in accordance with the Participating Municipalities' Investment Policy Statements and Investment Plans.
- It requires that ONE Investment have a process in place to monitor Asset Allocations relative to Target Weights.
- It details the parameters for managing Scheduled and Unscheduled Rebalances.
- It provides the CIO flexibility to manage the exact timing of a rebalance to factor in any upcoming events that could affect the rebalance, such as an impending Investment Plan update.
- The Policy also establishes that rebalancing shall occur within the appropriate Outcome to ensure consistency with the Investment Plans.
- The Policy emphasizes administrative efficiency to minimize transaction costs and increase transparency.
- It establishes a guideline that MNRI under the management of ONE JIB should not be idle and should be deployed in a manner consistent with the Investment Plan.
- The Policy also provides the CIO additional flexibility to exercise good judgement to act logically and prudently when the specific rules do not produce such a result.
- Lastly, the Policy includes a mechanism for oversight of the CIO in executing rebalancing transactions, which is approval by the Chief Compliance Officer.

The proposed Policy contains parameters for reporting on rebalancing transactions to Participating Municipalities and ONE JIB

All transactions with respect to rebalancing will be included in the Quarterly Investment Report of each Participating Municipality. Copies of these reports are also provided to ONE JIB for review. Additionally, the CIO will provide reports to ONE JIB on a quarterly basis and following any rebalance. This will give ONE JIB the opportunity to evaluate rebalancing decisions and make any policy changes that might be needed.

The Policy has a minimum three-year review schedule

The Policy must be reviewed by ONE JIB at least every three years. However, if a review is deemed warranted by ONE JIB or ONE Investment it may be reviewed more frequently.

5. CONCLUSION

The proposed Rebalancing Policy reflects the views expressed by ONE JIB and ensures that decisions with respect to rebalancing will be made in accordance with the direction previously provided by the ONE JIB. It also authorizes the CIO to use discretion when encountering situations that may not have been contemplated in the details of the rebalancing policy to ensure that prudent decisions are made in the interest of the Participating Municipalities.

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