

2019 OSUM CONFERENCE

ONE INVESTMENT'S PRUDENT INVESTOR OFFERING

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Pembroke

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LAS/ONE

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ONE OVERVIEW AND PHILOSOPHY

WHAT IS ONE INVESTMENT?

- A new Not-for Profit Organization created in 2018 to provide a full suite of investment services and products
- Offering a **commingled** investment program for the Ontario public sector
- Established in 1993 and jointly operated as a program by not-for-profits:
 - LAS (*a corporation of AMO*)
 - CHUMS (*a subsidiary of MFOA*)
- Oversight provided by municipalities and investment industry experts
- 158 Ontario municipalities (and Boards) invest with ONE (35% of Ontario Municipalities)



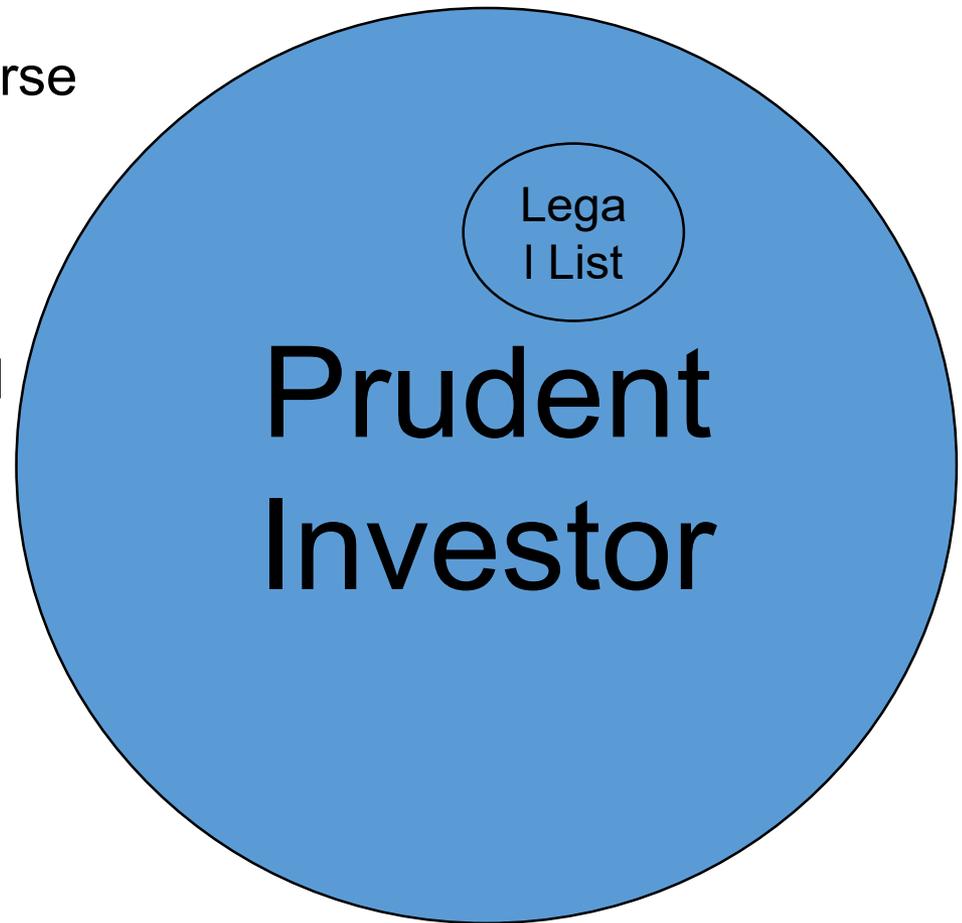
ONE'S BUSINESS PHILOSOPHY

- Full compliance with all legislation
- Committed to investment industry best practices, e.g.,
 - Risk management via diversification and other strategies
 - Manage costs
- Need for flexibility with changing needs, timeframes
- Education and capacity building
- Turnkey service, especially for smaller municipalities
- Municipal commitment to timely communication

GOVERNANCE

LEGAL LIST VS PRUDENT INVESTING

- Prudent Investing: more diverse portfolio
- Greater choice, flexibility
- Ability to adjust to changes in financial environment or need
- Potential for better returns



PRUDENT INVESTOR STANDARD

- Prudent investing: fiduciary must invest as if the trust were her/his own
- Must answer the following questions
 - What are your investment goals and objectives?
 - How much risk are you willing to take?
 - How will you define and measure risk?
 - What is your time horizon?
 - Do you need liquidity?
 - Are there any other unique considerations?
- Also governs trustees and pension fund administrators
- Enables the potential to earn improved risk-adjusted rates of returns

MUNICIPAL ACT REQUIREMENTS

Municipalities may invest money not required immediately in any security so long as they:

1. Meet Eligibility criteria where one or more municipalities has:
 - \$100 million in investments OR
 - \$50 million in net financial assets
2. Follow specific duties
Exercise the **care, skill, diligence** and **judgment** that a prudent investor would exercise in making such an investment, including obtaining the **advice** that a prudent investor would obtain under comparable circumstances
3. Consider specific investment planning criteria
4. Establish a specific governance model

INVESTMENT CRITERIA

Municipalities must consider:

- General economic conditions
- The possible effect of inflation or deflation
- The role that each investment or course of action plays within the municipality's portfolio of investments
- The expected total return from income and the appreciation of capital
- Needs for liquidity, regularity of income and preservation or appreciation of capital
- Diversification of investments to an extent that is appropriate to general economic and investment market conditions.

GOVERNANCE

“FUNDS NOT REQUIRED IMMEDIATELY”

Cash Planning

Short-Term Funds Required Immediately



- Less than 12-18 months*
- Managed by municipality
- Compliance with Legal List

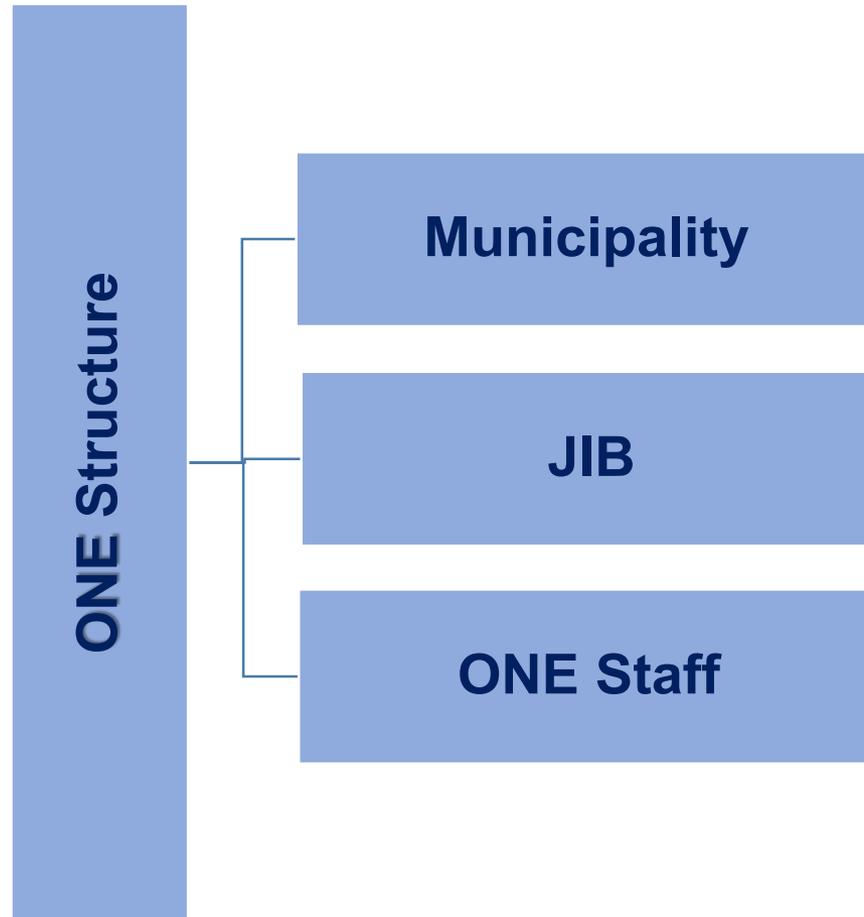
Long-Term Funds Not Required Immediately



- Longer than 18 months*
- Managed, controlled by Investment Board (IB)/Joint IB
- PI standard

* Suggested best practice based on City of Toronto approach

OVERVIEW OF ONE JIB GOVERNANCE



ROLES

MUNICIPALITY'S ROLE UNDER PI

- Adopt **by-laws** to join ONE JIB, move to Prudent Investing
- Adopt **Investment Policy Statement** (IPS), update annually
 - Define short- & long-term funds, objectives and risk tolerances
- (ONE JIB does not approve IPS, but may advise if asked)
- Keep ONE informed via Client Questionnaire; update annually, more often if needs change
- Minimum annual reporting to Council on results
- Founding members form 25% Treasurer component, which may join sub-committees:
 - New products
 - Appoint Treasurer representative
 - Appoint new ONE JIB members

ONE JIB'S ROLE

- **Municipal Service Board** with full clerical functions, public meetings
- Define investment beliefs and principles
- **Advise on asset allocation**, if desired by municipality
- Invest to **meet municipal IPS objectives**
 - For those without a target asset mix: define asset mixes for typical target outcomes
 - For those with a target asset mix: implement the defined mix
- **Delegate to agents** and oversee them, e.g.,:
 - Legal
 - Consulting
 - ONE Investment on advice, implementation
 - Investment managers

ONE INVESTMENT'S ROLE

- If desired, advise on investments within parameters defined by ONE JIB
- Create annual Investment Plans informed by IPS, Client Questionnaire
- Include transition plans that incorporate existing PPNs, GICs, preferences not to realize gains/losses on certain bonds
- Implement Investment Plans by:
 - Creating investment products
 - Monitoring, rebalancing asset allocation within prescribed ranges
 - Monitoring portfolio managers
- Support municipal staff if needed with templates & presentations
- Provide reporting
- Support ONE JIB with research, scheduling and logistics

ONE INVESTMENT OFFERING

INVESTING FOR OUTCOMES

Key to successful investing is to match investments to outcomes

For individuals outcomes might include:

- Saving for a lump-sum down payment for house
- Funding 4 years of university tuition for a child
- Funding a stream of income to replace work income during retirement

For municipalities, outcomes might include:

- Contingency/stabilization: long-term growth
- Regular, reliable returns: to fund operations
- Target date projects: specific amounts needed at specific times

ONE'S INVESTMENT BELIEFS

- Most important risk to manage is the timing of investment returns vs cash needs
- ***This is not pension money!*** Flexibility, liquidity key as timeframes may easily change
- Asset allocation is the main driver of returns
- Market timing at the total portfolio level unlikely to add value
- Rebalancing is an important way to manage risk
- 3 Key outcomes cover most municipal objectives; different risk levels
- Range of offerings expected to expand over time

ASSET ALLOCATION

3 Key outcomes designed for municipal needs

1. Contingency: low- and moderate risk growth, reinvest returns
2. Stable return: low- and moderate risk returns, reliable payout
3. Target date investments: invested on glidepaths for large, critical projects

Asset mixes being defined in May

THE ONE ADVANTAGE

Prudent approach increases opportunities to help municipalities better meet their investment needs

- ONE understands these needs
- Solutions will be dynamic, flexible to meet municipal operating needs

3 key “outcome oriented” solutions:

- Contingency reserves
- Stable return
- Target date projects

Holistic service proposition

- Educational support for staff and Council on investing
- All necessary documentation including staff reports, by-laws, presentations, ongoing reporting
- Joint Investment Board oversight
- Ongoing advice and consultation