ONE JIB
Special Board Meeting
Agenda

Date: November 1 2024, 10:00 a.m.
Location: Zoom Virtual Meeting

ECKLER

One Investment Joint Investment Board

Education Session #1

November 1, 2024

Eckler - Who We Are

Canada's largest independent actuarial and traditional investment consulting firm

- Conflict free
- Unbiased
- Does not offer OCIO or investment management services
- Leader in the OCIO advisory space
- Provides governance and investment consulting to multiple boards across Canada

Investment Governance Overview

Investment Governance Framework

Performance Monitoring
Strategy / Policy Review

Objectives
Financial Modelling
Strategic Asset Mix

Manager Structure
Manager Selection

Designing Investment Governance

- The are multiple approaches to designing a governance structure for large institutional portfolios
  - The factors that influence each investor's governance structure should link back to the purpose of the funds – different asset pools will have different objectives and underlying obligations
- The decision-making hierarchy and responsibility over distinct aspects of the investment process should be clearly defined in the policies and procedures of the organization
  - It isn't realistic for (most) boards to take on the day-to-day management of a large investment portfolio, must delegate tasks down to other parties – need to ensure reporting and compliance is received back
- Set it and forget it isn't a best practice in the investment world!
  - Need to examine and reassess the governance structure over time and ensure it continues to meet the needs of the portfolio

Fiduciary Legal Obligations

- **Who is a fiduciary?** Council, board, an appointed committee, trustee, individual or entity entrusted with the oversight / management of an institutional portfolio
- **Fiduciary relationship** Relationship of trust where one party has an obligation to act in the best interest of the other party
- **Fiduciary responsibilities** arise when imposed by legislation or under common-law when:
  - A fiduciary can exercise discretionary power to affect the interests of beneficiaries;
  - That power can be unilaterally exercised so as to affect the interests of beneficiaries; and
  - The beneficiaries are in a position of vulnerability at the hands of the fiduciary.

Fiduciary Legal Obligations

Main Duties regarding Investment of Funds:

1. **Duty of Prudence** (to act reasonably and prudently)
   - All provinces have legislation in respect of the duties of trustees → sets out the standard of care that applies to a Fund
   - Generally, requires a trustee to exercise the same degree of care that a person of ordinary prudence would exercise in dealing with the property of another person
   - Requires management of the assets of a Fund to be done in a reasonable and professional manner having regard to the best interest of the Fund and any associated beneficiaries
   - Prudent investment practices require processes that include due diligence in selecting, reporting and monitoring investments

2. **Duty of Loyalty** (to act in the best interest of beneficiaries)
   - to be impartial
   - to act with an even hand
   - to avoid or manage conflicts of interest

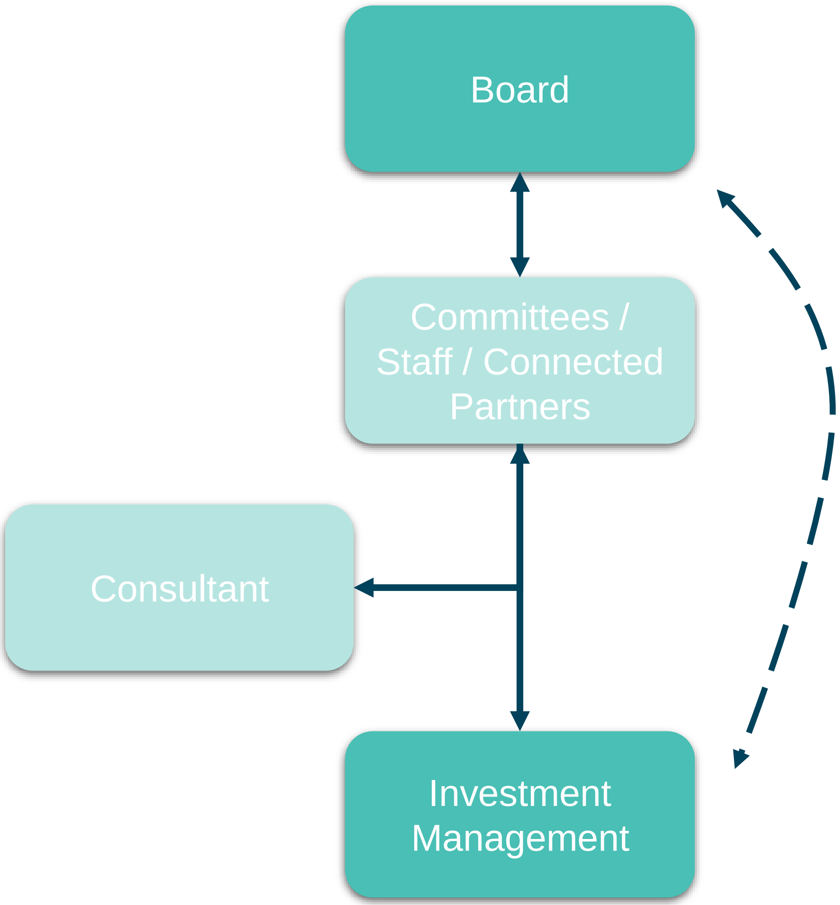
Investment Governance Models

Spectrum of Governance Models

- Multiple variations along the spectrum
- Build the best “fit” for the Council / Board
  - Which tasks to keep and which to delegate
- Delegate tasks … not responsibility
  - Council / Board is responsible regardless of the delegation

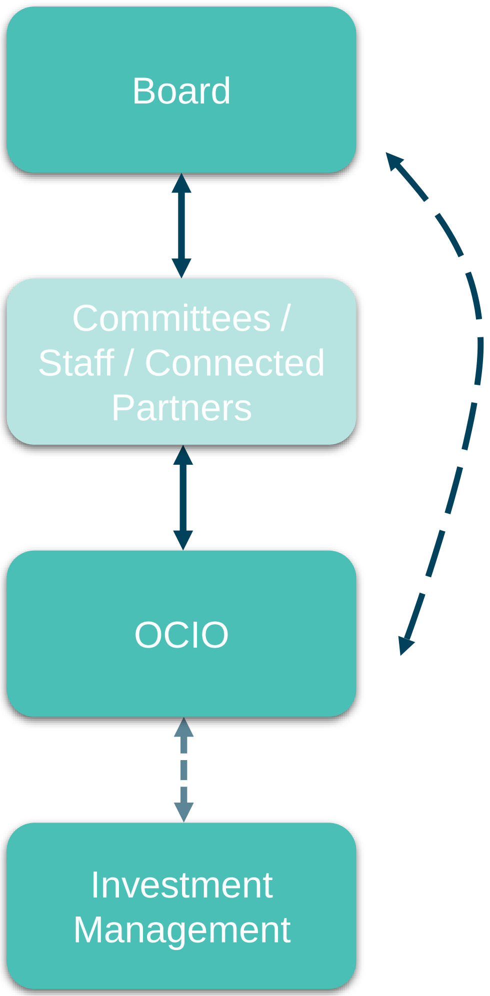
Traditional Consulting Model

- The traditional consulting model represents the "default position" for most boards in Canada
- The Board may delegate anything from information gathering to implementation oversight to internal committees, staff and/or affiliated partner organizations – the level of discretion depends on each group and capability set
  - The Board may also decide to retain control and deal directly with the third-party providers
- Consulting firms may be engaged to provide advice around policy creation and manager implementation



OCIO Model

- The Outsourced Chief Investment Officer Model dates back over 20 years in Canada – significant growth occurred in the past 10+ years with assets in excess of $100+ billion (depending on definition)
- The OCIO model separates the Board and any related parties from the implementation decision, the OCIO hires and fires managers inside of the program without prior approval – **delegation**
- Compared to a traditional consulting approach, the involvement of the Board and any related parties in the day-to-day oversight of the investment program can be reduced



Hybrid Model

- A hybrid model will typically consist of some midpoint between full delegation and traditional investment consulting
  - It may also include aspects of internal investment management within the plan sponsor – this would be the case for very large plans
- The OCIO industry does not have one set definition of services that all firms adhere to
  - Service levels can vary and will typically depend on firm type and client size
- Some clients may choose to delegate certain functions to the OCIO but retain others under a traditional advisory approach
  - E.g., Full discretion for the OCIO to implementation traditional asset classes – alternatives require advanced approval

Investment Boards and Delegation

- The governance models used by institutional investors will typically all involve some level of delegation from the ultimate fiduciaries (Councils / Board) to other parties (connected or independent)
  - The reality is that it would likely be imprudent for a Board to operate a large portfolio given the extent of the tasks involved
- Delegation of tasks requires the Council / Board to ensure appropriate procedures and policies are in place to guide related parties and service providers in carrying out the program
  - The Board should assess all parties involved to ensure they possess the required knowledge and expertise to carry out their responsibilities
  - The Board should ensure they also seek out education and training to carry out these tasks
- Cannot delegate away responsibility – stays with the ultimate fiduciaries

The Co-Fiduciary Line

		Traditional Model		Outsourced Chief Investment Officer (OCIO)	
		Board / Council(s)	Staff / Consultants / Partners	Board / Council(s)	OCIO
Strategic	Overall Plan Governance and Responsibility	✓	Advice and Support	✓	Advice and Support
Strategic	Design of Investment Policy (Objectives; Asset Allocation; Ongoing Review)	✓	Advice and Support	✓	Advice and Support
THE CO-FIDUCIARY LINE					
Operational	Implementation (Portfolio Design; Manager Selection / Money Management; Cash Flow Management and Oversight)	✓	Advisory Role Money Management Delegated	Delegated (Full or Partial)	✓
Operational	Monitoring and Compliance	Can Be Delegated	✓	Delegated	✓
Operational	Reporting	Can Be Delegated	✓	Delegated	✓

Investment Policy Design

Role of the Investment Policy

- The design and approval of the investment policy is one of the largest tasks of an institutional investor
  - Under both traditional and OCIO governance models the Council / Board will retain the responsibility for setting/approving policy
- The investment policy will contain the goals and objectives of the portfolio and will typically express the risk/return decision of the Council / Board through the target asset mix
  - May also express the beliefs across active management, ESG, diversification, etc.
- The long-term asset mix decision will contribute the largest percentage towards the portfolios expected risk/return profile
  - Implementation approach (passive/active, investment styles, etc.) will typically represent a smaller allocation towards expected results

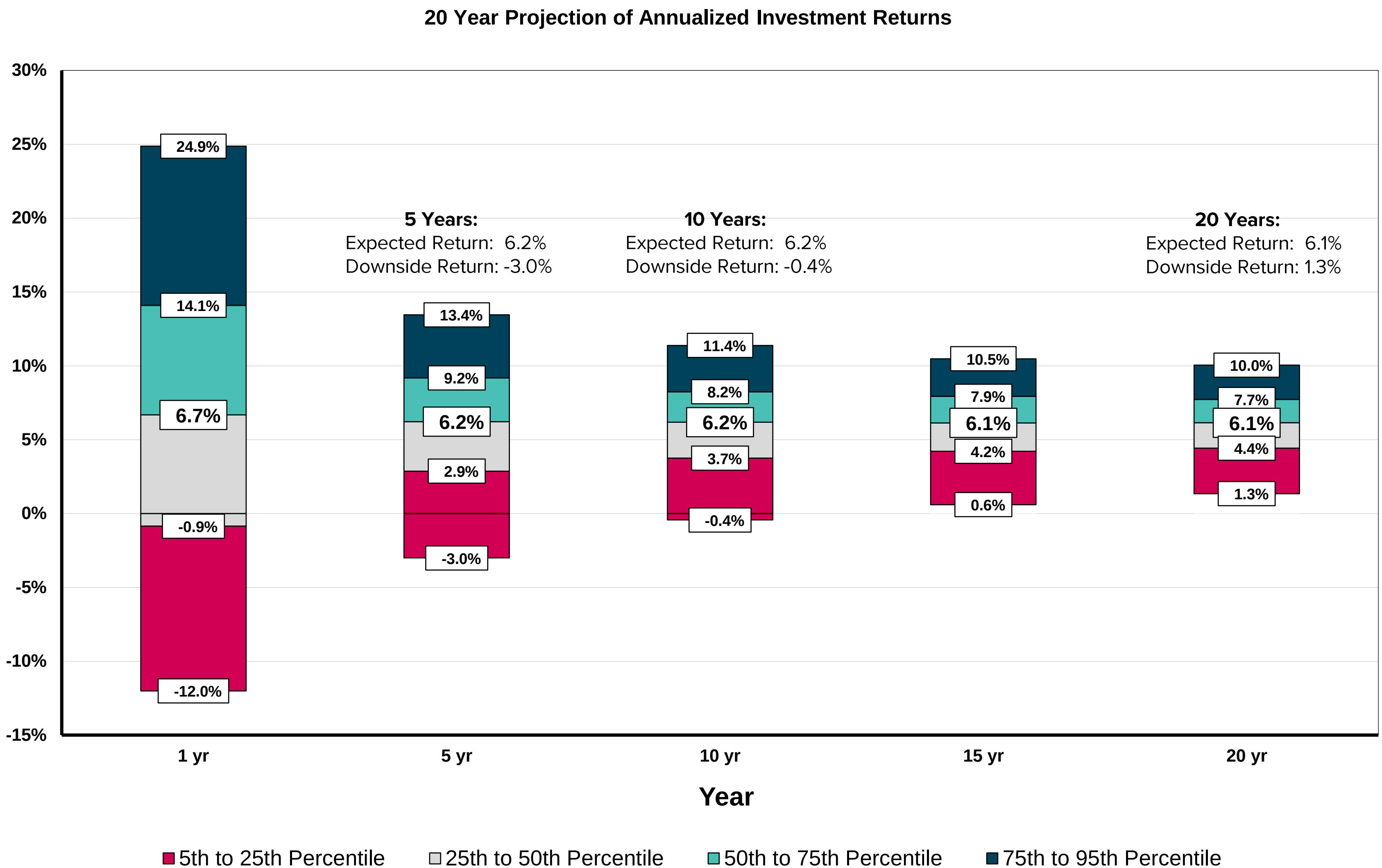
Typical Investment Policy Structure

- Purpose of funds – defining the assets the policy if applicable to, stating the purpose of the portfolio, governing legislation, who the policy if subject to, etc.
- Roles & responsibilities – outlines what portions of the policy (asset mix, implementation, monitoring) are the responsibility of the Council / Board and which are delegated to other parties
- Asset mix and rebalancing – establishes the long-term target asset mix and allowable rebalancing ranges
- Allowable investments & constraints
- Voting rights
- Lending of cash and securities
- Valuation of investments
- Monitoring and benchmarking
- Policy review cycle
- Conflict of interest procedures

Long-Term Asset Mix Setting

- Setting the long-term asset mix of the portfolio needs to consider multiple factors (including):
  - Liquidity
  - Time horizon
  - Return objectives
  - Risk tolerance
  - Allowable investments
- Investment policy design has evolved over time with most investors moving towards a holistic process that considers how assets and liabilities/spending requirements will evolve overtime throughout various possible economic scenarios
- This type of stochastic modelling is used by many investors/consultants to create portfolios with the highest expected probability of achieving long-term objectives
  - Typically doesn't relate to creating the highest possible returning portfolio
  - Modelling is based on expectations – no crystal ball!

Example: Expected Returns – Annualized



Example: Expected Returns – 10 Years

Overview of Public & Private Markets

Public Market Investing

- Public market investments in fixed income and equities represent the "traditional asset" classes of most portfolios
  - A balanced portfolio of ~60% equities and 40% fixed income represents the default position for most institutional investors operating under the prudent investor standards – many still utilize these strategies
- Some of the defining attributes of public investments include liquidity and price discovery
  - Both of these attributes can be tested in times of stress – will still often perform better across these fronts than non-public securities
- Public markets are massive and represent the main avenue for the worlds largest companies to raise capital
  - Global equity market capitalization is in excess of $100 trillion
- Public market investments have fallen as a percentage of institutional portfolios due to growth of alternatives – still represent the majority position for most investors

Public Market Fixed Income

- At its most basic level - represents an obligation to repay a debt
  - The term bonds, fixed income, promissory note, debt security (among others) are often used interchangeably in this space
  - The main characteristic of fixed income is that a principal amount is exchanged from the lender to the borrower with a promise to repay
- Most fixed income securities will include some form of interest payable to the lender during the period which the principal is loaned
  - For many fixed income issues this interest is a fixed rate payable twice a year (hence the name fixed income!)
  - Some fixed income securities do not pay interest explicitly, with these securities the interest is implicitly incorporated into the initial price of the bond – strip bonds are structured in this way
- The principal or face value of the bond is the amount payable at expiry, the coupon is the interest received during the time leading up to expiry
- Fixed income in Canada is traded through Over-the-Counter (OTC) markets with liquidity supported by dealers

Public Market Equities

- Equities represent the fractional ownership of public companies
  - E.g., - RBC has approximately 1.4 billion shares outstanding, if you owned 1 share you would own 0.000000070% of the company!
- Publicly traded companies are those firms that have equity shares that trade on organized exchanges
- Canadian equities trade on the Toronto Stock Exchange (TSX)
  - Canada's largest and most liquid public stocks trade on this exchange
- Global equities trade on exchanges around the world, the majority are in developed countries with a smaller number in emerging ones
  - The majority of the world's stocks, as measured by value, trade in the United States – the New York Stock Exchange (NYSE) is by far the world's largest exchange
  - Other global exchanges include the London Stock Exchange (LSE), Japan Stock Exchange (JPX) and the EURONEXT representing the EU

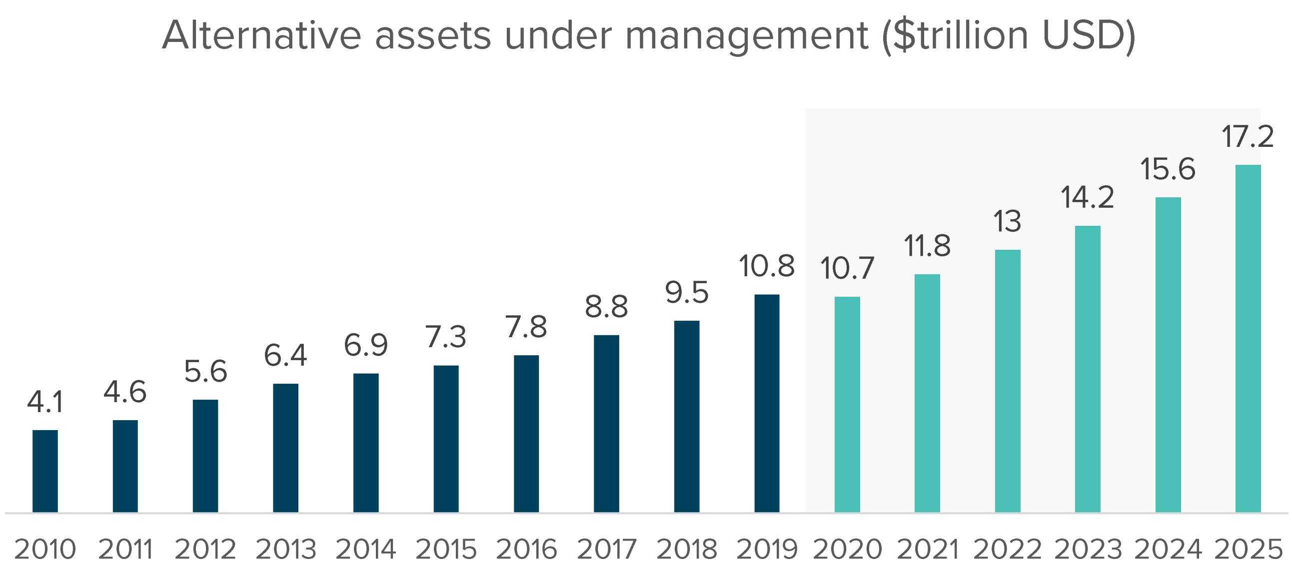
Private Market Investing

- Private market investing within an institutional investment context can cover a wide range of investment strategies
  - At the underlying security level, many investments still represent equity and/or debt positions within a company, asset, or economic interest
- The Canadian institutional investment industry typically refers to private market investments as alternatives – an alternative to public markets
  - Stating this, some of Canada's largest investors (Maple 8) have allocations to alternatives that approach 50% - not so alternative!
- Compared to public markets, private market investing requires much larger minimum investment levels and expertise – not available to the average retail investor
- Due to the private nature of the investments, there is significant due diligence required on the part of investors to ensure the investment is aligned with their goals
  - Public market investments benefit from the oversight and scrutiny of regulators and index providers

Traditional vs. Private Investments

TRADITIONAL INVESTMENTS	ALTERNATIVE INVESTMENTS
Liquid investments	Largely illiquid investments
Numerous and passive owners	Active owners
Extremely correlated with, and sensitive to, market movements	Low correlation to public markets
Generally do not use leverage	Use of leverage
Low investment amounts allowed	Minimum investment requirements
Open to general public and accredited investors	Only open to accredited investors

Growth of Alternatives Exposure



Source: Preqin. 2020 figure is annualized based on data to October. 2021-2025 are Preqin's forecasted figures.

Investors that allocate to alternatives include...

AIMCo | BCi | CDPQ | CPP Investments | HOOPP Healthcare of Ontario Pension Plan | OMERS | Ontario Teachers' Pension Plan – Régime de retraite des enseignantes et des enseignants | PSP

Private Market Strategies

- Private equity and private debt represent a large component of the private market landscape for institutional investors
  - Can involve investments in early stage companies not yet large enough to list on an exchange
  - Lending to large public market companies that want to structure special purpose financing
- Real assets are a large component of private market investments both in Canada and globally
  - Real estate and infrastructure would be the largest focus for many investors
  - Agriculture and timber can represent more unique investments in specific geographic markets
- Some alternative investment strategies can utilize public market securities in differentiated ways
  - Many hedge funds and absolute return strategies will use public market securities and derivatives to create portfolios that strive to have low to negative correlations with public markets

Fund Structures & Liquidity

- Private market funds are available in two main structures: open-ended or closed-ended

Open-ended funds:

- Are 'evergreen' and managed on a continuous basis, allowing investors to stay in the fund for as long as they choose to
- Allow for redemptions if requested, usually within three to 12 months (plus) depending on the amount

Closed-ended funds:

- Have a finite lifespan normally lasting at least 7+ years until fund assets are liquidated and investment income is distributed to investors
- Are more restrictive for clients to request redemptions
- When investors receive their money back at the end of the fund's life, they need to select a new fund or manager to invest in

Levered / Unlevered Funds

- Leverage (debt) is commonly used in private market funds to partially finance asset purchases and enhance return expectations
  - Leverage can be measured as "Loan-to-Value" ("LTV") – calculated by dividing the total amount of debt by the total value of assets
- The amount of leverage used can vary depending on the investment manager, strategy risk tolerance, and asset class
  - Real estate managers can use leverage that often ranges from 20% LTV in a conservative strategy to over 50% LTV in an aggressive strategy
  - Infrastructure funds can take on higher leverage levels given their long-term life and service contracts
- Some investment managers offer both levered and unlevered versions of their funds to cater to both conservative and aggressive investors
  - These funds may have leverage present at both the underlying asset level as well as at the fund level

Looking Ahead & Questions

- Next session is structured to focus further on private market investments across real estate, infrastructure and private lending

- Third session will bring the concepts together and review the portfolio construction process with a focus on ongoing monitoring and oversight

- Questions?

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