ONE JIB
Special Board Meeting
Agenda

Date: November 4, 2024, 2:00 p.m.
Location: Zoom Virtual Meeting

One Investment Joint Investment Board

Education Session #2

November 4, 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

Private Market Investments

Investing in Private Markets

- Private market investments (alternative investments) refer to direct investments in assets that aren't traded or listed on public exchanges like stocks and bonds
- Examples of direct investments include:
  - Direct real estate
  - Private debt & private equity
  - Direct infrastructure
- These types of investments are predominately comprised of institutional investors given the large minimum investment levels
  - Some of Canada's largest investors (CPPIB, Caisse, Ontario Teachers, etc.) have alternative allocations that approach or exceed 50% of their portfolios
- Private markets can be more challenging to invest in and require investors / investment managers to be specialized
  - Many investment managers that invest in private markets offer strategies in multiple private market asset classes (e.g., private debt, infrastructure, real estate)

Why Invest?

- Building out and/or maintaining a diversified private market portfolio is a major focus for Canadian institutional investors – although these investments are often referred to as "alternatives", many institutional investors have been investing in private markets for decades with some strategies considered mainstream (e.g. real estate)
- Why the interest in private markets?
  - Improved diversification – less correlation to public markets, especially during times of crisis
  - Capture illiquidity premium – higher returns; lower volatility
  - Broader opportunity set – demand for private capital continues to grow
- Looking back to the early 2000's, alternative investments represented ~6% of global assets under management, today that figure has increased to over ~15%, representing over $22 trillion in AUM (CAIA Association)

Traditional versus Alternative Investments

TRADITIONAL / LISTED INVESTMENTS	PRIVATE / ALTERNATIVE INVESTMENTS
Liquid investments	Largely illiquid investments
Numerous and passive owners	Active owners
Highly 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

- Some alternative asset classes can be accessed through listed and/or public strategies – institutional investors typically focus on private strategies

Focus for Today

- The focus for today's presentation is to cover direct investments across real assets (real estate and infrastructure) and private debt
- These asset classes represent the typical starting point for many institutional investors looking to gain exposure to private market investments
- For ONE Investment in particular, these asset classes are consistent with the goals of the investment portfolio across:
  - Risk and return exposures
  - Liquidity
  - Complexity
  - Access

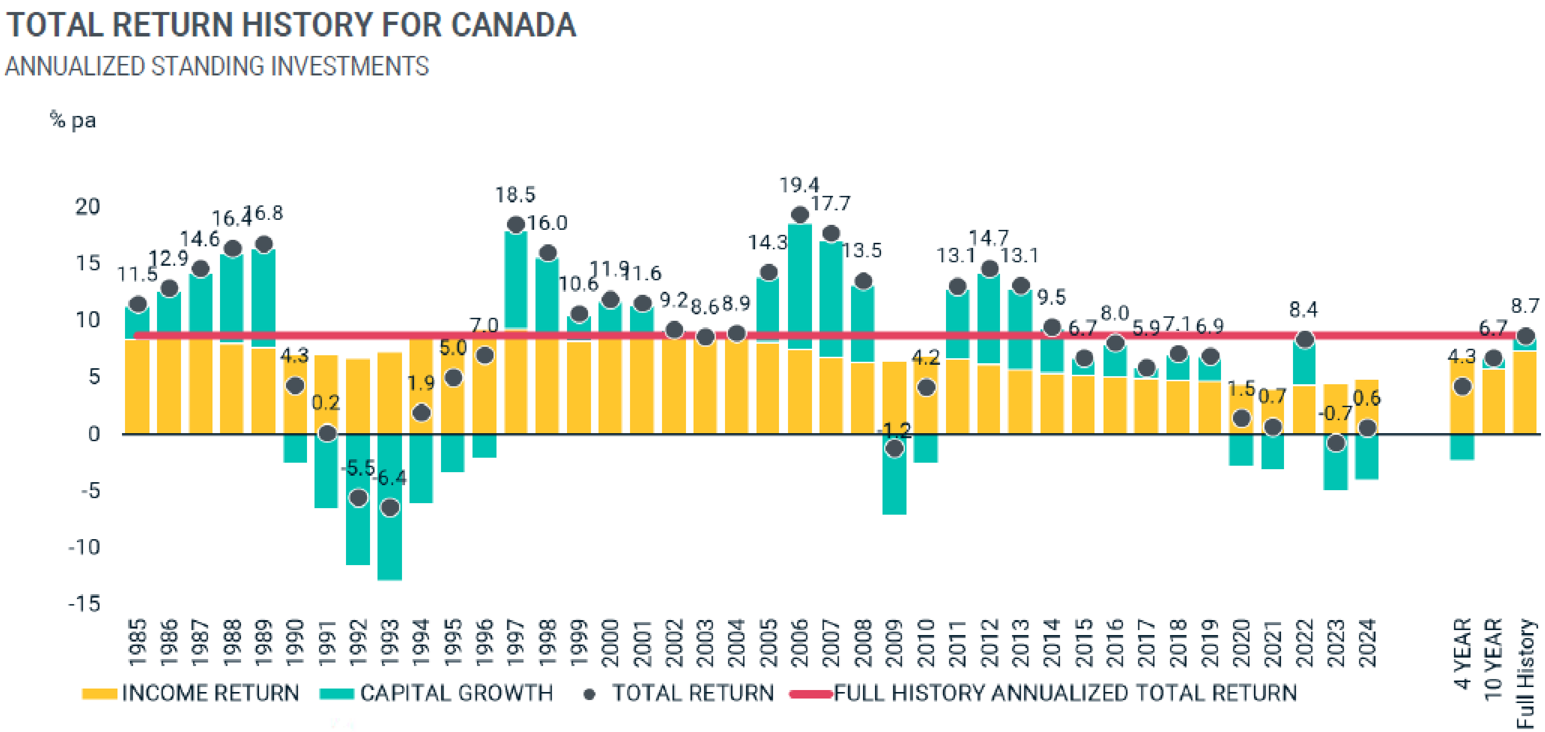
Real Estate

What is Real Estate?

Commercial real estate includes **retail, industrial, office** and **apartments**. More niche strategies may include seniors living, student living and hotels

Source: TD Greystone

Strong Income Provides Stability



Source: MSCI/REALPAC

Income stability and Net Operating Income (NOI) growth at the property level have been main drivers of the steady returns historically provided by real estate

Types of Real Estate Strategies

Core

6-9%
Indicative total return

4-7%
Indicative yield

Return drivers:
- Stable, long-term income streams through rent from established tenants
- Some capital appreciation

Sample assets:
- Office buildings, business parks
- Anchored retail (ie shopping centers)
- Large-scale warehouses

Core plus

9-12%
Indicative total return

4-6%
Indicative yield

Return drivers:
- Often a blend of core and value-add
- Higher capital appreciation than core properties, but still relatively low
- Income streams through rents

Sample assets:
- Multi-family properties
- Office buildings outside main business cores (ie smaller cities)

Source: TD Greystone

Types of Real Estate Strategies

Value-add

10-15%
Indicative total return

2-3%
Indicative yield

Return drivers:
- Renovations and enhancements driving price appreciation
- Higher amounts of leverage

Sample assets:
- Small-scale retail
- Converting a single-family home into multi-tenant units
- Upgrading outdated properties eg offices with amenities

Opportunistic

15%+
Indicative total return

~0%
Indicative yield

Return drivers:
- Almost entirely from resale value of the property
- Higher leverage

Sample assets:
- Special situations such as distressed properties
- Greenfield and significant brownfield developments

Source: TD Greystone

Real Estate - Risk Management

Risk Factor	Risk Mitigation Approach
Leverage	Focus on leverage use as part of due diligence; lower leverage implies lower risk with damped return expectations
Refinance	Consider debt maturity and lease maturity alignment with overall diversity of portfolio
Macroeconomic	Geographic diversification; reduced tenant concentration or tilt towards tenants with minimal macro-economic correlation
Development	Overall portfolio diversification; minimize exposure to development projects (use as value add opportunity)
Liquidity	Open-end funds may provide liquidity under normal market conditions – Appropriate sizing of mandates will be key
Fund Structure	Legal and taxation review of fund documentation is essential
Vintage	Diversify expected investment time horizons; Different entry and exit points; Open-end funds can mitigate these risks as well

Infrastructure

What is Infrastructure?

Infrastructure assets are the **permanent assets** that a society requires to **facilitate the orderly operations of its economy**

Infrastructure Characteristics

Essential Services	• Backbone for economic productivity
Barriers to Entry	• High capital costs • Regulation
Low Demand Elasticity	• Low sensitivity to price changes
Predictable Cash Flows	• Long term contracts, “Take or Pay” commitments • Predictable usage
Inflation Protection	• Built-in regulation • Justification for pass-through to user
Long Life	• Low reinvestment risk
Low Correlation	• Relative long term independence from capital markets

Types of Infrastructure Strategies

Core/Core Plus

- Lower risk and return (typically 6-9% for core and 9-12% for core plus)
- Stable and predictable revenues
- High barriers to entry
- Long asset / concession life
- Stable regulatory environment
- Less upside through capital gains
- Typically brownfield in nature, some use of portfolio companies for add-on investments
- Predominantly located in OECD/developed countries

Value Add / Opportunistic

- Higher risk and return (typically 10-15% value-add and 15+ opportunistic)
- Larger focus on scaling platform companies to increase economies of scale
- Add capability, capacity, and capital to investments
- Holding period is generally shorter and typically ranges from five to seven years
- Returns are primarily from capital appreciation
- Higher mix of Greenfield assets
- Can be located in Emerging Markets

Types of Infrastructure Investments

REGULATED ASSETS

Energy & utilities
- Water utilities
- Electricity transmission and distribution networks
- Oil and gas pipelines

Waste management
- Vertically integrated waste companies

CONTRACTED ASSETS

Contracted power generation
- Gas-fired power plants
- Renewable energy power plants

Social infrastructure
- Education facilities
- Healthcare facilities
- Government facilities
- Civil projects

GDP-DRIVEN ASSETS

Transportation infrastructure
- Airports
- Bridges, roads, tunnels
- Ports
- Rail links

MORE SPECIFIC ASSETS

Sometimes termed "transition" or "Infrastructure 2.0"
- Electrification and digitalization
- Renewable or transition energy / projects

Sector Review – Non-renewable Energy

Natural Gas

Natural gas is a fossil fuel-based energy source used for heating homes and buildings, transportation fuel, as well as numerous other business/production functions. This production stage in the natural gas cycle is known as upstream.

Performance is underpinned by longer-term, contracted cash flows and minimal capital appreciation.

Example: power plant

Midstream

Midstream activities include the storing, transporting and marketing of oil, natural gas, and natural gas liquids. Many midstream assets could also be used to transport both renewable natural gas and hydrogen.

Performance is sensitive to volume demand from transportation activity (gasoline, diesel, jet) but cash flows are often contracted through long-term off-take agreements with "take-or-pay" features.

Example: pipeline

Sector Review – Renewable Energy

Renewable Natural Gas

Renewable natural gas is biomethane — methane that comes from biological sources, which could include landfills, sewage and food, agricultural or forestry waste.

Renewable natural gas can be injected into and transported in pipelines and mixed with natural gas

Solar

Solar energy is radiant light and heat from the Sun that is harnessed and used to generate heat and/or electricity. The most widely adopted form of renewable energy, these assets are typically contracted through power-purchase agreements (PPAs).

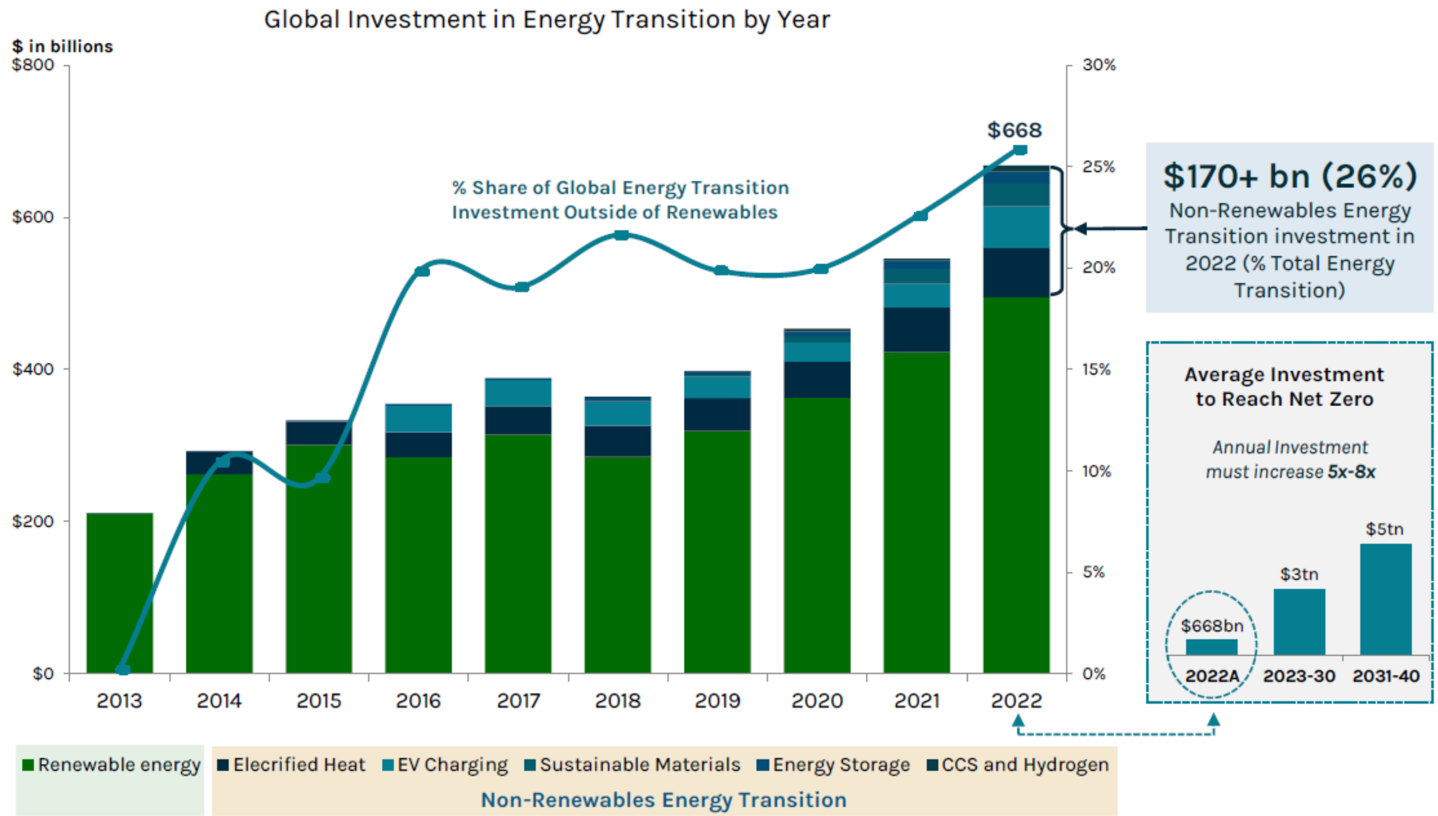
Wind

Wind power is most often generated with wind turbines, generally grouped into wind farms and connected to the electrical grid. Like solar farms, the energy produced by these assets is often sold in the form of PPAs.

Renewable Landscape & Energy Transition

The Energy Transition is Expanding Beyond Renewables

» Non-renewable energy transition investment is expected to play a leading role in the target to reach net zero



Source: BNEF Energy Transition Investment Trends 2023.

Infrastructure - Risk Management

Risk Factor	Risk Mitigation Approach
Leverage	Focus on leverage use as part of due diligence; lower leverage implies lower risk with damped return expectations
Regulatory	Focus on economies with strong investor rights and rule of law (e.g. OECD countries)
Macro Economic / Demand	Focus on long tenured team/funds; Limit exposure to assets highly correlated to broad economic activity
Concession expiry	How is the terminal value of the asset determined? What portion of expected return is embedded in terminal value?
Risk Transfer	Transfer risk to the maximum extent possible (e.g. insurance, general contractor for greenfield, operator for brownfield)
Liquidity	Open-end funds may provide liquidity under normal market conditions – Appropriate sizing of mandates will be key
Fund Structure	Most funds are domiciled offshore – Legal and taxation review of fund documentation is essential
Vintage	Diversify expected investment time horizons; Different entry and exit points – Open-end funds can mitigate these risks as well

Private Debt

What is Private Debt

- Private debt (also referred to as “direct lending”) is debt that is negotiated directly between the borrower and lender or issued through private placements

- Higher quality (“investment grade”)
  - Yield between 6-8%+ in current market
  - Typically first lien
  - Ideal as a fixed income substitute

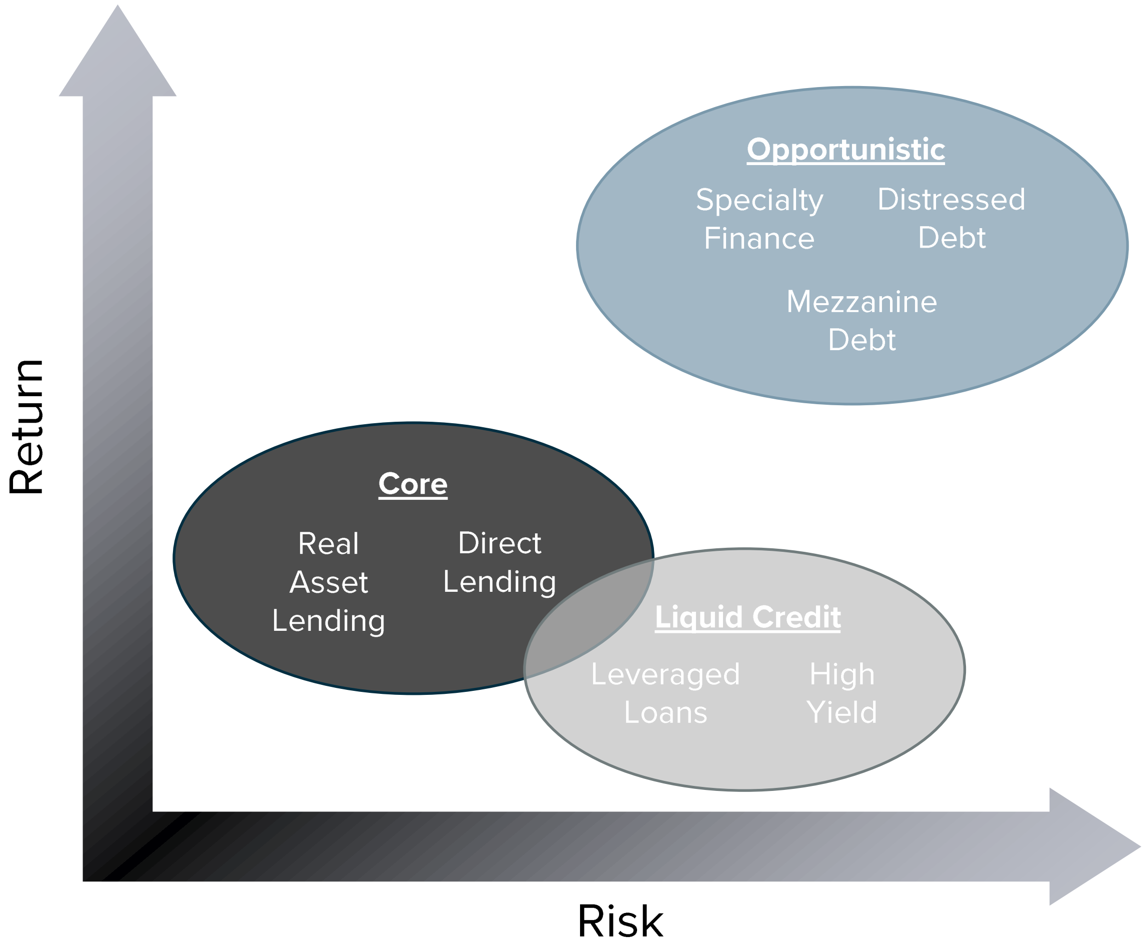
- Lower quality (“high yield”)
  - Yield 8-12%+ in the current market
  - May include equity “kickers”
  - Can involve second lien positions in the capitalization structure
  - Viewed as enhanced fixed income or lower risk equity substitute

Why Invest in Private Debt

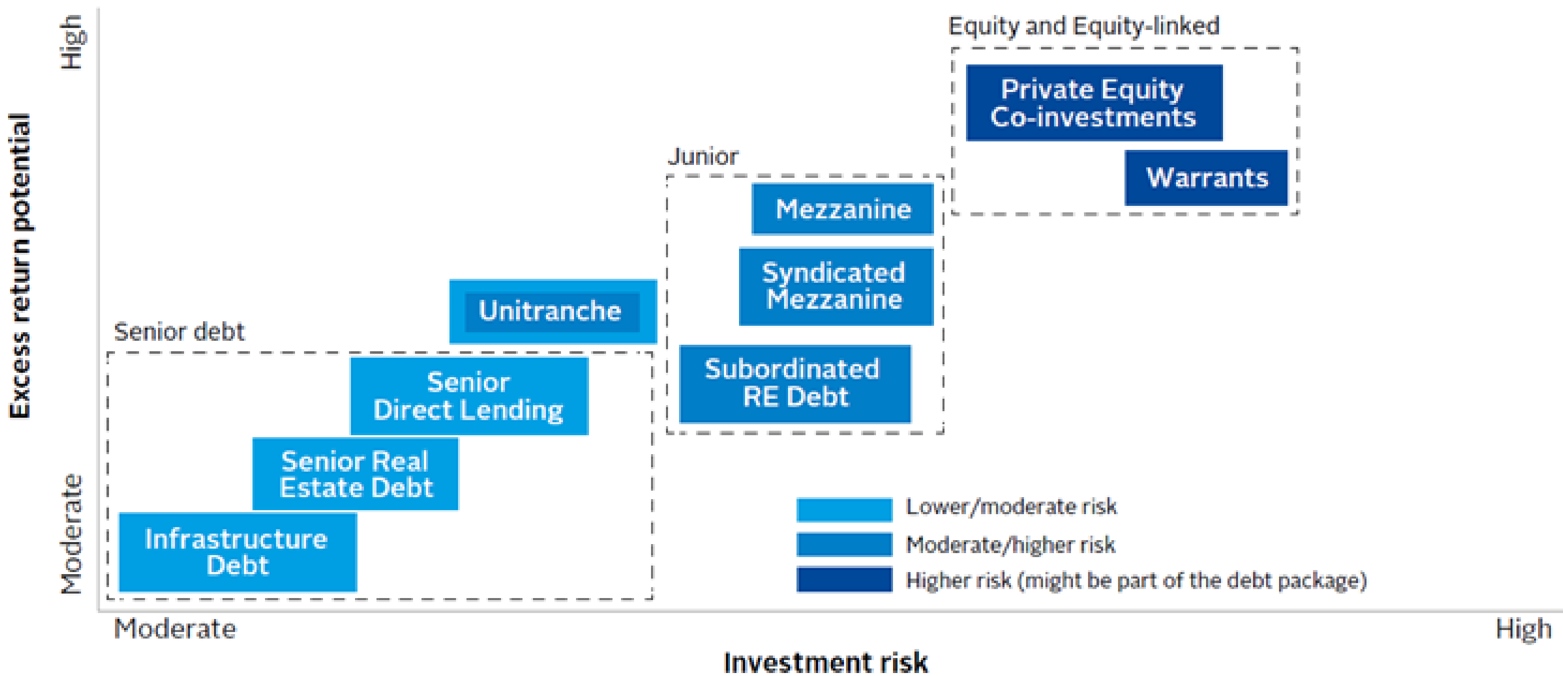
- Increased yield (due to illiquidity premium)
- Improved loan structuring / covenants (compared to public bonds)
- Increased diversification compared to a concentrated Canadian market
  - Potential combination of attractive yield and low duration that stands in sharp contrast to the traditional fixed income universe
  - Many strategies utilize floating rate loans – diversification to a fixed rate public debt portfolio
- The private debt opportunity
  - Following the Great Financial Crisis (GFC), many traditional bank lenders were forced to reduce leverage
  - Stopped lending to middle market, private companies
- As a result, there has been a significant increase in the number of private debt managers and funds available who are filling the void left by the banks

Spectrum of Private Debt

- **Core Strategies:**
  - Lower return and risk, capital preservation, less upside
  - May be senior or junior/mezzanine, resulting in different risk/return profiles
  - Real asset strategies may focus on lending for development projects or loans on completed assets
- **Opportunistic Strategies:**
  - Wide variety of different strategies, typically with a higher risk/return profile vs. core strategies
  - Provides diversified sources of return (capital appreciation and yield)



Loan Structures



- "Unitranche" debt is a hybrid loan structure that combines senior and subordinated debt – provides flexibility to the borrower under a single loan agreement

Private Debt – Risk Management

Risk Factor	Risk Mitigation Approach
Default	Seek broad diversification to limit the negative impact of defaults – Select managers with proven credit underwriting & experience
Credit Spread	Ensure that liquidity needs allow continued holding of positions when credit spreads are wide
Interest Rate	Ensure that the duration of the private debt portfolio is aligned with the portfolio's target duration exposure
Concentration	Manager and loan diversification is key; Consider us of multiple strategies depending on the diversification of each fund
Liquidity	Size allocation taking into consideration the liquidity needs; Can invest in an open-end fund to provide some liquidity
Fund Structure	Legal and taxation review of fund documentation is essential
Vintage	Diversify expected investment time horizons; Different entry and exit points – Open-end funds can mitigate these risks as well

Looking Ahead & Questions

- Next session is structured to focus both on portfolio construction and investment monitoring
- Portfolio construction will bring together concepts across investment governance, asset class inclusion/exclusion and implementation
- Portfolio monitoring and oversight is the feedback loop of the investment governance control cycle – are our decisions working?
- Questions?

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