

*One* THE  
INVESTMENT  
PROGRAM

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REPORT



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## ABOUT THE ONE

### INVESTMENT PROGRAM

The One Investment Program is a co-mingled investment program designed specifically for the municipal and broader Ontario public sector that provides competitive rates of return over both the short and longer term.

Established in 1993, One is operated jointly by Local Authority Services (LAS), an affiliate of the Association of Municipalities of Ontario (AMO), and The CHUMS Financing Corporation, a wholly owned subsidiary the Municipal Finance Officers' Association of Ontario (MFOA).





# THE ONE ADVANTAGE

The size of the One Investment Program allows fixed costs (legal, accounting, reporting), to be spread over a much larger base than any one participant could achieve independently. Through participation with the One Investment Program, Ontario municipalities receive investment advantages not currently available to them should they choose to operate their investment portfolios independently. Those advantages include:

## **Competitive returns**

- Net of investment management fees
- Net of custodial/record keeping expenses
- Net of administrative/accounting fees

## **Oversight by municipal finance officials from both large and small municipalities**

- One Advisory Committee
- MFOA/CHUMS and LAS Board of Directors

## **Guaranteed regulatory compliance**

## **Enhanced returns from economies of scale transactions**

## **Low cost access to professional portfolio management and legal advice**

## **Reduced risk through**

- Diversification
- Peer committee oversight
- Technical expertise from 3rd party CFA consultant

## **Flexibility and Liquidity**

- Quick and easy investment and redemption process
- No lock-in requirements for investments

## **Professional accounting and performance reporting of your investment activity**

## **Access through a password protected website to the municipality's investment accounts**

- Account balances updated and posted daily
- Monthly Statements



# FIVE INVESTMENT OPTIONS

**HISA (High Interest Savings Account) – For investment durations of 1+ months**

Offered through CIBC, the HISA preserves capital and maintains liquidity while maximizing short-term income via secure deposits with a Schedule One Canadian Bank under a master LAS/CHUMS savings account.

**Money Market Portfolio: For investment durations of up to 18 months**

Portfolio Manager: MFS Investment Management Canada

The One Money Market Portfolio preserves capital and maintains liquidity while maximizing short-term income through a diversified portfolio of Canadian Treasury Bills and high quality commercial paper.

**Bond Portfolio: For investment durations of 18 months – 3 years**

Portfolio Manager: MFS Investment Management Canada

The One Bond Portfolio is intended to provide a higher return over longer investment horizons than would the Money Market Portfolio or HISA option. These higher returns are garnered primarily through investment in a diversified selection of federal, provincial and municipal bonds maturing within five years, as well as high quality bank paper.

**Universe Corporate Bond Portfolio: For investment durations of 4+ years**

Portfolio Manager: MFS Investment Management Canada

Launched in 2008, the One Portfolio allows municipalities to invest in highly rated corporate bonds maturing in the five to ten year range, which historically have produced greater investment returns with only incremental additional risk. This investment type is available to most municipalities only through the One Program, as per current municipal regulation.

**Canadian Equity Portfolio: For investment durations of 5+ years**

Portfolio Manager: Guardian Capital LP

Launched in 2007, the One portfolio is the only opportunity for Ontario municipalities to invest their long-term investment dollars in the equity market, as per current municipal regulation. The portfolio has outperformed the major Canadian stock indices since inception as well as other investment vehicles available to the sector.

One Program Balances - December 31, 2015 (\$ Millions)					
	MM	HISA	Bond	UCB	Equity
Participants	60	20	83	37	33
Avg. Balance	\$0.9	\$2.2	\$3.2	\$4.8	\$6.1
Balance	\$54.8	\$43.6	\$266.0	\$177.1	\$200.3

The number of investors participating in each of the five available One Program offerings, as well as the average and total deposit in each portfolio/account as at December 31, 2015 are noted above. Year-over-year the number of active investors has increased by seven in both the Equity and Universe Corporate Bond portfolios, thirteen in the Bond portfolio, and two in the Money Market portfolio. The new HISA offering saw modest uptake in its first year, with 20 eligible investors beginning to make use of it.

# HISTORIC PROGRAM RETURNS

Portfolio	Intended Duration	Investment Approach	Holdings
<b>HISA (High Interest Savings Account)</b>	1+ months	Deposits with a Schedule I Canadian Bank under a master LAS/CHUMS accounts	<ul style="list-style-type: none"> <li>Bank Deposits</li> </ul>
<b>Money Market</b>	1 - 18 months	Preserve capital and maintain liquidity while maximizing short-term income	<ul style="list-style-type: none"> <li>Canadian treasury bills</li> <li>High quality commercial papers</li> <li>Banker's acceptances</li> <li>Floating rate notes</li> </ul>
<b>Bond</b>	18 months - 3 years	Provide a higher return over longer investment horizons through diversified investments	<ul style="list-style-type: none"> <li>Federal, provincial and municipal bonds</li> <li>High quality bank paper</li> <li>Bank guaranteed debt</li> </ul>
<b>Universe Corporate Bond*</b>	4+ years	Investment in highly rated corporate bonds maturing over a wide time frame	<ul style="list-style-type: none"> <li>Canadian corporate bonds</li> <li>Federal, provincial and municipal bonds</li> </ul>
<b>Canadian Equity*</b>	5+ years	A diversified conservatively managed portfolio of equity securities issued by Canadian corporations	<ul style="list-style-type: none"> <li>Canadian equity securities</li> </ul>

\* These asset classes (Canadian equities and Canadian Corporate Bonds with maturities longer than five years) are available for investment by municipalities only through One Program as per the Municipal Act Eligible Investment regulation.

## ONE INVESTMENT PROGRAM ANNUALIZED PORTFOLIO RETURNS & COMPARATORS

(as at December 31, 2015)	6 month	1 year	2 year	3 year	5 year
<b>HISA (High Interest Savings Account)*</b> (1-18 month investments)	1.0%	-	-	-	-
<b>Money Market Portfolio*</b> (1-18 month investments)	0.43%	0.67%	0.77%	-	-
<b>Bond Portfolio*</b> (18 month - 3 year investments)	-	1.94%	2.42%	1.99%	2.34%
<b>Universe Corporate Bond Portfolio*</b> (4+ Year investments)	-	2.95%	5.94%	3.41%	4.46%
<b>Canadian Equity Portfolio **</b> (5+ Year Investments)	-	-0.63%	8.90%	13.46%	9.18%
<b>COMPARATOR INVESTMENT RETURNS***</b>					
Bank Prime less 1.75% (Source: Bank of Canada)	0.97%	1.02%	-	-	-
Guaranteed Investment Certificate (GIC) (Source: Bank of Canada)	-	1.20%	-	1.15%	1.88%
Canada Bond (Source: Bank of Canada)	-	-	1.13%	1.23%	2.50%
TSX Composite Index (unmanaged without fees)	-	-8.32%	0.68%	4.62%	2.30%

\* All One Investment Program returns shown are net of fees.

\*\*\* Comparator Returns have no adjustment included should any fees apply

\*\* 9-year return (since Jan 2007) is 6.31%



## 2015 REVIEW

- At year-end 2015, 108 Ontario municipalities and broader public sector investors had investments with The One Investment Program.
- As was the case in 2014, 2015 saw significant growth in average program balances on a year-over-year basis.
- The total One Investment Program balance at December 31, 2015 was \$740M, or 24% higher than the total balance one year prior.
- The One Program High Interest Savings Account (HISA) was launched in May 2015.
- The total One Investment Program balance for the four traditional portfolios at year-end 2015 was \$698M, up \$98M, a 14% increase. HISA added an additional \$43M.
- The Universe Corporate Bond Portfolio balance at year-end 2015 was \$177.1M, 77% higher than the 2014 closing balance.
- The One Equity Portfolio ended 2015 with a balance of \$200.3M, surpassing the \$200M threshold for the first time, and 23% higher than the 2014 closing balance.
- At December 31, 2015 the UCB Portfolio has realized one, two and three annualized returns of 2.95%, 5.94% and 3.41% respectively
- LAS and CHUMS offered 6 Investment Basics seminars in 2015 to educate 69 municipal staff about the rules, opportunities, and benefits of investments for municipalities.



# PROGRAM BALANCE & PARTICIPATION

The average 2015 balance across all One Program portfolios was \$643M, up 29.1% from the average 2014 program balance of \$498M. Average total program balances for 2015 were higher than any other year since the inception of the One Investment Program in 1993.

Figure 1 illustrates average quarterly One Program balances for the last five years of operation.

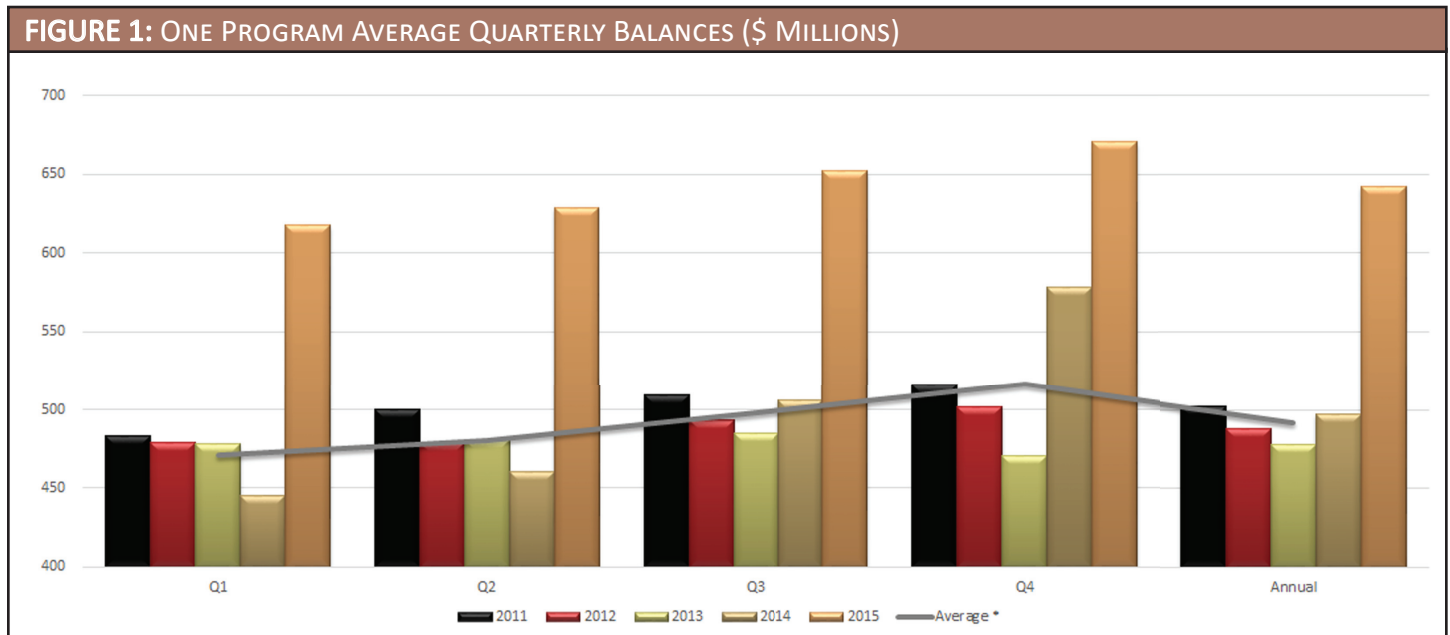


Figure 2 provides an overview of total One Program balances and portfolio activity for the years 2008 to 2015. Note that HISA was only added in 2015 so is not included in this historic comparison table.

**FIGURE 2: ONE INVESTMENT PROGRAM INVESTMENT SUMMARY (\$ MILLIONS)**

	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
<b>OPENING BALANCE</b>	\$342.9	\$409.3	\$527.2	\$483.1	\$482.8	\$492.1	\$437.1	\$600.8	
<b>NET DEPOSIT/REDEMPTION</b>	\$62.1	\$97.2	-\$60.8	-\$7.2	-\$6.9	-\$76.8	130.5	\$90.8	\$229.1
<b>INVESTMENT INCOME</b>	\$4.3	\$20.7	\$16.7	\$6.8	\$16.2	\$21.8	\$33.2	\$6.5	\$126.2
<b>CLOSING BALANCE</b>	\$409.3	\$527.2	\$483.1	\$482.8	\$492.1	\$437.1	\$600.8	\$698.1	

The total program balance at year-end 2015 was \$698M, and higher than any year-end balance since the inception of the One Investment Program. Including HISA, which was launched part way through 2015, the 2015 year-end program balance was \$740M.

The increase of \$97.3M was comprised of \$90.8M in net new deposit and \$6.5M in investment income.



# PROGRAM BALANCE & PARTICIPATION

Figure 3 shows an analysis of the 2015 activity within each of the 4 traditional One Program portfolio investment options. On a year-over-year basis, only the Money Market portfolio balance decreased, although it was partially offset by initial positions in the HISA account. Total net client transactions of \$90.8M in the four traditional portfolios were largely the result of:

- One new investor establishing a “Legacy Fund” for \$30M following the sale of a municipal electric utility.
- A municipality opening position in the UCB portfolio of \$35M
- An existing One Program investor adding \$15M to their Bond Portfolio position late in 2015

<b>FIGURE 3: ONE INVESTMENT PROGRAM ACTIVITY BY PORTFOLIO</b>					
		Money Market	Bond	UCB	Equity
at 31st December, 2014	<b>Balance \$M</b>	\$128.4	\$209.2	\$100.7	\$162.6
	Units	132,645	226,192	91,665	9,312,432
	Price \$	\$967.74	\$924.70	\$1,098.47	\$17.46
2015 Activity (Net Transactions)	Total \$M	-\$74.2	\$52.5	\$73.0	\$39.5
at 31st December, 2015	<b>Balance \$M</b>	\$54.8	\$266.0	\$177.1	\$200.3
	Units	56,656	289,552	160,769	11,545,846
	Price \$	\$966.60	\$918.54	\$1,101.74	\$17.35
Difference	<b>Balance \$M</b>	-\$73.6	\$56.8	\$76.4	\$37.7
	Units	-75,989	63,360	69,104	2,233,414
	Price \$	-0.12%	-0.67%	0.30%	-0.63%
Investment Income	<b>Total \$M</b>	<b>\$0.6</b>	<b>\$4.3</b>	<b>\$3.4</b>	<b>\$-1.7</b>





# PROGRAM BALANCE & PARTICIPATION

Figure 4 represents the total Program investment per participant and compares year-end 2015 to 2014 balances. The number of active program investors through 2015 increased by eleven as at year end. This is an 11% increase in the total number of One Program investors.

<b>FIGURE 4: TOTAL DEPOSITS PER PARTICIPANT ACROSS ALL PRODUCTS, AS AT DECEMBER 31, 2015</b>				
<b>INVESTMENT</b>	<b>MUNICIPAL PARTICIPANTS</b>	<b>TOTAL DEPOSIT IN RANGE</b>	<b>AVG. DEPOSIT IN RANGE</b>	<b>% OF TOTAL DEPOSIT</b>
<b>LESS THAN \$100K</b>	10	\$417,574	\$41,757	0.06%
<b>\$100K TO \$500K</b>	17	\$5,066,705	\$298,041	0.73%
<b>\$500K TO \$1M</b>	12	\$8495,534	\$707,961	1.22%
<b>\$1M TO \$5M</b>	48	\$123,010,009	\$2,562,709	17.62%
<b>GREATER THAN \$5M</b>	21	\$561,145,764	\$26,721,227	80.38%
<b>TOTALS</b>	<b>108</b>	<b>\$698,135,586</b>		<b>100.00%</b>

<b>TOTAL DEPOSITS PER PARTICIPANT ACROSS ALL PRODUCTS, AS AT DECEMBER 31, 2014</b>				
<b>INVESTMENT</b>	<b>MUNICIPAL PARTICIPANTS</b>	<b>TOTAL DEPOSIT IN RANGE</b>	<b>AVG. DEPOSIT IN RANGE</b>	<b>% OF TOTAL DEPOSIT</b>
<b>LESS THAN \$100K</b>	10	\$441,568	\$44,157	0.07%
<b>\$100K TO \$500K</b>	17	\$4,800,457	\$282,380	0.80%
<b>\$500K TO \$1M</b>	8	\$5,639,591	\$704,949	0.94%
<b>\$1M TO \$5M</b>	40	\$96,942,612	\$2,423,565	16.14%
<b>GREATER THAN \$5M</b>	22	\$492,955,113	\$22,407,051	82.05%
<b>TOTALS</b>	<b>97</b>	<b>\$600,779,341</b>		<b>100.00%</b>

Appendices 1 and 2 show investment as at year-end 2015 and 2014 in the One Program broken out for each of the offered products.

# PROGRAM BALANCE & PARTICIPATION

Figure 5, below looks at Program participation sorted by municipal population for year-end 2014 and 2015. On a percentage basis, the largest total balance increases are in the 5,001 to 25,000 and 25,001 to 50,000 municipal population categories. The growth in the 5,001 to 25,000 range is largely due to the increase in the number of participants. The increase in the 25,001 to 50,000 range is for the most part the result of a third hydro legacy investment added in late 2015. With respect to the number of investors within the population ranges, the three smallest population ranges added fourteen net investors while the two largest ranges lost three participants, which is the result of the removal of money market investment positions.

<b>FIGURE 5: TOTAL ONE INVESTMENT PARTICIPATION BY POPULATION AS AT DECEMBER 31, 2015</b>					
POPULATION	# OF MUNICIPALITIES	% OF MUNICIPALITIES	INVESTMENT (MILLIONS)		% OF TOTAL INVESTMENT
			PER MUNI	TOTAL	
< 5,000	35	32.4%	\$1.1	\$37.2	5.3%
5,000 TO 25,000	43	39.8%	\$2.3	\$100.1	14.3%
25,001 TO 50,000	10	9.3%	\$19.6	\$195.9	28.1%
50,001 TO 100,000	6	5.6%	\$21.2	\$126.9	18.2%
100,000 +	14	13.0%	\$17.0	\$238.0	34.1%
<b>TOTAL</b>	<b>108</b>	<b>100.00%</b>	<b>\$6.5</b>	<b>\$698.1</b>	<b>100.00%</b>

<b>TOTAL ONE INVESTMENT PARTICIPATION BY POPULATION AS AT DECEMBER 31, 2014</b>					
POPULATION	# OF MUNICIPALITIES	% OF MUNICIPALITIES	INVESTMENT (MILLIONS)		% OF TOTAL INVESTMENT
			PER MUNI	TOTAL	
< 5,000	30	30.9%	\$1.1	\$33.1	5.5%
5,000 TO 25,000	36	37.1%	\$2.3	\$83.2	13.8%
25,001 TO 50,000	8	8.2%	\$19.5	\$155.6	25.9%
50,001 TO 100,000	7	7.2%	\$16.2	\$113.2	18.8%
100,000 +	16	16.5%	\$13.5	\$215.7	35.9%
<b>TOTAL</b>	<b>97</b>	<b>100.0%</b>	<b>\$6.2</b>	<b>\$600.8</b>	<b>100.0%</b>



# MONEY MARKET PORTFOLIO PERFORMANCE

Coming into 2015, the Bank of Canada (BOC) overnight interest rate had been static since September 2010, but the BOC cut the overnight rate twice in 2015, with the year-end rate being 0.50%. Canadian banks did not move in lock step with the BOC cuts as they lowered their prime rates by only 30 basis points (0.3%) to 2.70%. That left the 'Bank Prime less 1.75%' return at 0.95%. The Money Market sector continued to struggle, and the One Money Market Portfolio return was only 0.67% for the year ending December 31, 2015, compared to the 1.02% return of the bank prime less 1.75% alternative. On a monthly basis, the one-year Money Market Portfolio has trailed the Bank Prime comparator in 69 of 72 month ends in the six years of data ending December 31, 2015, with an average underperformance of 21 basis points (0.21%) for the period.

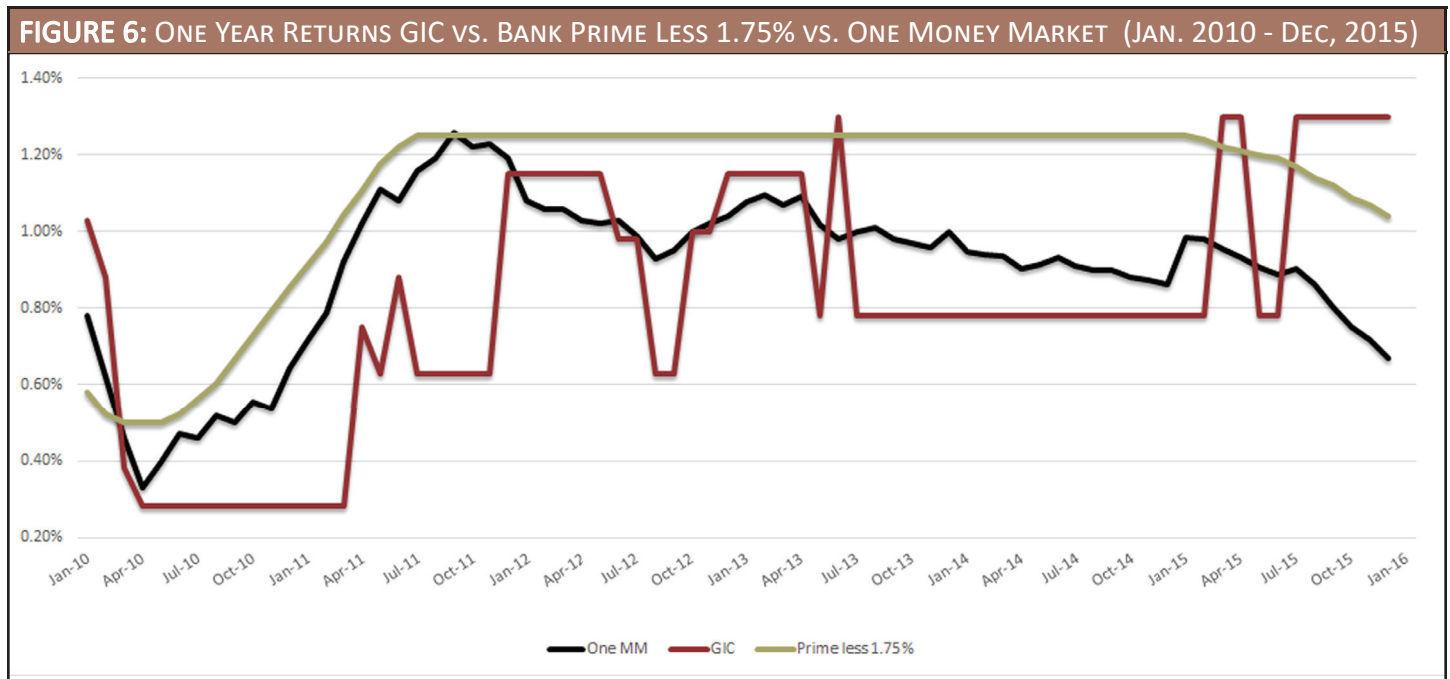


Figure 6 illustrates one year returns for various short term investment alternatives for every month ending in the period of January 2010 to December 2015. The average returns over the six-year period were 0.90% for the One Money Market portfolio, 1.11% for the Prime less 1.75% return, and 0.81% for the GIC alternative.

# MONEY MARKET PORTFOLIO PERFORMANCE

To further complicate the money market situation, four of the five major Canadian banks are also forecasting the Bank of Canada overnight rate to stay static through 2016. The rate forecasts from the banks are in Figure 7, with the date the forecast was issued in brackets.

FIGURE 7: BANK OF CANADA 2016 OVERNIGHT RATE FORECASTS				
	Q1	Q2	Q3	Q4
<b>RBC (January 8, 2016)</b>	0.50	0.50	0.50	0.50
<b>CIBC (January 28, 2016)</b>	0.50	0.50	0.50	0.50
<b>SCOTIA (January 5, 2016)</b>	0.50	0.50	0.50	0.50
<b>BMO (January 29, 2016)</b>	0.50	0.25	0.25	0.25
<b>TD (December 17, 2015)</b>	0.50	0.50	0.50	0.50
<b>Average</b>	0.50	0.45	0.45	0.45
<b>Median</b>	0.50	0.50	0.50	0.50

Figure 8 illustrates the spread between 3 Month T-bills and 3 Month Bankers' Acceptances. In 2015 the spread between the products continued to rise slightly from the 2010-2013 period. The spread has still not returned to pre-2007 values. What this means is that for short-term money, Canadian businesses are paying 15 to 20 basis points more in comparison to the Bank of Canada rate than they had before the 2008 credit crisis.

FIGURE 8: SHORT TERM INTEREST RATE SPREADS (SOURCE: BANK OF CANADA WEBSITE)			
Year	3-Month T-Bill	3-Month BA	BA T-Bill
2015	0.50%	0.83%	0.33%
2014	0.91%	1.21%	0.30%
2013	0.97%	1.20%	0.23%
2012	0.95%	1.19%	0.24%
2011	0.91%	1.19%	0.28%
2010	0.56%	0.80%	0.24%
2009	0.36%	0.44%	0.08%
2008	2.32%	3.17%	0.85%
2007	4.13%	4.57%	0.44%
2006	4.02%	4.17%	0.15%
2005	2.71%	2.82%	0.11%
2004	2.22%	2.31%	0.09%



# HIGH INTEREST SAVINGS ACCOUNT (HISA)

The One investment Program continues to evolve to meet the changing needs of municipalities with the introduction of a new High Interest Savings Account (HISA) option. The HISA is a fully liquid and secure short-term investment option for every municipality.

Following the global financial crisis of 2008, the market has experienced near record low interest rates, leaving many municipalities struggling to find short-term investments that provide adequate rates of return. Some larger municipalities can secure a rate of 'Prime less 1.75%' on their short-term bank deposits, but many smaller municipalities are getting far less than 1%. This is why LAS and CHUMS created the One Investment Program HISA.

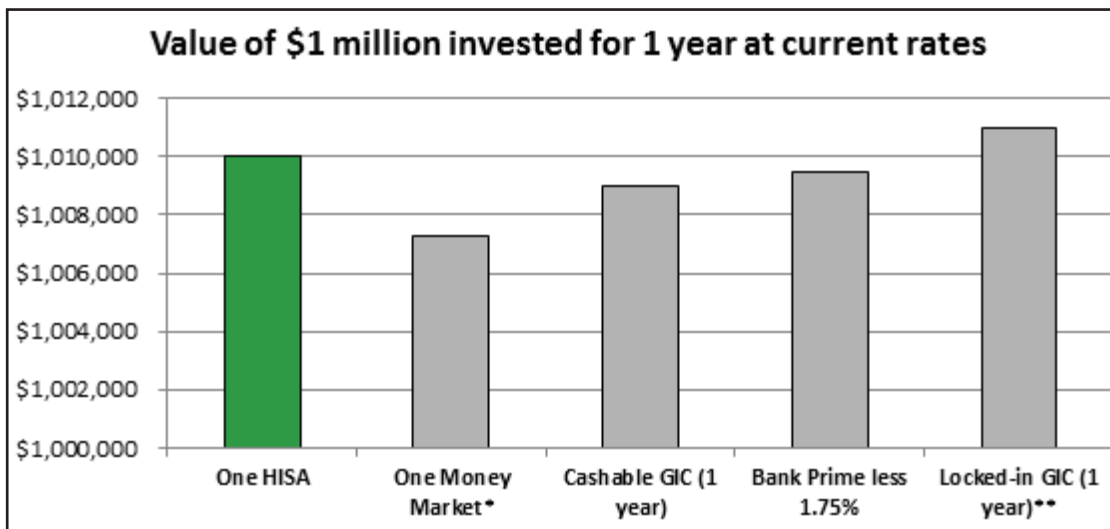
The HISA is offered through CIBC and provides better interest rates than are typically offered to municipalities. HISA is fully liquid, and provides investors a guaranteed variable rate of return that is based on the aggregate balance of all sub-accounts. Simply put, the larger the HISA balance, the higher the rate of return.

Aggregate Balance	Interest Rate for all Deposits	Effective Interest Rate
Less than \$100M	Bank Prime Less 1.7%	1.0%
>\$100M, but <\$150M	Bank Prime Less 1.65%	1.05%
>\$150M	Bank Prime Less 1.6%	1.1%

*\*As of January 20, 2016*

The graph below displays the expected future 1-year return for the One HISA compared to the most commonly used vehicles for short-term deposits - 'Bank Prime less 1.75%', a 1-year cashable GIC, and a 1-year locked-in GIC. Note the HISA and Bank Prime less 1.75% options assume the Bank Prime rate remains constant throughout 2016.

A \$1 million One HISA investment made at January 1, 2016 and "maturing" at December 31, 2016 would yield \$1,000 more than a cashable GIC investment. And while it's true that the locked-in GIC would return more than the One HISA, the municipality would not be able to access the money in the locked-in GIC until it comes to term, without possibly incurring an early redemption penalty. Conversely, the One HISA investment is fully liquid and the municipality can have access to all of their money typically within one business day.



*\*Average One Money Market Return over the past 2 years*

*\*\* Assuming investment is held for full one-year period (not liquid)*



# BOND PORTFOLIO PERFORMANCE

Average one-year One Bond Portfolio returns in 2015 were 2.74% compared to 2.33% in 2014 and 1.36% in 2013. As illustrated in Figure 9, the average one-year One Bond Portfolio return for 2015 continued to recover from record low 2013 results.

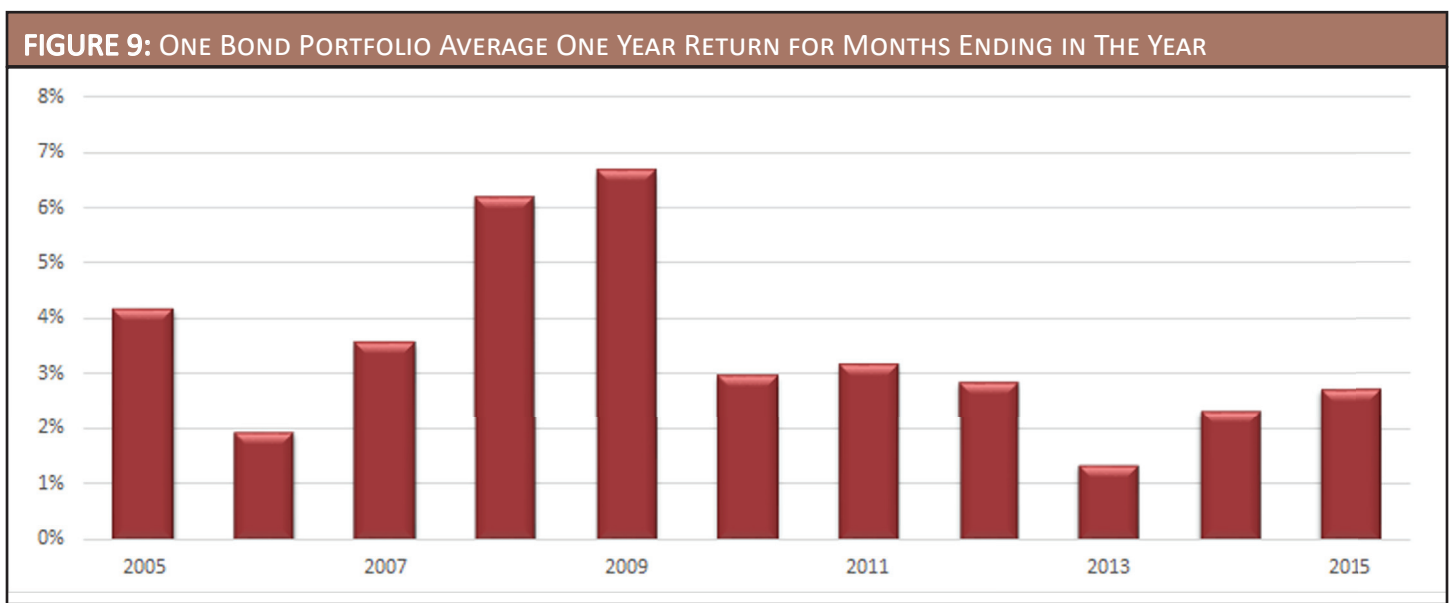
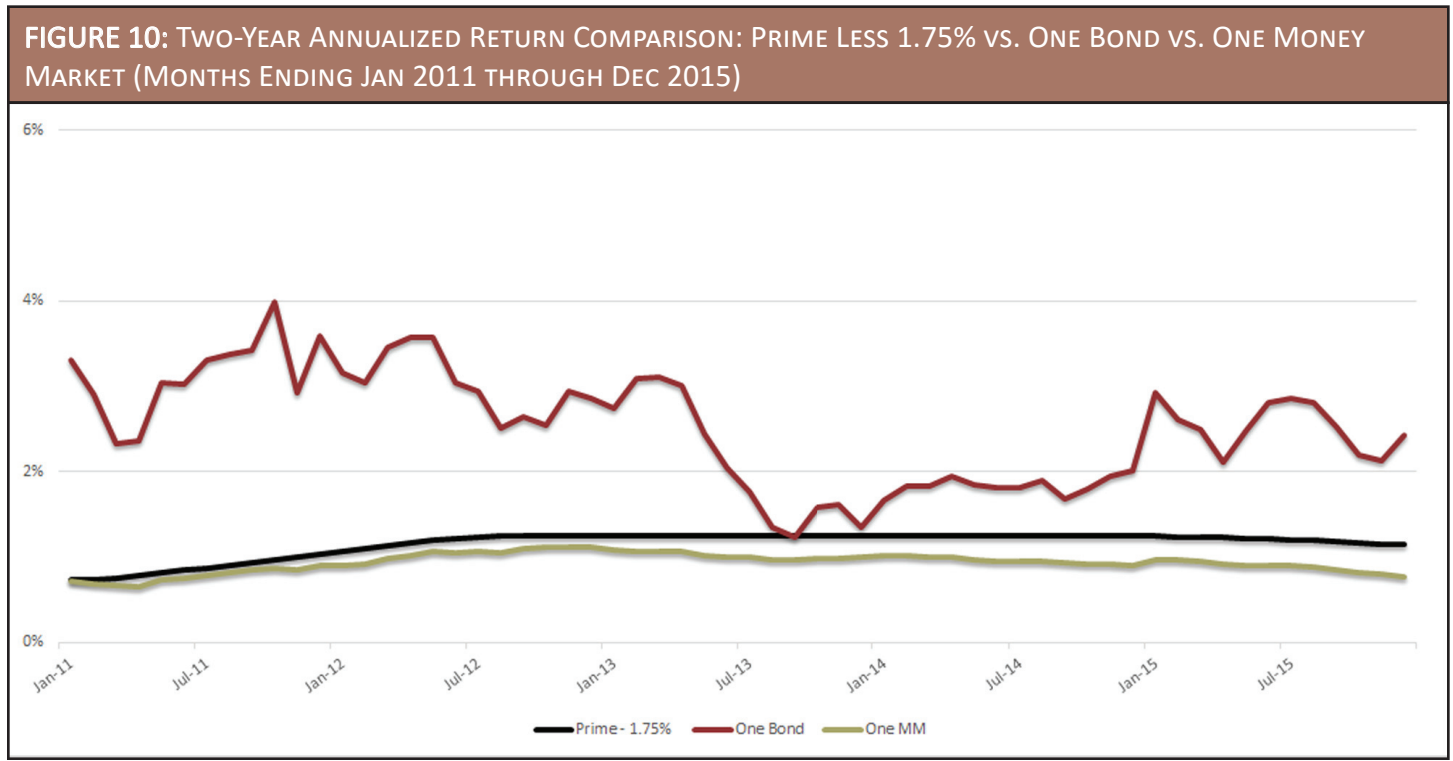


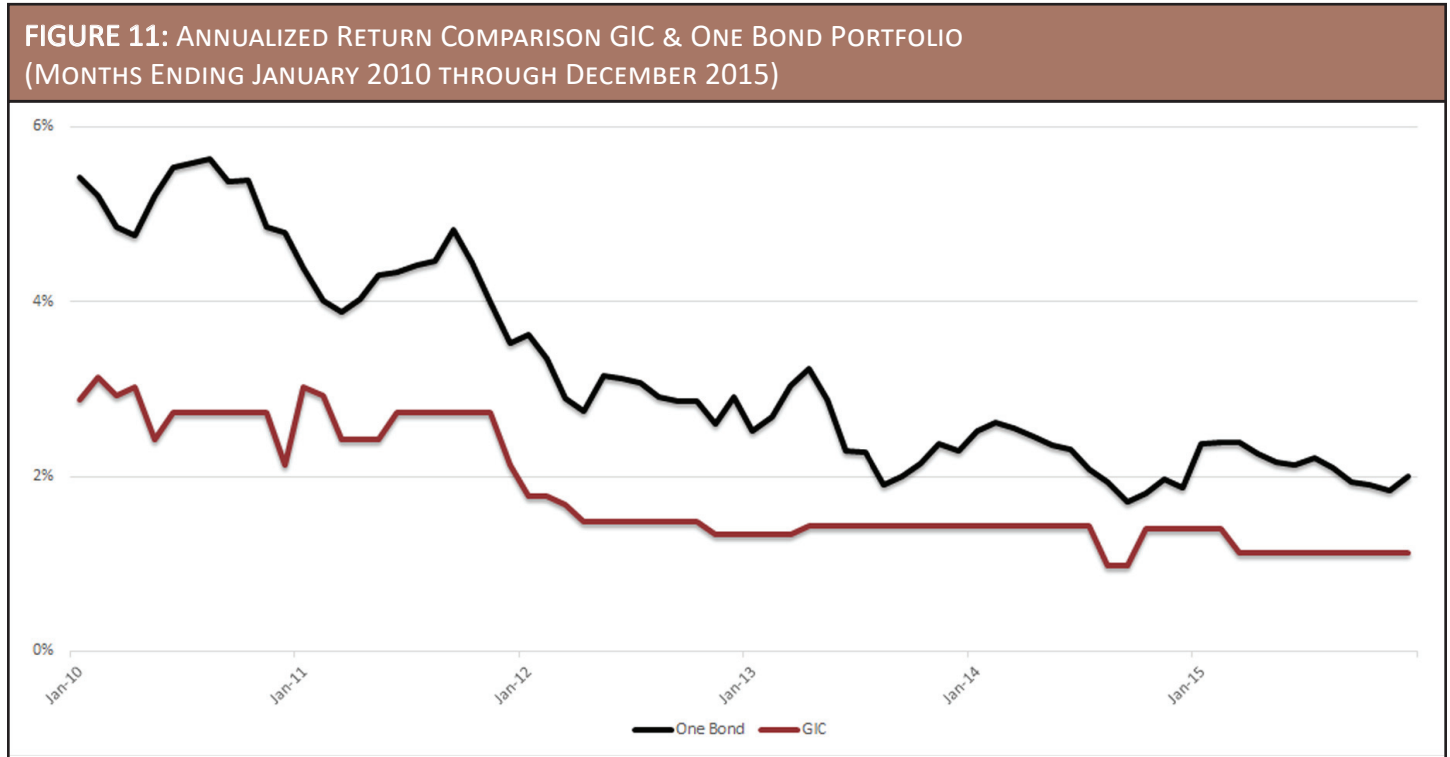
Figure 10 illustrates two-year One Bond Portfolio returns compared to other investment alternatives available to the sector for all month-ends from January 2011 to December 2015. For two-year investment durations, the One Bond Portfolio has outperformed the prime less 1.75% and the One Money Market Portfolio in all but one observation in 60 month ends reviewed in Figure 11. Average returns for the two-year rolling periods examined were 2.53% for the One Bond Portfolio, 1.15% for the Bank Prime, and 0.94% for the One Money Market comparators.





# BOND PORTFOLIO PERFORMANCE

Figure 11 compares three-year returns achieved through both GIC investments and the One Bond Portfolio, for all month ends between January 2010 and December 2015. The One Bond Portfolio average return was 3.21% compared to 1.81% for the GIC investment. Over an average three-year period, the One Bond Portfolio would have returned an additional \$4413 in investment income on each \$100,000 invested.



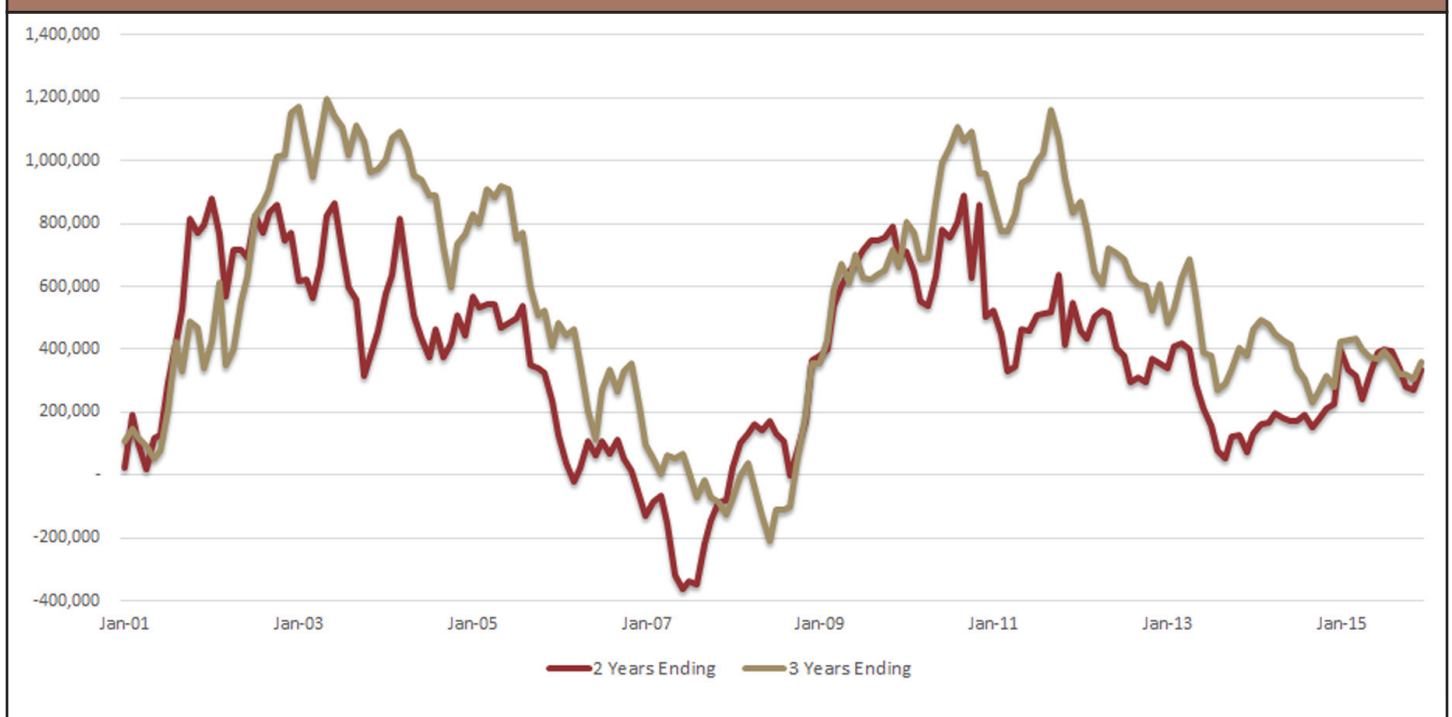
If your investment monies are not required in the next 18 months, there is a marked benefit to invest them in a product like the One Bond Portfolio, rather than a bank account, or short-term deposit type product.



## A COMPARISON OF BOND VS. MONEY MARKET

Given the longer-term outperformance of the One Bond Portfolio over the One Money Market Portfolio, staff developed Figure 12 to illustrate 'lost' investment income for a municipality that has medium-term investment money (i.e. money that has been sitting idle for more than 18 months) invested in the One Money Market Portfolio instead of the One Bond Portfolio. The graph presents the difference in the value of a single \$10M investment in the One Money Market and One Bond portfolios for 2 and 3-year rolling year-end periods from January 2001 to December 2015.

**FIGURE 12: ROLLING 2 & 3 YEAR PERIOD COMPARISON ONE BOND PORTFOLIO IN EXCESS OF MONEY MARKET ON \$10M INVESTMENT**



On a \$10 million investment, the average extra benefit of the One Bond Portfolio for 2 year periods is \$374,560, and \$552,360 for three year periods.

In 8% of instances for 2 year returns, and 7% of the instances for three year returns, the Bond Portfolio underperformed the Money Market Portfolio, but on the whole the potential for additional investment return from the Bond Portfolio makes for a compelling argument if your municipality has longer-term monies invested in the One Money Market Portfolio, or other short term investment on a regular basis. It may be worthwhile to place a portion of that money in the Bond Portfolio to potentially increase your investment return.

*NOTE that past portfolio performance is not a guarantee of future returns.*



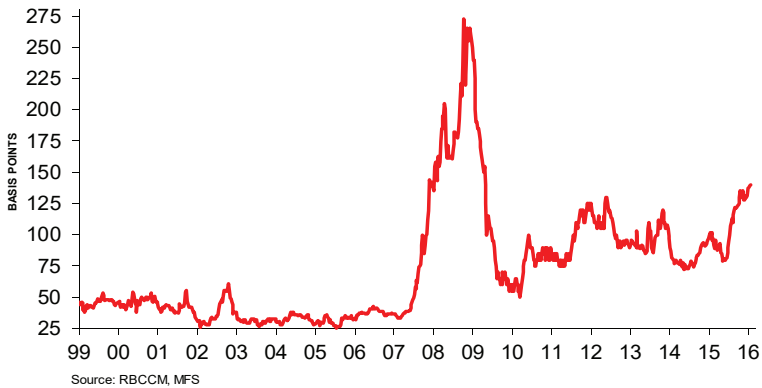


# UNIVERSE CORPORATE BOND (UCB) PORTFOLIO

The One UCB Portfolio grew by \$76.4M in 2015, ending the year with a balance of \$177.1M, which is a 76% increase over the 2014 closing balance. This increase represents \$73.0M in new investment and \$3.4M in investment income earned. As at December 31, 2015, the UCB Portfolio has realized one, two and three annualized net returns of 2.95%, 5.94% and 3.41%, respectively.

## 5 YEAR BANK SPREADS: AVERAGE SPREAD OF ALL MAJOR BANK DEPOSIT NOTES

**5 YEAR BANK SPREADS**  
Average Spread of All Major Bank Deposit Notes



This graph shows interest spreads that the major Canadian banks pay in excess of similar term Bank of Canada bonds to borrow money - in this case over five years. Effectively, this graph shows the added return opportunity for corporate debt as credit spreads begin to narrow to more historic levels. As MFS noted below in their Q4 Report, Canadian corporate spreads have widened, which is an opportunity for corporate bonds in the longer-term. As the global economy improves credit spreads should again narrow, adding value to bonds held in the portfolio that were purchased at a time when the spread was more pronounced.

## SELECT ONE UCB PORTFOLIO HOLDINGS (AT DECEMBER 2015)

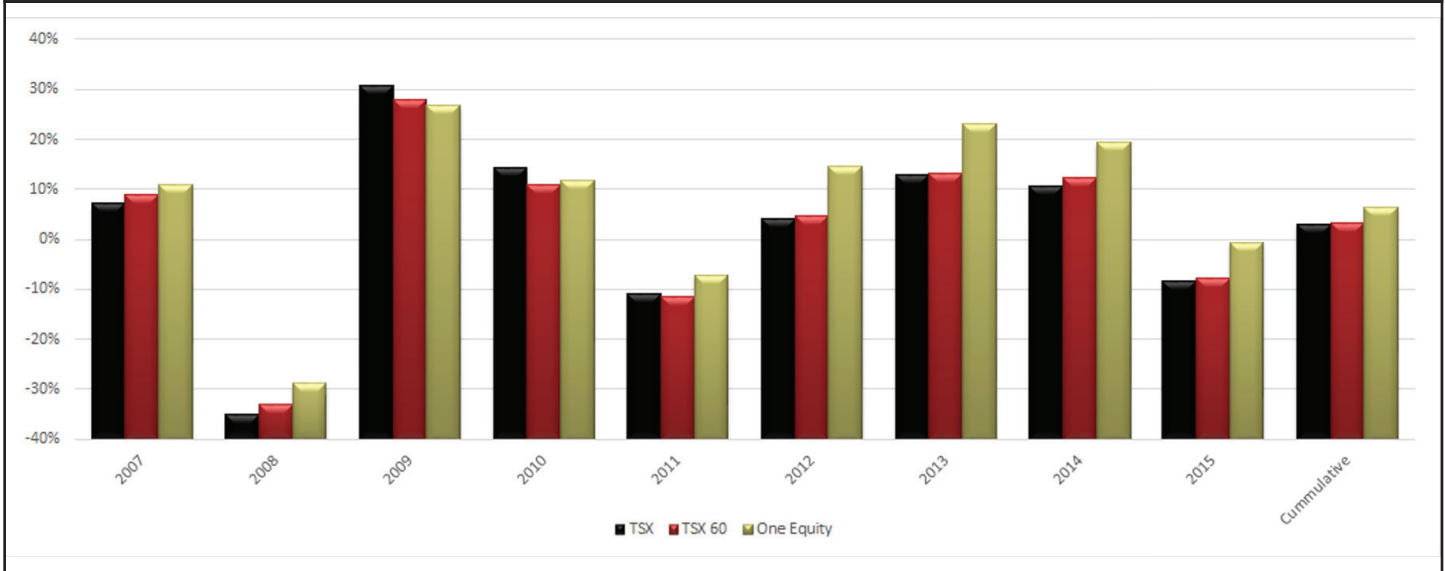
- 407 INTERNATIONAL
- BANK OF MONTREAL
- BANK OF NOVA SCOTIA
- BMW CANADA INC.
- CANADIAN IMPERIAL BANK
- CATERPILLAR FINANCIAL
- CANADIAN UTILITIES INC
- ENBRIDGE INC
- ENBRIDGE PIPELINES INC
- FORD AUTO SECURITIZATION
- HONDA CANADA FINANCE INC
- HSBC BANK CANADA
- JOHN DEERE CANADA FUNDING INC
- MANULIFE BANK OF CANADA
- NATIONAL BANK OF CANADA
- NAV CANADA
- POWER FINANCIAL GROUP
- ROYAL BANK OF CANADA
- TMX GROUP LTD
- TORONTO DOMINION BANK
- TOYOTA CREDIT CANADA
- TRANSCANADA PIPELINES LTD
- WELLS FARGO CANADA



# CANADIAN EQUITY PORTFOLIO PERFORMANCE

Although not an ideal year for equity returns, in 2015 the One Equity Portfolio helped to reduce the risk faced by our municipal investors. The One Equity Portfolio outperformed the TSX Composite and TSX 60 indices returning -0.63% compared to -8.32% and -7.76%, respectively. This is a significant outperformance by the One Equity product in a tough investment climate. As at December 31, 2015, on an annualized basis, the One Equity Portfolio net return was 6.31% since its January 2007 inception.

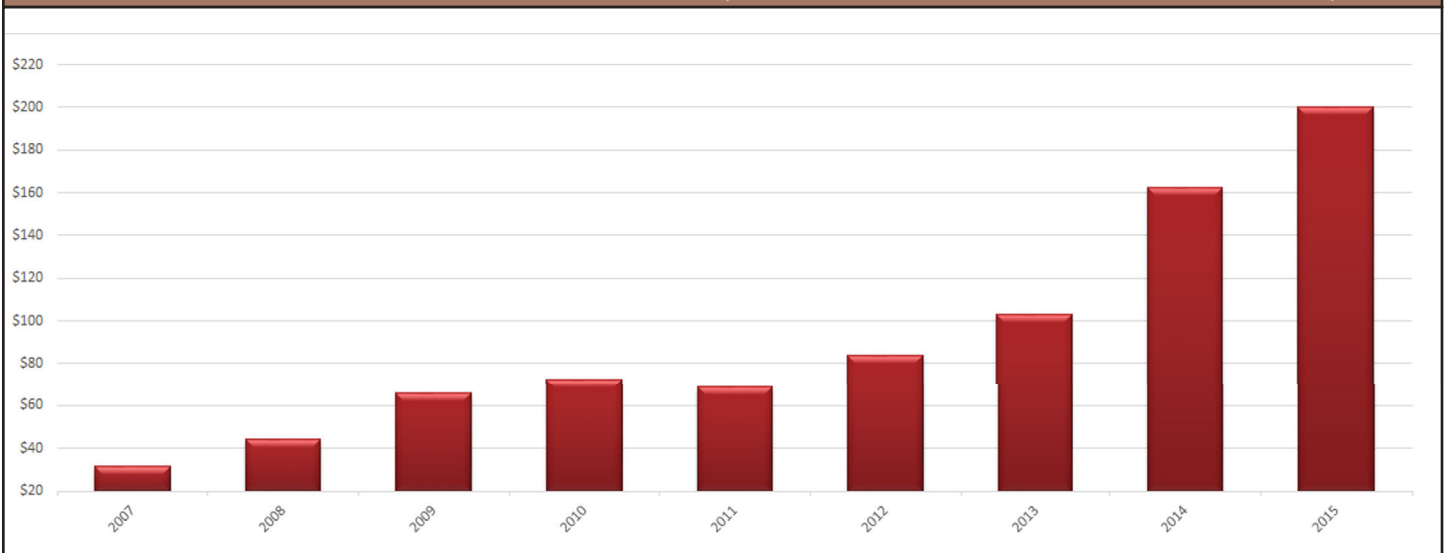
**FIGURE 13: ONE EQUITY RETURN VS. BENCHMARK TSX COMPOSITE AND TSX 60 INDICES SINCE JAN 2007 INCEPTION**



Annual returns as well as cumulative returns since inception for the One Equity Portfolio, the S&P TSX Composite and the S&P TSX 60 Indices are shown in Figure 13.

Figure 14 illustrates One Equity Portfolio balances for each year-end since the 2007 inception. Through 2015 the portfolio balance increased \$37.7.4M to \$200.3M. That increase in the portfolio total balance was comprised of -\$1.7M in investment gains and \$39.5M in net additional deposits. The December 2015 closing balance exceeded the 2014 closing balance by 23%. In 2015 the number of participating investors in the portfolio grew by 7 to 33.

**FIGURE 14: ONE EQUITY PORTFOLIO YEAR END BALANCES (INCEPTION TO DECEMBER 31, 2015 IN \$MILLIONS)**





## ABOUT THE ONE CANADIAN EQUITY PORTFOLIO

Although volatile in the short term, One staff and our portfolio manager, Guardian Capital LP, firmly believe that the One Equity portfolio can be of tremendous value to your organization in producing incremental additional investment income for any long term capital project that may be planned. If you are interested in learning more about the One Equity portfolio, its composition, or other period returns, please contact One Program staff.

### **The One Equity Portfolio is intended for investment durations of 5+ years**

You should consider it suitable for:

- Long-term infrastructure funding
- Capital asset maintenance and remediation reserves

The Portfolio invests in a diversified, conservatively managed portfolio of high quality equity securities issued by Canadian corporations.

Performance benchmark:

- Based on world-wide sector weightings as opposed to TSX weightings. This avoids the TSX heavy weighting in the oils, mining and financial industries.



## FROM GUARDIAN CAPITAL

### **2015 Fourth Quarter Report for the One Investment Equity Program Outlook & Positioning:**

The outlook has been uncertain for most of 2015 and is arguably more uncertain as we enter 2016. This is best evidenced by extreme volatility, as well as declines in global financial and commodity markets. Softening economic growth in China and other developing economies has served as a catalyst to declining commodity prices - and in turn resulted in considerable share price weakness. Oil and natural gas have captured the most headlines, however, prices for base metals, iron ore and gold all experienced declines during the fourth quarter of 2015. The result was a double digit decline for the full calendar year. Lumber, tied to healthy U.S. housing demand, rallied during the quarter but still had a double digit full year decline. It is difficult to determine when Chinese economic strength and associated demand for commodities will resume. Nonetheless, there is still considerable stimulus in the system. Economic performance in Canada is a question mark, especially because of the importance of the Energy sector to overall economic growth. Oil (WTI) has corrected to the mid \$30's and companies are assuming continued low prices when making business decisions.

Notwithstanding an uncertain outlook for many commodities, the portfolio's commodity exposure is prudently diversified. Guardian has used recent market weakness to reduce underweights in commodity based sectors, while at the same time remaining disciplined on quality. Energy holdings in the portfolio have been focused on senior integrated, exploration and production companies that are characterized by financial strength. Resource holdings that demonstrated deteriorating financials were culled from the portfolio. Guardian increased exposure to gold equities as well.

Given the uncertain economic backdrop for most countries outside of the United States, equity markets are expected to remain volatile. Within Canadian equities, the outlook for commodity prices, and in turn resources, remains uncertain, however we are becoming more comfortable with the outlook for oil at recent levels. Our focus continues to be on high quality companies that generate internal cash flow, even in depressed commodity price environments. The portfolio remains overweight in the defensive consumer stocks and has no exposure to Healthcare.



## LOOKING AHEAD TO 2016

- In an effort to further assist other portions of the MUSH sector, staff will continue to promote the One Investment program to conservation authorities and other municipal boards. If your organization is interested in learning more about the One Investment Program, please let us know.
- The One Investment Program will continue to market our High Interest Savings Account (HISA) to Ontario municipalities to help them earn more on their short term investment reserves. HISA currently earns 1% with full investment liquidity
- Investment education seminars are planned for venues across the province again in 2016. Sessions are planned for the following locations and dates:
  - September 9, London
  - September 30, Owen Sound
  - October 6, Sudbury
  - October 13, Kingston
  - October 27, Peterborough
- One will complete an annual performance review of all portfolio managers via our third party investment consultant and will provide a summary of the review results to interested investors in spring 2016.
- LAS/AMO and MFOA/CHUMS will continue to lobby for broader investment powers for the One Investment Program to allow for better investment opportunities for Ontario municipalities.

MONEY MARKET PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2015				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	21	\$602,491	\$28,690	1.10%
\$100K TO \$500K	13	\$3,963,322	\$304,871	7.24%
\$500K TO \$1M	10	\$6,960,016	\$696,002	12.71%
\$1M TO \$5M	14	\$32,148,145	\$2,296,296	58.70%
GREATER THAN \$5M	2	\$11,089,815	\$5,544,907	20.25%
TOTALS	60	\$54,763,788		100.00%

BOND MARKET PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2015				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	8	\$252,239	\$31,530	0.09%
\$100K TO \$500K	24	\$6,629,733	\$276,239	2.49%
\$500K TO \$1M	13	\$9,116,769	\$701,290	3.43%
\$1M TO \$5M	27	\$61,003,451	\$2,259,387	22.94%
GREATER THAN \$5M	11	\$188,964,472	\$17,178,588	71.05%
TOTALS	83	\$265,966,665		100.00%

CORPORATE BOND PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2015				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	4	\$96,050	\$24,013	0.05%
\$100K TO \$500K	10	\$2,661,203	\$266,120	1.50%
\$500K TO \$1M	4	\$2,998,202	\$749,550	1.69%
\$1M TO \$5M	10	\$20,044,050	\$2,004,405	11.32%
GREATER THAN \$5M	9	\$151,325,616	\$16,813,957	85.43%
TOTALS	37	\$177,125,121		100.00%

CANADIAN EQUITY PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2015				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	4	\$207,764	\$51,941	0.10%
\$100K TO \$500K	6	\$1,739,589	\$289,931	0.87%
\$500K TO \$1M	6	\$4,737,608	\$789,601	2.37%
\$1M TO \$5M	6	\$14,845,240	\$2,474,207	7.41%
GREATER THAN \$5M	11	\$178,749,811	\$16,249,983	89.25%
TOTALS	33	\$200,280,011		100.00%

MONEY MARKET PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2014				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	18	\$592,870	\$32,937	0.46%
\$100K TO \$500K	12	\$3,518,118	\$293,176	2.74%
\$500K TO \$1M	9	\$6,161,354	\$684,595	4.80%
\$1M TO \$5M	13	\$28,528,076	\$2,194,467	22.22%
GREATER THAN \$5M	6	\$89,565,932	\$14,927,655	69.77%
TOTALS	58	\$128,366,350		100.00%

BOND MARKET PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2014				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	10	\$363,293	\$36,329	0.17%
\$100K TO \$500K	19	\$4,945,876	\$260,309	2.36%
\$500K TO \$1M	10	\$6,530,568	\$653,057	3.12%
\$1M TO \$5M	21	\$49,633,145	\$2,363,483	23.73%
GREATER THAN \$5M	10	\$147,687,653	\$14,768,765	70.61%
TOTALS	70	\$209,160,536		100.00%

CORPORATE BOND PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2014				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	6	\$163,965	\$27,327	0.16%
\$100K TO \$500K	8	\$1,555,544	\$194,443	1.54%
\$500K TO \$1M	4	\$2,998,548	\$749,637	2.98%
\$1M TO \$5M	7	\$17,656,356	\$2,522,337	17.54%
GREATER THAN \$5M	5	\$78,317,441	\$15,663,488	77.78%
TOTALS	30	\$100,691,855		100.00%

CANADIAN EQUITY PORTFOLIO PARTICIPANTS BY MUNICIPAL DEPOSIT AT DEC. 31, 2014				
INVESTMENT	MUNICIPAL PARTICIPANTS	TOTAL DEPOSIT IN RANGE	AVG. DEPOSIT IN RANGE	% OF TOTAL DEPOSIT
LESS THAN \$100K	2	\$97,386	\$48,693	0.06%
\$100K TO \$500K	3	\$772,913	\$257,638	0.48%
\$500K TO \$1M	5	\$3,789,167	\$757,833	2.33%
\$1M TO \$5M	7	\$15,822,960	\$2,260,423	9.73%
GREATER THAN \$5M	9	\$142,078,175	\$15,786,464	87.40%
TOTALS	26	\$162,560,600		100.00%



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