



2018 ANNUAL REPORT

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About ONE Investment

With more than 25 years of experience serving the sector, ONE Investment understands the needs of municipalities. Since the 1990's, we have offered a Money Market portfolio and Bond portfolio. Over the years, we expanded our investment offerings with an Equity portfolio in 2007 and a Universe Corporate Bond portfolio in 2008. In 2010, we rebranded to "One Investment Program". In 2015, we introduced a high-interest savings account (HISA) which offers a competitive rate for short-term monies.

Governance is key component of ONE Investment. For over a decade, the Peer Advisory committee comprised of Municipal Finance representatives across the province has been providing ONE with feedback regarding investments from the municipal perspective. In 2016, the Investment Advisory Committee comprised of industry experts was formed, allowing us to once again enhance the governance structure of the ONE Investment.

In 2018, ONE Investment incorporated as a not-for-profit organization and received an exemption from the Ontario Securities Commission which granted ONE Investment the ability to provide municipalities with investment advice. This also saw the creation of the ONE Board comprised of LAS and MFOA/CHUMS representatives.

PROGRAM OVERSIGHT

Program and portfolio review and oversight of the ONE Investment Prescribed List is provided by two complementary committees. The Program Advisory Committee is comprised of Ontario municipal financial professionals and provides a municipal perspective, while the Investment Advisory Committee is comprised of members with institutional and municipal investing experience.

Peer Advisory Committee

Ed Hankins, Region of York
Ed Stankiewicz, City of Greater Sudbury
Mark Martin, City of Ottawa
Michael Coffey, TBayTel
(a board of the City of Thunder Bay)
Robert Maisonville, County of Essex
Stephen Rettie, Town of Bracebridge

Investment Advisory Committee

Jennifer Dowty, CFA
Heather Douglas, Lawyer
Jim Clark, CPA, CA, CFA
James Giles, CPA, CFA
Christine Tessier, CFA
Geri James, CFA
Bill Hughes, MBA, MES

Five Investment Options

1. **High Interest Savings Account (HISA)** - Recommended investment time horizon: 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.

2. **Money Market Portfolio** - Recommended investment time horizon: 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.

3. **Bond Portfolio** - Recommended investment time horizon: 18 - 36 months

Portfolio Manager: MFS Investment Management Canada

The ONE Bond Portfolio is intended to provide a higher return over longer investment horizons than the Money Market Portfolio or HISA. 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.

4. **Universe Corporate Bond Portfolio** - Recommended investment time horizon: 3 to 5 years

Portfolio Manager: MFS Investment Management Canada

Launched in 2008, the ONE UCB Portfolio allows municipalities to invest in highly rated corporate bonds, which historically have produced greater investment returns with only incremental additional risk. This investment type is available to Ontario municipalities only through ONE Investment, as per current municipal regulation.

5. **Canadian Equity Portfolio** - Recommended investment time horizon: 5+ years

Portfolio Manager: Guardian Capital LP

Launched in 2007, the ONE Equity 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.

Historic Returns

ONE INVESTMENT PROGRAM ANNUALIZED PORTFOLIO RETURNS & COMPARATORS

	6 month	1 year	2 year	3 year	5 year
High Interest Savings Account (HISA)	1.14%	2.09%	-	-	-
Money Market Portfolio	1.55%	1.43%	1.43%	-	-
Bond Portfolio	-	1.51%	0.68%	0.68%	1.37%
Universe Corporate Bond Portfolio	-	1.16%	1.60%	1.59%	3.31%
Canadian Equity Portfolio ¹	-	-2.92%	3.35%	6.88%	7.68%
<u>Comparator Investment Returns</u>					
Bank Prime less 1.75% (Source: Bank of Canada)	1.70%	2.20%	-	-	-
Guaranteed Investment Certificate (GIC) (Source: Bank of Canada)	-	1.30%	-	1.50%	2.20%
Canada Bond (Source: Bank of Canada)	-	-	1.91%	1.92%	1.93%
TSX Composite Index (unmanaged without fees)	-	-8.35%	-0.85%	0.44%	-4.88%

* All ONE Investment returns shown are net of fees.

¹11-year return annualized since January 2007 portfolio inception is 6.45%

The below chart illustrates the number of investors participating in each of the five ONE Investment offerings, as well as the average and total deposit in each portfolio as at December 31, 2018. Year-over-year the number of active investors has increased by 38 in the HISA. All the Portfolios saw decreases in active investors with a particular decrease in the Bond Portfolio by 15.

ONE Investment Balances at December 31, 2018 (\$ Millions)					
	HISA	MM	Bond	UCB	Equity
Participants	98	47	70	49	56
Change in Participants from 2017	+38	-6	-15	-5	-6
Average Balance per Participant	\$11.2	\$0.6	\$3.3	\$4.8	\$6.6
Balance	\$1,099.7	\$28.5	\$230.5	\$237.2	\$367.3

2018 Review

- At year-end 2018, 165 Ontario municipalities and broader public sector investors held investments with ONE Investment. That is a year-over-year increase of 17 participants.
- ONE Investment reached a milestone with total investment balances that surpassed \$2 billion in 2018. The December 31, 2018 balance reached \$1.96 billion, 17% higher than the December 31, 2017 year-end balance of \$1.68 billion.
- The Bank of Canada increased interest rates three times in January, July, and October. As a result, the HISA rate increase. HISA rate is based on Bank Prime less 1.535%.

The ONE High Interest Savings Account (HISA) balance surpassed \$1 billion, and offered a rate of return of 2.415% as of December 31, 2018.

- Interest rate increases also impacted ONE Investments fixed income portfolio's. ONE investment provided communications and training throughout 2018 to educate municipalities of the correlation of rising interest rates and bond pricing

Year-Over-Year Change in Balance by Investment Offering				
	2017 (\$M)	2018 (\$M)	\$ Change	% Change
HISA	843.4	1,099.7	256.3	30.4
Money Market	37.5	28.4	(9.1)	-24.3
Bond	265.6	230.1	(35.5)	-13.4
UCB	240.1	236.7	(3.4)	-1.4
Equity	288.7	367.3	78.6	27.2
TOTAL	1,675.3	1,962.2	286.9	17.1

- The total balance for the four traditional ONE Investment portfolios at year-end 2018 was \$862M, up \$30M or 4%, over the 2017 year-end balance of \$832M.
- The ONE Equity Portfolio ended 2018 with a balance of \$367.3M, 27.2% higher than the 2017 closing balance.
- Investment 101 seminars were revised and updated for content. ONE Staff held 5 workshops in the fall (across the Province) to educate municipal staff about the amendments to the Prescribed List regulation, Prudent Investor Standard opportunities, and strategies for investment. A CFA charterholder was on hand for more detailed questions about the mechanics of investing.
- ONE Investment incorporated as a not-for-profit and received an exemption from the Ontario Securities Commission (OSC) allowing the not-for profit to give Investment Advice to Municipalities as it works towards launching Prudent Investor Standard offerings. The first ONE Board meeting was held in September 2018.

Balance & Participation

The average monthly 2018 balance across all ONE portfolios was \$1,918M up 28% from the average monthly 2017 balance of \$1,496M. Average total balances for 2018 were higher than any other year since the inception of ONE Investment in 1993. The Equity portfolio and HISA experienced growth this year while the rest of the Portfolios had a slight decrease.

Figure 1 presents investment balances for HISA and the four investment portfolios at both 2017 and 2018 year-ends. On a year-over-year basis, the HISA and Equity have grown 30.4% and 27.2% respectively, while the Money Market, Bond, UCB, and Equity portfolio balances have decreased by 24.3%, 13.4%, and 1.4% respectively.

Figure 1: 2018 Year-End Balances

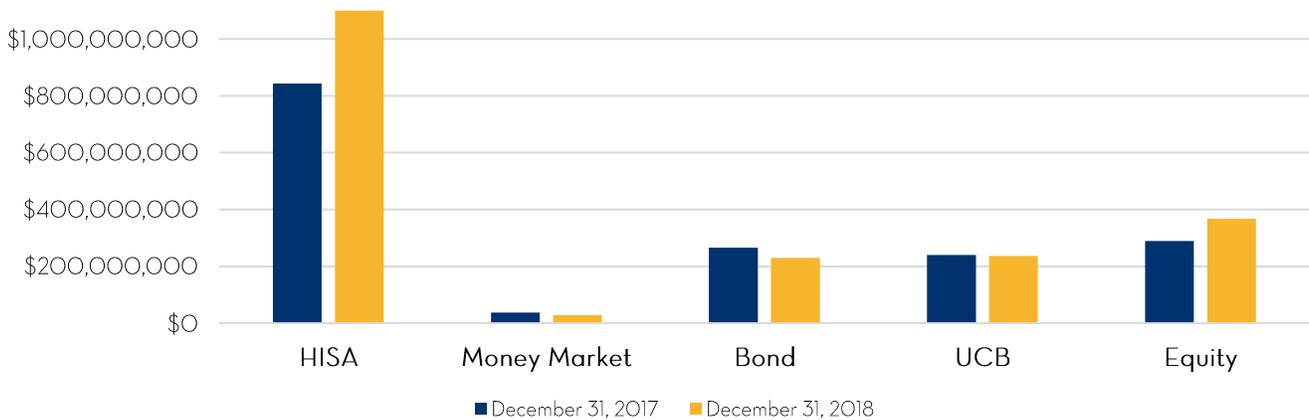


Figure 2 illustrates average quarterly balances over the last five years. ONE Investment saw significant growth in 2017, but the growth in 2018 surpassed any previous period. The growth of new investment combined with a competitive interest rate for the HISA has contributed to a successful year.

Figure 2: 2018 Average Quarterly Balances (\$)

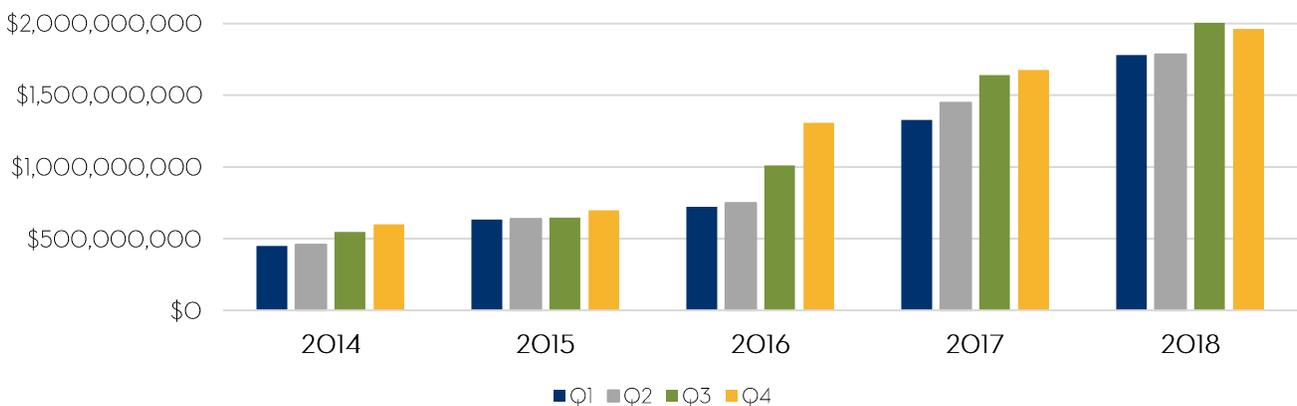


Figure 3 shows an analysis of 2018 activity within each of the four co-mingled ONE Investment portfolios including the unit price for each at both year-end 2017 and 2018. On a year-over-year basis, the HISA grew by \$256.3M and the Equity portfolio grew by \$78.5M while the Money Market, Bond, and UCB portfolios decreased by \$9.1M, \$35.5M, and \$3.4M, respectively.

Figure 3: Activity By Portfolio						
		HISA	MM	Bond	UCB	Equity
At December 31 st , 2017	Balance \$M	843.4	37.5	265.6	240.1	288.7
	Price \$	-	965.9	880.5	1,086.5	21.8
At December 31 st , 2018	Balance \$M	1,099.7	28.4	230.1	236.7	367.3
	Price \$	-	965.6	873.8	1,072.2	21.2
Difference	Balance \$M	256.3	(9.1)	(35.5)	(3.4)	78.5
	Price \$	-	(0.3)	(6.7)	(14.3)	(0.6)

The two tables in Figure 4 represent the total investment per participant and compare year-end 2018 to 2017 balances. The number of active investors through 2018 grew by 17 as at year-end. This is an 11.5% increase in the total number of ONE investors. Much of this new investor growth can be attributed to the rapid growth in the HISA offering.

Total investment in ONE Investment at December 31, 2018 was \$1.96 billion, which is 17% higher than the total ONE balance only one year prior. The December 31, 2017 balance was \$1.68 billion. Average deposits have a wide change in values but any new investment greater than \$5,000 is eligible within ONE Investment.

Figure 4: Total Deposits Per Participants Across All Products, as at December 31, 2018				
Investment	Participants	Total Deposit in Range	Average Deposit in Range	% of Total Deposit
Less than \$100K	9	\$313,576	\$34,842	0.02%
\$100K to \$500K	25	\$6,712,467	\$268,499	0.34%
\$500K to \$1M	15	\$10,421,886	\$694,792	0.53%
\$1M to \$5M	64	\$163,249,412	\$2,550,772	8.32%
Greater than \$5M	52	\$1,782,468,748	\$34,278,245	90.80%
Totals	165	\$1,963,166,089	-	100.0%

Total Deposits Per Participants Across All Products, as at December 31, 2017				
Investment	Participants	Total Deposit in Range	Average Deposit in Range	% of Total Deposit
Less than \$100K	11	\$327,675	\$29,789	0.02%
\$100K to \$500K	18	\$4,623,908	\$256,884	0.28%
\$500K to \$1M	16	\$11,986,195	\$749,137	0.72%
\$1M to \$5M	55	\$143,476,932	\$2,608,671	8.56%
Greater than \$5M	48	\$1,515,913,609	\$31,581,534	90.43%
Totals	148	\$1,676,328,319	-	100.00%

Figure 5 summarizes ONE Investment participation by municipal population for both year-end 2018 and 2017. Overall, ONE Investment activity grew by 17 new investors. Investors from municipalities within population ranges < 5,000 and 25,001 to 50,000 grew the greatest amount by 5 and 4, respectively. 100,000+ grew by 6 new investors. The percentage of total investments nearly doubled for investors in the broader public sector. While the share of investors with populations of more than 100,000 now comprise of less than half of ONE Investment.

Figure 5: Total ONE Investment Participation by Population as at December 31, 2018					
Population	# of Investors	% of Investors	Investment (Millions)		% of Total Investment
			Per Muni	Total	
Broader Public Sector	13	8%	\$6.78	\$88.10	4.49%
< 5,000	44	27%	\$1.68	\$73.98	3.77%
5,000 to 25,000	59	36%	\$4.14	\$244.52	12.46%
25,001 to 50,000	17	10%	\$16.86	\$286.65	14.60%
50,001 to 100,000	13	8%	\$25.0	\$325.61	16.59%
100,000 +	19	12%	\$49.7	\$944.31	48.10%
Total	165	100%	-	\$1,963.17	100.00%

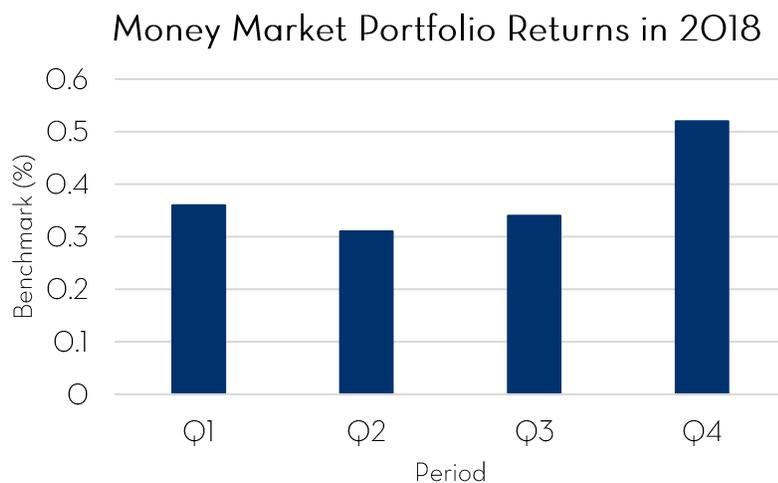
Figure 5: Total ONE Investment Participation by Population as at December 31, 2017					
Population	# of Investors	% of Investors	Investment (Millions)		% of Total Investment
			Per Muni	Total	
Broader Public Sector	10	7%	\$4.58	\$45.79	2.73%
< 5,000	39	26%	\$1.62	\$63.27	3.77%
5,000 to 25,000	57	39%	\$3.49	\$199.20	11.88%
25,001 to 50,000	13	9%	\$17.02	\$221.21	13.20%
50,001 to 100,000	10	7%	\$25.03	\$250.28	14.93%
100,000 +	19	13%	\$47.19	\$896.58	53.48%
Total	148	100%	-	\$1,676.33	100.00%

Quarterly Highlights – High Interest Savings Account

The High Interest Savings Account generated net returns of 0.59% in the 4th quarter and 2.09% for the full calendar year in 2018. The yield generated by the HISA increased in tandem with rising Canadian short term rates during the year. The rising Bank of Canada policy rates during the year had minimal impact on returns as the account is effectively has a very short maturity, which insulates the performance from the negative impact of rising interest rates.

Quarterly Highlights – Money Market

The financial markets faced notable uncertainty in the fourth quarter of 2018 as stock markets corrected and investor sentiment weakened. In this environment investments that are usually perceived as being more risky, such as equities, performed poorly, while safer investments, such as fixed income and money market, generally performed better. The outlook for interest rates also impacted returns. The changing environment in the fourth quarter suggested that less aggressive rate increases would be required going forward. This had a favourable impact on money market returns. Both of these factors helped shorter term bonds and money market instruments perform relatively well in the quarter. Overall, the Canadian money market generated returns in the 4th quarter of 0.52%, as measured by the FTSE Canada 182 day T-bill rate. The ONE Investment money market returns for the quarter were broadly similar with gross returns of 0.49%. The 4th quarter returns outpaced returns from the 3 preceding quarters due the market forces at play during the quarter.



The Bank of Canada increased their policy rate 5 times since mid-2017, which negatively impacted the 2018 calendar year returns. For the full year 2018 returns were 1.55% as reflected in the 182 day T-bill rate. The returns of the ONE Investment money market were 1.65% before fees, slightly outpacing the benchmark. The positioning of the portfolio reflects a shorter term to maturity than its benchmark, which helps minimize the negative impact from rising interest rates, which helped performance.

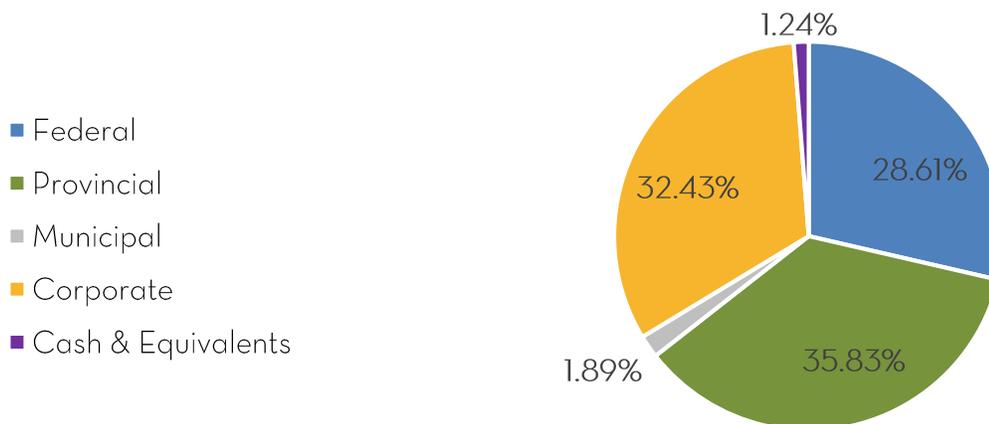
Quarterly Highlights – Fixed Income

The 4th quarter was generally negative for risky assets and positive for safer assets. The best performing markets were government bonds, especially federal government bonds. While shorter term interest rates were nudged higher by the central bank during the year, longer term interest rates reacted to market forces in the 4th quarter. As the economic outlook diminished late in the year, longer term rates fell. This led to rising bond prices as well as federal government bond yields falling more relative to corporate bond yields. Federal government bond yields fell 20 to 50 basis points for maturities that were 3 years and longer. Equities in Canada and worldwide fell significantly during the quarter.

The factors that played into this include slowing global economic growth, intensifying trade war talks, and some political issues around the world. Slower economic growth would hurt profits and potentially expose firms that have increased their debt levels over the past several years.

The Bank of Canada increased the policy rate, ie. overnight rate, by 25 basis points. Noting that longer term interest rates fell during the quarter, it is a good reminder that the Bank of Canada only sets the very short-term rate and that rates for longer terms are affected by other things such as perceptions of risk. The view held earlier in the year that there may be more rate increases by the Bank of Canada in 2019 has now been modified. It appears that there may be no increases in 2019 with a broadly similar view emerging in the U.S.

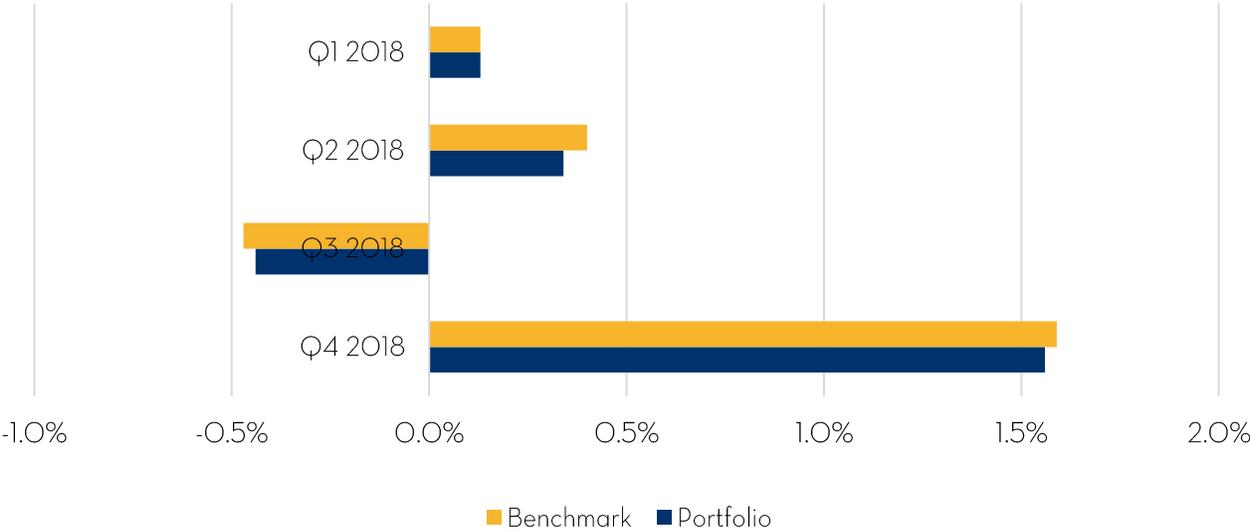
ONE Bond Portfolio Composition - December 31, 2018



The ONE Bond Portfolio returned 1.43% for the quarter and 1.95% for the year, before fees. Both were in line with benchmarks. The portfolio has a slightly higher duration than the benchmark, therefore doing well when longer term interest rates fall. The portfolio has more corporate bond exposure than the benchmark which hurt while safer assets, like government bonds, perform better. The effect roughly offset each other. Portfolio quality remains very high. The manager wants high quality given some of the economic issues mentioned earlier. Slower growth, trade wars and political turmoil would be negative for corporations generally. As we are ten years into an economic growth cycle, prudence is justified.

The ONE Universe Corporate Bond Portfolio has similar characteristics to the Bond Portfolio in that it has a slightly higher duration and corporate bond exposure, so it performed in a similar fashion. The portfolio performance was 1.56% for the quarter and 1.60% for the year, both before fees. Portfolio quality remains high as well.

ONE UCB Performance Results December 31, 2018 - % Gross of Fees

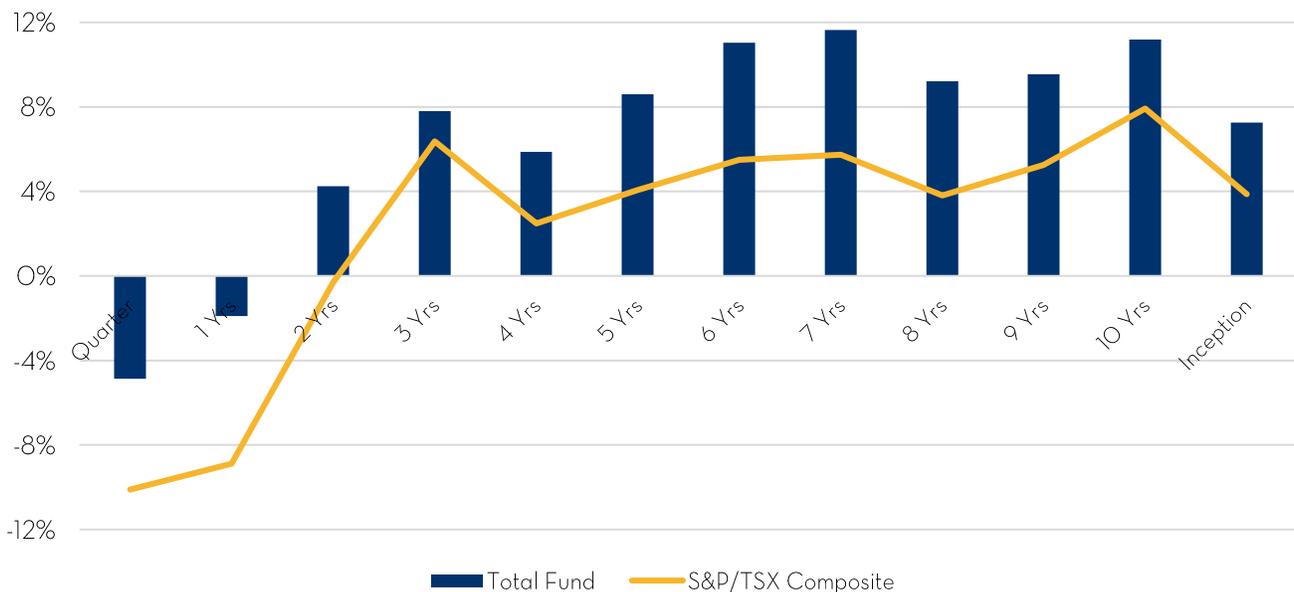


Quarterly Highlights - Equity

After rising to a record high in the 3rd quarter, the S&P/TSX Composite Index sharply reversed its uptrend, falling over 10 % in the fourth quarter driven largely by global economic growth concerns. It was a broad-based market sell-off with eight of the 11 sectors reporting losses during the quarter, of which six sectors declined by more than 10 %. The only sectors to report gains during the quarter were defensive sectors: Consumer Staples, Materials (boosted by the gold sub-sector), and Communication Services. During the 4th quarter, all year-to-date gains were erased with the S&P/TSX Composite Index declining 8.9 % in 2018, its lowest annual performance since 2008.

During the quarter, the ONE Equity Portfolio reported a loss of 4.87 %, outperforming the S&P/TSX Composite Index by over 5 %. The portfolio's outperformance was driven by both sector allocation and stock selection. In terms of sector allocation, the portfolio's overweight position in Consumer Staples and large underweight position in the Energy sector were contributors to the portfolio's outperformance. The top stock contributors were two gold stocks, Agnico Eagle and Franco Nevada, as well as consumer staples stock, Loblaw.

ONE Equity Returns - December 31, 2018 (%)



Looking at the year, the ONE Equity Portfolio declined 1.9 % in 2018, outperforming the 8.9 % loss reported for the TSX Index. The portfolio has maintained its strong long-term track record. To illustrate, the 10-year return is 11.2 % for the ONE Equity Portfolio, above the 7.9 % return for the TSX Index.

The portfolio's assets under administration continues to show steady growth, rising 15 % in 2018 to \$331.9-million at year-end from \$288.7-million at the end of 2017.

In terms of sector exposures, the top three sector weightings as at Dec. 31 are Financials (22.3 %), Industrials (22.2 %), and Information Technology (13.8 %). The portfolio is nearly fully invested with only 2.1 % in cash and cash equivalents at the end of the year.

At year-end, the portfolio held 36 securities down from 38 stocks at the end of the third quarter. Fairfax Financial Holdings was added to the portfolio, while Manulife Financial, Goldcorp and Canadian Natural Resources were removed from the portfolio. The total number of holdings remains within the portfolio manager's targeted range of between 35 and 50 stocks.

Listed below are the portfolio's Top 10 holdings representing 50 % of the total portfolio:

- Loblaw
- Gildan Activewear
- Alimentation Couche-Tard
- Open Text
- CGI Group
- Canadian National Railway
- Brookfield Asset Management
- Thomson Reuters
- Royal Bank of Canada
- TD Bank

This quarter, there were two changes to the top 10 holdings, Finning International and Magna International were replaced by Loblaw and Royal Bank of Canada. The portfolio's largest holding is Loblaw with a weighting of 5.8%.