



ONE
INVESTMENT

2019
ANNUAL PERFORMANCE
REPORT

Table of Contents

About ONE Investment.....	2
Five Investment Options.....	4
Historic Returns.....	5
2019 Review.....	6
Quarterly Highlights - High Interest Savings Account.....	11
Quarterly Highlights - Money Market.....	11
Quarterly Highlights - Fixed Income	12
Quarterly Highlights - Equity	14
Your ONE Investment Team	16

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. Previously as a program of the CHUMS and LAS Boards and now for the ONE Investment Board the advice of municipalities and industry experts has been crucial. 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 to provide guidance to ONE staff in making investment management decisions

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.

In 2019, the Municipal Advisory Team was established that has dedicated investment expertise, including a CFA Charterholder and a municipal finance expert. The team guides municipalities through each step from understanding their cash flow and asset management plan, to building municipal investments into a capital financing strategy. In addition, team provides guidance on the appropriate investment policy and portfolio structure.

In 2020, ONE Investment will be launching a prudent investor offering fully compliant with the Municipal Act and Ontario Securities legislation and regulations.

PROGRAM OVERSIGHT

Program and portfolio review and oversight of the ONE Investment Prescribed List is provided by two complementary committees. The Peer 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 finance 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
Michael McGovern, Township of Central Frontenac
Erika Kromm, Municipality of Neebing

Investment Advisory Committee

Jennifer Dowty, CFA
Heather Douglas, Lawyer
Jim Clark, CPA, CA, CFA
James Giles, CPA, 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.

Note: This portfolio will be closed for new investments in 2020 with an alternative investment option for our investors.

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 ANNUALIZED PORTFOLIO RETURNS & COMPARATORS

	1 year	2 year	3 year	5 year
High Interest Savings Account (HISA)	2.44%	-	-	-
Money Market Portfolio	1.68%	-	-	-
Bond Portfolio	2.61%	2.06%	1.32%	4.22%
Universe Corporate Bond Portfolio	4.96%	3.04%	2.71%	2.53%
Canadian Equity Portfolio ¹	18.3%	7.17%	8.11%	7.5%
Comparator Investment Returns				
Bank Prime less 1.75% <i>(Source: Bank of Canada)</i>	2.20%	-	-	-
Guaranteed Investment Certificate (GIC) <i>(Source: Bank of Canada)</i>	1.35%	-	1.80%	2.0%
Canada Bond <i>(Source: Bank of Canada)</i>	-	1.5%	1.75%	1.25%
TSX Composite Index <i>(unmanaged without fees)</i>	22.88%	5.81%	6.89%	6.28%

* All ONE Investment returns shown are net of fees.

¹ 11-year return annualized since January 2007 portfolio inception is 8.13%

The following 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, 2019. Year-over-year the number of active investors has increased by 20 in the HISA. Money Market and Bond portfolio had a slight decrease whereas UCB and Equity portfolio had additional participants.

ONE Investment Balances at December 31, 2019 (\$ Millions)					
	HISA	MM	Bond	UCB	Equity
Participants	118	43	68	50	57
Change in Participants from 2018	+20	-4	-2	+1	+1
Average Balance per Participant	\$11.5	\$0.5	\$3.4	\$5.5	\$6.9
Balance	\$1,360.9	\$22.1	\$227.9	\$277.1	\$391.7

2019 Review

- At year-end 2019, 175 Ontario municipalities and broader public sector investors held investments with ONE Investment. That is a year-over-year increase of 10 participants.
- ONE Investment reached a milestone with total investment balances that surpassed \$2 billion in 2019 with December 31, 2019 balance reached \$2.28 billion, 16% higher than the December 31, 2018 year-end balance of \$1.96 billion.
- The Bank of Canada interest rates remained constant in 2019 As a result, the HISA continued to pay an interest rate of 2.415% (Bank Prime less 1.535%) throughout the year.
- While interest rate hikes from 2018 stopped, the Bank of Canada maintained the rate at 1.75% through the year 2019. Global economic growth slowed down in 2019 due to uncertainty in financial markets. Some resilience to maintain consumer activity was provided by easing monetary policy in emerging markets around the world. ONE Investments fixed income portfolios have performed well given the market conditions and conservative risk profile of the investment mandates governed by the legislation.

Year-Over-Year Change in Balance by Investment Offering				
	2018 (\$M)	2019 (\$M)	\$ Change	% Change
HISA	1,099.7	1,360.9	261.2	23.8
Money Market	28.4	22.1	(6.3)	-22.2
Bond	230.1	227.9	(2.2)	-0.9
UCB	236.7	277.1	4.04	17.1
Equity	367.3	391.7	24.4	6.6
TOTAL	1,962.2	2,279.8	317.6	16.2

- The total balance for the four traditional ONE Investment portfolios at year-end 2019 was \$919M, up \$55M or 6.4%, over the 2018 year-end balance of \$863M.
- The ONE Equity Portfolio ended 2019 with a balance of \$391.7M, 6.6% higher than the 2018 closing balance.
- Investment 101 seminars were revised and updated for content. ONE Staff held four workshops and an online webinar. Four in-person workshops were held across the province in fall to educate municipal staff about the amendments to the Prescribed List regulation, Prudent Investor (PI) Standard opportunities, and strategies for investing. An online webinar was also offered in the Spring of 2019 to service municipal staff interested in distance learning. This session provided an interactive experience where questions were answered immediately. A CFA charter-holder 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. ONE has also built a team with financial and municipal sector experience to expand its financial services.
- The introduction of 418.1 in the Municipal Act, 2001 Prudent Investor (PI) Standard offered municipal government's broader investment options with proper governance structure and some qualification requirements for municipalities to participate in the regime.
- ONE's top priority was making sure that municipalities of all sizes could participate. Last year, ONE provided turnkey solutions to a group of about eight municipalities in working through their Council approval process and potentially becoming founding municipalities of the ONE Joint Investment Board (JIB). ONE JIB will be a joint municipal service board that will invest on behalf of municipalities as per the investment policy statement approved by the respective councils. Substantial progress was made during 2019 to establish ONE JIB and all Founding Municipalities are working towards the PI effective date of July 2, 2020.

Balance & Participation

The average monthly 2019 balance in Equity portfolio was close to \$385 M up 16% from the average monthly 2018 balance of \$381 M. Average total balance for 2019 Equity portfolio was higher than any other year since the inception of ONE Investment in 1993.

Figure 1 presents investment balances for HISA and the four investment portfolios at both 2018 and 2019 year-ends. On a year-over-year basis, the HISA, Equity, and UCB portfolio have grown by 23.8%, 6.6% and 17.1% respectively, while Bond portfolio had less than 1% decrease. The Money Market portfolio balance decreased by 22.3% as investors transitioned monies to the HISA for higher rates of return.

Figure 1: ONE Investment 2019 Year-End Balances

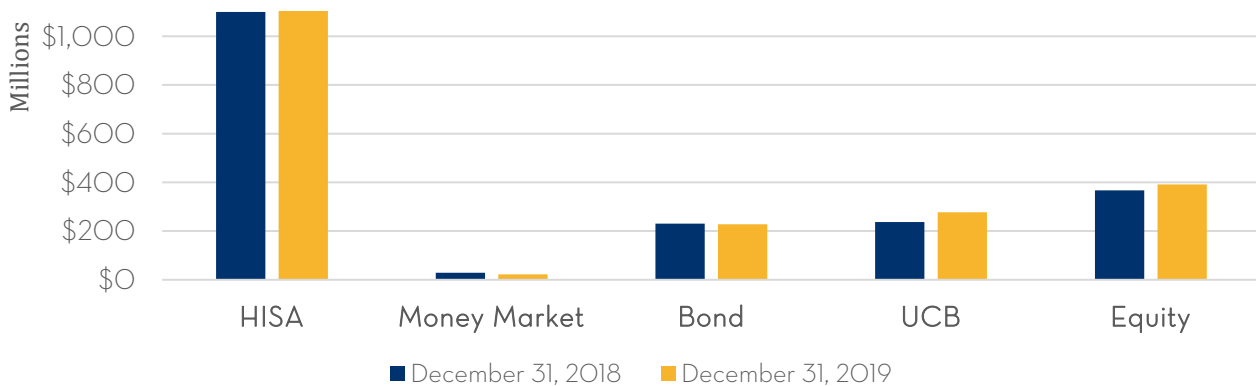


Figure 2 illustrates average quarterly balances over the last five years. ONE Investment saw significant growth in 2018, but the growth in 2019 surpassed any previous period. This growth has resulted from a combination of factors including educational opportunities offered by ONE that has provided municipal staff with range of expertise needed to develop an investment approach that is right for their municipality. Another key factor is ONE's expanded management services with an in-house CFA Charterholder who has assisted municipalities in making prudent decision on their investible funds combined with turnkey solutions for easier implementation.

Figure 2: 2019 Average Quarterly Balances (\$)

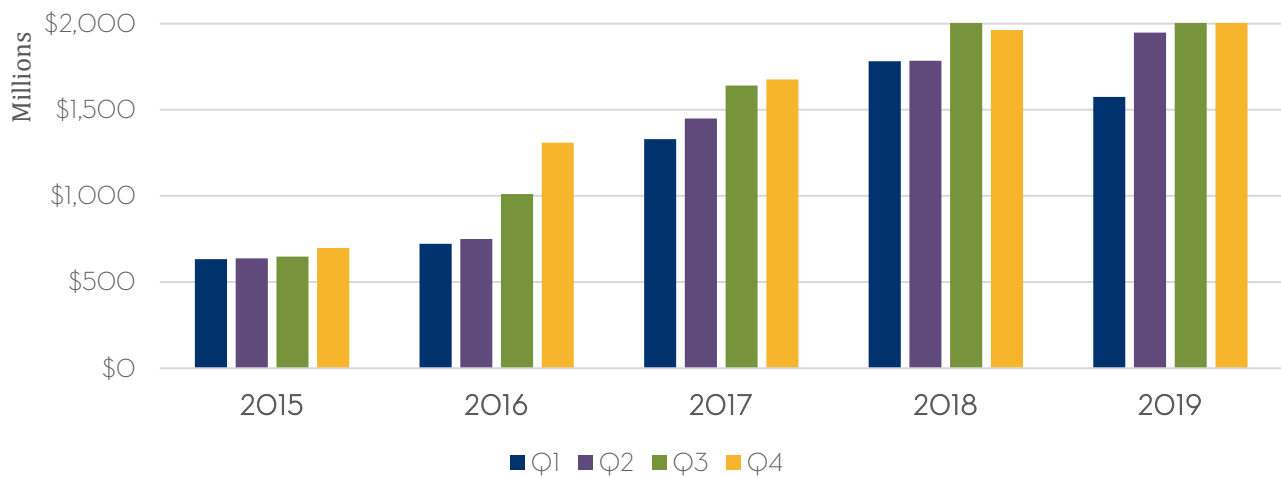


Figure 3 shows an analysis of 2019 activity within each of the four co-mingled ONE Investment portfolios including the unit price for each at both year-end 2018 and 2019. On a year-over-year basis, the HISA grew by \$261.3M, UCB portfolio balance increased by \$40.4M and the Equity portfolio grew by \$24.4M while the Money Market and Bond portfolios decreased by \$6.3M and \$2.1M respectively.

		HISA	MM	Bond	UCB	Equity
At December 31 st , 2018	Balance \$M	1,099.7	28.4	230.1	236.7	367.3.7
	Price \$	-	965.6	873.8	1,072.2	21.2
At December 31 st , 2019	Balance \$M	1360.9	22.1	227.9	277.1	391.7
	Price \$	-	965.6	876.5	1099.3	25.1
Difference	Balance \$M	261.3	(6.3)	(2.1)	40.4	24.4
	Price \$		0	2.7	27.1	3.9

The two tables in Figure 4 and 4.1 represent the total investment on participant basis and year-end 2019 to 2018 balances provided for comparison. The number of active investors through 2019 grew by 10 at year-end. This is 6.1% 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.

Figure 4: Total Deposits By Municipality Across All Products, as at December 31, 2019

Investment	Participants	Total Deposit in Range	Average Deposit in Range	% of Total Deposit
Less than \$100K	13	\$309,572	\$23,813	0.01%
\$100K to \$500K	22	\$5,962,071	\$271,003	0.26%
\$500K to \$1M	17	\$11,946,266	\$702,722	0.52%
\$1M to \$5M	61	\$160,391,872	\$2,629,375	7.04%
Greater than \$5M	62	\$2,101,200,568	\$33,890,332	92.17%
Totals	175	\$2,279,810,350	-	100.00%

Total investment in ONE Investment at December 31, 2019 was \$2.28 billion, which is 16% higher than the total ONE balance only one year prior. The December 31, 2018 balance was \$1.96 billion. Average deposits have a wide change in values but any new investment greater than \$5,000 is eligible within ONE Investment.

Figure 4.1: Total Deposits By Municipality 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%

Figure 5 and 5.1 summarizes ONE Investment participation by municipal population for both year-end 2019 and 2018. Overall, ONE Investment activity grew by 10 new investors. Investors from municipalities within population ranges < 5,000, 5001 to 25,000 and 25,001 to 50,000 grew by 3 additional investors each. Two additional investors from municipalities with over 100,000 population.

The total investments from broader public sector organizations increased by 3.9%. The share of investors with populations of more than 100,000 is close to half of the overall portfolio of ONE Investment.

Figure 5: Total ONE Investment Participation by Population as at December 31, 2019

Population	# of Investors	% of Investors	Investment (Millions)		% of Total Investment
			Per Investor	Total	
Broader Public Sector	16	9%	\$5.7	\$91.5	4.01%
< 5,000	47	27%	\$1.9	\$92.4	4.05%
5,001 to 25,000	62	35%	\$5.3	\$327.6	14.37%
25,001 to 50,000	17	10%	\$18.2	\$309.2	13.56%
50,001 to 100,000	12	7%	\$31.8	\$381.6	16.74%
100,000 +	21	12%	\$51.3	\$1,077.5	47.26%
Total	175	100%	-	\$2,279.8	100.00%

Figure 5.1: Total ONE Investment Participation by Population as at December 31, 2018

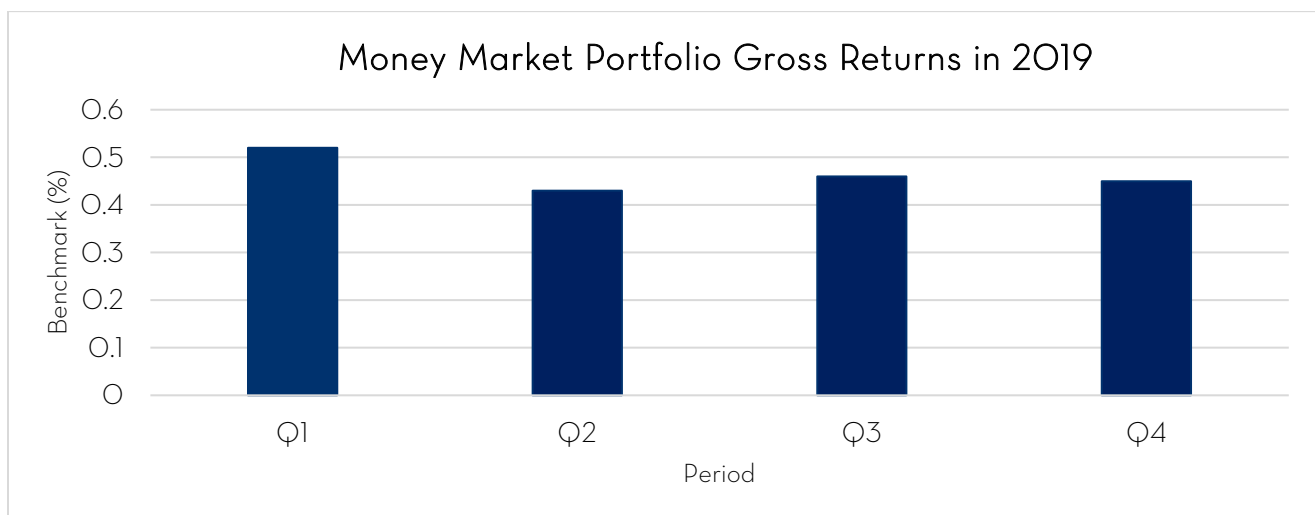
Population	# of Investors	% of Investors	Investment (Millions)		% of Total Investment
			Per Investor	Total	
Broader Public Sector	13	8%	\$6.78	\$88.10	4.49%
< 5,000	44	27%	\$1.68	\$73.98	3.77%
5,001 to 25,000	59	36%	\$4.14	\$244.52	12.46%
25,001 to 50,000	17	10%	\$16.86	\$286.65	14.60%
50,001 to 100,000	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%

Quarterly Highlights – High Interest Savings Account

The High Interest Savings Account (HISA) generated annual interest income of 2.415% which compounds daily for the period ended in December 31, 2019. HISA was popular for existing and new municipal clients for providing stable interest rate throughout the year that was aligned with Bank of Canada policy rates. Given the market outlook, GIC's were considered safe way to invest for municipalities but not an optimal option for the low interest rates paid on them. HISA was commonly used to invest provincial efficiency funding on a short term basis. Some investors were gauging higher uncertainty in the economy that resulted in more conservative approach where moneys were parked in HISA not only for short term but also for short to mid term investment horizon.

Quarterly Highlights – Money Market

The fourth quarter of 2019 was kind to risk assets as shown by strong equity market performance in both the U.S. and Canada. This continued the trend for the year as both equity markets were up over 20%. The markets shrugged off trade concerns, the messy Brexit situation and sabre rattling generally. Fears of recession that were present in earlier quarters faded. The U.S. Federal Reserve pursued a policy of looser monetary policy and the Bank of Canada stopped hiking rates. In this risk on environment, credit spreads tightened and rates of longer government bonds rose. This resulted in negative returns on government bonds for the quarter and smaller losses for corporate bonds. However, with rates ending the year lower than at the start of the year, fixed income returns were positive across the maturity spectrum.



Returns for the money market portfolio before fees were 45 basis points (0.45%) for the quarter and 188 basis points for the year, outperforming the benchmark by 3 and 9 basis points respectively. Commodity prices, which are important to Canada, have been weak and given the recent weakness in the Chinese economy, show no signs of strengthening. It also appears as if the U.S. Federal Reserve

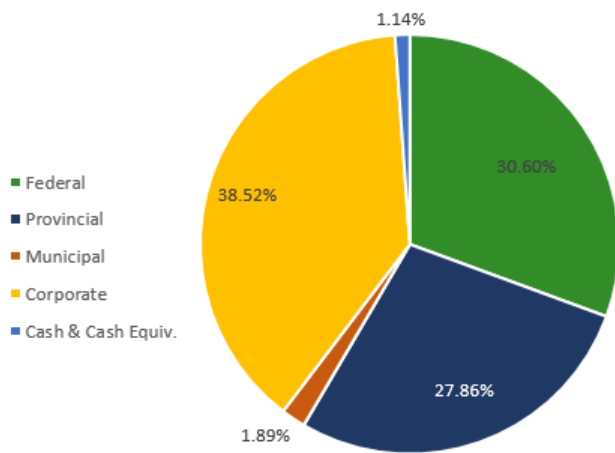
is unlikely to raise rates anytime soon. These and other factors may it likely that the next change in rates by the Bank of Canada would be to cut rates.

As a result, the portfolio is positioned with a high quality bias as the manager believes than the Canadian economy is vulnerable given high levels of consumer debt. With credit spreads being tight in historical terms, there is not adequate compensation for taking greater credit risk at this time.

Quarterly Highlights - Fixed Income

The fourth quarter of 2019 was a quarter characterized by greater risk appetite by investors, which resulted in the riskier asset (equities) having a strong quarter, while the safer asset (fixed income) had a weak quarter. Rates were lower at the end of the year than they were at the beginning, so for the year, fixed income returns were strongly positive.

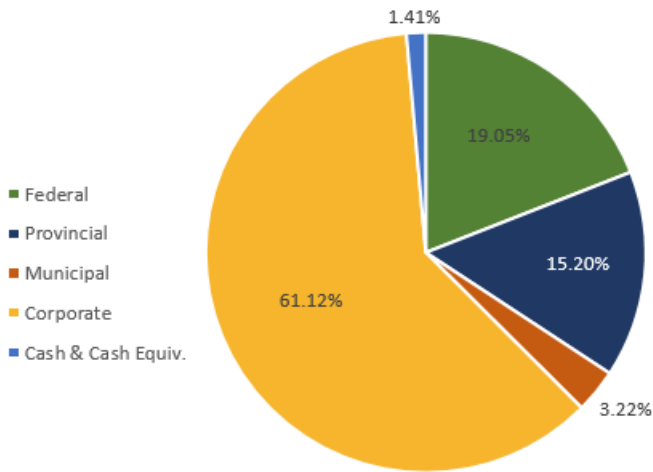
ONE Bond Portfolio Composition - Dec 31, 2019



The U.S. Federal Reserve reversed its program monetary tightening as it became worried about a recession in 2020. That fear had helped cause interest rates to fall in the earlier quarters of 2019, causing strong bond market returns. This follows a normal pattern where investors look for safer assets when fears of a recession arise, and fixed income instruments are those assets. Once it became clear that the Fed was not going to let its balance sheet shrink and not raise interest rates, investors became more optimistic. The economic data then started to improve enough to reduce recession fears for now.

It looks like neither the U.S Federal Reserve nor the Bank of Canada will be raising rates anytime soon, if anything they will cut rates. The last time the Bank of Canada policy rate was changed was in October 2018. Credit spreads on corporate bonds are tight compared to normal, so taking risk in fixed income is generally not well compensated.

ONE UCB Portfolio Composition - Dec 31, 2019

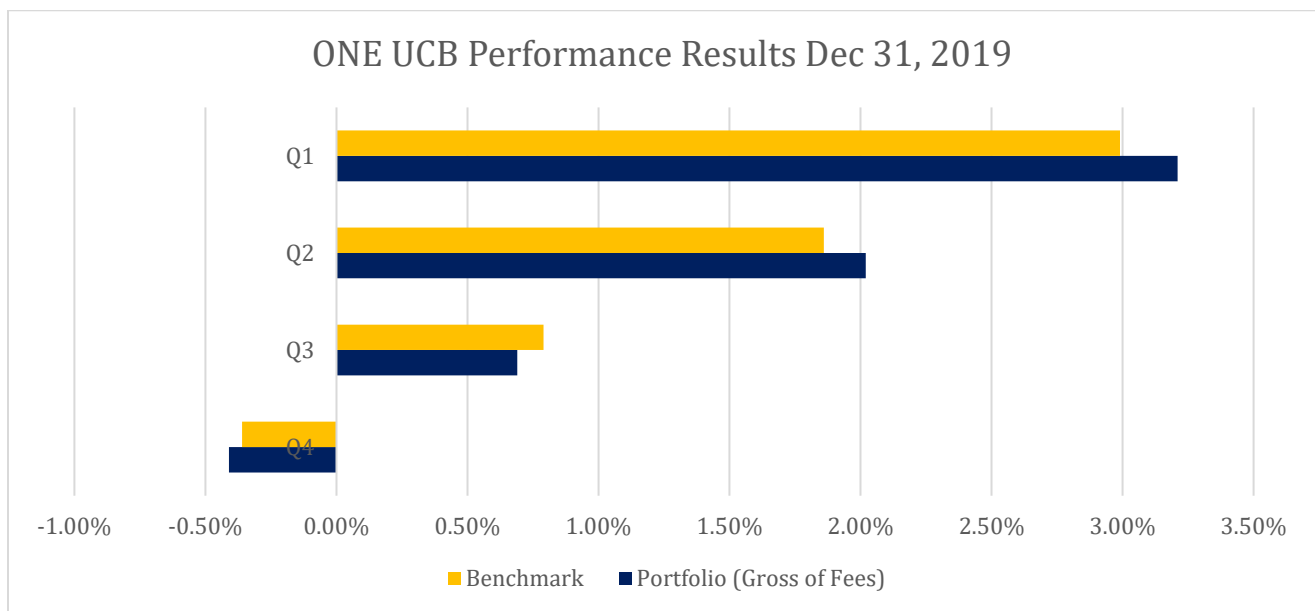


The ONE UCB portfolio had a negative return of 41 basis points (0.41%) in the fourth quarter, but a strong positive return of 558 basis points for the year. These are before fees. While performance slightly lagged the benchmark for the quarter, it was positive for year by 23 basis points. The ONE Bond portfolio has had a positive return of 2 basis points (0.02%) in the fourth quarter, but a strong positive return of 311 basis points for the year. These are before fees. Performance was positive for the quarter and year by 5 and 76 basis points respectively.

The difference between the two portfolios is that the UCB portfolio has longer maturity bonds and a higher duration. These result in higher coupon yields as longer bonds tend to have higher yields and, with falling interest rates such as we had in 2019, higher duration bonds rise in price more than lower duration bonds in the falling rate environment.

When looking at portfolio positioning for 2020 for both portfolios, there are several factors to consider. Global trade tensions, especially between the U.S. and China are not resolved and a flare up, including more tariffs, could slow the global economy. Debt levels of consumers in Canada and corporations in North America are high enough that they may be a drag on growth as well. They may also result in higher risk of default. Commodity prices are important to the Canadian economy and are weak (oil, lumber and base metals).

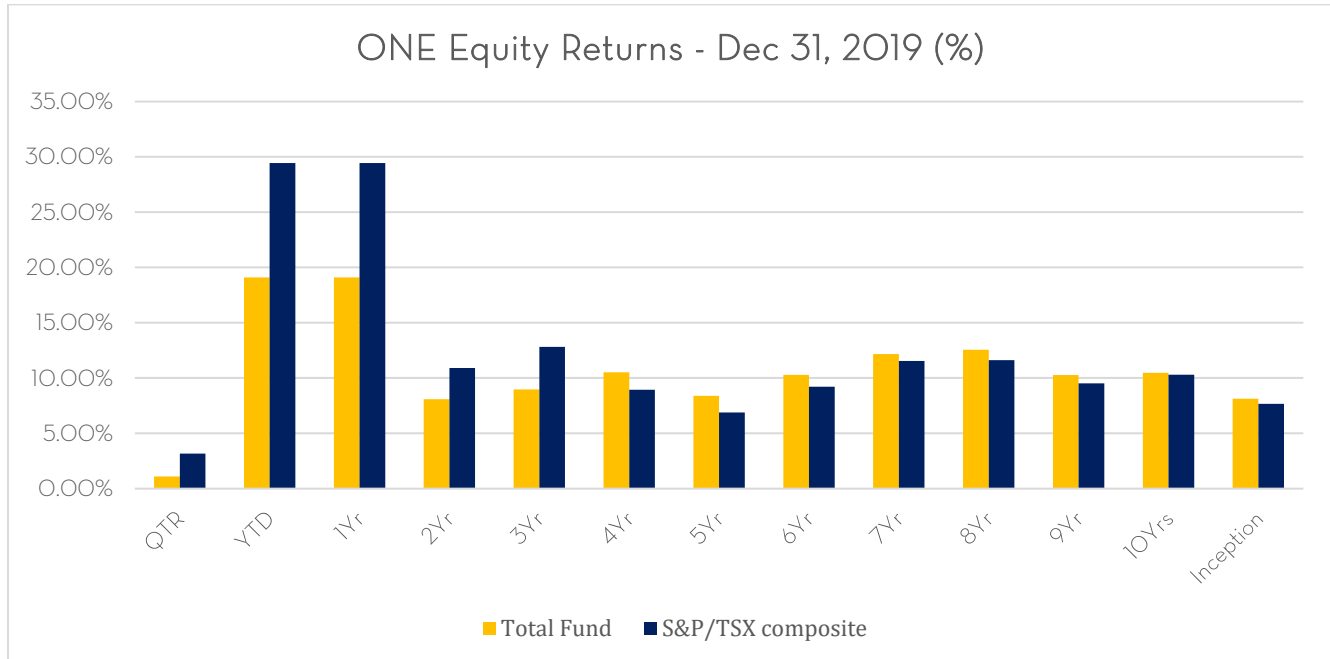
ONE UCB Performance Results Dec 31, 2019



Given the aforementioned factors, the portfolio positioning is relatively conservative with high portfolio quality (slightly higher than the benchmark), duration about the same as the benchmark and corporate exposure less than normal. With credit spreads being tighter than normal, it is not easy to find issues where there is sufficient compensation for taking the extra risk.

Quarterly Highlights - Equity

Equities ended the year on a positive note. During the fourth quarter, the ONE Equity Portfolio advanced 1.1%. However, this gain was below the 3.2% return for the S&P/TSX composite index. The 2.1% underperformance relative to the S&P/TSX composite index was largely due to stock selection, accounting for over 1.6% of the shortfall, and to a lesser degree sector allocation. Amongst the stock detractors were Gildan Activewear, Shopify, and Shawcor. The portfolio has a large overweight position in Gildan Activewear, which is one of the portfolio's top holdings. Gildan's share price fell 18% in the fourth quarter. The portfolio does not hold Shopify, a technology stock whose share price increased 25% during the quarter. Lastly, the portfolio's overweight position in Shawcor was a detractor with its share price plunging 18% during the quarter. From a sector allocation perspective, the portfolio's overweight position in the defensive Consumer Staples sector was the largest detractor with this sector declining 3.9% during the quarter. The underweight positions in the Energy and Materials sectors were minor detractors to the portfolio's performance. During the fourth quarter, these two sectors rallied 7.1% and 7.8%, respectively.



2019 was a record setting year for equities – both domestically and internationally. In late Dec., the S&P/TSX composite index closed at an all-time high. Last year, the S&P/TSX composite index rallied 22.9 % with 10 of the 11 sectors in the S&P/TSX composite index delivering positive returns. Only the Health Care sector reported a loss with marijuana stocks declining sharply in value. The ONE Equity Portfolio delivered an impressive double-digit gain of 19.1 % in 2019 but was 3.8 % shy of the gain reported by the S&P/TSX composite index. The ONE Equity Portfolio has a solid long-term track record. Over the past three, five, and 10 years, the ONE Equity Portfolio has outperformed the S&P/TSX composite index by 2.1 %, 2.1 %, and 3.6 %, respectively.

At year-end, the portfolio held 37 securities, up from 36 stocks at the end of the third quarter. The total number of holdings remains within the portfolio manager’s targeted range of between 35 and 50 stocks. During the quarter, two financial stocks were added to the portfolio, CIBC and Manulife Financial, with weightings of 2.7 % and 1.5 % at quarter-end. The portfolio manager believes both stocks are trading at compelling valuations. Meanwhile, TMX Group was eliminated from the portfolio for two key reasons: a less attractive valuation and potential operational execution risks. In January 2020, the company’s chief executive officer Lou Eccleston retired without a clear successor in place.

Listed below are the portfolio’s Top 10 holdings representing 45% of the total portfolio.

Top 10 Holdings for Equity Portfolio - 2019	
✓ Brookfield Asset Management	✓ Saputo
✓ Open Text	✓ Telus
✓ Gildan Activewear	✓ Royal Bank
✓ Alimentation Couche-Tard	✓ Rogers Communications
✓ Finning International	✓ Canadian National Railway Company

The company’s largest holding is its investment in Brookfield Asset Management with a 5.4 % weighting. The portfolio was nearly fully invested with just 2.6 % in cash and cash equivalents as of Dec. 31.

Looking to the year ahead, the portfolio manager stresses the need for portfolio diversification noting the potential for stock market volatility fuelled by geopolitical risks such as rising tensions in the Middle East and the upcoming U.S. presidential election. The manager believes potential market turbulence may provide attractive investment opportunities.

Your ONE Investment Team



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