

THE  
*One*

INVESTMENT

PROGRAM

3RD  
QUARTER  
REPORT

2017



An investment in your municipal future.





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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 of the Municipal Finance Officers' Association of Ontario (MFOA).

## PROGRAM OVERSIGHT

Program and portfolio review and oversight of the One Investment Program 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.

### PROGRAM ADVISORY COMMITTEE

- Michael Coffey, Tbaytel  
(a board of the City of Thunder Bay)
- Dan Cowin, CHUMS/MFOA  
(One Program staff)
- Judy Dezell, LAS/AMO  
(One Program staff)
- Vince Grillo, City of Windsor
- Ed Hankins, Region of York
- Mark Martin, City of Ottawa
- Ken Nix, Town of Whitby
- Steve Rettie, Town of Bracebridge
- Ed Stankiewicz, City of Greater Sudbury

### INVESTMENT ADVISORY COMMITTEE

- Dan Cowin, MFOA
- Judy Dezell, LAS
- Jennifer Dowty, CFA
- Heather Douglas, Lawyer
- Jim Clark, CPA, CA, CFA
- James Giles, CPA, CFA
- Christine Tessier, CFA
- Geri James, CFA

Additional oversight is provided by both the LAS and MFOA/CHUMS Board of Directors.



# 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 - 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 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

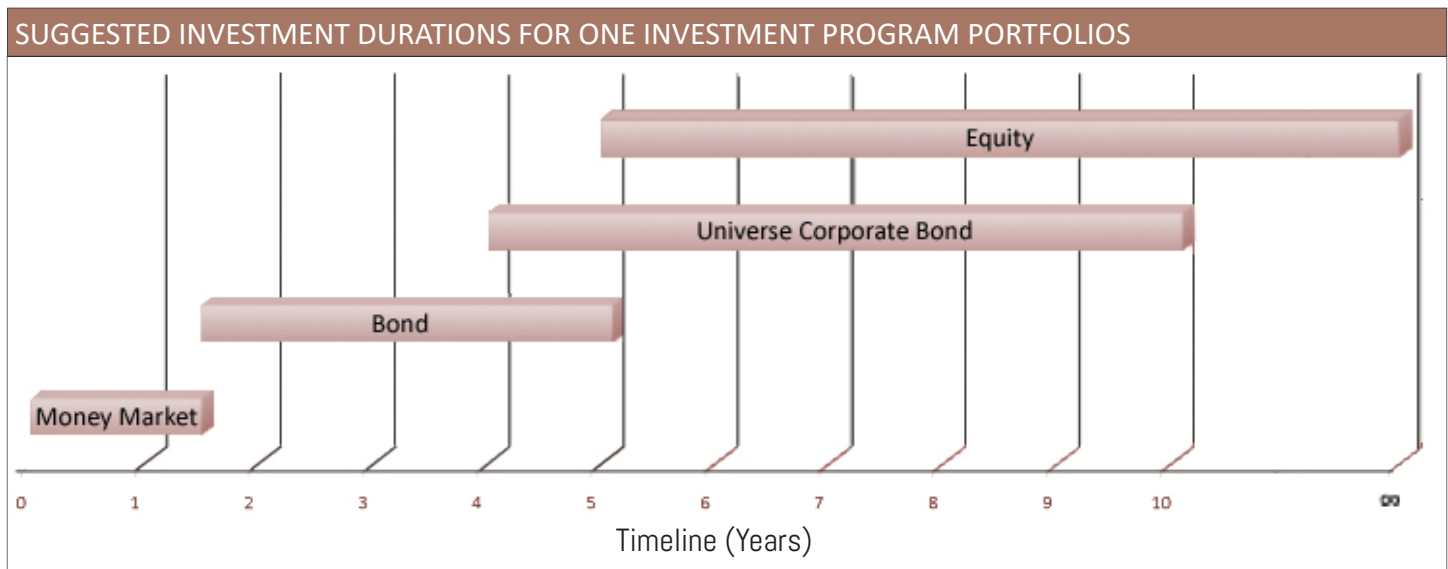
Portfolio Manager: MFS Investment Management Canada

Launched in 2008, the One UCB Portfolio allows municipalities to invest in highly rated corporate bonds, maturing in the five to 10 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 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.





## Q3 2017 ONE INVESTMENT PROGRAM HIGHLIGHTS

- In July, the Bank of Canada increased the bank rate for the first time in seven years and a second rate hike was announced in September. These market impacts are reflected in the returns of the fixed income bond products offerings.
- The One Investment Program balance as at September 30, 2017 was \$1.6 Billion (including HISA), which is \$613 Million higher than the September 30, 2016 balance.
- The One HISA, Universe Corporate Bond (UCB), and Equity portfolios added 20, 10, and five new participants, respectively, on a year-over-year basis ending Q3 2017.
- Over the past year, 15 new municipalities and associated investors started using the One Program.
- The total One Program portfolio balance experienced 62% year-over-year growth as at September 30th, due to the competitive rate offered in the High Interest Savings Account (HISA).
- The One High Interest Savings Account (HISA) balance increased 361% year-over-year and delivered an annualized one-year return of 1.22% on all municipal deposits at September 30, 2017.
- The One Universe Corporate Bond portfolio outperformed GIC returns on a three-year and five-year basis as at quarter-end.
- The Equity Portfolio (net of fees) outperformed the TSX Composite on an annualized basis for the five- year and three-year periods ending September 30, 2017.
- The Universe Corporate Bond annualized return since inception was 4.15% as at September 30, 2017.
- LAS and MFOA delivered three investment training workshops in September, and will deliver four more in October. The workshop locations included:
  - September 7th – Stratford, ON
  - September 15th - Barrie, ON
  - September 29th – Milton, ON
  - October 13th – Brockville, ON
  - October 18th – Sudbury, ON
  - October 23rd – Port Hope, ON
  - October 24th – Thunder Bay, ON

## Q3 2017 ANNUALIZED PORTFOLIO RETURNS

|  | 6 month | 1 year | 2 year | 3 year | 5 year |
|--|---------|--------|--------|--------|--------|
| <b>High Interest Savings Account (HISA)</b><br><i>(1+ month investment)</i>    | 1.31%   | 1.22%  | -      | -      | -      |
| <b>Money Market Portfolio*</b><br><i>(1 -18 month investment)</i>              | 0.41%   | 0.47%  | -      | -      | -      |
| <b>Bond Portfolio*</b><br><i>(18 - 36 month investment)</i>                    |         | -1.01% | 0.37%  | 1.05%  | 1.30%  |
| <b>Universe Corporate Bond Portfolio*</b><br><i>(4+ year investment)</i>       | -       | -3.21% | 1.33%  | 2.43%  | 2.43%  |
| <b>Canadian Equity Portfolio**</b><br><i>(5+ year Investment)</i>              | -       | 8.54%  | 10.01% | 8.14%  | 12.65% |
| Comparator Investment Returns  |         |        |        |        |        |
| <b>Bank Prime less 1.75%</b><br><i>(Source: Bank of Canada)</i>                | 1.12%   | 1.03%  | -      | -      | -      |
| <b>Guaranteed Investment Certificate (GIC)</b> <i>(Source: Bank of Canada)</i> | -       | 1.60%  | -      | 1.35%  | 1.60%  |
| <b>Canada Bond</b><br><i>(Source: Bank of Canada)</i>                          | -       | -      | 1.58%  | 1.64%  | 1.80%  |
| <b>TSX Composite Index</b><br><i>(unmanaged without fees)</i>                  | -       | 9.18%  | 11.70% | 4.54%  | 8.06%  |

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

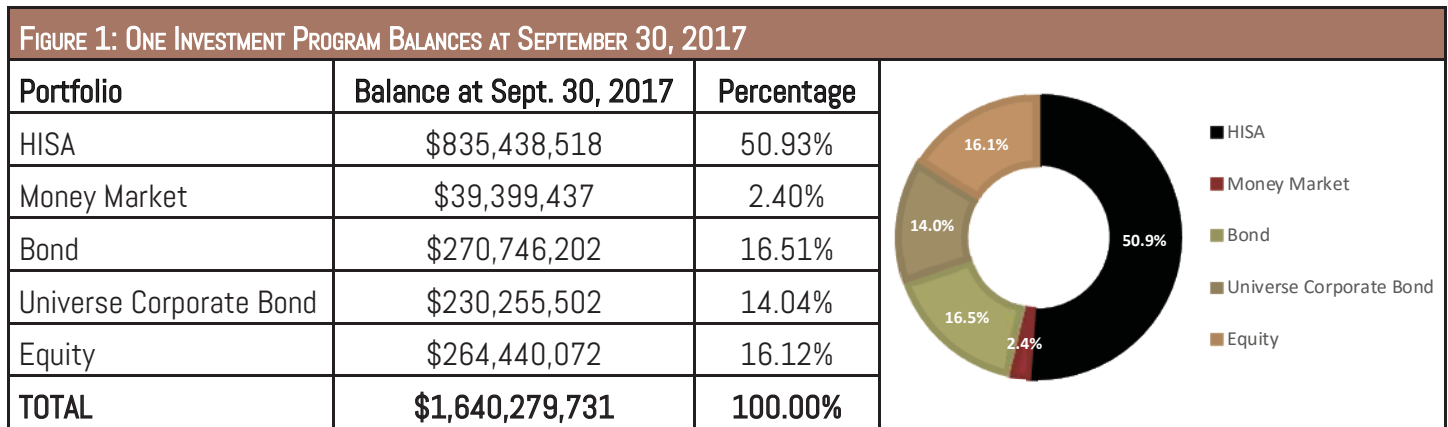
\*\* Annualized rate of return since Jan 2007 portfolio inception is 7.05%



# PORTFOLIO BALANCES AND PARTICIPATION

The total program balance at the end of Q3 2017 surpassed the \$1.6-billion mark for the first time in One Investment Program history. Portfolio balances along with the corresponding percentages of the total portfolio are provided in Figure 1.

As at September 30, 2017, the total number of One Investment Program investors stood at 145, up 11.5 % from 130 participants at the end of Q3 2016. This increase was driven by new investors in the HISA offering, which climbed to 54 participants from 34.



The HISA has been the biggest success of the One Investment Program. In less than 24 months, the HISA offering has grown to a balance of \$835 Million or 51% of the total One Program investment, well above its balance of \$29.2 Million at the end of September 2015. Over the past year, the HISA has grown 361% to its current investment balance of \$835 Million. The strong demand for the HISA offering is a reflection of the attractive interest rate offering combined with the benefit of full liquidity.

There has been a shift in the number of investors in the longer term investment product offerings within the One program, which could be the result of Municipalities matching the investments to their respective Asset Management plans.

The Bond Portfolio represents 16.5% of total investment, and the Money Market Portfolio represents 2.4%.

On a year-over-year basis, the longer-term Corporate Bond portfolio increased by 0.1%, and the Equity portfolio decreased by 2.8%. Together these portfolios now represent 30% of total investment balances in the One Investment Program. The decreases are attributed to the rise in Bank of Canada interest rates which have a direct impact on Bond Pricing levels. Short-term return rates are impacted, but longer term rates are still holding.



## PORTFOLIO BALANCES AND PARTICIPATION

Figure 2 illustrates the One Investment Program profile across the five existing portfolios as at September 30, 2017, and Figure 3 illustrates the profile for the same period in 2016. While the number of participants in the Money Market decreased by 2 participants, the HISA, Universe Corporate Bond (UCB), and Equity portfolios added 20, 10 and 5 new participants, respectively. The additional 35 participants in these three portfolios represent a year-over-year participation increase of 12.2%.

| FIGURE 2: ONE INVESTMENT PROGRAM PROFILE AT SEPTEMBER 30, 2017 (BALANCES IN \$ MILLIONS) |              |         |                         |         |         |
|--|--------------|---------|-------------------------|---------|---------|
|  | Money Market | Bond    | Universe Corporate Bond | Equity  | HISA    |
| Participants   | 55           | 88      | 56                      | 50      | 54      |
| Accounts   | 108          | 206     | 110                     | 99      | 40      |
| Average Balance/<br>Participant  | \$0.8        | \$3.3   | \$5.0                   | \$5.7   | \$5.3   |
| Balance  | \$38.9       | \$281.3 | \$238.6                 | \$228.2 | \$835.4 |

| FIGURE 3: ONE INVESTMENT PROGRAM PROFILE AT SEPTEMBER 30, 2016 (BALANCES IN \$ MILLIONS) |              |         |                         |         |         |
|--|--------------|---------|-------------------------|---------|---------|
|  | Money Market | Bond    | Universe Corporate Bond | Equity  | HISA    |
| Participants   | 57           | 88      | 46                      | 45      | 34      |
| Accounts   | 108          | 206     | 110                     | 99      | 40      |
| Average Balance/<br>Participant  | \$0.8        | \$3.3   | \$5.0                   | \$5.7   | \$5.3   |
| Balance  | \$45.5       | \$293.8 | \$230.0                 | \$258.3 | \$181.2 |





## PROGRAM PARTICIPATION BY DEPOSIT

Figure 4 below shows One Investment Program deposits across a variety of investment ranges at Q3 2017 end, while Figure 5 shows deposits for the same period ending Q3 2016. All accounts for each One Program investor across the five portfolios have been summed for the purposes of this illustration. Total participating investors in the time period have increased by 15. The total deposit for investors in all deposit categories except the \$100k to \$500k range have increased year-over-year due to new investment in the High Interest Savings Account (HISA).

| FIGURE 4: ONE INVESTMENT PROGRAM TOTAL INVESTMENT BY PARTICIPANT DEPOSIT (AT SEPTEMBER 30, 2017) |                        |                        |                       |                    |
|--|------------------------|------------------------|-----------------------|--------------------|
| Investment   | Municipal Participants | Total Deposit in Range | Avg. Deposit in Range | % of Total Deposit |
| Less than \$100K   | 10                     | \$350,326              | \$35,032.64           | 0.02%              |
| \$100K to \$500K   | 19                     | \$5,048,870            | \$265,730.03          | 0.31%              |
| \$500K to \$1M   | 15                     | \$11,095,422           | \$739,694.80          | 0.68%              |
| \$1M to \$5M   | 57                     | \$146,808,188          | \$2,575,582.25        | 8.95%              |
| GREATER THAN \$5M  | 44                     | \$1,477,472,276        | \$33,578,915.38       | 90.05%             |
| <b>TOTALS</b>  | <b>145</b>             | <b>\$1,640,775,082</b> |                       | <b>100.00%</b>     |

| FIGURE 5: ONE INVESTMENT PROGRAM TOTAL INVESTMENT BY PARTICIPANT DEPOSIT (AT SEPTEMBER 30, 2016) |                        |                        |                       |                    |
|--|------------------------|------------------------|-----------------------|--------------------|
| Investment   | Municipal Participants | Total Deposit in Range | Avg. Deposit in Range | % of Total Deposit |
| Less than \$100K   | 8                      | \$258,798              | \$32,350              | 0.03%              |
| \$100K to \$500K   | 19                     | \$5,233,470            | \$275,446             | 0.52%              |
| \$500K to \$1M   | 12                     | \$8,499,779            | \$708,315             | 0.84%              |
| \$1M to \$5M   | 55                     | \$127,709,928          | \$2,321,999           | 12.66%             |
| GREATER THAN \$5M  | 36                     | \$867,189,667          | \$24,088,591          | 85.95%             |
| <b>TOTALS</b>  | <b>130</b>             | <b>\$1,009,043,320</b> |                       | <b>100%</b>        |



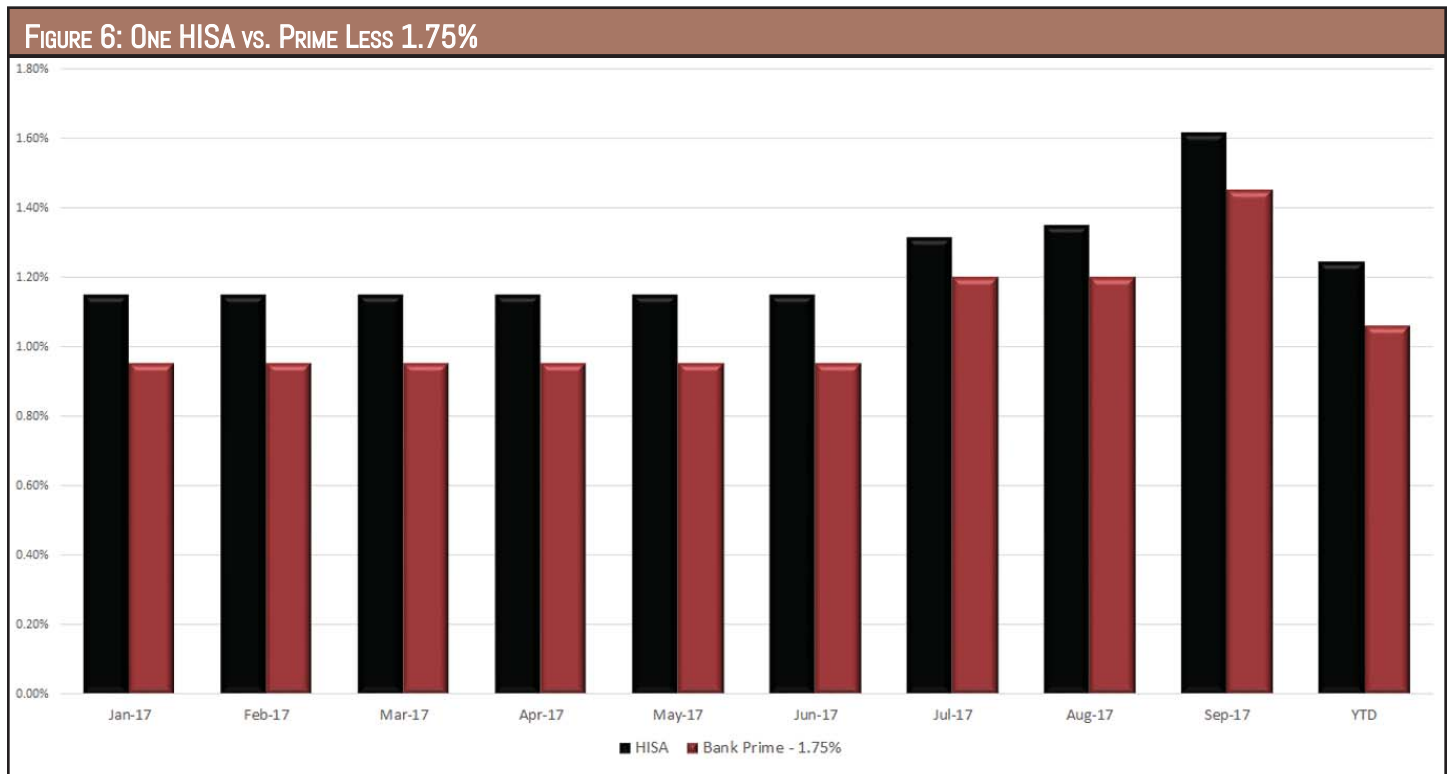
## PERFORMANCE: HIGH INTEREST SAVINGS ACCOUNT (HISA)

Participation in the One Investment Program HISA product has grown in 2017, resulting in the HISA reaching its highest interest rate tier of 1.615% in September 2017. This was a blended rate to account for the rise in the Prime rate mid September. HISA grew 361% year-over-year at September 30th, with a current investment balance of \$835M.

The One Investment Program HISA is offered through CIBC, is fully liquid, and provides investors a guaranteed variable rate-of-return based on the Prime Rate. In September 2017, LAS/CHUMS were successful in negotiating to remove the tiers for the HISA account, therefore any balance invested in the HISA will earn the same rate. The rate is based on Prime less a discount of 1.535%.

Figure 6 shows that the One HISA Portfolio has outperformed the Bank Prime less 1.75% comparator in each month of 2017. At the end of Q3 2017, the One HISA average YTD return of 1.24% was 0.18% higher than the Bank Prime less 1.75% return.

The increased number of participants in the HISA of 20 new accounts indicated that the interest rate combined with the fully liquidity option make the HISA a viable investment option for short-term funds.

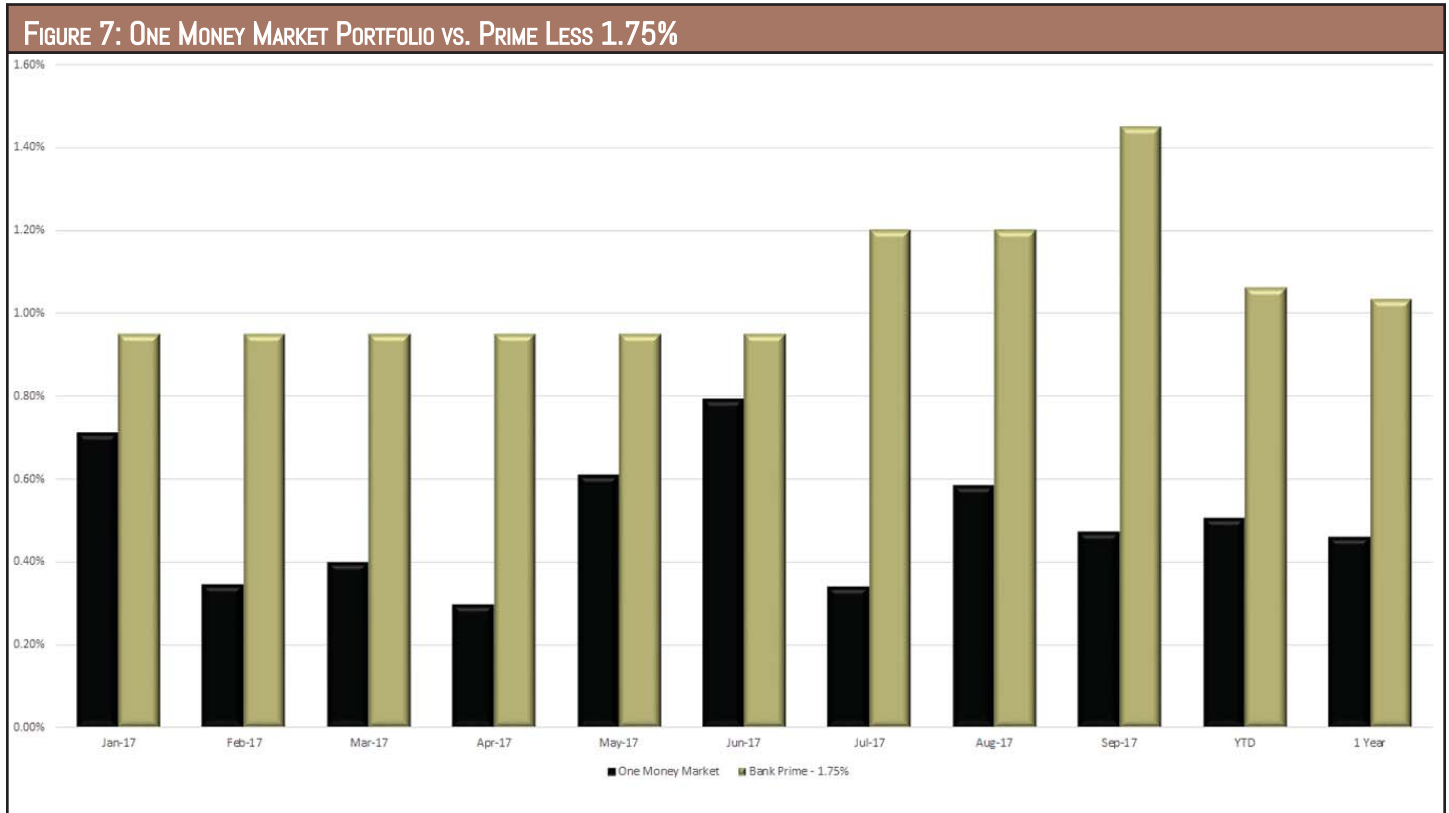




## PORTFOLIO PERFORMANCE: MONEY MARKET

Figure 7 shows that the One Money Market Portfolio has underperformed the Bank Prime less 1.75% comparator in each month of 2017. At the end of Q3 2017, the One Money Market nominal YTD return of 0.50% was 0.45% lower than the Bank Prime less 1.75% return.

More and more participants are choosing the HISA option as a short-term investment option.



### MONEY MARKET PORTFOLIO OUTLOOK & POSITIONING

MFS's core economic views have not changed this quarter. MFS continues to expect moderate non-recessionary global growth with low inflation and on-going headwinds from excess debt. MFS does not expect US fiscal stimulus and tax reform to meet current optimistic expectations in terms of timing and impact on growth. MFS also believes trade rhetoric is a potential headwind, particularly to Canada where US exports are roughly 25% of Canadian GDP. Early in the quarter, the Bank of Canada surprisingly began to communicate a more hawkish stance, and twice raised rates.

*-MFS Investment Management Canada  
Q3 2017 Report*



## PORTFOLIO PERFORMANCE: BOND

As illustrated in Figure 8 below, average 2017 one-year One Bond Portfolio returns for month-ends through Q3 were 1.04%, which is lower than the returns for similar period in 2016 and 2015. The Q3 2017 one-year Bond Portfolio returns were 1.4% compared to 2.7% for Q3 2016.

The two increases to the Bank of Canada prime rate in July and September affected short-term bond returns. Duration is a measure of a bond portfolio's sensitivity to changes in interest rates. A 1% change in rates will result in a change in market value of a bond portfolio by the magnitude of the duration in the opposite direction.

Interest rates, bond yields (prices) and inflation expectations have a correlation to one another. Movements in short-term interest rates, as dictated by a nation's central bank, will affect different bonds with different terms to maturity differently, depending on the market's expectations of future levels of inflation.

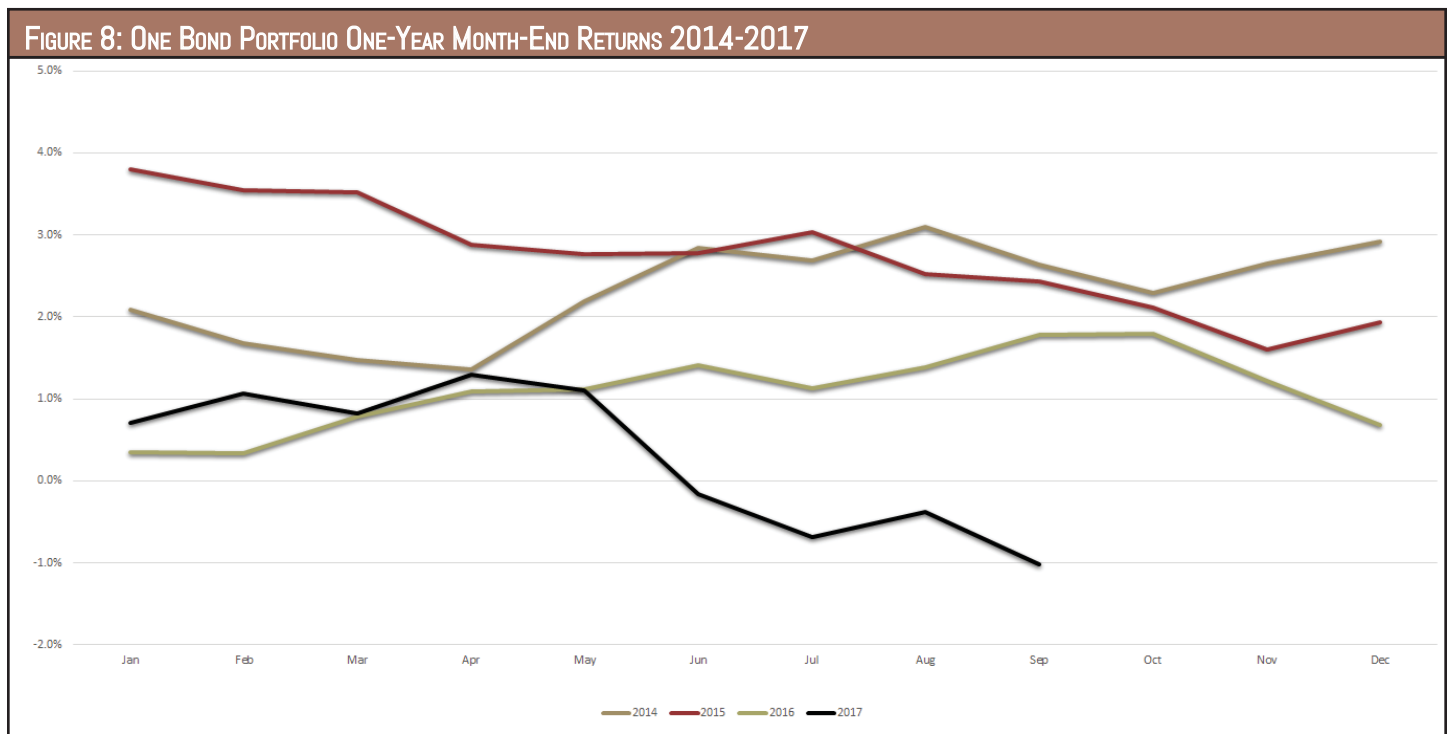
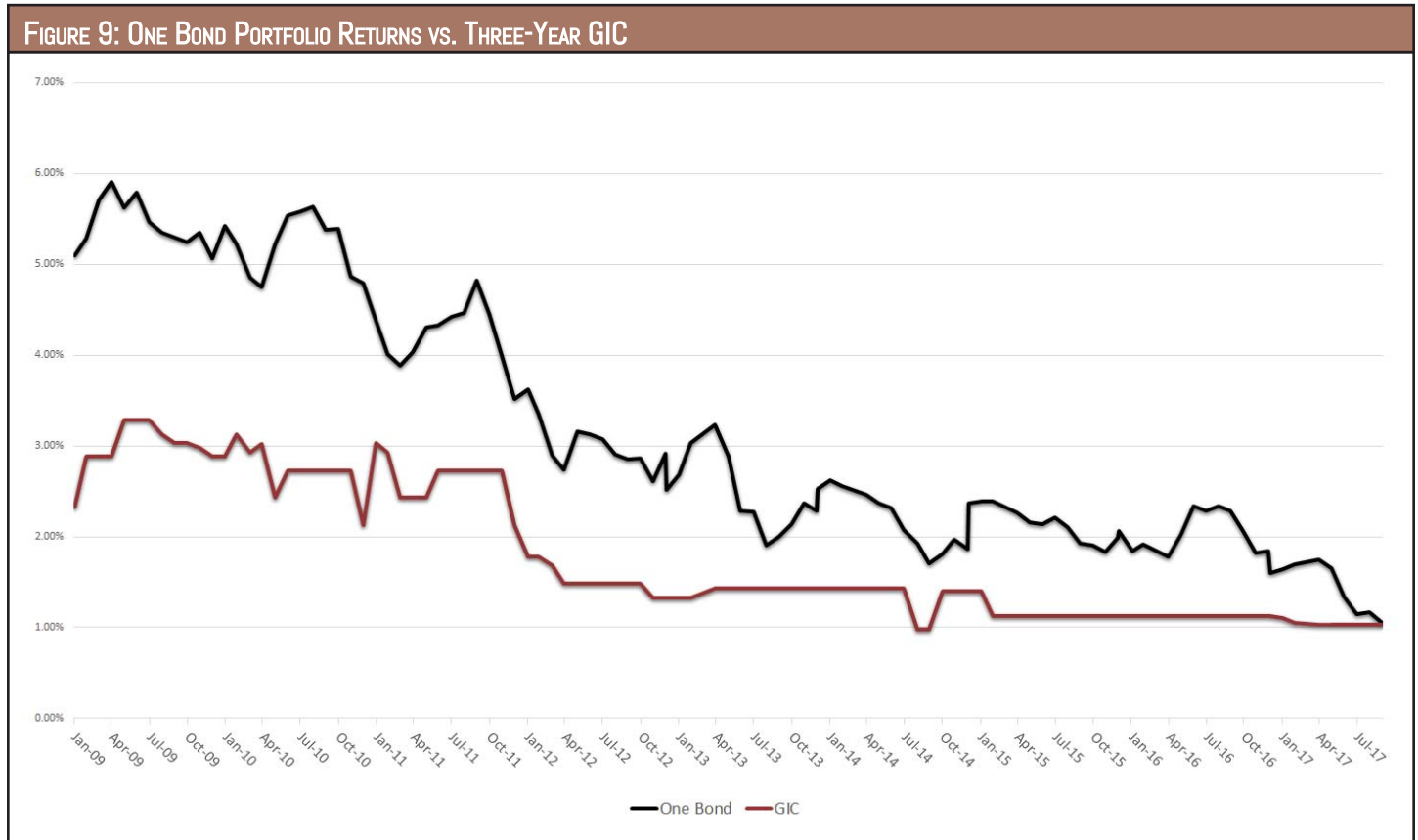


Figure 9 compares One Bond Portfolio three-year returns to the average three-year GIC returns (sourced from the Bank of Canada) since January of 2009. On average, the One Bond Portfolio has outperformed the GIC option by 1.38% and has never underperformed.



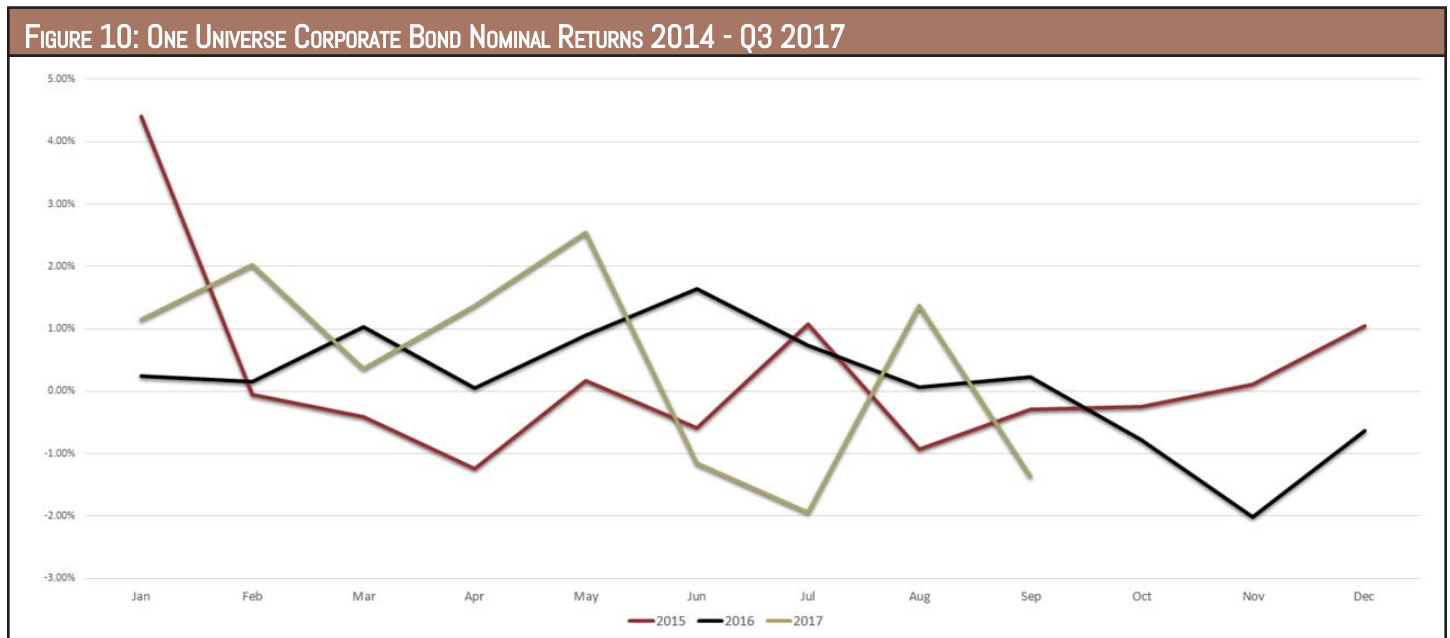
### BOND PORTFOLIO OUTLOOK & POSITIONING

We have not made any material changes to our investment thesis. We continue to believe that valuations in the Canadian fixed income market are expensive, particularly in the 3-5 year part of the yield curve where the spread versus the Bank of Canada’s overnight rate offers virtually no yield pick-up for the additional duration risk, as well as the very long term end of the yield curve which is vulnerable to spillovers from any changes in global central bank purchases. As a result, we remain below benchmark duration.

*-MFS Investment Management Canada  
Q3 2017 Report*

Figure 10 illustrates the 2015 Q3, 2016 Q3 and 2017 Q3 monthly, nominal returns for the Universe Corporate Bond (UCB) portfolio. One-year UCB average returns for all months ending in 2017 were 0.03%, compared to 0.56% in 2016 and 1.05% for the GIC option. Bond prices were impacted by the Bank of Canada's increase in Prime interest rates as depicted below in the return declines in July and September 2017.

Changes in interest rates affect bond prices by influencing the discount rate. Inflation produces higher interest rates, which in turn requires a higher discount rate, thereby decreasing a bond's price. Bonds with a longer maturity see a more drastic lowering in price in this event because, additionally, these bonds face inflation and interest rate risks over a longer period of time, increasing the discount rate needed to value the future cash flows. Meanwhile, falling interest rates cause bond yields to also fall, thereby increasing a bond's price.



## BOND PORTFOLIO OUTLOOK & POSITIONING

The Canadian bond market returned -1.84% in the third quarter, reducing the year-to-date return to 0.48% after two quarters of positive returns. Our core economic views have not changed this quarter. We continue to expect moderate non-recessionary global growth with low inflation and on-going headwinds from excess debt.

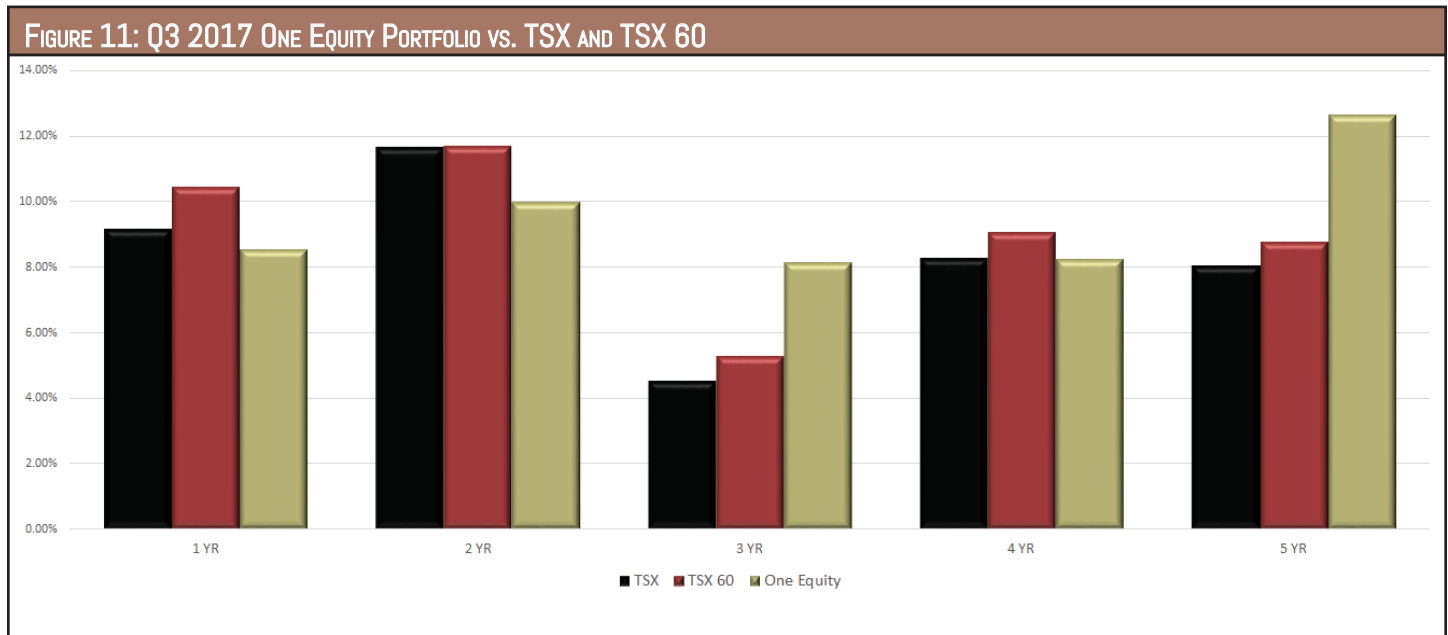
We continue to expect credit to outperform over the course of the cycle, though many credits are looking fully valued. While we don't anticipate a recession or a major default cycle, which would lead to a blow-out in spreads, it is difficult to see a material spread narrowing from current levels. As a result we trimmed the provincial allocation given outperformance as the credit cycle has matured with proceeds deployed into federals, financials and real estate. We remain focused on bonds where there is a margin of safety and on issuers with strong cross-cycle fundamentals.

*-MFS Investment Management Canada  
Q3 2017 Report*



## PORTFOLIO PERFORMANCE: EQUITY

Figure 11 illustrates One Equity returns compared to TSX and TSX 60 indices returns for the previous one to five year periods ending September 30, 2017. The One Equity product has outperformed the index returns for durations of 3 and 5 years. The One Equity portfolio has outperformed the TSX Composite and TSX 60 Indices by 4.59% and 3.86%, respectively on an annualized basis net of fees for the five-year period ending September 30, 2017. The five-year net annualized return at September 30, 2017 was 12.65%.



The ONE Equity Portfolio has limitation due to the prescribed list of products by O. Reg 438/97, therefore the comparison to the TSX and the TSX60 is not provide a true comparative weighting.

The strategy of the One Equity Portfolio is a Growth-at-a-Reasonable Price (GARP) style that seeks companies with above average growth and quality. The portfolio adds value primarily through bottom-up stock selection while adhering to sector weighting limits. We look for strong business franchises exhibiting long-term growth potential.

### PORTFOLIO OUTLOOK & POSITIONING

Canadian equity's best performing sector was Energy, driven by the run-up in oil prices. Financials and Consumer Discretionary also performed well - driven by banks, insurance and autos. On the negative side, the worst performing sectors were Health Care, Consumer Staples, and interest-sensitives such as Utilities and Real Estate. Utilities and Real Estate understandably came under pressure as 10-year bond yields spiked 34 basis points to end the quarter at 2.10%.

The global economy is currently experiencing a synchronous global expansion, and central banks have taken this opportunity to begin removing some of the extreme stimulus measures that have been in place since the crisis.

*-Guardian Capital LP  
Q3 2017 Report*



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