TO:	GENERAL COMMITTEE
SUBJECT:	INVESTMENT POLICY UPDATE
WARD:	ALL
PREPARED BY AND KEY CONTACT:	M. JERMEY, DEPUTY TREASURER (x4407)
SUBMITTED BY:	C. MILLAR, DIRECTOR OF FINANCE AND TREASURER CM
GENERAL MANAGER APPROVAL:	P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	C. LADD, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the previous Investment Policy adopted under by-law 2003-197 be repealed.

2. That the Investment Policy attached as Appendix A to FIN016-15, which includes adding the One Investment Program as an allowable investment option, be adopted and the Corporation's Financial Policies Framework be updated accordingly.

3. That the Director of Finance and Treasurer be granted authority to enter into an appropriate agreement, to the satisfaction of the Director of Legal services, with The One Investment Program to facilitate investment in such securities as permitted under the City's Investment Policy.

PURPOSE & BACKGROUND

Report Overview

4. The purpose of this staff report is to seek Council's endorsement of an updated City of Barrie Investment Policy. Provincial regulations require that the City adopt a statement of the City's investment policies and goals before engaging in investment activities. The proposed Investment policy objectives apply broadly to all City investments; however, the proposed portfolio weighting applies to investment holdings, and does include the City's investment in any Municipal Corporations such as Barrie Hydro Holdings Inc.

5. The purpose of an Investment Policy is to ensure the prudent management of the Corporation's surplus funds and investment portfolio.

6. Section 418 of the *Municipal Act, 2001*, states that municipalities may invest in "prescribed" securities. The prescribed securities and associated rules are set out in O. Reg. 438/97, as amended.

ANALYSIS

7. The City's previous investment policy was endorsed by Council in 2003. It has not been updated since that time.

Investment Policy Statement & Objectives

8. The Investment policies and goals proposed in this policy are in compliance with the *Municipal Act, 2001* (as amended) and O. Reg. 438/97 (as amended).

The following table highlights both the current and proposed policy statement and objectives for the City's Investment policy:

POLICY STATEMENT		
Current (By-law 2003-197)	**Proposed**	**Comment**
It is the policy of the City of Barrie to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all legislation governing the investment of public funds.	The City of Barrie strives for the optimum utilization of its cash resources within statutory limitations and the need to protect and preserve capital with near risk free investments, while maintaining solvency and liquidity to meet on-going financial requirements.	Introducing the concepts of "optimum utilization" and "near risk free investments", complements the objective of earning a competitive rate of return, by broadening the City's portfolio mix to allow for investments in Municipal Investment Pools such as The One Investment Program.
PRIMARY INVESTMENT OBJECTIVES (in order of Priority) **Current (By-law 2003-197) and Proposed**		
1) *Adherence to statutory requirements* **2)** *Preserving of Capital* **3)** *Maintaining liquidity* **4)** *Earning a competitive rate of return:* the investment portfolio shall be designed to attain the maximum rate of return while meeting the above three objectives.		

9. To achieve higher returns on the City's investment portfolio, the current policy requires a broadening of the investment portfolio mix combined with the need to actively manage the portfolio. Broadening the City's portfolio mix introduces additional near risk free investment options compared to the City's current investment policy which seeks maximum security.

Investment Portfolio Parameters

10. As described in paragraph 6 of this report, O. Reg. 438/97 provides a detailed list of "prescribed" securities that Municipalities are currently permitted to invest and hold. This includes rules associated with the credit ratings of such prescribed investments. The proposed investment policy reflects this legislation and is described in a table format in Schedule 1 of Appendix A, Eligible Investments and Related Conditions.

11. Schedule 2 of Appendix A, Portfolio Mix and Term Limits, identifies the proposed weightings for investment holdings and term limits. Highlights of the proposed portfolio mix include the following:

a) Securities issued or guaranteed by the Government of Canada or a province or territory of Canada shall comprise not less than 30 per cent of the total investment portfolio (not including cash bank balances) at all times, and may comprise 100 per cent if prudence so dictates. The following maximum limits apply:
   i) a province other than Ontario – 20 per cent each;
   ii) a Canadian territory – 10 per cent each;
   iii) countries other than Canada – 5 per cent in total;
   iv) Infrastructure Ontario – 5 per cent;
   v) British Columbia Municipal Finance Authority – 5 per cent; and,
   vi) International Bank for Reconstruction and Development – 5 per cent.

b) Aggregate investments in municipal securities including conservation authorities, school boards, and other local boards cannot exceed 35 per cent of the total investment portfolio. The following maximum limits apply:
   i) municipalities, school boards and local boards in Ontario – 10 per cent per municipality or board;
   ii) other municipalities and school boards in Canada (outside of Ontario) – 5 per cent per municipality or school board;
   iii) Ontario Universities – 2 per cent;
   iv) board of a public hospital – 2 per cent;
   v) non-profit housing corporation – 2 per cent; and,
   vi) local housing corporation – 2 per cent.

c) Aggregate investment in financial institutions shall not exceed 70 per cent (not including cash bank balances) of the total investment portfolio. The aggregate holdings in financial institutions other than the banks listed in Schedule 1 to the *Bank Act* shall not exceed 40 per cent of the total investment portfolio. The following maximum limits apply to the individual institution:
   i) banks listed in Schedule I to the *Bank Act* – 20 per cent;
   ii) banks listed in Schedule II to the *Bank Act* – 10 per cent;
   iii) trust and loan companies – 2 per cent; and,
   iv) credit unions – 2 per cent.

d) Non-Financial Institution security investments may not exceed the following maximum limits of the portfolio:
   i) asset-backed securities – 20 per cent (each individual asset-backed trust – 5 per cent);
   ii) corporate bonds, debentures or promissory notes not included in the ONE Universe Corporate Bond Fund – 5 per cent; and,
   iii) negotiable promissory notes or commercial paper – 5 per cent.

e) Aggregate investment in eligible municipal investment pools shall not exceed 25 per cent of the total investment portfolio. Eligible municipal investment pools and the maximum limits for each are as follows:
   i) ONE Money Market Fund – 20 per cent;
   ii) ONE Bond Fund – 20 per cent;
   iii) ONE Universe Corporate Bond fund – 5 per cent; and,
   iv) ONE Equity Fund – 5 per cent.

Under O.Reg 438/97, the One Equity Fund is the only opportunity for Municipalities to invest in equities other than shares in a Municipal Corporation such as Barrie Hydro Holdings Inc.

12. The proposed portfolio mix aims for both diversification and near risk-free investments to ensure security of capital. Included in the proposed portfolio mix, are some conditions that are more restrictive than explicitly required by provincial regulation. These conditions generally take the form of restrictions for minimum credit rating; size and term limits and sector exposure. The proposed portfolio mix has been expanded over the current investment policy to include Municipal Investment Pools, such as the One Investment Program, as described in Appendix B.

13. In assessing the appropriate Portfolio mix for the City, Staff considered recently updated policies currently in force at other municipalities that maintain active investment programs, including the City of Mississauga and Wellington County.

<u>Return on Investments</u>

14. The following table shows the estimated yields of Ontario municipal investments since 2009, against the City of Barrie's target return and actual performance:

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Municipal Sector Estimated Yield*	5.8%	5.9%	3.7%	3.2%	2.9%	N/A
City of Barrie Target Yield**	1.7%	1.9%	2.3%	2.3%	2.4%	2.4%
City of Barrie Actual Yield***	1.5%	1.8%	1.1%	1.5%	1.4%	1.4%
One Bond Fund****	-	2.9%	2.0%	1.9%	2.4%	2.6%
One Equity Fund****	-	19.3%	21.2%	18.9%	11.8%	11.8%

* Source – Municipal Affairs and Housing – excludes investments in Municipal Corporations.

** Per the City of Barrie's Financial Policy Framework, targeted yield is Bank rate plus 1 per cent.

***Excludes interest earned from PowerStream Promissory note and internal interest charged against water and wastewater capital projects.

****Source: One Investment Program Returns (as of December 31 2014) https://www.las.on.ca/Services/Investments.aspx (see attached Appendix B).

15. Total net earnings from combined investments are distributed appropriately among the City's operating funds, reserve and reserve funds, and when appropriate, any sinking funds.

16. In the table above, the municipal sector estimated yield does not include any investments in Municipal Corporations. Similarly, the City of Barrie returns above do not include interest earned from the $20 Million promissory note invested with PowerStream. Instead, the returns for the City of Barrie reflect available cash and equivalents or working capital on hand.

17. Over the five year period ending in 2013, the City's actual investment yield was below the estimated Ontario Municipal sector by an average of 2.8 per cent. Over the same period, the City was below its own target return by an average 0.6 per cent.

18. The City's underperformance relative to its municipal peers is a result of a number of factors, which include no designated staff resource available to actively manage daily and short term cash balances. An active investment approach requires frequent monitoring and trading of securities, while managing daily internal cash flow needs. The City's return on investments over the last five years is from interest earned on its bank accounts.

19. Another contributing factor to the City's lower returns relative to municipal peers is the amount of funds available to invest. The table below compares Investment holdings for 2013 for some of the City of Barrie's municipal peers:

Investment Holdings*	**2013 ($Millions)**
London	$204
Burlington	$185
Guelph	$174
Kingston	$110
Barrie (average bank balance)	$104

*Source: Ministry of Municipal Affairs

The City of Barrie's bank balance of $104 million in 2013 represents all the City's reserves and reserve funds plus operating working capital. The reserve funds include development charges, which are obligatory reserves and have restricted use. The City's capital reserves are close to being fully committed in any given year and therefore investments must be very liquid to ensure cash can be accessed quickly. As a result, the City's investment time horizon is generally short term with a period of one to three years. A short term time horizon limits the return on investment that other Municipalities can generate from healthier reserve fund balances. For example, the One Equity Fund as noted in paragraph 14 above generated a return of 11.8 per cent in 2013. However, the One Equity fund has a long term investment horizon, to reduce the greater risk associated with equity investments.

20. Appendix B outlines the structure and benefits of the One Investment Program, including an attached copy of the programs 2014 Report.

<u>Policy Implementation</u>

21. An active investment program as described in paragraph 18, combined with a broadened portfolio mix, has the potential to enhance non-tax revenue for the City. Over the coming weeks, during the 2016 Business Plan and Budget development process, EMT will be engaged in discussions on how the Finance Work Plan can deliver an active investment program.

22. First steps in implementing the policy include working within the City's purchasing by-law to pre-qualify financial institutions, brokers/dealers, and intermediaries. As well, set up appropriate arrangements with The One Investment Program to permit investments in their funds.

23. The proposed policy attached in Appendix A, includes descriptions on Authority, Standard of Care, Controls, Eligible Investments, Investment Parameters and Risk Management, as well as Reporting. The policy does require the City Treasurer to submit an investment report at least annually to Council. The purpose of the report will allow Council to determine whether investment activities conform to the City's Investment Policy.

ENVIRONMENTAL MATTERS

24. There are no environmental matters related to the recommendations.

ALTERNATIVES

25. The following alternative is available for consideration by General Committee:

Alternative #1 General Committee could further limit the eligible investments listed in Appendix A.

This alternative is not recommended as the eligible investments prescribed by O. Reg 438/97 are generally designed for preservation of Capital and lower risk. In order to strive for optimum utilization of cash resources, a broader investment portfolio as permitted under legislation is required.

FINANCIAL

26. There are no direct financial implications for the Corporation resulting from the proposed recommendations.

LINKAGE TO 2014-2018 STRATEGIC PLAN

27. The recommendations included in this Staff Report support the following goal identified in the 2014-2018 Strategic Plan:

☒ Responsible Spending

28. The effective management of the City's investment portfolio is expected to generate additional non-tax revenue.

APPENDIX "A"

INVESTMENT POLICY

1. POLICY STATEMENT

The City of Barrie strives for the optimum utilization of its cash resources within statutory limitations and the need to protect and preserve capital with near risk free investments, while maintaining solvency and liquidity to meet on-going financial requirements.

2. PURPOSE

This policy will ensure the prudent management of the Corporation's surplus funds and investment portfolio.

3. SCOPE

This investment policy applies to all investments of Revenue Funds, Reserves and Reserve Funds, and Trust Funds of the City of Barrie. The proposed portfolio weightings are intended for investment holdings other than cash within a bank account, and do not include the City's investment in any Municipal Corporations such as Barrie Hydro Holdings Inc.

4. DEFINITIONS

"DBRS" means Dominion Bond Rating Service Limited

"Fitch" means Fitch Ratings

"Moody's" means Moody's Investors Services Inc.

"Non-Obligatory Reserve(s)" means an appropriate from net revenue at the discretion of Council, after the provision of all known expenditures. Reserves have no reference to any specific asset and do not require the physical segregation of money or assets. Example – Tax Capital Reserve.

"Obligatory Reserve Fund(s)" means a fund that is segregated and restricted to meet the purpose of the specific Reserve Fund. Example – Development Charges Reserve Fund.

"S&P" means Standard and Poor's.

"Sinking Fund(s)" means a segregated pool of funds for which an estimated amount in each year, with interest compounded annually, will be sufficient to meet the repay the principal of the stated financial liability at maturity.

"Short Term Securities" means a security that matures in 12 months or less from the date of investment.

"Long Term Securities" means a security that matures more than 12 months from the date of investment.

5. OBJECTIVES

The primary objectives, in order of priority, of the City's investment activities shall be:

APPENDIX "A" (Continued)

INVESTMENT POLICY

Adherence to statutory requirements: All investment activities shall be governed by the *Municipal Act, 2001* as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

Preservation of capital: Limit investments to safe types of securities; pre-qualify the financial institutions, broker/dealers, intermediaries, and advisers with which the City does business subject to the City Treasurer's approval; diversifying the portfolio; structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements; investing operating funds primarily in shorter-term securities or approved investment pools; and diversifying longer-term holdings to match term exposures to requirements underlying the sinking fund and reserve funds and to mitigate effects of interest rate volatility.

Maintaining liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements which might be reasonably anticipated.

Earning a competitive rate of return: the investment portfolio shall be designed to attain the maximum rate of return while meeting the above three objectives

6. AUTHORITY

The City's investment practices comply with the provisions of the *Municipal Act, 2001,* as amended, specifically Part XIII – Debt and Investment, and Ontario Regulation 438/97, last amended by O. Reg. 373/11.

Investments made by the City are further restricted by the limitations and terms outlined in this policy.

The City Treasurer and Deputy Treasurer, or the Treasurer's designate, is authorized to:

i) Invest surplus City funds in accordance with the Municipal Act, 2001 (as amended), O. Reg. 438/97 (as amended), and this policy;

ii) Per the City's Purchasing By-law, through pre-qualification, enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.

Execute and sign documents on behalf of the Corporation and performs all other related acts in the day-to-day operation of the investment and cash management program.

7. STANDARD OF CARE

Prudence: Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probably safety of their capital as well as the probably income to be derived. Investment officers acting in accordance with this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this Policy

APPENDIX "A" (Continued)

INVESTMENT POLICY

Ethics and Conflicts of Interest: In conjunction with the Corporate Code of Ethics, officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

8. **CONTROLS**

The Treasurer is responsible for the development and maintenance of suitable procedures for the effective control and management of the investment function and reasonable assurance that the City's investments are properly managed and adequately protected. Investment procedures include the following requirements:

i) The Treasurer designates, in writing, all persons authorized to enter into investment transactions on behalf of the City;

ii) All investments are confirmed by signature of the individual making the investment and ratified by signature of the Treasurer;

iii) All cash management transactions are recorded and interest earnings distributed to the various funds, as the case may be, in accordance with City practices and Generally Accepted Accounting Principles for Ontario municipalities;

iv) Provision is made to obtain adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets;

v) If an investment made by the City is, in the City Treasurer's opinion, not consistent with the investment policies, goals, and objectives adopted by the City, the City Treasurer shall report the inconsistency to Council within 30 days of becoming aware of it;

vi) Period reviews are to be carried out to determine whether or not the investment guidelines provided by this policy are being followed and to evaluate the adequacy of internal controls.

9. **ELIGIBLE INVESTMENTS**

All investments must meet the conditions and criteria outlined in the attached schedules regarding the types of securities in which the City may invest; investment quality; size and term limitations.

Schedule 1 – Sets out eligible investments; conditions set out in the Municipal Act and regulations; and additional conditions imposed under this policy.

Schedule 2 – Sets out size and term limits for eligible investments.

APPENDIX "A" (Continued)

INVESTMENT POLICY

10. INVESTMENT PARAMETERS AND RISK MANAGEMENT

The City shall mitigate credit risk, interest rate risk, and market risk by:

i) Preparing and maintaining a cash flow projection to determine liquidity needs and suitable investment horizons;

ii) Diversifying the investment portfolio to minimize on individual securities;

iii) Limiting investment in securities to those with higher credit ratings;

iv) Adopting higher investment standards than allowed under the Municipal Act and regulations where, in the opinion of the City Treasurer, such standards would be prudent;

v) Establishing size, sector, and term limits for investments;

vi) Staggering maturity dates to match the requirements of underlying reserve funds to mitigate the effects of interest rate volatility;

vii) Placing emphasis on securities offered by, or unconditionally guaranteed by, the Government of Canada, a province of Canada, or Schedule I banks;

viii) Seeking legal and financial advice with respect to proposed investments, where applicable.

11. REPORTING

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return commensurate with the investment risk constraints and cash flow requirements of the City.

The City Treasurer shall submit an investment report for Council at least annually. The report shall be prepared in such a manner as will allow Council to ascertain whether investment activities during the period have conformed with the investment policy. The report will include the following:

i) A statement about the performance of the investment portfolio during the period covered by the report;

ii) Percentage of the total portfolio which each type of investment represents;

iii) Listing of the individual securities held at the end of the reporting period;

iv) Average weighted yield to maturity of portfolio;

v) An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous report;

vi) A record of the date of each transaction in or disposal of the City's own securities, including a statement of the purchase and sale price of each security;

APPENDIX "A" (Continued)
INVESTMENT POLICY

vii) A statement by the City Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the City;

viii) A statement by the City Treasurer as to whether any investments fell below the standard required for that investment during the period covered by the report;

ix) Such other information that council may require or that, in the opinion of the City Treasurer, should be included.

12. ATTACHMENTS

Schedule 1 – Eligible Investments and Conditions

Schedule 2 – Portfolio Mix and Term Limits

Schedule 3 – Credit Rating Definitions

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
1	**Bonds, debentures, promissory notes or other evidences of indebtedness issued or guaranteed by:**					
i.	Canada or a province or territory of Canada,				None	None
ii..	an agency of Canada or a province or territory of Canada,				R-1 (low)	A (low)
iii.	a country other than Canada	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	None	None
iv.	a municipality in Canada including the City of Barrie,				R-1 (low)	A (low)
iv.1	the Ontario Strategic Infrastructure Financing Authority'					
v.	a school board or similar entity in Canada,				R-1 (middle)	AA (low)
v.1	a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	N/A, see 5 (below)	None
v.2	the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*,	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	N/A, see 5 (below)	None
vi	a local board as defined in the Municipal Affairs Act (but not including a school board or municipality) or a conservation authority established under the Conservation Authorities Act,				None	None

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
vi.1	a board of a public hospital within the meaning of the *Public Hospitals Act*	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	N/A, see 5 (below)	None
vi.2	a non-profit housing corporation incorporated under section 13 of the Housing Development Act	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	None	None
vi.3	a local housing corporation as defined in section 24 of the *Housing Services Act, 2011* or	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	None	None
vii	the Municipal Finance Authority of British Columbia					
2	**Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if:**					
i.	bond, debenture or other evidence of indebtedness is secured by assignment, to a trustee as defined in the *Trustee Act*, of payments that Canada or province or territory of Canada has agreed to make or is required to make under federal, provincial or territorial statute, and				N/A	N/A
ii.	payments referred to in (i) are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity				N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
3, 3.1	**Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments issued, guaranteed or endorsed by:**					
i.	a bank listed in schedule I or II to the *Bank Act* (Canada)	2 years or less: N/A >2 years: DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	2 years or less: Schedule I: R-1 (low) Schedule II: R-1 (mid)	See 4 (below)
ii.	a loan corporation or trust corporation registered under the *Loan and Trust Corporation Act*				2 years or less: R-1 (mid)	See 4 (below)
iii.	a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies				2 years or less: R-1 (mid)	See 4 (below)
4	**Bonds, debentures or evidence of long-term indebtedness issued or guaranteed by:**					
	an institution listed in 3 (above)	DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-		City shall sell the investment within 180 days after the investment falls below minimum rating	N/A	N/A
5	**Short term securities that are issued by:**					
i.	a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*			Principal and interest shall be fully repaid no later than three days after the day the investment was made	N/A	N/A
ii.	the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002,*				N/A	N/A
iii.	a board of a public hospital within the meaning of the *Public Hospitals Act*				N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
6	**Bonds, debentures or other securities issued or guaranteed by:**					
	the International Bank for Reconstruction and Development					
6.1	**Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:**					
	a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development	DBRS: AAA Fitch: AAA Moody's: Aaa S&P: AAA		City shall sell the investment within 180 days after the investment falls below minimum rating	N/A	N/A
7	**Asset-backed securities:**					
	as defined in subsection 50(1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the Loan and Trust Corporations Act	1 year or less: DBRS: R-1(high) Fitch: F1+ Moody's: Prime-1 S&P: A-1+ > 1 year: DBRS: AAA Fitch: AAA Moody's: Aaa S&P: AAA	The City of Barrie, or all of the City's long-term debt must be rated at a minimum: DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA- or Investment made through One Investment Program	City shall sell the investment within 180 days after the investment falls below minimum rating	N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
7.1, 7.2	**Bonds, debentures, promissory notes or other evidence of indebtedness issued by:**					
	a corporation that is incorporated under the laws of Canada or a province of Canada	> 1 year and no later than 5 years: DBRS: A Fitch: A Moody's: A2 S&P: A > 5 years: DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA-	The City of Barrie, or all of the City's long-term debt must be rated at a minimum: DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA- or Investment made through One Investment Program	Investment through One Investment Program only if > 5 years City shall sell the investment within 180 days after the investment falls below minimum rating	N/A, see 8 (below)	N/A
8	**Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by:**					
	a corporation that is incorporated under the laws of Canada or a province of Canada	DBRS: R-1(high) Fitch: F1+ Moody's: Prime-1 S&P: A-1+	The City of Barrie, or all of the City's long-term debt must be rated at a minimum: DBRS: AA(low) Fitch: AA- Moody's: Aa3 S&P: AA- or Investment made through One Investment Program	City shall sell the investment within 180 days after the investment falls below minimum rating	N/A	N/A
8.1	**Shares of:**					
	a corporation that is incorporated under the laws of Canada or a province in Canada			Through One Investment Program only	N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
					Short Term	Long Term
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Minimum Security Rating	
9	**Bonds, debentures, promissory notes and other evidences of indebtedness of:**					
	a corporation incorporated under section 142 of the *Electricity Act, 1998*			At the time the investment is made and as long as it continues, the investment must rank, at a minimum, concurrently and equally in respect of payment of principal and interest with all unsecured debt of the corporation. Investment only if, at the time the investment is made, the total amount of the municipality's investment in debt of any corporation incorporated under section 142 of the Electricity Act, 1998 that would result after the proposed investment is made does not exceed the total amount of investment in debt, including any interest accrued on such debt, of the City in such a corporation that existed on the day before the day the proposed investment is made. Any investment under this section, including any refinancing, renewal or replacement thereof, may not be held for longer than a total of 10 years from the date such investment is made. The above conditions do not prevent the City from holding or disposing of a security issued by a corporation incorporated under section 142 of the Electricity Act, 1998, if the municipality acquired the security through a transfer by-law or otherwise under that Act.	N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 1: Eligible Investments and Related Conditions

O. Reg 438/97 Ref.	Eligible Investment	Conditions (O. Reg 438/97)			Conditions (Internally imposed)	
		Minimum Security Rating	Minimum Municipal Debt/Credit Rating	Other	Short Term	Long Term
					Minimum Security Rating	
10	**Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation if:**					
	the City first acquires the security as a gift in a will and the gift is not made for a charitable purpose.			Must sell within 90 days of taking ownership	N/A	N/A
11	**Securities of a corporation, other than those described in 10 (above), if:**					
	the City first acquires the security as a gift in a will and the gift is not made for a charitable purpose.			Must sell within 90 days of taking ownership	N/A	N/A
12	**Shares of a corporation if:**					
	the corporation has a debt payable to the City, and under a court order, corporation has received protection from creditors, and the share are in lieu of a debt authorized by a court, and the Treasurer is of the opinion that the debt is unrecoverable unless the debt is converted into shares under the court order				N/A	N/A

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 2: Portfolio Mix and Term Limits

Sector/Group	Size Limits (maximums)		Term Limits (maximums)	
	Individual investment as % of portfolio	Sector/Group as % of portfolio	Months	Years
FEDERAL, PROVINCIAL, TERRITORIAL, INTERNATIONAL				
Sector aggregate of total portfolio *		100%		
Federal	100%	100%	-	20
Province of Ontario	100%	100%	-	20
Province other than Ontario	20%	100%	-	20
Canadian Territory	10%	100%	-	20
Countries other than Canada	2%	5%	-	15
Infrastructure Ontario	5%	5%	-	-
British Columbia Municipal Finance Authority	5%	5%	-	-
International Bank for Reconstruction and Development	-	-	-	-
Supranational governmental organizations	-	-	-	-
MUNICIPAL, SCHOOL BOARD AND LOCAL BOARDS				
Sector aggregate of total portfolio		35%		
Ontario municipalities, school boards and local boards	10%	-	-	20
Municipalities in provinces/territories other than Ontario	5%	-	-	15
school boards and local boards	5%	-	12	-
Ontario universities	-	2%	12	-
board of governors of an Ontario college	-	2%	12	-
board of a public hospital	-	2%	12	-
non-profit housing corporation	-	2%	12	-
local housing corporation	-	2%	12	-

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 2: Portfolio Mix and Term Limits (Continued)

	Size Limits (maximums)		Term Limits (maximums)	
Sector/Group	Individual investment as % of portfolio	Sector/Group as % of portfolio	Months	Years
FINANCIAL INSTITUTIONS				
Sector aggregate of total portfolio		70%		
Non-Schedule I bank aggregate of total portfolio		40%		
Schedule I banks	20%	-	-	10
Schedule II banks	10%	-	-	5
Schedule III banks	-	-	-	-
trust and loan companies	2%	-	-	2
credit unions	2%	-	-	2
Supranational financial institutions	-	-	-	-
NON-FINANCIAL INSTITUTIONS				
asset-backed securities	5%	20%	-	5
corporate bonds, debentures, promissory notes (outside ONE Fund)	-	5%	-	5
negotiable promissory notes or commercial paper	-	5%	-	1
MUNICIPAL INVESTMENT POOLS				
Sector aggregate of total portfolio		25%		
ONE Money Market Fund	-	20%	-	-
ONE Bond Fund	-	20%	-	-
ONE Universe Corporate Bond Fund	-	5%	-	-
ONE Equity Fund	-	5%	-	-

**** Minimum portfolio holdings will aggregate 30 per cent***

APPENDIX "A" (Continued)

INVESTMENT POLICY

Schedule 3: Credit Rating Definitions

Available credit ratings: Short Term Securities

Rating Quality	DBRS	Fitch	Moody's	S&P
High Grade	R1	F1	Prime-1	A-1
Medium Grade	R2	F2	Prime-2	A-2
Lower Grade	R3	F3	Prime-3	A-3
Speculative	R3	B	Not Prime	B

Available credit ratings: Medium or LT Securities

Rating Quality	DBRS	Fitch	Moody's	S&P
Highest Grade	AAA	AAA	Aaa	AAA
High Grade	AA	AA	Aa	AA
Upper Medium Grade	A	A	A	A
Lower Medium Grade	BBB	BBB	Baa	BBB
Speculative	BB	BB	Ba	BB
Highly Speculative	B	B	B	B
Extremely Speculative	CCC to C	CCC to C	C (all grades)	CCC to C
Default	D	DDD to D		D

APPENDIX "B"

THE ONE INVESTMENT PROGRAM

Amendments made to the Municipal Act in 1992 allow Ontario municipalities to participate in joint municipal investment strategies. These amendments permitted municipalities to pool their investments in order to gain the opportunity to earn higher returns through access to larger, diversified, high-quality investment portfolios.

Local Authority Services Limited (a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario) both established investment pools in response to the 1992 amendments. In 1995, LAS and CHUMS combined their efforts to create a single professionally-managed investment program known as ONE - The Public Sector Group of Funds (commonly referred to as the "One Funds"). One historically offered a Money Market Portfolio and a Bond Portfolio, but an Equity Portfolio was added in 2007 and a Corporate Bond Portfolio in 2008.

The addition of the Corporate Bond and Equity portfolios were launched as a result of 2005 amendments to the Municipal Act Eligible Investment Regulation (O. Reg. 438/97) allowing municipalities to invest in Canadian equities and longer term Canadian corporate bonds. The regulation however offered access to these investment types only through The One Investment Program. Throughout 2006, One worked with a diverse committee of municipal investment practitioners to develop investment policies and operating guidelines for both the Equity and Corporate Bond Portfolios, and to select professional managers for the two new portfolios.

In February 2010 the Program was renamed "The One Investment Program". The program has continued to grow in recent years and now also welcomes investment from organizations within the broader Ontario public sector. Investors from the broader public sector include conservation authorities and municipal services boards, but the program is also available to hospitals and other segments of the MUSH sector.

Local government investment pools are not a new idea, with many having been established in jurisdictions across Canada and the United States. They have proven to be highly successful and popular investment and cash management tools for municipalities. Participation in such pools is, in fact, recognized as a recommended practice for achieving portfolio diversification and liquidity by the Government Finance Officers Association of the United States and Canada.

Since 1995, The One Investment Program has successfully met the needs of Ontario municipalities by providing safe and high-quality investment opportunities. Asset levels in One have ranged between $300M and $600M since inception, with recent investment balances (2009 and 2010) in the $525-$550M range. The Program provides professional investment services to almost 100 organizations, and throughout history performance has been competitive with the permitted alternative investments for Ontario municipalities.

All One Portfolios are governed by formal investment guidelines requiring that monies be invested only in instruments allowed under the Municipal Act, with additional restrictions being established by the guidelines. All Portfolio Guidelines are available for review on The One Investment Program website: www.oneinvestmentprogram.ca.

One currently utilizes the professional investment services of McLean Budden for Money Market, Bond, and Corporate Bond Portfolios, and Guardian Capital for its Equity Portfolio. Both organizations have tens of billions in assets under management and have a long track record of managing large multi-customer investment pools.

APPENDIX "B" (Continued)

THE ONE INVESTMENT PROGRAM

The investment guidelines and manager activities for each investment portfolio are monitored by One staff, an independent third-party investment consultant, as well as the One Advisory Committee, which is comprised primarily of senior public sector officials appointed by LAS and CHUMS. In addition, the program also receives periodic oversight from the MFOA/CHUMS and LAS Board of Directors, comprised of municipal finance professionals and municipal administrators and elected officials, respectively.

There is no requirement for municipalities to invest for a specified period of time in The One Investment Program; money can be invested, withdrawn or transferred at any time, although each of the Portfolios has been established with a certain investment duration in mind. If investment/redemption instructions are provided by 4:00 p.m. on any banking day, the funds are deposited or withdrawn, as the case may be on, the next banking day. The minimum transaction amount is $5,000 for any Portfolio. There are no penalties or fees for deposit or withdrawal at any time.

As an added value, investors also have password protected access to their account balances through a secure portion of the One website. Portfolio balances and unit pricing are updated daily for each investor and account.

Investment fees for all invested monies are calculated on a daily basis based on the total balance held in the account, and all performance figures provided by One are always posted net of fees. Current One Investment Program annual fees are lower than any other available public sector investment pool, as follows:

- Money Market – 19 Basis Points
- Bond – 40 Basis Points
- Universe Corporate Bond – 45 Basis Points
- Equity Fund – 60 Basis Points

For the fees paid, each investor receives numerous benefits, including but not limited to:

- Professional money management
- Reduced risk through diversification and regular investment oversight
- Flexibility & liquidity of investments
- Accounting & performance reporting
- Legal costs for program related issues
- Regulatory compliance guarantee
- Lower brokerage costs

To allow for the investment of municipal funds through a joint public sector investment fund in order to leverage enhanced returns and reduced administration costs, it is recommended that The One Investment Program be added to the municipality's list of eligible investments.

***IT IS THEREFORE RECOMMENDED THAT** The One Investment Program be added to the municipality's investment policy as an allowable investment option, as the securities held in the One Portfolios consist exclusively of highly rated, diversified investment instruments that are guaranteed to be eligible investments as defined in O. Reg. 438/97 under the Municipal Act.*

THE One INVESTMENT PROGRAM

2014 REPORT

LAS An investment in your municipal future CHUMS FINANCING CORPORATION

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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).

Program Oversight

Program review and oversight is provided by a group of Ontario municipal finance professionals through the One Investment Program Advisory Committee. Current membership includes:

- Michael Coffey, Tbaytel (a municipal service board of the City of Thunder Bay)
- Dan Cowin, MFOA/CHUMS
- Vince Grillo, City of Windsor
- Ed Hankins, Region of York
- Mark Martin, City of Ottawa
- Ken Nix, Town of Whitby
- Nancy Plumridge, LAS/AMO
- Marc Pourvahidi, Town of Whitchurch-Stouffville
- Ed Stankiewicz, City of Greater Sudbury

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

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 purchases

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

FOUR UNIQUE PORTFOLIOS

An option for all investment types

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. The Portfolio produces the highest degree of security over the short or long term.

Short-Term Government 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. 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 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 there long term investment dollars in the equity market, as per current municipal regulation. The portfolio has outperformed the major Canadian stock indices since inception and over longer investment horizons is expected to outperform other investment vehicles available to the sector.

Portfolio	Intended Investment Duration	Investment Approach	Holdings
Money Market	1 - 18 months	Preserve capital and maintain liquidity while maximizing short-term income	• Canadian treasury bills • High quality commercial papers • Banker's acceptances • Floating rate notes
Bond	18 months - 3 years	Provide a higher return over longer investment horizons through diversified investments	• Federal, provincial and municipal bonds • High quality bank paper • Bank guaranteed debt
Universe Corporate Bond*	4+ years	Investment in highly rated corporate bonds maturing over a wide time frame	• Canadian corporate bonds • Federal, provincial and municipal bonds
Canadian Equity*	5+ years	A diversified conservatively managed portfolio of equity securities issued by Canadian corporations	• Canadian equity securities

** These asset classes (Canadian equities and Canadian Corporate Bonds with maturities longer than 5 years) are available for investment for municipalities only through One Program as per the Municipal Act Eligible Investment regulation.*

Historic Program Returns

Annualized Returns - One Investment Program and Comparators (at December 31, 2014)					
	6 month	1 year	2 year	3 year	5 year
Money Market Portfolio* (1-18 month investments)	0.87%	0.86%	-	-	-
Short-Term Bond Portfolio* (18 month - 3 year investments)	-	2.91%	2.02%	1.86%	2.55%
Longer-Term Corporate Bond Portfolio* (4+ Year investments)	-	9.02%	3.64%	3.61%	5.10%
Canadian Equity Portfolio ** (5+ Year Investments)	-	19.34%	21.23%	18.94%	11.78%
Comparator Investment Returns***					
Bank Prime less 1.75% (Source: Bank of Canada)	1.25%	1.25%	-	-	-
Guaranteed Investment Certificate (GIC) (Source: Bank of Canada)	-	0.78%	-	1.15%	1.88%
Canada Bond (Source: Bank of Canada)	-	-	1.16%	1.00%	2.69%
TSX Composite Index (unmanaged without fees)	-	10.6%	11.8%	10.2%	7.5%

* All One Investment Program returns shown are net of fees.
** 8-year return (since Jan 2007) is 7.21%
*** Comparator Returns have no adjustment included should any fees apply

Did You Know?

The One Program is an eligible investment option for the local boards and commissions (i.e. Conservations Authorities, etc.) of any Ontario municipality.

2014 Review

- At year end 2014, 97 Ontario municipalities and other broader public sector investors had holdings in the One Investment Program.
- The total program balance exceeded $600M for the first time in the history of the One Investment Program.
- For the first year since 2010 the year-end One Program total average balance increased from the previous year.
- The One Equity Portfolio closed 2014 with a balance of $162.6M, adding $59.4M over year-end 2013.
- Collectively, the four One Program portfolios earned $33.2M in investment income in 2014, up from $21.8M in 2013.
- The Universe Corporate Bond Portfolio balance surpassed the $100M milestone for the first time since its 2008 inception. This is the newest One Porgram portfolio.
- At December 31, 2014 the UCB Portfolio has realized one, two and three annualized returns of 9.02%, 3.64% and 3.61% respectively.
- The One Equity Portfolio had another exceptional year in 2014 returning 19.34%. In 2014 the TSX Composite and TSX 60 indices gained only 10.6% and 12.30%, respectively.
- The total One Equity Portfolio return for the three years ending December 31, 2014 was 18.98% annualized.
- LAS and MFOA/CHUMS offered 6 Investment Basics seminars in 2014 to educate municipal staff about the rules, opportunities, and benefits of investments for municipal governments. 83 individuals attended these sessions province wide
- In response to the prolonged underperformance of the One Money Market Portfolio staff is investigating an alternative investment arrangement to augment the existing product. This investment opportunity with higher interest rate potential should be available to One Program participants in spring 2015.

Program Balance & Participation

Figure 1 illustrates the number of investors participating in each of the four available One Program portfolios, as well as the number of accounts, average and total deposit in the portfolios as at December 31, 2014. Year-over-year the number of active investors has increased by four and seven respectively in each of the Equity and Universe Corporate Bond portfolios and one additional investor is participating in the Bond portfolio. At year end one less investor was participating in the Money Market portfolio.

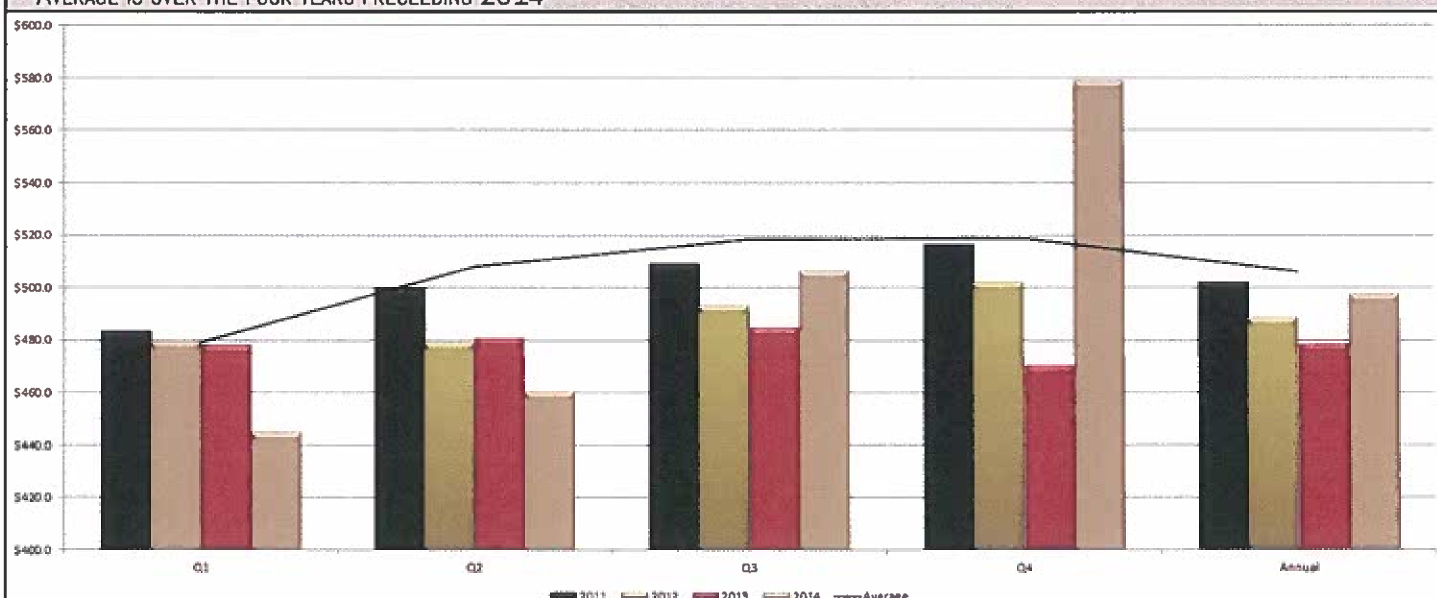
The average 2014 balance across all One Program portfolios was $498M, up 4.1% from the average 2013 program balance of $478M. Average 2014 total program balances broke the downward trend from 2010 highs, having an average program balance that year of $535M. The year-end 2014 balance set a record for the One Program by exceeding $600M.

FIGURE 1: One Investment Program - Profile at December 31, 2014 (Balances in $ millions)

	MM	Bond	Corporate Bond	Equity
Participants	58	70	30	26
Avg. Balance/Participant	$2.2	$3.0	$3.4	$6.3
Balance	$126.4	$209.2	$100.7	$162.6

Figure 2 illustrates average quarterly One Program balances for the last four years of operation.

FIGURE 2: One Program Average Quarterly Balances ($ Millions)
*Average is over the four years preceeding 2014



THE One

Program Balance & Participation

Figure 3 provides an overview of total One Program activity for the years 2008 to 2014. The total program balance at year end 2014 was over $600M for the first time in the history of the One Investment Program. The increase of 163.7M was comprised of $130.5M in net new deposit and $33.2M in investment income.

FIGURE 3: One Investment Program Investment Summary ($ Millions)

	2008	2009	2010	2011	2012	2013	2014	Total
Opening Balance	$342.92	$409.34	$527.21	$483.12	$482.75	$492.08	$437.11	
Net Deposit/ Redemption	$62.14	$97.17	-$60.77	-$7.16	-$6.86	-$76.75	130.47	$138.24
Investment Income	$4.28	$20.71	$16.68	$6.79	$16.19	$21.78	$33.2	$101.72
Closing Balance	$409.34	$527.21	$483.12	$482.75	$492.08	$437.11	$600.78	

Figure 4 shows an analysis of the 2014 activity within each of the One Program portfolio investment options. On a year-over-year basis all portfolio balances increased. Total net client transactions of $130.5M were largely the result of two new large investors establishing "Legacy Funds" following the sale of municipal assets. The two municipalities invested $98M across the four One Program products. It is their intention to use these investments for an annual predetermined and indexed amount each year to fund capital projects.

If your municipaity would like a long-term investment strategy developed by One Program staff, please let us know.

FIGURE 4: One Investment Program Activity by Portfolio

		Money Market	Bond	UCB	Equity
at 31st December, 2013	Balance $M	$125.3	$154.2	$54.4	$103.1
	Units	129,490	166,858	52,420	7,050,254
	Price $	$967.8434	$924.211	$1038.5436	$14.6278
2014 Activity (Net Transactions)	Total $M	$1.9	$50.2	$40.6	$37.8
at 31st December, 2014	Balance $M	$128.4	$209.2	$100.7	$162.6
	Units	129,490	166,858	52,420	7,050,254
	Price $	$967.7438	$924.7034	$1098.4713	$17.4563
Difference	Balance $M	$3.0	$54.9	$46.3	$59.4
	Units	0	0	0	0
	Price $	-0.01%	0.05%	5.77%	19.34%
Investment Income	**Total $M**	**$1.1**	**$4.8**	**$5.7**	**$21.6**

Program Balance & Participation

Figure 5 represents the total Program investment per participant and compares year-end 2014 to 2013 balances. The number of active program investors through 2014 increased by six net new participants. **Appendices 1 and 2** show investment as at year end 2014 and 2013 in the One Program broken out for each of the offered products.

FIGURE 5: Total Deposits per Participant Across all Products, as at December 31, 2014

Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	10	$441,568	$44,157	0.07%
$100K to $500K	17	$4,800,457	$282,380	0.80%
$500K to $1M	8	$5,639,591	$704,949	0.94%
$1M to $5M	40	$96,942,612	$2,423,565	16.14%
Greater than $5M	22	$492,955,113	$22,407,051	82.05%
Totals	**97**	**$600,779,341**		**100.00%**

Total Deposits per Participant Across all Products, as at December 31, 2013

Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	7	$294,582	$42,083	0.07%
$100K to $500K	20	$5,353,379	$267,669	1.22%
$500K to $1M	11	$8,521,217	$774,656	1.95%
$1M to $5M	34	$85,882,105	$2,525,944	19.65%
Greater than $5M	19	$337,058,216	$17,739,906	77.11%
Totals	**91**	**$437,109,499**		**100.00%**

Program Balance & Participation

Figure 6 below looks at Program participation sorted by municipal population for year end 2013 and 2014. The largest total balance increases are in the 25,001 to 50,000 and 50,001 to 100,000 population ranges. The growth in those two ranges is largely due to the two large "Legacy Fund" deposits. The smaller $31.5M deposit is in the 25,001 to 50,000 population category and the larger $66.5M deposit is in the 50,001 to 100,000 range. With respect to the number of investors within the population ranges, five of the six net new participants are in the smallest ranges.

FIGURE 6: Total One Investment Participation by Population as at December 31, 2014

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%
Total	**97**	**100.0%**	**$6.2**	**$600.8**	**100.0%**

Total One Investment Participation by Population as at December 31, 2013

Population	# of Municipalities	% of Municipalities	Investment (millions)		% of Total Investment
			Per Muni	Total	
< 5,000	26	28.6%	$1.3	$32.9	7.5%
5,000 to 25,000	35	38.5%	$2.2	$77.5	17.7%
25,001 to 50,000	7	7.7%	$15.1	$105.6	24.2%
50,001 to 100,000	6	6.6%	$6.7	$39.9	9.1%
100,000 +	17	18.7%	$10.7	$181.1	41.4%
Total	**91**	**100.0%**	**$4.8**	**$437**	**100.0%**

Money Market Portfolio Performance

The Bank of Canada overnight deposit rate of 1% has been static since September of 2010, remaining unchanged now well into a fifth year. Similarly, the big banks have left their prime lending rates at 3% over the same timeframe. The Bank Prime less 1.75% return is often earned by many large municipalities on their short-term bank deposits. The Portfolio return was 0.86% for the year ending December 31, 2014 relative to the 1.25% 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 every month since September of 2011. The one year Money Market portfolio returns have trailed the bank prime less 1.75% comparator on average by 19 basis points for the five year period ending December 31, 2014.

FIGURE 7: One Year Returns GIC vs. Bank Prime less 1.75% vs. One Money Market (Jan 2010 through Dec 2014)

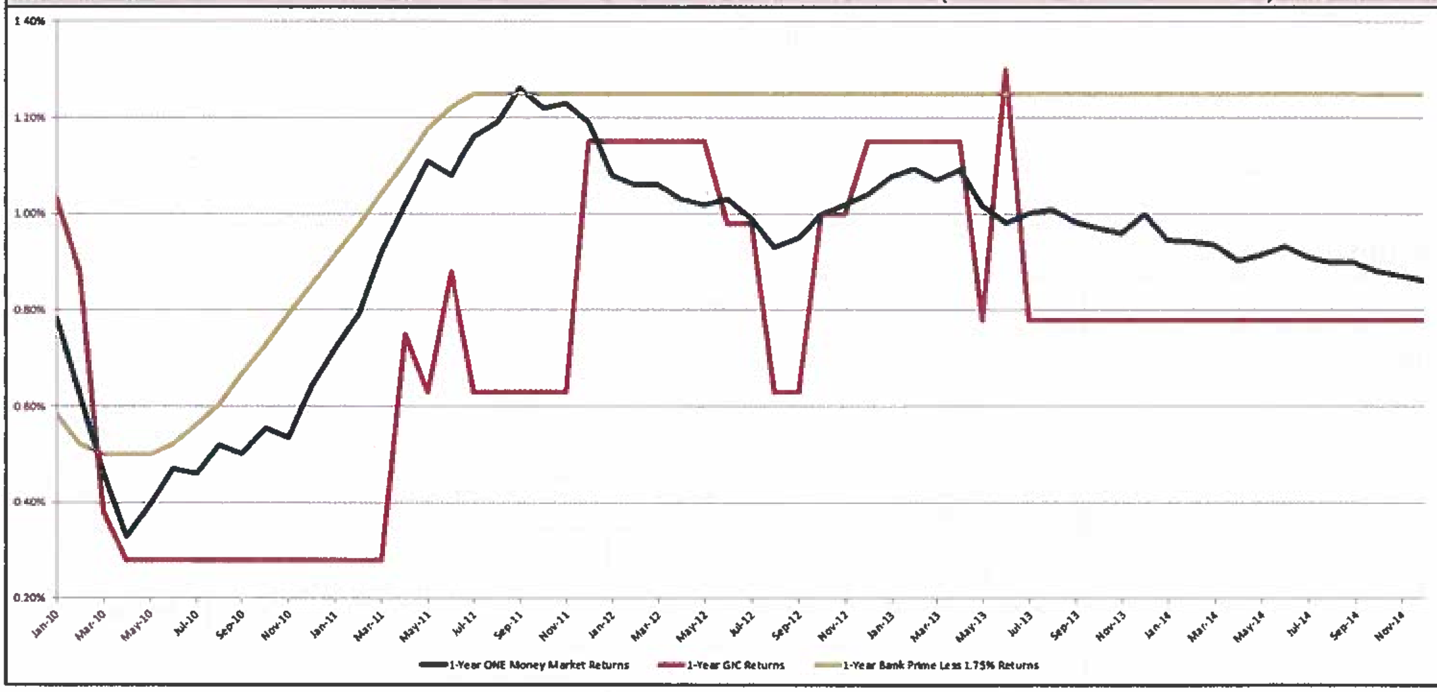


Figure 7 illustrates one-year returns for various short-term investment alternatives for months ending January 2010 through December 2014. The average returns over the five year period were 0.91% for the One Money Market, 1.10% for Prime less 1.75% comparitor, and 0.75% for the GIC alternative.

"We're delaying our forecast for the first hike by the Bank of Canada by a quarter, to Q4 2015, and we'll need to see a rebound in oil to put that on the table."

CIBC World Markets - Dec 18, 2014
http://research.cibcwm.com/economic_public/download/rates.pdf

"Despite the recent uptick in inflation, expectations for Canadian interest rates have come down markedly throughout this year, with the consensus moving toward the view that interest rates will remain lower for longer.

Quarterly Economic Forecast; TD Economics Dec 17, 2014
http://www.td.com/document/PDF/economics/qef/qefdec2014_canada.pdf

The Bank of Canada won't shut down chatter about 2015 rate cut risks, but a rebound in crude prices and reassurance that global growth isn't falling off a cliff will position it for a modest 50 bps of rate hikes in 2016.

CIBC World Markets Inc. Economic Insights - January 15, 2015
http://research.cibcwm.com/economic_public/download/rates.pdf

MONEY MARKET PORTFOLIO PERFORMANCE

Four of the five major banks are also forecasting slight increases to the Bank of Canada overnight rate by the end of 2015. The rate forecasts from the banks are in Figure 8, with the date the forecast was issued in paretheses.

FIGURE 8: BANK OF CANADA 2014 OVERNIGHT RATE FORECASTS				
	Q1	Q2	Q3	Q4
RBC (DECEMBER, 2014)	1.00	1.00	1.25	1.50
CIBC (JANUARY 15, 2015)	1.00	1.00	1.00	1.00
SCOTIA (JANUARY 8, 2015)	1.00	1.00	1.00	1.00
BMO (JANUARY 16, 2015)	1.00	1.00	1.00	1.00
TD (DECEMBER 17, 2014)	1.00	1.00	1.00	1.50

Figure 9 illustrates the spread between 3-Month T-Bills and 3-Month Bankers' Acceptances. In 2014 that spread actually rose slightly from the 2010 - 2013 period. The spread has still not returned to the pre-2007 values.

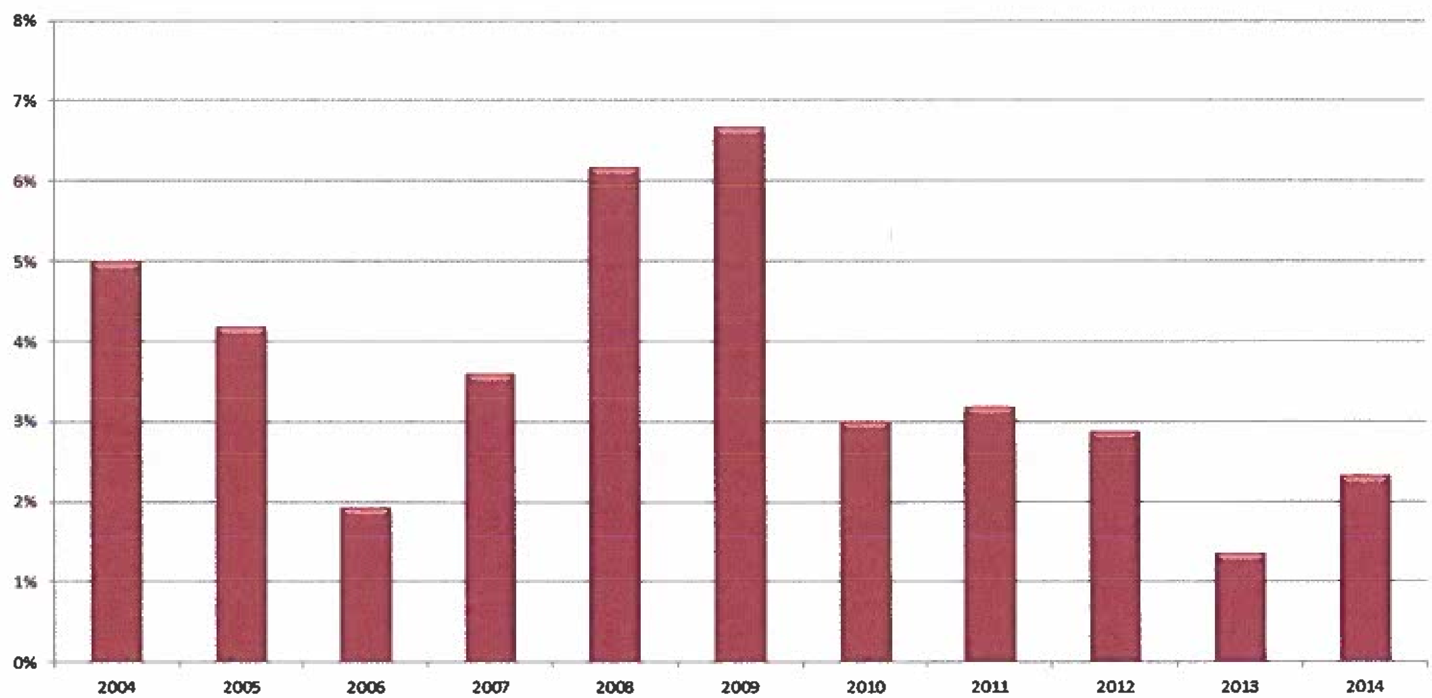
FIGURE 9: SHORT TERM INTEREST RATE SPREADS (SOURCE: BANK OF CANADA WEBSITE)			
Year	3-Month T-Bill	3-Month BA	BA T-Bill
2014	0.91%	1.21%	0.30%
2013	0.97%	1.20%	0.23%
2012	0.95%	1.19%	0.24%
2011	0.91%	1.19%	0.28%
2010	0.56%	0.80%	0.24%
2009	0.36%	0.44%	0.08%
2008	2.32%	3.17%	0.85%
2007	4.13%	4.57%	0.44%
2006	4.02%	4.17%	0.15%
2005	2.71%	2.82%	0.11%
2004	2.22%	2.31%	0.09%

It is important to match your investment horizon with the duration of the chosen investment vehicle. If you have longer term funds invested in the One Money Market portfolio you may be missing out on better investment returns. See the article in **Appendix 3** provided by MFS Investment Management Canada, the One Fixed Income portoflio manager.

Bond Portfolio Performance

Month end average one-year One Bond Portfolio returns in 2014 were 2.33% compared to 1.36% in 2013. As illustrated in Figure 10, the average one- year Bond Portfolio return for 2014 recovered from 2013, the worst performance year in a decade.

FIGURE 10: One Bond Portfolio Average One Year Return for Months Ending in The Year



We continue to expect easy money policies to persist. With the Federal Reserve likely to push off rate hikes as long as it can, the Bank of Canada likely to lag any Fed tightening, and ongoing policy easing in Europe and Japan.

In our view, however, what has changed is valuation in the Canadian fixed-income market. The market rally has taken government bond yields significantly below our fair value, to the point where yields appear to be discounting a much weaker economic outlook than we expect. As a result, we reduced the duration exposure of our portfolios. After being positioned with a longer-than-benchmark duration for the past year, universe and long-term mandates ended Q4 moderately short versus the benchmark. Short bond mandates' durations were reduced from long to neutral, reflecting better relative value in the short end of the yield curve. Overall, we maintain a preference for 3-10 year bonds, though exposure to this segment was trimmed during the quarter.

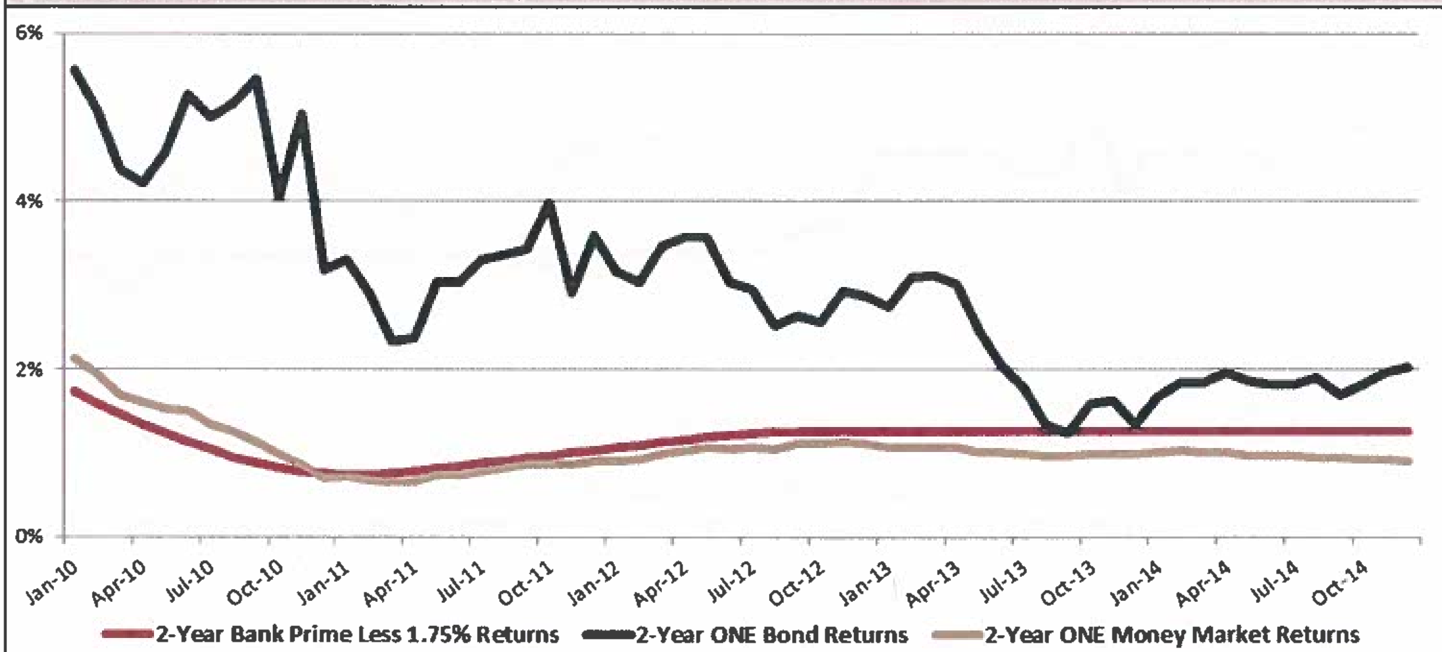
MFS Investment Management Canada
Fourth Quarter 2014 One Investment Program Report

Bond Portfolio Performance

Figure 11 illustrates two-year One Bond Portfolio returns compared to other investment alternatives available to the sector for months ending January 2010 through December 2014. The return from a One Bond Portfolio investment, as would be expected, generally outperformed both the bank prime less 1.75% return and the One Money Market Portfolio.

For two year investment durations the One Bond Portfolio has outperformed the prime less 1.75% and the Money Market Portfolio in 98% of month ends shown in Figure 11. The average returns for the two year rolling periods were 2.53% for the One Bond Portfolio, 1.14% for the Bank Prime, and 0.95% for the One Money Market comparators.

FIGURE 11: Two-Year Annualized Return Comparison: Prime Less 1.75% vs. One Bond vs. Money Market Portfolios (Months Ending Jan 2010 through Dec 2014)

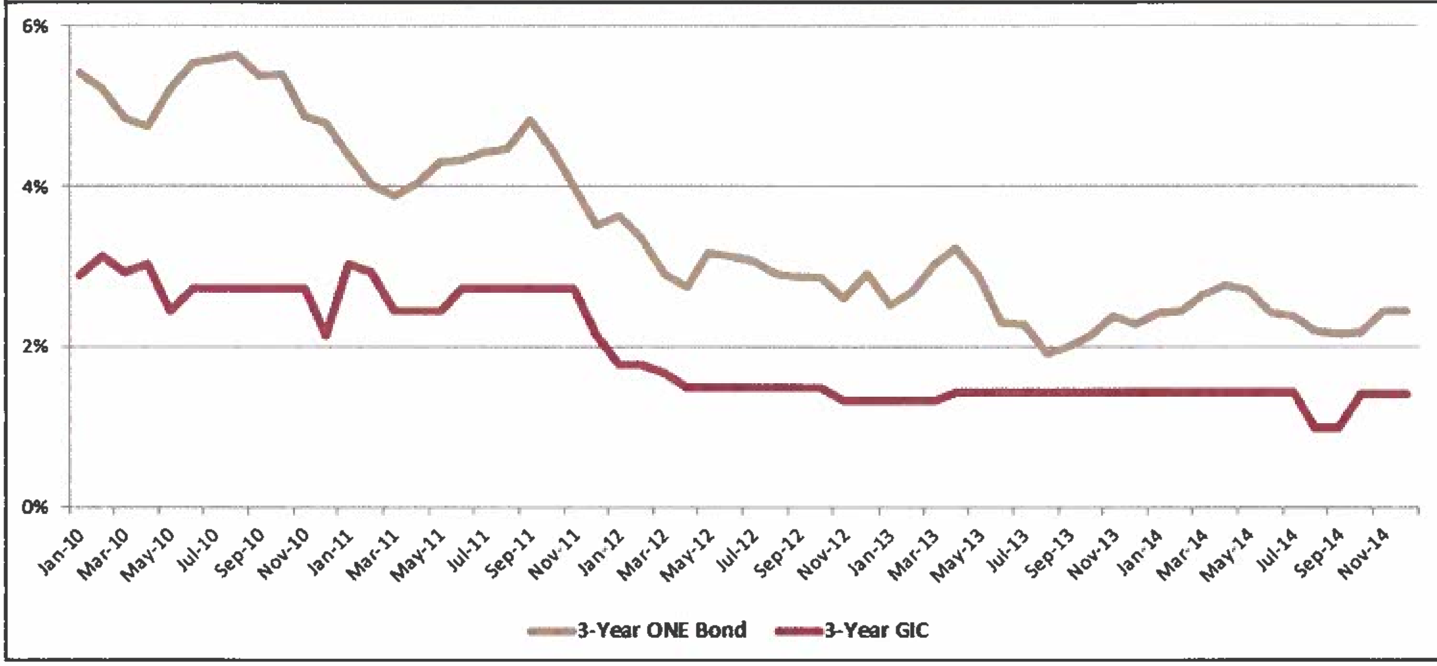


The portfolio manager has noted that they expect the current environment of modest global economic growth and low inflation to persist. They have however reduced the portfolio's duration and adopted a neutral duration posture relative to the benchmark given the strength of the bond market rally and change in valuation in Q4 2014. This was achieved primarily by selling bonds with remaining term to maturity between one and four years in favour of those with remaining term less than one year given limited yield pick-up further out the curve.

Bond Portfolio Performance

Figure 12 compares three- year returns achieved through GIC investments and the One Bond Portfolio for rolling periods between January 2010 through December 2014. The One Bond Portfolio average return was 3.42% compared to 1.93% for the GIC investment. Over an average three year period the One Bond alternative returned an additional $4,702 in investment income on each $100,000 invested.

FIGURE 12: Three Year Annualized Return Comparison GIC & One Bond Portfolio (months ending Jan 2009 through Dec 2014)

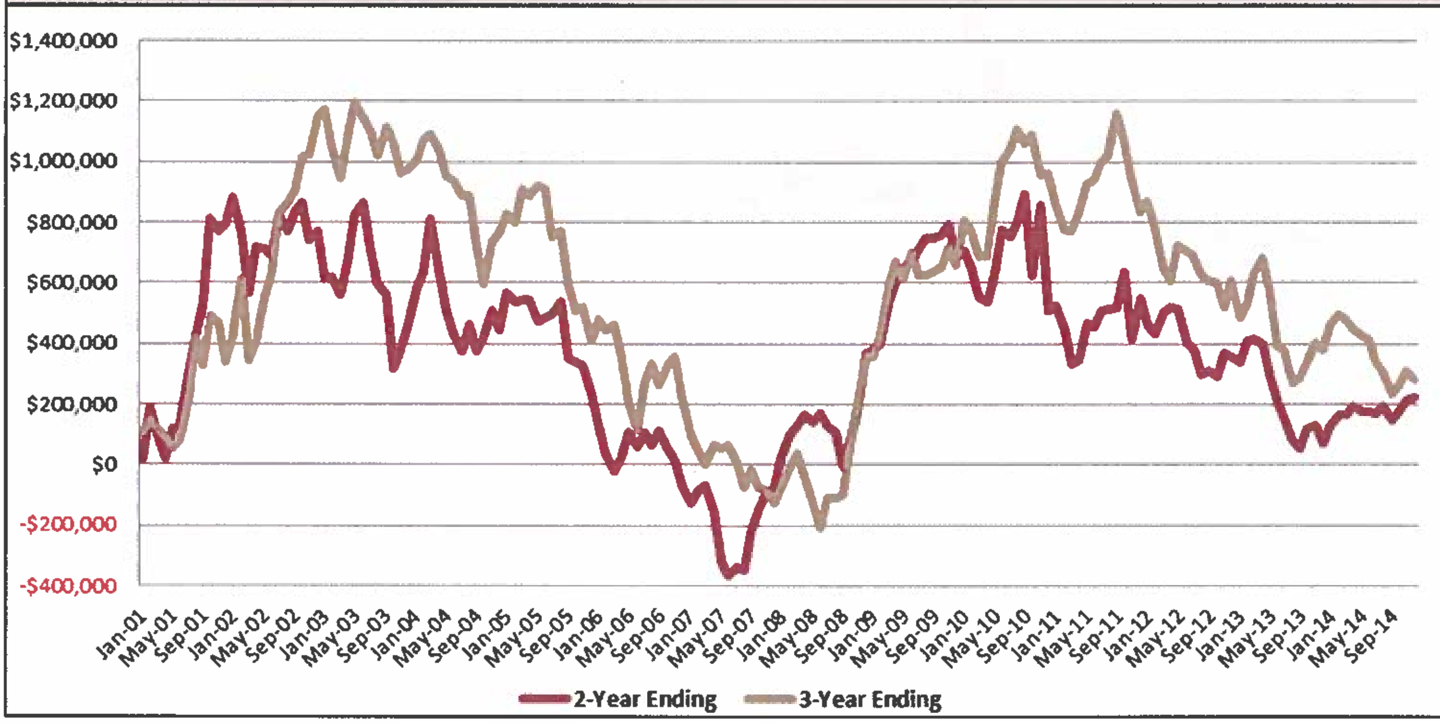


A Comparison of Bond vs. Money Market

Why choose the One Bond Portfolio instead of the One Money Market Portfolio

Given the longer term outperformance of the One Bond Portfolio over the One Money Market Portfolio, staff developed the chart below to illustrate the 'lost' investment income for a municipality that has long-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 medium-term One Bond Portfolio. The graph presents the difference in the value of a single $10M investment in the One MM and One Bond products for all 2 and 3 year rolling year end periods between January 2001 and December 2014.

FIGURE 13: Rolling 2 & 3 Year Period Comparison One Bond Portfolio in Excess of One Money Market on $10M Investment



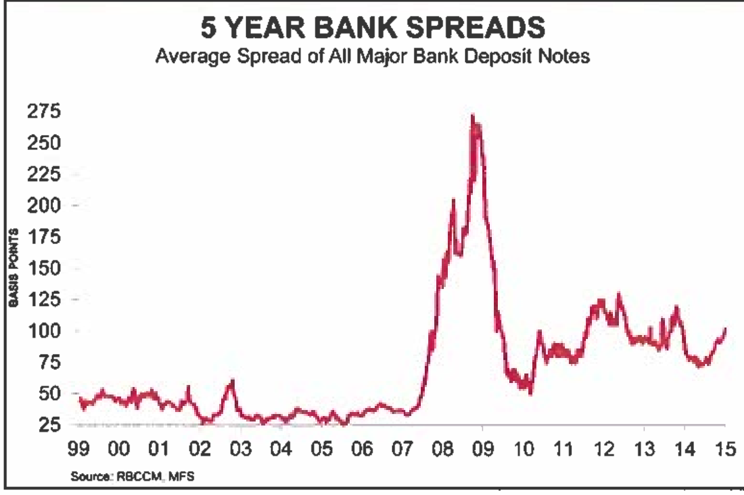
To summarize Figure 13, the average outperformance by the One Bond Portfolio for two-year periods is $377,400 and $565,000 for three-year periods. In 9% of instances for two-year returns, and 8% of the instances for three-year returns the Bond Portfolio underperformed the Money Market Portfolio, but 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 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. If you have any questions please contact One Program staff to discuss.

Universe Corporate Bond (UCB) Portfolio

The UCB Portfolio grew by $46.3M in 2014, ending the year with a balance of $100.7M – an 85% increase over the 2013 closing balance. The increase was derived from $40.6M in new investment and $5.7M in investment income. As at December 31, 2014 the portfolio has realized one, two and three annualized returns of 9.02%, 3.64% and 3.61% respectively.

5 Year Bank Spreads Average Spread of All Major Bank Deposit Notes



The graph at the left 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. You will note from MFS comments below that, "Canadian corporate spreads widened considerably". As the global economy improves the spreads should again narrow adding value to bonds held in the portfolio that were purchased at a time when the spread was more pronounced.

Source: RBCCM MFS Investment Canada

Select One UCB Portfolio Holdings (at December 2014)

- Caterpillar Financial
- Bank of Montreal
- National Bank
- Honda Capital Finance
- John Deere
- Bank of Nova Scotia
- Power Financial
- HSBC Bank
- Canadian Utilities
- Transcanada
- TMX Group
- CIBC
- OMERS Realty Corp
- Wells Fargo
- Enbridge
- TD Bank
- Royal Bank
- Manulife Financial
- BMW Canada
- NAV Canada
- Toyota Credit Canada
- 407 International

If yields increase as we expect, capital losses on sovereign bonds would more than wipe out coupon income, leaving fixed-income investors with a negative total return. Given the risks to the sovereign-bond market, corporate bonds remain a compelling alternative.

Investment Outlook 2015
RBC Global Asset Management Inc. Website
http://www.rbcgam.com/investment-insights/investment-outlook/index.html?cmpid=vanity:personal-ca:investment-outlook:ongoing

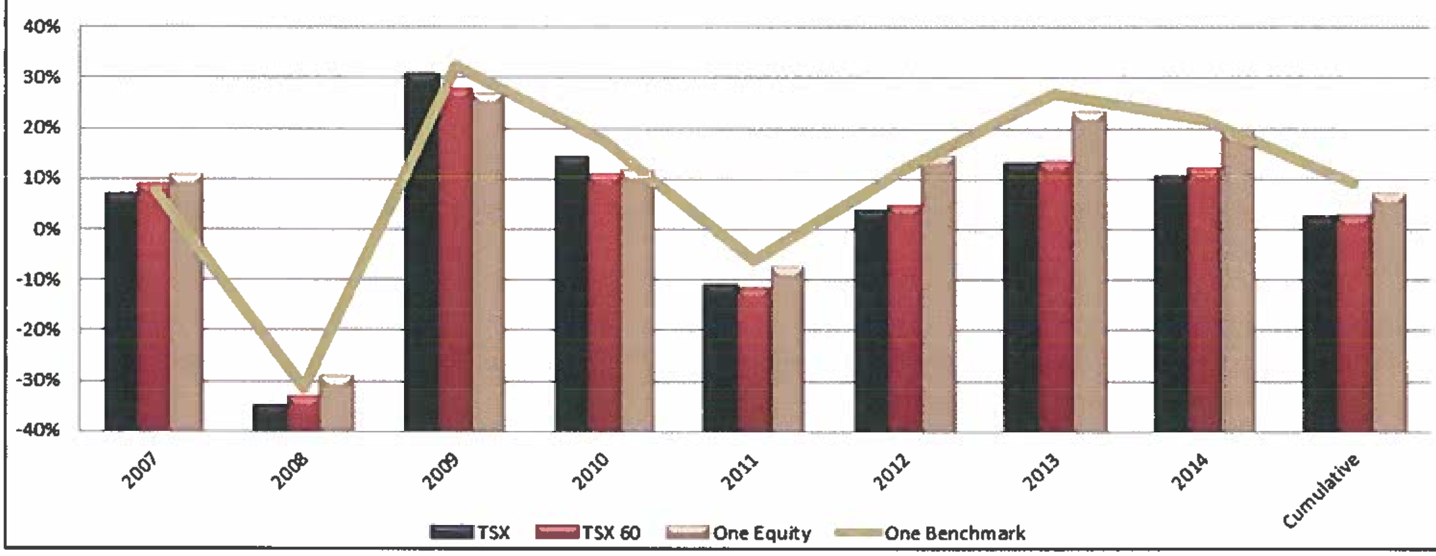
Following a global trend, Canadian corporate spreads widened considerably especially in the energy sector – due to risk aversion, management decisions benefitting shareholders, and concerns about slowing global economic growth. This may result in long-term investment opportunities in credits exhibiting strong fundamentals throughout the cycle.

MFS Fourth Quarter 2014 One Investment Program Report

Canadian Equity Portfolio Performance

In 2014 the One Equity Portfolio again performed very well posting a 19.34% return. Comparatively, the TSX Composite and TSX 60 indices gained 10.6% and 12.3%, respectively in 2014. As at December 31, 2014 on an annualized basis the One Equity Portfolio return was 7.21% (net of fees), since the January 2007 product launch.

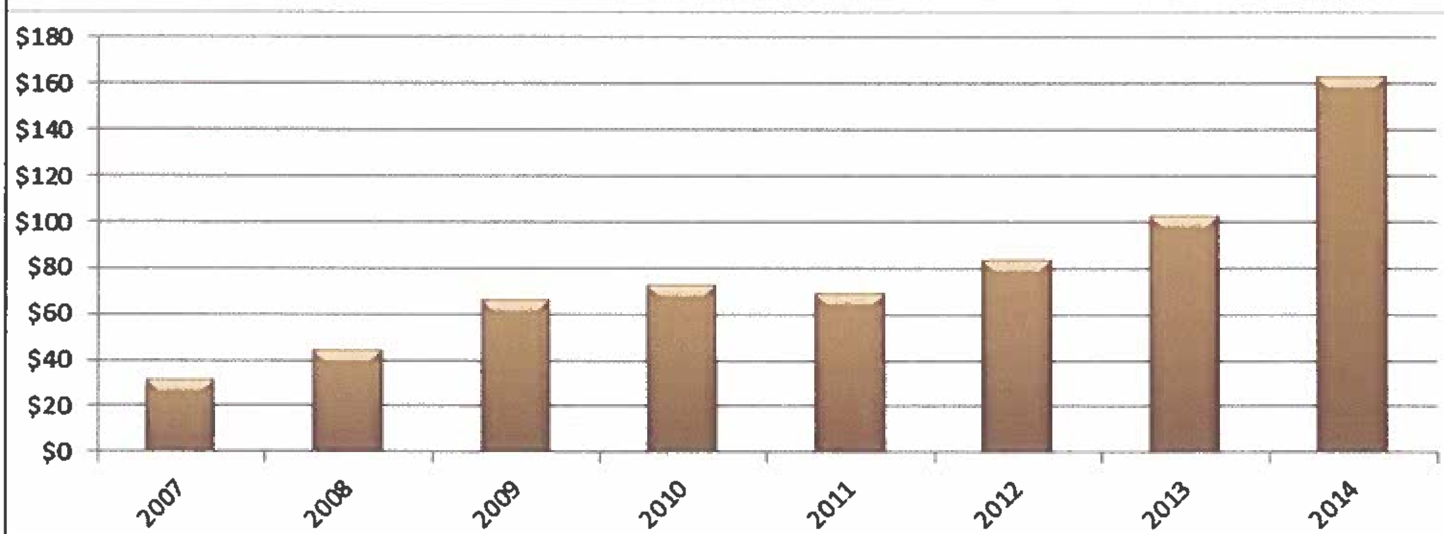
FIGURE 14: One Equity Return vs. Benchmark TSX Composite and TSX 60 Indices Since Jan 2007 Inception



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 14.

Figure 15 illustrates One Equity Portfolio balances for each year end since the 2007 inception. Through 2014 the portfolio balance increased $59.4M to $162.6M. That increase in the portfolio total balance was comprised of $21.6M in investment income and $37.8M in net additional deposits. The December 2014 closing balance exceeded the 2013 closing balance by 58%. In 2014 the number of participating investors in the portfolio remained grew by 7 to 26.

FIGURE 16: One Equity Portfolio Year End Balances (Inception to December 31, 2014 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, it 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 weighted in the oils, mining and financial industries.

> "York utilizes the One Equity Portfolio as part of its strategy for investing long-term infrastructure funds.
>
> Historically, Canadian equities have resulted in higher long-term investment returns when compared to those available from fixed income products.
>
> The One Equity Portfolio offers a professionally managed, but conservative, portfolio of Canadian equities that is guaranteed to be compliant with all municipal investment requirements."
>
> **Edward Hankins, Director, Policy, Risk and Treasury,**
> **Finance Department, Regional Municipality of York**

2014 Fourth Quarter Report for The One Investment Program Equity Portfolio

Outlook & Positioning

Global economies have now diverged. The outlook for Europe has softened and is further clouded by upcoming elections in Greece and Germany. The risk that Greece might not remain within the European Union has returned to the forefront. China and Japan are experiencing slowing growth, while the outlook for the United States continues to improve. India should experience ongoing moderate growth as well.

The recent collapse in the price of oil to the $50 range should serve as a catalyst for economic growth in any nation that imports oil. This bodes well for China, Japan and the United States. On the other hand, oil exporting nations - including OPEC countries and Russia - are now faced with major fiscal imbalances. Canada should be well positioned given its trade relationship with the USA, notwithstanding Canada's role as an oil producer and exporter.

Inflation pressures are expected to be further restrained, given the lower energy pricing environment. There are expectations for the US Federal Reserve Bank to tighten by the second quarter of 2015, although overall central bank policy is expected to remain accommodative globally. This bodes well for equity market valuations.

Against a backdrop of mixed regional growth and subdued inflation, the Canadian economy and Canadian stock market should perform well. The impact of commodity prices and the Energy sector may restrain Canadian equity returns in the short term; however the price of oil is expected to ultimately settle at higher levels - resulting in more favourable stock market performance.

Our bottom up investment performance is driven by a strong preference for high quality stocks with attractive growth opportunities, strong profitability profiles and healthy balance sheets. The portfolio remains prudently diversified across sectors.

Looking Ahead to 2015

- An alternative guaranteed return short term investment product to our existing Money Market Portfolio could be available to One Program participants as early as spring 2015

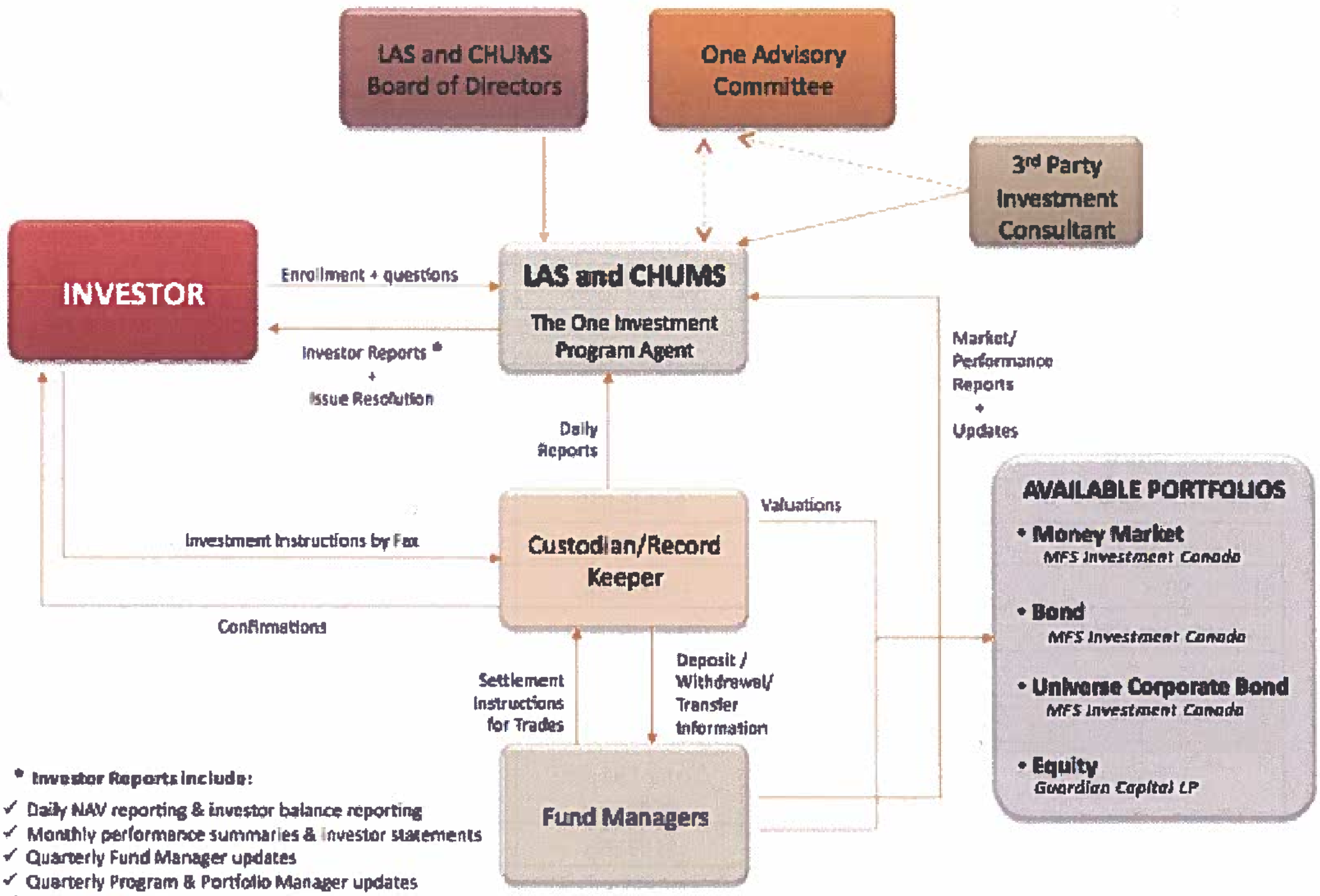
- Investment education seminars are being planned for venues across the province again in 2015. Sessions will offered tentatively in the following locations:
    - September 10th – Guelph
    - September 17th – Chatham-Kent
    - October 8th – Oshawa
    - October 15th – North Bay
    - October 22nd – Cochrane
    - October 29th – Brockville
- In an effort to further assist the MUSH sector, staff will continue to be available to deliver presentations related to the One Investment Program for municipal groups upon request.

- One will complete a manager performance review of all portfolios via our third party investment consultant and will provide a summary of the review results to interested investors in spring 2015.

- The One Program will continue to lobby the government for broader investment powers for the Program.

THE RELATIONSHIP DIAGRAM

The One Investment Program - RELATIONSHIP DIAGRAM



*** Investor Reports include:**

- ✓ Daily NAV reporting & investor balance reporting
- ✓ Monthly performance summaries & investor statements
- ✓ Quarterly Fund Manager updates
- ✓ Quarterly Program & Portfolio Manager updates
- ✓ Annual Report

Appendix One

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	$293,177	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	$209,160,535		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	$27,328	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	19	$103,129,711		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	$3,798,167	$759,633	2.34%
$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	$162,569,601		100.00%

Appendix Two

Money Market Portfolio Participants by Municipal Deposit at Dec. 31, 2013				
Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	15	$502,655	$33,510	0.40%
$100K to $500K	16	$4,227,725	$264,233	3.37%
$500K to $1M	10	$7,090,367	$709,037	5.66%
$1M to $5M	13	$31,493,395	$2,422,569	25.13%
Greater than $5M	5	$82,013,651	$16,402,730	65.44%
Totals	59	$125,327,793		100.00%

Bond Market Portfolio Participants by Municipal Deposit at Dec. 31, 2013				
Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	5	$187,567	$37,513	0.12%
$100K to $500K	18	$4,147,912	$230,440	2.69%
$500K to $1M	7	$5,583,669	$797,667	3.62%
$1M to $5M	20	$49,128,866	$2,456,443	31.86%
Greater than $5M	7	$95,164,039	$13,594,863	61.71%
Totals	57	$154,212,053		100.00%

Corporate Bond Portfolio Participants by Municipal Deposit at Dec. 31, 2013				
Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	3	$193,141	$64,380	0.35%
$100K to $500K	5	$844,937	$168,987	1.55%
$500K to $1M	2	$1,761,753	$880,877	3.24%
$1M to $5M	7	$18,386,932	$2,626,705	33.77%
Greater than $5M	2	$33,253,179	$16,626,590	61.08%
Totals	19	$54,439,942		100.00%

Canadian Equity Portfolio Participants by Municipal Deposit at Dec. 31, 2013				
Investment	Municipal Participants	Total Deposit in Range	Avg. Deposit in Range	% of Total Deposit
Less than $100K	1	$39,665	$39,665	0.04%
$100K to $500K	5	$1,561,806	$312,361	1.51%
$500K to $1M	5	$3,411,350	$682,270	3.31%
$1M to $5M	3	$10,939,143	$3,646,381	10.61%
Greater than $5M	5	$87,177,747	$17,435,549	84.53%
Totals	19	$103,129,711		100.00%

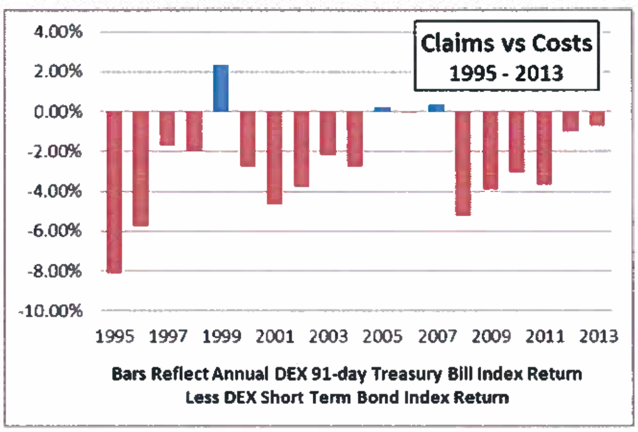
Appendix Three

Earthquake Insurance, Money Markets, and Keeping Your (Investment) Resolutions

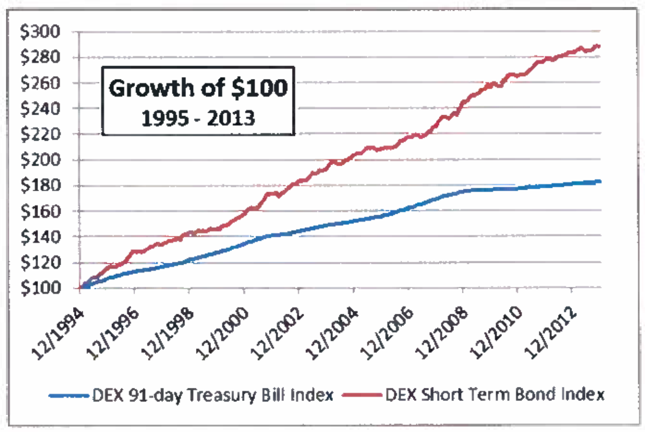
When earthquakes happen people start thinking about buying earthquake insurance. When investment earthquakes happen, thoughts turn to switching into money market investments to find stability. It is forgotten though, that staying in money market investments, like earthquake insurance, may come at a cost to the holder, a cost that may be much higher than many might imagine.

An interest rate earthquake of sorts occurred in May 2013, as bond markets reacted strongly to the US Federal Reserve's suggestion the Fed would reduce their $85 billion of monthly bond purchases. Long term interest rates moved upwards, which caused bond prices to decline. While for years pundits were predicting interest rates were going to rise, like trying to predict earthquakes, few guessed the timing, magnitude, or location (whether short, mid, or long term rates).

Typically, insurance exists to reduce or eliminate the financial impact of a specific event. Investing in money market investments or guaranteed investment certificates (GIC) does much the same thing, insulating the investor from market events. The cost though may not be so obvious, as you're not writing a cheque to an insurance company each month. The cost though can be very real, as it can be the opportunity cost of not being invested in an alternative, such as short term bonds. Before we propose a way to avoid the decisions which lead people to seek investing in money markets, we'll look at the historical effects reflected in the indices in the graphs below.



Source: PC Bond



Source: PC Bond

The graph on the left shows the return of the DEX 91-day Treasury Bill Index, less what the DEX Short Term Bond Index returned between 1995 and 2013. If the money market return was higher than the short term bond return in a year, a blue bar shows the amount of outperformance. Conversely, red bars indicate where short term bonds outperformed money markets.

For someone invested in money markets, they can look at this comparison from a cost perspective, with the blue bars showing when it was best to be in treasury bills, and the red bars as the cost to have been invested in treasury bills. For example, looking at a single year, the downward red bar in 2011 shows the short term bond index outperformed the money market index by 3.65%. On a $100 investment, this would represent $3.65 of cost by being invested in treasury bills rather than short term bonds.

Considering all 19 years over the period, the 16 years where short term bonds outperformed money markets would have resulted in a total of $51.20 of cost to the money market investor, whereas the three years where money markets outperformed short term bonds would have benefited them only $2.91. The difference, $48.29, is the overall cost to the investor for the security of money markets.

If instead you don't reset your investment to $100 each year, but let it continue to grow, the magic of compounding interest brings its blessing. One can see this on the right graph, as the difference between the red line and the blue line is the amount of insurance (opportunity cost) you've paid for the stability of money markets.

Opportunity costs aside, it should be noted that money market investments do have value for short term investors or those with cash needs for pending transactions.

For absolute clarity, recognize all the data above is based on historical returns. As noted at the beginning of this article, predicting interest rates is like predicting earthquakes. The further into the future you forecast the less accurate you become. Recently even the Bank of Canada had a change of heart and removed wording in their reports which had alluded to an intention to tighten rates.

Let's return to the question of how to manage the emotions of others when market volatility occurs. We do not need to look any further than the practices of pensions. Needing to manage through good markets and bad over a long term, their pension committees have written investment policies which specify the kind of investments they may have, a target percentage for each asset class, and how much each asset class can vary from the target.

To create such a policy, prepare a careful study of your long term cash needs. An example may be that cash needed in the next 12 months could be in money markets, while money needed in later periods could be invested in short term bonds (needed in 1 – 5 years), universal bonds (5 – 10 years), or equity (10+ years).

THE *One* INVESTMENT PROGRAM

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Serving Ontario's Public Sector

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