

ONE INVESTMENT

City of Peterborough Hydro Legacy Fund Options

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AGENDA

- ✓ Overview – ONE Investment
- ✓ Investment Options – Legal List
- ✓ Legacy Fund Design
- ✓ ONE Investment Beliefs
- ✓ ONE Investment Fees
- ✓ Discussion and Questions

ONE INVESTMENT OVERVIEW

- A not-for-profit organization dedicated to serving the investment needs of the Ontario municipal sector – manages over **\$ 2.2 Billion** in portfolio holdings
- Established in 1993 and jointly operated by not-for-profits:
 - Local Authority Services
 - CHUMS (*a subsidiary of MFOA*)
- Oversight provided by municipalities and investment industry experts
- 175 Ontario municipalities and Boards invest with ONE (39% of all municipalities in Ontario)



WHO INVESTS WITH ONE

Combined ONE Investment by Population at Dec 31, 2019					
Population	Municipal Participants	% Investors	Investment		% of Total Investment
			Per Municipality	Total	
N/A	16	9%	\$ 5,718,655.56	\$ 91,498,489.00	4.01%
Less than 5,000	47	27%	\$ 1,966,781.66	\$ 92,438,738.06	4.05%
5,001 to 25,000	62	35%	\$ 5,283,101.72	\$ 327,552,306.76	14.37%
25,001 to 50,000	17	10%	\$ 18,190,782.25	\$ 309,243,298.21	13.56%
50,001 to 100,000	12	7%	\$ 31,799,311.85	\$ 381,591,742.19	16.74%
100,000+	21	12%	\$ 51,308,846.45	\$ 1,077,485,775.47	47.26%
Totals	175	100%		\$2,279,810,349.70	100.00%

City of Peterborough



ONE INVESTMENT OVERVIEW

- Diversified commingled portfolios allow costs to be spread over a large asset base
- Actively managed by external investment managers
- Guaranteed compliance with the Legal List, Ontario Securities Legislation
- Reviewed by municipal peers (Peer Advisory Committee), investment industry experts (Investment Advisory Committee), external investment consultant
- **Flexibility, liquidity with no minimum investment term**
- Professional accounting, reporting

THE LEGAL LIST

- Many eligible instruments are conservative
 - Government bonds
 - Bank deposits
 - Bankers' acceptances
- Risk also controlled through allowed level of credit risk
- Time Frame:
 - <5 years Corporate Bonds = municipality
 - >5 years Corporate Bonds = ONE
- Canadian Equity – only through ONE Investment

Recent changes

- Minimum credit ratings on certain securities reduced to A-
- Can invest in deposit securities and debt securities of credit unions
- Can accept any donation (including equities)
- American dollar accounts permitted

INVESTMENT MANAGERS: GUARDIAN CAPITAL

- Incorporated in 1962 – public company listed on TSX
- Investment management division manages more than \$21.4 billion in assets across variety of Equity and Fixed Income mandates.

ONE Equity Fund

(Inception Date: February 3, 2007)

Strategy is Growth-at-a-Reasonable Price (GARP) style that seeks companies with above average growth and quality.

Investment Process:

Use bottom-up stock selection.

Size of Companies:

Mid to large cap stocks.

Portfolio Diversification:

30 to 50 stocks with sector limits.

Cash Flow & Dividend:

Portfolio favors companies with a high stable level of cash flow.
Most stocks pay a dividend, however, payment of a dividend or the level is not a requirement.

ROLE OF ONE INVESTMENT

- Develop investment mandates for the managers that are in line with the legislative requirements.
- Check for compliance to the sector weighting limits if any.
- Evaluate investment manager's performance to the benchmark.

Governance

- Oversight provided by the Peer Advisory Committee (PAC) comprised of municipal representatives
- Investment Advisory Committee (IAC) - comprised of investment sector experts.
- Legal representatives assist with special issues.

Reporting

- Provide guidance to client in portfolio reporting – including sample council reports, staff reports and by-law reports.
- Provide investors with monthly performance reports and quarterly performance reports.

PROCESS OF LEGACY FUND SETUP?

- Investment Policy Statement (IPS) provides goals and objectives of the client.
- Investment strategy employed to meet the outlined objectives.
- ONE setting target allocation for various asset classes as per the original Investment beliefs.
- Municipality to rebalance periodically to the original allocations due to differing returns.
- Professional investment and Investment Policy advice available to client from ONE Investment Team for Policy Development, define targets, implement the strategy - At no additional cost.

LEGACY FUND PORTFOLIO

- **HISA**

High Interest Savings Account at CIBC

- Bank Deposits

- **Bond Portfolio**

Short-Term Government bonds managed by MFS

- Federal, provincial and municipal Bonds
- High quality bank paper
- Bank Guaranteed Debt

- **Universe Corporate Bond Portfolio**

Mid-Term Corporate and Government Bonds managed by MFS

- Canadian Corporate Bonds
- Federal, provincial and municipal bonds

- **Equity Portfolio**

Canadian Equity managed by Guardian Capital

- Energy, Material, Industrials
- Financials, IT, Communications Services
- Consumer discretionary, Consumer staples
- Utilities

CURRENT LEGACY FUND INVESTORS

- Multiple municipalities that are taking advantage of *the endowment fund model* under Legal List.
- Over \$140 Million invested in the various Municipalities' Legacy Funds
- Each fund performance return varies based on the timing, deposits, asset allocation, withdrawals and the principal amount invested.
- Legacy fund was established in 2014.
- City of Woodstock volunteered to share their fund performance.
 - One Year Return ~ 6.82%
 - Annualized Return Since Inception (December, 2015) ~ 3.01%
 - Target Allocation => Bond – 40%, UCB – 40%, Equity – 20%

ONE INVESTMENT'S BELIEFS PORTFOLIO LEVEL THINKING

DIVERSIFICATION
&
RISK MANAGEMENT

INVESTING = RISK MANAGEMENT

Sources of Risk

- Biggest Risk! Mismatch of investment to cash need
- Liquidity, Volatility, Inflation and Currency Risk
- Bonds - Credit & Interest Rate Risk
- Stocks - Threats to future earnings

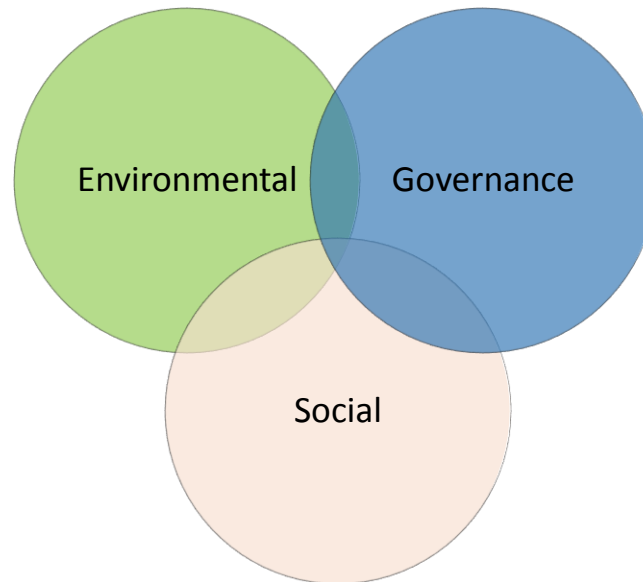
Principles of Risk Management

- Risk tolerance: Ability to assume risk depends on multiple factors.
- Over the long run, expect stocks to earn more than lower risk bonds
- Take calculated risk
- Don't let a return target drive your investment strategy

Risk Management Strategies

- Match the timeframe of the investments to the cash need
- Rebalance regularly
- Diversify among asset classes and within asset classes to reduce volatility.
- Active management of the portfolio

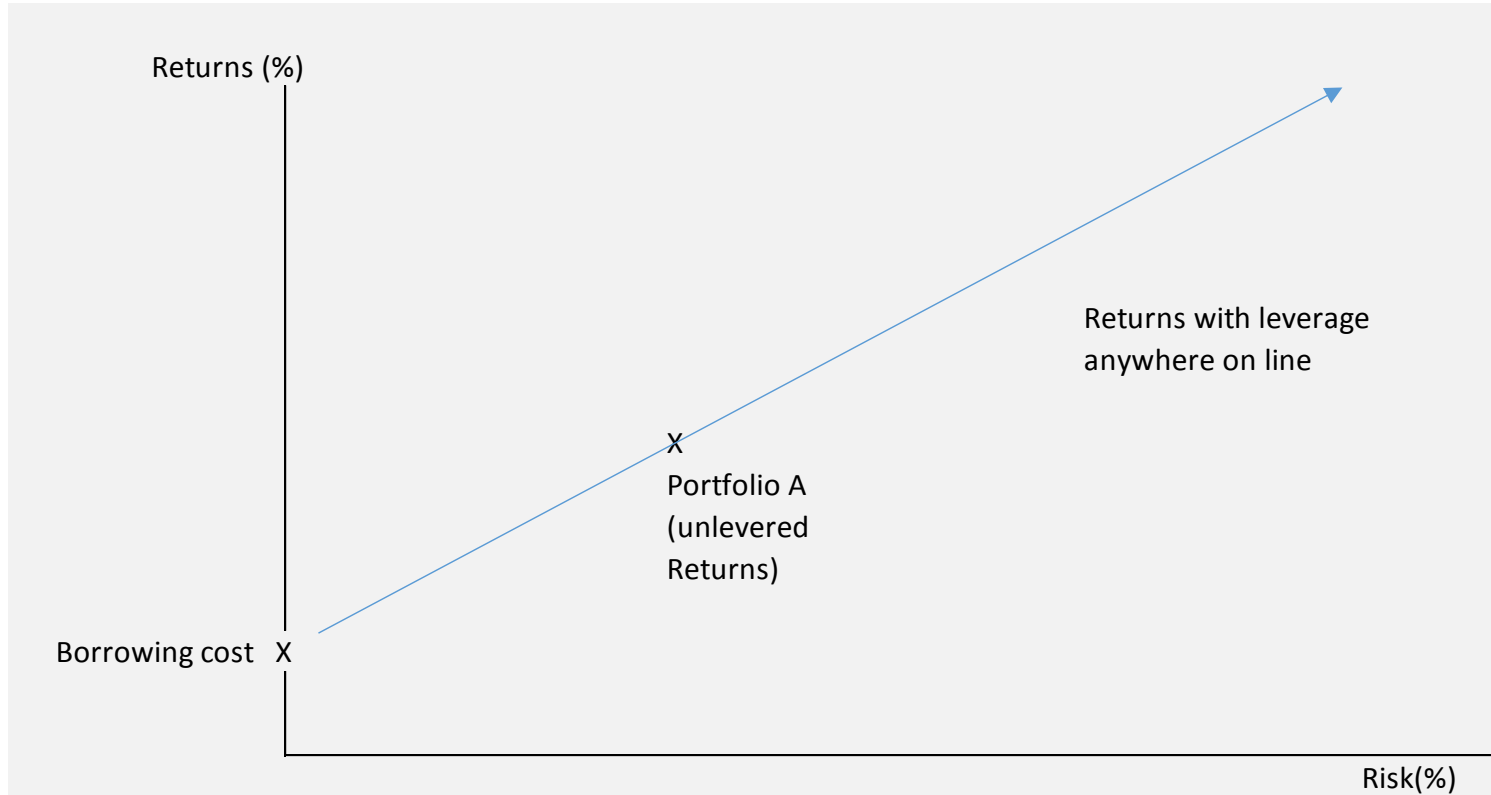
ESG > GREEN



Responsible firm make responsible decision

- Environmental = Managing emissions, resources and risks
- Social = Human rights, health & safety, community relations
- Governance = being responsible, accountability, vision, ethical behaviour & leadership, shareholder rights

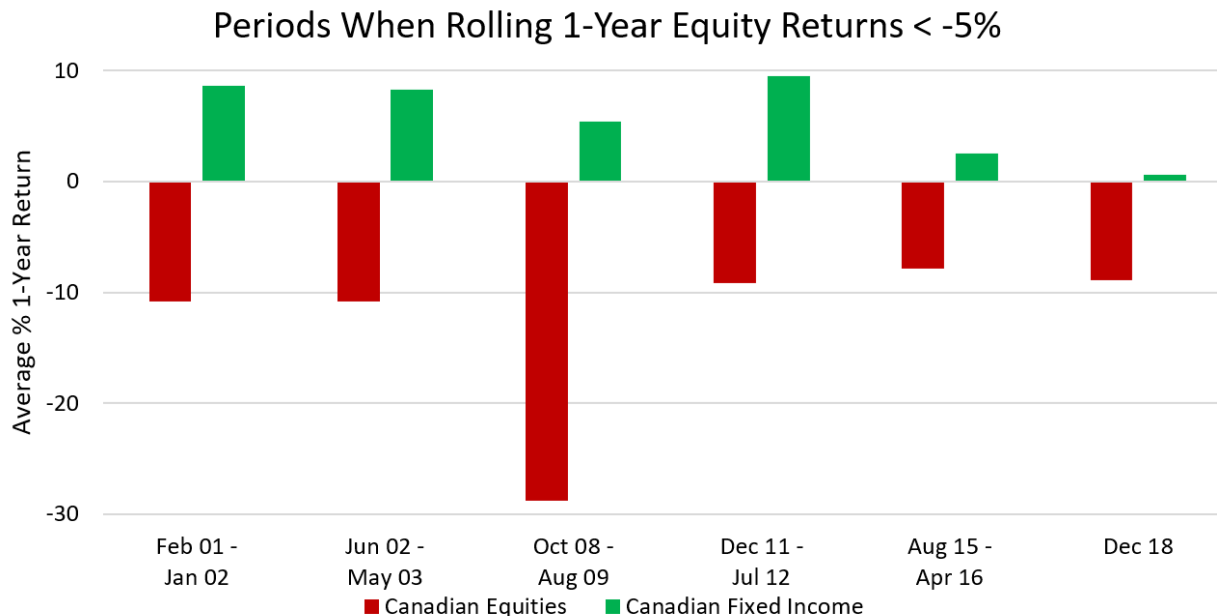
LEVERAGE & RETURNS



- Looking at returns in isolation often misses key item (risk)
- ***Returns can almost always be improved with leverage***

SAMPLE PORTFOLIO LEVEL THINKING

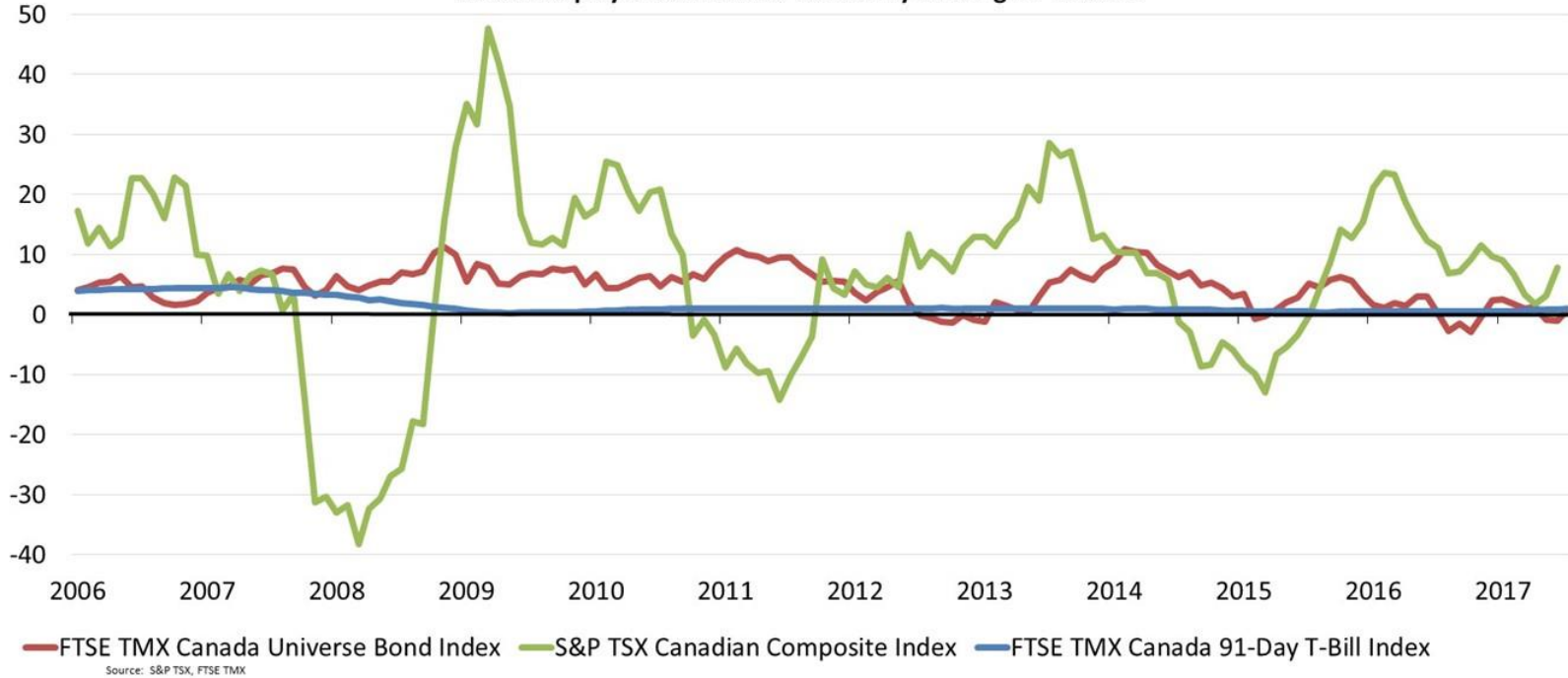
- Chart below shows periods between 2000 and 2018 when Canadian equity returns fell below -5%
- Canadian equities (red), fixed income (green)
- In every period, fixed income had an offsetting positive return
- ***Combining the two helps reduce total portfolio risk by diversification***



Source: S&P TSX Composite Index, FTSE TMX Canada Universe Bond Index

WHAT IS THE CORRELATION OF STOCKS AND BONDS?

**% Rolling 1-Year Returns of Key Canadian Benchmarks
January 2006 to June 2018**
Stocks Display Much Greater Variability and Higher Returns



ONE INVESTMENT FEES

- All-inclusive fees cover brokerage, legal, custodian, accounting services, as well as:
 - Professional Fund Management
 - Diversification
 - **Investment Flexibility & Liquidity**
 - Performance Reporting
 - Investment Oversight
 - Regulatory Compliance Guarantee



ONE INVESTMENT FEES

Accrued daily based on invested amount

Fee schedule:

- Money Market 19 Basis Points
- Short-Term Bonds 40 Basis Points
- Universe Corporate Bonds 45 Basis Points
- Canadian Equity Portfolio 60 Basis Points
- High Interest Savings Account – no fee paid by investor

QUESTIONS?

CONTACT INFORMATION

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