

MCLEAN BUDDEN re: Fixed Income Portfolios

The domestic economic recovery has been surprisingly robust over the past few months, and in response, the Bank of Canada has prepared the market for a rise in administered interest rates this summer. Yet, despite this seemingly negative environment for money market and short-term bonds we remain very positive regarding the near-term prospects of fixed income assets managed within the One Money Market, Bond, and Corporate Bond Portfolios. Why? We anticipate growth to moderate going forward as inventory rebuilding and stimulative government spending subsidies, and moderating economic growth is synonymous with falling interest rates and rising bond values.

Looking further afield, we see increasing economic hardships in Europe as the debt crisis in Greece and some neighboring countries continues. This situation will certainly result in slower global economic growth as governments must slash budgets in order to maintain financial viability. Until this crisis is resolved, our domestic fixed income market will continue to benefit as investors reallocate their investments to the security of high-quality bonds.

These factors continue to lead McLean Budden to believe that there is a positive environment for fixed income investments in the short-medium term.

GUARDIAN CAPITAL re: Equity Portfolios

In just over a year we have perhaps witnessed one of the greatest reversals in market sentiment in history. In late 2008 and early 2009 the markets feared the worst with most commentators predicted a long recovery in both the economy and stock market. At that time, the markets seemed to be on edge about which stalwart financial institution would be next to announce they had financial difficulties. With this as a backdrop, it would have been hard to predict that what was to follow would be one of the sharpest stock market rallies in history and that this rally would be led by renewed speculation and an increasing appetite for risk. On March 9, 2009 the S&P/TSX Composite bottomed and from that low to the end of April 2010 our market has gained 61%. As the world realized the financial system was not collapsing, bank stocks initially led the rally, however, resource stocks, in particular those companies that previously had been shut out from the credit markets, carried the leadership forward. The rally has generally been described as a low quality rally. By way of illustration, from the market low to the end of April 2010 the BMO (weighted) Small Cap Index gained 123% while at the other end of the spectrum the S&P/TSX 60 Index (the largest 60 stocks in Canada) gained 55%.

In this environment, the Equity Portfolio of the One Investment Program has lagged in relative performance against its benchmark. However, our strategy is to control risk while holding quality companies that are reasonably priced. In controlling risk, we maintain prudent diversification by avoiding undue concentration in individual securities as well as individual sectors. This approach has clearly been out of favour of late. Over time, however, our experience (and data) has shown that quality companies provide a superior rate of return with considerably less risk.

To create value for the municipal and public sector clients invested in the One Investment Program Equity Portfolio, Guardian Capital looks past current market trends and builds a

portfolio based on well established, quality businesses, with strong balance sheets, and sound management. Our portfolio holdings demonstrate our commitment to quality; consider, for example, Canadian National Railway - thought to be one of the best rail companies in North America, SNC-Lavalin - a global engineering company, Viterra - a global grain handler, Fortis - a growing and global electrical utility, and Tim Horton's - well known in Canada but with attractive growth plans for the US market. Such stocks lagged in the recent rally but these companies should provide steady and reliable growth resulting in the long term creation of wealth.

In addition, risk control is central to our investment process - indeed, the Equity Portfolio Benchmark has been constructed to reduce the impact of the high resource weight in the S&P/TSX Composite Index. Looking ahead, we see many headwinds that could disrupt the economy such as the withdrawal of stimulus, inflation, higher interest rates, and sovereign debt problems, particularly in Europe. To meet these challenges, we have built a portfolio of strong companies that should over time deliver superior results with less risk, consistent with a prudent public sector investment strategy.

For more information, including Frequently Asked Questions, visit the program website: www.oneinvestmentprogram.ca