
DATE: September 3, 2014

REPORT TITLE: **2013 TREASURY REPORT**

FROM: Stephen VanOfwegen, Chief Financial Officer

RECOMMENDATION

That in compliance with Provincial Regulation 438/97, as amended, governing municipal investment practices, the annual report of the Treasurer and Director of Corporate Finance, titled "2013 Treasury Section's Report" attached as Appendix I to the report of the Chief Financial Officer titled "2013 Treasury Report", be approved.

REPORT HIGHLIGHTS

- In compliance with Provincial Regulation 438/97, as amended, it is the opinion of the Treasurer and Director of Corporate Finance that all investment transactions during 2013 were made in accordance with the investment policies and goals adopted by the Region of Peel.
- Over the course of 2013, the weighted average book value of the General Fund totalled \$1.9 billion, an increase of 20.3% from last year (\$1.6 billion).
- The fixed income assets of the General Fund earned \$65.6 million, which equates to a yield of 3.4% which exceeded the comparable composite DEX yield index by 1.3% or \$24 million.
- The Treasury section's management expense ratio was 3.6 basis points (0.036%), a savings of \$6.3 million if invested with the ONE money market and bond funds
- As at December 31, 2013, the market value of the Region's ONE equity fund holding was \$6.3 million, (2012: \$5.6 million) which was an unrealized gain of 25.3% since the Region's original investment in 2008. This investment represents less than 0.5% of the total General Fund portfolio.
- The Region of Peel's investment policies and goals provide an effective and efficient operational framework, which maximizes the return on investment while ensuring safety of principal and liquidity.

DISCUSSION

1. Background

The 2013 Treasury Section's Report has been prepared in compliance with Provincial Regulation 438/97, as amended, reporting requirements.

The content of the report (per Appendix I) includes:

| | |
|-------------|---|
| Section I | Investment Policy |
| Section II | Investment Review |
| Section III | Cash Management Review |
| Section IV | Region of Peel Funding Review |
| Section V | Interest Rate Outlook for 2014 and 2015 |

2. Investment Policy

In compliance with Provincial Regulation 438/97, as amended, it is the opinion of the Treasurer and Director of Corporate Finance that all investment transactions were made in accordance with the investment policies and goals adopted by the Region of Peel in 2013.

The Region of Peel's investment practices and procedures are subject to ongoing review by both the Region of Peel Internal Audit division and Deloitte, the external auditors for the Corporation.

The investment policy details:

- Policy Statement,
- Investment Scope and Objectives,
- Investment Limitations, and
- Reporting.

The Region's investment limitations include sector exposure, credit rating, term structure and institution. The purpose of establishing such limits is to ensure that the investment activity takes into consideration risk tolerance, capital preservation and portfolio diversification.

3. Investment Review

Investment Management Overview

The Treasury section's management expense ratio (MER) was 3.6 basis points (0.036%) in 2013, comparing favourably to a similar portfolio of ONE funds with an MER of 36.6 basis points and costing \$6.3 million more.

Treasury manages four distinct investment portfolios, captioned below.

a) General Fund (Portfolio GF)

The General Fund is the Region's main investment fund that consists largely of the reserves that Council has built up and as such is the key component of liquidity (those financial assets that the Region could quickly convert to cash) that the Credit Rating agencies look to in their assessment. Key indicators from the general fund portfolio investment review include:

- The weighted average book value of the General Fund totalled \$1.9 billion, an increase of 20.3% from last year (\$1.6 billion), reflecting the debt issuance in 2013 and higher reserve contributions

- Fixed Income Investments
 - Earned \$65.6 million, a yield of 3.4%.
 - This yield exceeded the comparable yield index by 1.3% or \$24 million.
- The Region's ONE Equity Fund holdings had a market value of \$6.3 million at December 31, 2013 representing a 25.3% unrealized gain since the initial 2008 investment and represent less than 0.5% of the General Fund portfolio

b) Caledon Debt Retirement Fund (Portfolio DRF)

The objective of the Caledon Debt Retirement Fund is to provide that funds are available to meet the payment requirements for the underlying debt issue (Series AD). Key indicators from the Debt Retirement Fund portfolio investment review include:

- Earned revenues totaled \$307 thousand, which equates to a yield of 3.1% on the 2013 weighted average book value of \$10.0 million.
- The Town of Caledon's debenture issue had \$15.9 million in principal and interest payments outstanding at December 31, 2013 and the Caledon's Debt Retirement Fund's assets are sufficient to fund \$8.3 million of these liabilities (until December 14, 2017).
- Caledon has advised the Region that it has been making provisions to fund the \$7.5 million remaining until the debenture matures in December 14, 2019.

c) Sinking Fund Contribution Funds

The objective of the Sinking Fund Contribution Fund (SFCF) is to provide that funds are available to meet the payment requirements for the underlying debt issue at maturity. Below is a table outlining the debt issue, the earnings rate for each issue in 2013 and the surplus position of each debt issue:

| | Debt Issue EC | Debt Issue EB | Debt Issue DQ |
|----------------------|----------------------|----------------------|----------------------|
| Issued | \$300 million | \$200 million | \$500 million |
| Earnings Rate | 5.3% | 3.4% | 4.7% |
| Surplus | \$42,000 | \$89,000 | \$85,000 |

d) Peel Housing Corporation

A review of the investment policy including details on the portfolio holdings and performance will be provided to Peel Housing Corporation Board on an annual basis. Cash balances are pooled with the Region's funds and attract the same earnings rate.

4. ROP Funding Review

Funds held at year end

As at the end of December 2013 the ROP had \$6.1 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority).

Funds Increase

External debt issuance of \$250 million for Regional DC purposes and \$33 million for Regional Social Housing purposes.

Funds Reduction

Internal borrowings decreased by \$33 million (to a total outstanding of \$41.4 million to fund capital projects in social housing and long-term care) as a result of external debt issue.

CONCLUSION

The Region of Peel's Investment policies and goals provide the Region with an effective and efficient investment management operation which maximizes the rate of return on investment while ensuring safety of principal and liquidity.



Stephen VanOfwegen, Chief Financial Officer

Approved for Submission:

D. Szwarc, Chief Administrative Officer

APPENDICES

Appendix I - 2013 Treasury Section's Report

For further information regarding this report, please contact David Bingham, Treasurer and Director, Corporate Finance, extension 4292, dave.bingham@peelregion.ca.

Authored By: Paul Pohl



Corporate Services

2013 TREASURY SECTION'S REPORT

Dated: August 1, 2014

David Bingham
Treasurer & Director, Corporate Finance

Prepared by: Paul Pohl, Senior Treasury &
Portfolio Manager

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I. INVESTMENT POLICY

In compliance with Provincial Regulation 438/97, as amended, it is the opinion of the Treasurer and Director of Corporate Finance that all investment transactions, during 2013, were made in accordance with the investment policies and goals adopted by the Region of Peel.

The Region of Peel's investment practices and procedures are subject to ongoing review by both the Region of Peel Internal Audit Division and the external auditors for the Region, Deloitte.

A. Policy Statement

The overall investment policy is to ensure that surplus funds are invested, in accordance with the existing legislation, in such a way as to maximize returns while minimizing risk.

The Region of Peel's investment strategy is one of matching. This strategy ensures that the term structure of the assets (investments) reflects the term structure of the liabilities (expected ultimate use of the cash). A neutral weighting would infer that the overall cash flow will net out without having to be exposed to potential loss of purchasing power caused by re-investing excess funds at lower rates or selling longer term investments during a period of rising interest rates.

The interest rate exposure will vary depending upon the average term of the portfolio. The average term of the portfolio is set by the Senior Treasury and Portfolio Manager and reflects the Manager's interest rate outlook and the current liability structure as documented in the Region's reserve component of the 10 year capital plan.

B. Investment Scope and Objectives

The investment policy applies to the Region's funds under management. During 2013, the following funds were under management, the General Fund (GF), the Town of Caledon Debt Retirement Funds (DRF), and three Sinking Fund Contribution Funds for series DQ, EB and EC.

The investment policy can be further broken down into four major objectives:

1. Conform to Legislative Constraints

Staff must operate within the boundaries of the current Municipal Act (Municipal Act, 2001 Section 418-420) and legislation governing eligible investments (O. Reg. 438/97 as amended).

2. Ensure Safety of Principal

The loss of monies resulting from the default of an issuer on principal or interest payments (credit risk) has been minimized through the establishment of investment limitations.

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3. Maintain Adequate Liquidity

Maintaining adequate liquidity helps to ensure cash is available when needed. Accurate forecasts of short term cash flows are essential to achieving this objective. This objective also requires that adequate provisions exist for financing in the event of a cash shortfall.

4. Maximize Rate of Return while Conforming to Other Objectives

The objectives of safety of principal and maintenance of liquidity must not be compromised in order to maximize returns. Once the essential parameters governed by the first three objectives have been addressed, the Treasury section then manages the portfolio in such a way to maximize the longer-term income flow of the portfolio.

C. Investment Limitations

The Region's investment limitations include sector, credit rating and term structure exposure. The purpose of establishing such limits is to ensure that the investment activity takes into consideration risk tolerance, capital preservation and portfolio diversification.

The investment limitations for the Sinking Fund Contribution Funds apply to each individual Sinking Fund debenture series (currently series DQ, EB and EC). The funds are not comingled into one portfolio to ensure that investment earnings are sufficient to pay the principal of the individual debenture at maturity.

Minimum Credit Rating Limitations

Section 3 of O. Reg. 438/97 provides minimum allowed credit ratings by credit rating agency (DBRS, Fitch, Moody's and Standard and Poor's) for select securities. Currently the Region uses the highest credit rating assigned, of DBRS, Moody's and Standard and Poor's credit rating agencies, for investment decisions and reporting.

D. Reporting

The Treasury section will provide a review of Treasury related activity, on an as needed basis, to the Chief Financial Officer. On an annual basis the Treasurer, in accordance with legislative requirements, will submit to Council an annual report on Treasury related activity.

The Treasury section monitors all securities for any changes to credit ratings. Should a rating change result in over exposure with respect to established limitations, an exceptions report must be prepared for the Chief Financial Officer and the Treasurer and Director of Corporate Finance. The position must be sold if deemed appropriate.

In August 2009, Regulation 438/97 was amended to include the following additional reporting requirement.

In accordance with amendment O. Reg. 292/09, if a change in credit rating, for any asset held during the year, falls below what is permitted under current eligible investment legislation, the Treasurer must report such holdings to the Council of the municipality in the annual report. The asset must be sold within 180 days of the downgrade.

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It is important to note that as described below, the Region's investment policy has always been more conservative than what the legislation now requires. As such, it is unlikely that an asset held would fall below what is permitted under the current eligible investment legislation.

According to the Region's investment policy, if an investment made by the municipality is, in the Treasurer and Director of Corporate Finance's opinion, no longer consistent with the investment policies and goals adopted by the municipality, the Treasurer and Director of Corporate Finance shall report the inconsistency to the Council of the municipality within 30 days after becoming aware of it.

II. INVESTMENT REVIEW

Investment Management Overview

The Treasury section reports through the Corporate Finance division and is currently composed of a Senior Treasury and Portfolio Manager, a Treasury Advisor and two Analysts.

Treasury's internally managed investment program continues to demonstrate its effectiveness. The Treasury section's management expense ratio (MER, operational cost relative to the size of the assets under management) was 3.6 basis points in 2013 (0.036%) and over the past 5 years, has averaged 4.0 basis points (0.040%). This is in light of higher volumes of investment and cashflow activity generated by the borrowing program. This MER is an extremely competitive rate. In comparison, the One Fund charges a management fee of 19 basis points (0.19%) for the money market fund, and 40 basis points (0.40%) for the bond fund. The ONE Fund is jointly operated by the Local Authorities Services Limited (a subsidiary of the Association of Municipalities of Ontario) and by the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association). The internally managed investment program continues to demonstrate its effectiveness. If the Region were to reinvest the GF into the ONE money market and bond funds, at the current term composition, it would amount to an additional cost of 33 basis points (0.33%) or an additional annual budget outlay of \$6.3 million.

A. General Fund (GF)

The GF includes reserves and reserve funds, working capital and other funds within the Region. Debt issuance in 2013 also contributed to funding a positive balance in the Development Charges Reserve Fund equivalent to \$296.8 million at year end. Over the course of 2013, the weighted average book value of the GF totaled \$1.9 billion, an increase of 20.3% from last year (\$1.6 billion) reflecting the additional funds acquired through recovering DC revenue, additional debt issuance in 2013 and additional reserve contributions.

1. Fixed Income Investments

Credit Analysis

Over the past five years, the AAA exposure has been reduced from 53% to 29%. Despite this, 100% of the GF remains conservatively invested in high quality A and higher rated bonds.

Within the holdings of assets with a AA credit rating, the largest positions are with the Province of Ontario (9.1%) and Royal Bank (7.6%). Hydro Quebec is the largest A rated holding at 6.6%.

Credit Rating Analysis

(% par value)

| Annual Average | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| AAA | 53% | 46% | 43% | 36% | 29% |
| AA | 41% | 48% | 48% | 45% | 50% |
| A | 6% | 6% | 9% | 19% | 21% |
| TOTAL | 100% | 100% | 100% | 100% | 100% |

During 2013, there were no assets with a credit rating that fell below what is permitted under current eligible investment legislation.

Term Analysis

During 2013, the average term of the portfolio was 5.1 years, up from 4.6 years at the end of 2012. The term extension reflects the elimination of overnight investments due to higher bank balance returns and reduced internal borrowings for Development Charges, allowing maturing investments to be rolled out for longer dates. The term composition reflects the anticipated reserve expenditure according to the current 10 year Region of Peel capital plan.

Term Sector Analysis

| Annual Average | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| < 1 year | 24% | 33% | 31% | 22% | 12% |
| 1-5 year | 52% | 49% | 46% | 36% | 44% |
| > 5 years | 24% | 18% | 23% | 42% | 44% |
| TOTAL | 100% | 100% | 100% | 100% | 100% |

| | | | | | |
|---------------------------------|-----|-----|-----|-----|-----|
| Weighted Avg. Term (yrs) | 3.1 | 2.6 | 3.1 | 4.6 | 5.1 |
|---------------------------------|-----|-----|-----|-----|-----|

Sector Analysis

During the year, the federal sector experienced a decrease in holdings of 6% and the provincial sector a decrease of 4%. Both the municipal sector and corporate sector increased holdings by 4% and 6% respectively. This reflects the change in sector limits approved by Council in 2013.

| Annual Average | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Federal Sector | 29% | 23% | 19% | 14% | 8% |
| Provincial Sector | 26% | 27% | 40% | 44% | 40% |
| Municipal Sector | 23% | 22% | 23% | 28% | 32% |
| Corporate Sector | 22% | 28% | 18% | 14% | 20% |
| TOTAL | 100% | 100% | 100% | 100% | 100% |

A summary of the GF investments, by counterparty, is contained in Appendix A.

O. Reg. 438/97 requires that a municipality provide information on investments held in its own securities. The Region of Peel decreased its holdings of its own debentures from 1.27% in 2012 to 1.03% in 2013.

| Date | Par Value | | Proportion of ROP Bonds to Portfolio |
|--------------------------|-----------------------|-----------------------|--------------------------------------|
| | Portfolio | ROP Bonds | |
| December 31, 2013 | 2,063,124,857.00 | 21,261,000.00 | 1.03% |
| December 31, 2012 | 1,757,243,651.00 | 22,261,000.00 | 1.27% |
| Yr over Yr Change | 305,881,206.00 | (1,000,000.00) | -0.33% |

During the 2013 year one transaction, a maturity occurred in Region of Peel debentures.

| Maturity Date | Portfolio | Coupon | Par Value | Price | Yield |
|---------------|--------------|--------|-------------|----------|-------|
| June 29, 2013 | General Fund | 2.8 | \$1,000,000 | \$99.863 | 2.85% |

Investment Transactions

Over the course of 2013, investment transactions (purchases and sales) were primarily long term, with an average of \$69 million per month (versus \$33 million in 2012). The weighted average term of long term purchases was 2,245 days (versus 2,931 days in 2012). The majority of long term purchases occurred in the corporate sector (51%). The short term value of purchases and sales fell significantly from \$299 million in 2012 to \$3 million in 2013. This reduction reflects the decrease in overnight investment placements due to the enhanced bank deposit rates achieved in the 2012 bank tender.

In 2013, all short term transactions for the GF totalled \$38 million (par value) and were purchases. The average term of these transactions was 97 days.

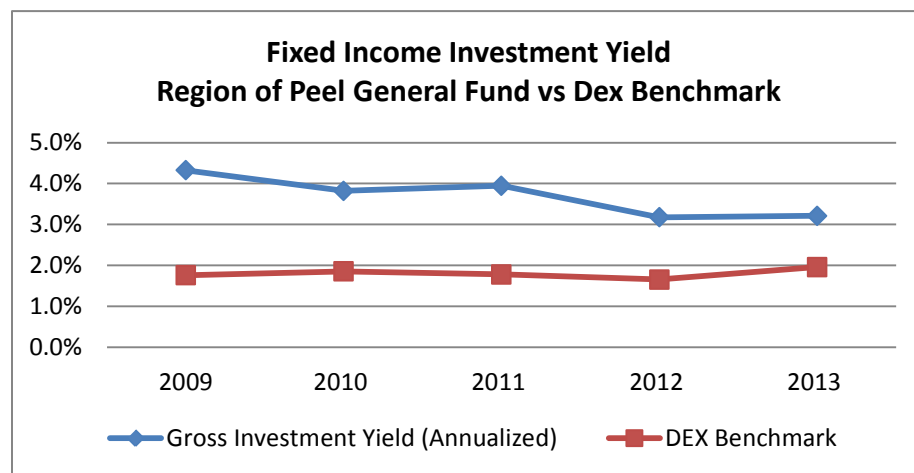
Fixed Income Investment Yield

The gross fixed income investment yield is based on earned revenues (interest income, realized capital gains/losses, amortized premiums/discounts and securities lending income) as a percentage of the weighted average book value and net of expenses. In 2013, the holdings of the GF earned \$65.6 million, which equates to a yield of 3.4% (after management fees). This compares to a revised yield of 3.2% (\$50 million) in 2012. The average investment yield, over the past 5 years, was 3.6%. The decline in the GF's bond yield reflects the continued decline of yields in bonds. This decline was somewhat offset by lengthening the duration of the GF portfolio, which mitigates the lower yields in the current environment and the Council approved change in the sector mix with more municipal bonds. Interest rates remain stagnant at historically low levels and any re-investment of funds are being booked at lower yields.

Performance Measurement for Fixed Income

The benchmark to gauge investment performance for the GF's fixed income investments is a composite of the PC Bond DEX yield index for 91-day Canada Treasury bills and All Government short and mid-term bonds. The composite is created so that the term of the benchmark mirrors the weighted average term of the GF.

During 2013 the fixed income yield for the GF exceeded the comparable composite DEX yield index by 1.3%. The average benchmark interest rate over the course of 2013 was 2.0%, which is higher than 2012 (1.7%). During the past 5 years, the GF has outperformed the DEX yield by an average of 1.9% or \$28 million per annum. The Region's yield tends to outperform the benchmark yield during periods of declining rates, as approximately 1/10th of the portfolio matures annually and the proceeds are reinvested at the prevailing lower rates.



It is important to note that these above benchmark returns were earned by the portfolio within the guidelines imposed by both Municipal Legislation and the Region's conservative investment policy.

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2. Equity Investment

In March 2008, Regional Council approved the by-law required to enter into the ONE equity fund. Under current provincial legislation, the ONE Equity Fund is the only equity fund that is a permitted investment for municipalities. On July 4, 2008, the Region invested \$5 million in the ONE equity fund. This fund is operated by Local Authority Services (LAS) (a subsidiary of the Association of Municipalities of Ontario) and CHUMS (a subsidiary of the Municipal Finance Officers' Association of Ontario). The investment manager is Guardian Capital Management. The ONE Equity Fund began accepting investments on January 2, 2007 and the funds objective is:

“to provide superior long-term investment returns through capital growth and dividend yield. The Equity Portfolio achieves this by investing in a diversified, conservatively managed portfolio of equity securities issued by corporations, as permitted by applicable regulations.”

As at December 31, 2013, the market value of the Region's ONE equity fund holding was \$6.3 million, which is an unrealized gain of 25.3% since the original purchase. On an annual basis, the ONE equity fund increased by 11.7% over the previous year and also outperformed the broader S&P/TSX Composite index, which increased at 1.8% year over year.

The ONE equity fund return results must be viewed in context of the fact this is a long term investment, with a horizon of 7 to 10 years, before funds are anticipated to be required.

The total ONE equity fund balance is \$103.1 million (of which the Region accounted for \$5 million or 4.8%) with management fees of 60 basis points (0.60%).

3. Total Investment Yield

The fixed income portion of the GF accounts for 99.7% of the total investments and therefore the impact of the equity exposure is insignificant for the total investment yield. The total yield for the GF when fixed income and equity is combined on a weighted average is 3.4%, higher than 2012 (3.2%).

4. Deferred Revenue Account

In December 2006, the Region adopted a strategy to implement a Source of Sustainable Funding. The Region's overall investment management strategy includes the utilization of a reserve to assist in stabilizing earnings from any market volatility. The rationale behind this Deferred Revenue account is to provide a safeguard against a potential capital loss should the Region of Peel experience an unexpected cash requirement that would force the liquidation of a portion of the GF in an unfavourable market.

The target size of the deferred revenue account was set at 15% of the volatility value of the GF's assets with maturities beyond one year. The volatility value is calculated by determining the impact to market value given a 1% shift in the yield curve. Based on the GF as at December 31, 2013, this equates to a reserve of \$10.5 million.

B. Caledon Debt Retirement Fund

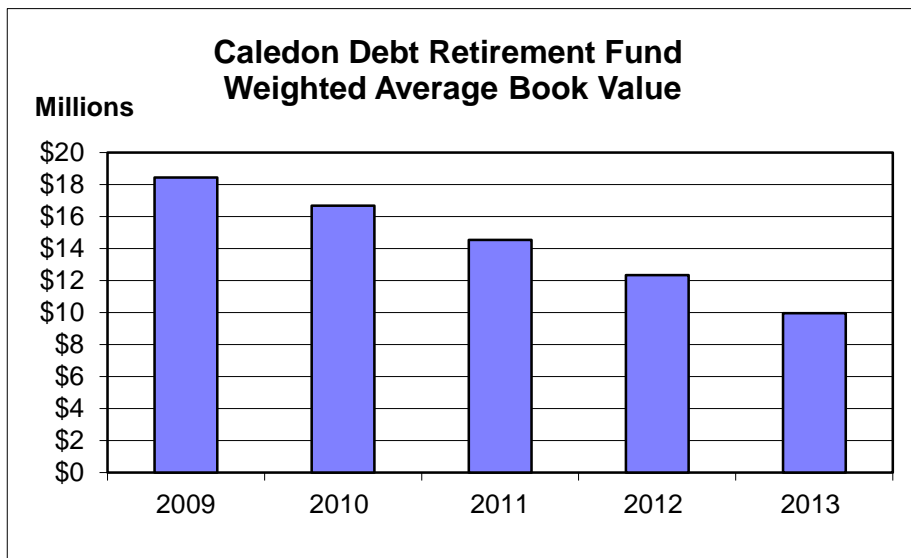
The Caledon Debt Retirement Fund is under the direction of the Sinking Fund Contribution and Debt Retirement Committee and is comprised of the Treasurers from

the three area municipalities, as well as the Regional Treasurer and Director of Corporate Finance, Chair of the Committee.

The objective of managing the Caledon Debt Retirement Fund is to ensure that adequate funds are available to meet the payment requirements for the underlying debenture issue. Accordingly, the investment maturities must be close to, but not exceed, the required payment dates.

The Caledon Debt Retirement Fund was established in 2003. The Town of Caledon has contributed \$29 million to this fund since that time. Over the same time frame, liability payments (principal and interest) have totaled \$28.3 million.

The weighted average book value of the Caledon Debt Retirement Fund during 2013 was \$10.0 million (compared to \$12.3 million last year), with the decline reflecting the annual repayment on the underlying debenture issue.



1. Credit and Sector Analysis

On average, over last year, the AAA credit exposure was 59% versus 79% during 2012. As at year end, 2 holdings remained in the portfolio Waterloo (60%) and City of Toronto (40%).

During 2012, there were no assets with a credit rating that fell below what is permitted under current eligible investment legislation.

CREDIT RATING ANALYSIS

| (% Par Value) | | | | | |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Annual Averages | 2009 | 2010 | 2011 | 2012 | 2013 |
| AAA | 37% | 43% | 80% | 79% | 59% |
| AA | 48% | 45% | 20% | 21% | 41% |

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| | | | | | |
|---------------|------|------|------|------|------|
| A | 15% | 12% | 0% | 0% | 0% |
| Totals | 100% | 100% | 100% | 100% | 100% |

Since the cash flows are known for the DRF and assets are purchased to closely match those liabilities, liquidity is not an issue. The focus is on maximizing returns while maintaining high quality assets. As such, Municipal bonds represent an ideal investment and explain why they accounted for all of the assets held by the fund during 2013 year to date.

SECTOR ANALYSIS

(% par value)

| Annual Average | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Provincial | 0% | 0% | 0% | 0% | 0% |
| Municipal | 100% | 100% | 100% | 100% | 100% |
| Banks & ABS | 0% | 0% | 0% | 0% | 0% |
| Totals | 100% | 100% | 100% | 100% | 100% |

A summary of the Debt Retirement Fund investments, by counterparty, is contained in Appendix A.

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O. Reg. 438/47 requires that a municipality provide information on investments held in its own securities. The Region of Peel decreased its holdings of its own debentures held in the Caledon Debt Retirement Fund from 9.73% to 0% in 2013.

| Date | Par Value | | Proportion of ROP Bonds to Portfolio |
|---------------------|--------------|--------------|--------------------------------------|
| | Portfolio | ROP Bonds | |
| Dec. 31, 2013 | 2,467,000.00 | - | 0.00% |
| Dec. 31, 2012 | 2,733,000.00 | 266,000.00 | 9.73% |
| Yr. over Yr. Change | (266,000.00) | (266,000.00) | 100.00% |

During the 2013 year, two transactions (both maturities) occurred in this fund.

| Maturity Date | Portfolio | Coupon | Par Value | Price | Yield |
|------------------------------------|-------------|--------|------------|---------|-------|
| Dec. 14, 2013 | Caledon DRF | 6.6% | 105,000.00 | 113.250 | 4.453 |
| Dec. 14, 2013 | Caledon DRF | 6.6% | 161,000.00 | 101.419 | 4.570 |
| Total maturities in own securities | | | 266,000.00 | | |

2. Fixed income Investment Yield

The fixed income investment yield is based on earned revenues (interest income, realized capital gains/losses and amortized premiums/discounts) as a percentage of the weighted average book value. In 2013, Caledon's Debt Retirement earned \$307 thousand which equates to a yield of 3.1%. This compares to \$473 thousand or 3.8% last year. The average investment yield, over the past 5 years, has been 3.7%.

3. Unfunded Outstanding Debentures

The Town of Caledon's debenture issue (series AD), connected with the Caledon Debt Retirement Fund, had \$15.9 million in principal and interest payments outstanding as at December 31, 2013.

Caledon's Debt Retirement Fund's assets are sufficient to fund \$8.3 million of the Series AD debenture issue's liabilities (until 2017/12/14). This leaves a \$7.5 million unfunded debenture liability for the Town of Caledon until the debenture matures in 2019/12/14. At interest rates as at December 31, 2013 the net present value of the remaining exposure is approximately \$6.9 million.

C. Sinking Fund Contribution Funds

1. Investment Yield, Earnings and Surplus/Deficiency for the Year

The Sinking Fund Contribution Funds (SFCF) is also under the direction of the Sinking Fund Contribution and Debt Retirement Committee and is comprised of the Treasurers from the three area municipalities, as well as the Regional Treasurer and Director of Corporate Finance, Chair of the Committee.

The objective of managing the Sinking Fund Contribution Funds is to ensure that the annual contributions from each participant, together with the earnings from these contributions funds, total the payment requirements for the underlying debenture issue at maturity.

The Sinking Fund Contribution Funds are established each year as required for debt issuances. Contributions per the repayment schedule were made by the Town of Caledon and the Region for Series DQ and EB and by the Region for Series EC. Details for each are provided below.

a) Sinking Fund – Series DQ (Issue Date 2010-06-29)

| Year | Interest Payments | | Total | Provision Payment | | Total |
|------|-------------------|-----------------|-----------------|-------------------|-----------------|----------------|
| | Region of Peel | Town of Caledon | | Region of Peel | Town of Caledon | |
| 2013 | \$25,225,554.88 | \$274,445.12 | \$25,500,000.00 | \$8,819,100.87 | \$95,948.70 | \$8,915,049.57 |

The third sinking fund contribution to the Series DQ Fund was made on June 29th. Due to the growing size (\$18.5 million) of the DQ Sinking Fund a separate investment portfolio was created in January 2013. The 2013 return for the DQ portfolio was 4.7%, above the targeted earnings rate of 4.0%. This resulted in an earnings surplus for the Town of Caledon of \$3,159.62 and for the Region \$81,920.99.

b) Sinking Fund – Series EB (Issue Date 2011-10-06)

| Year | Interest Payments | | Total | Provision Payment | | Total |
|------|-------------------|-----------------|----------------|-------------------|-----------------|----------------|
| | Region of Peel | Town of Caledon | | Region of Peel | Town of Caledon | |
| 2013 | \$6,977,561.92 | \$22,438.08 | \$7,000,000.00 | \$7,804,329.00 | \$25,096.75 | \$7,829,425.75 |

A separate investment portfolio was created for the EB Sinking Fund in February of 2013. The 2013 return for this portfolio was 3.4%, well above the targeted rate of 2.5%. This resulted in an earnings surplus for the Town of Caledon of \$284.54 and for the Region \$88,653.24.

c) Sinking Fund – Series EC (Issue Date 2012-11-30)

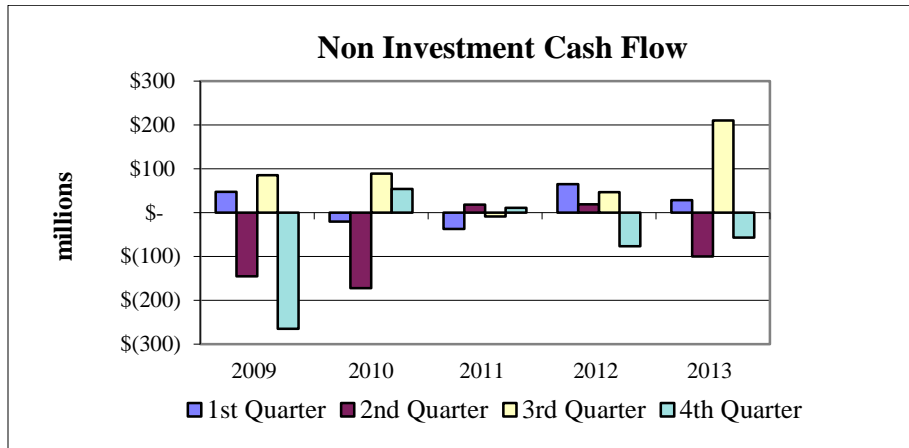
| Year | Region of Peel | |
|------|-------------------|-------------------|
| | Interest Payments | Provision Payment |
| 2013 | \$11,550,000.00 | \$6,833,292.21 |

The EC Sinking Fund portfolio was created shortly after the receipt of its first provision payment on October 30th. The EC portfolio experienced a return of 5.3%, well above the targeted rate of 2.5%. This resulted in an earnings surplus for the Region of \$41,911.73.

III. CASH MANAGEMENT REVIEW

A. Non-Investment Cash Flows

The Treasury section monitors the Region’s cash flows to ensure that borrowing costs are minimized and that any surplus cash is invested until required. Cash inflows to the Region include tax levies, wastewater and water deposits, development charges and federal/provincial grants. Cash outflows from the Region include disbursements to external vendors, the Ontario Works program, and Social Housing and staff salaries.



Excluding investment income, the Region experienced a net non-investment cash inflow of \$81.4 million during 2013, due to the change in Region’s banking agreement which provides competitive deposit interest on surplus funds compared to short-term investments.

September 3, 2014

2013 TREASURY REPORT

B. Performance Measurement for Cash Management

The performance measurement Treasury uses to monitor its cash management performance is cash flow variance. Cash flow variance is calculated by comparing the estimated cash bank balance to the actual and thereby measures the accuracy of Treasury's cash flow projection. The variance target has been set at +/- 15% of the average daily cash flow (absolute value) and Treasury's goal is to meet this target 70% of the time. The goal was increased from 60% to 70% in 2010 to reflect the Region's use of electronic transmission of funds which dramatically improved the accuracy of our forecasting.

With cash flows of this magnitude, a lack of accuracy can result in considerable financial costs. The Treasury section maintains a detailed cash flow forecast for a period of one year. Treasury's ability to forecast daily cash requirements depends on the quality of information from the various internal and external counterparties. The more accurate the information, the better the cash forecast and the better the investment performance potential. Treasury constantly monitors the variance that occurs between expected and actual cash flows. Treasury is in continual dialogue with other departments within the Region, external vendors of large cheques and Area Municipalities, to ensure the cash flow information is up to date.

The 2013 daily average cash flow (absolute value) was \$17.3 million (compared to \$40.0 million last year), making the ROP's variance target +/- \$2.6 million (+/- \$6.0 million last year). The decrease in daily cash flows are the result of less investment activity in the short term due to lower investment yields and higher bank account earnings negotiated in the 2012 Banking Agreement. For 2013, this target has been achieved 100% of the time, exceeding our goal.

IV. ROP FUNDING REVIEW

Funds held at year end

As at the end of December, ROP had \$6.1 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority), \$1.4 billion of Region own-purpose debt and \$262.9 million in PHC social housing mortgages and \$1 million PHC note payable to the Tenants Association of Twin Pines.

As noted in the Region's 2013 Financial Statements, the investments on behalf of the United Way of Peel Region and Credit Valley Conservation were redeemed and the funds returned in early 2014.

Funds Increase

In 2013, Debt Series EQ and EP were issued for a total of \$283 million, bringing the Region's issued and outstanding own-purpose debt to a total of \$1.4 billion, detailed as follows:

September 3, 2014

2013 TREASURY REPORT

In 2013, Debt Series EQ and EP were issued for a total of \$283 million, bringing the Region's issued and outstanding own-purpose debt to a total of \$1.4 billion, detailed as follows:

Region of Peel Debt as at December 31

| Date Issued | Issued for | | 2013 | 2012 |
|---|-------------------|----------------|------------------------|------------------------|
| 1999-12-14 | Caledon | Series AD | \$12,743,000 | \$14,437,000 |
| 2001-11-09 | Region of Peel | CMHC | 133,332 | 166,665 |
| 2010-06-29 | Region Of Peel | Series DQ | 493,325,198 | 493,271,170 |
| 2010-06-29 | Caledon | Series DQ | 5,381,277 | 5,381,277 |
| 2010-06-29 | Region of Peel | Series DT - EA | 6,982,383 | 7,976,919 |
| 2011-02-01 | Region of Peel | CMHC | 64,919,829 | 67,366,276 |
| 2011-10-06 | Region of Peel | Series EB | 198,348,778 | 198,143,837 |
| 2011-10-06 | Caledon | Series EB | 641,088 | 641,088 |
| 2011-11-04 | Region of Peel | FCM | 3,679,896 | 3,848,243 |
| 2012-10-30 | Region of Peel | Series EC | 298,343,243 | 298,216,843 |
| 2013-06-20 | Mississauga | Series ED - EN | 50,000,000 | 0 |
| 2013-06-20 | Region of Peel | Series EP | 32,722,449 | 0 |
| 2013-08-23 | Region of Peel | Series EQ | 248,147,634 | 0 |
| Gross Region of Peel Debentures | | | \$1,415,368,107 | \$1,089,449,318 |
| Mortgages payable by Peel Housing Corporation | | | 262,863,000 | 283,323,000 |
| Note Payable | | | 1,000,000 | 1,000,000 |
| Total Outstanding | | | \$1,679,231,107 | \$1,373,772,318 |
| Less: Region's sinking fund deposits | | | 51,232,000 | 26,253,000 |
| | | | \$1,627,999,107 | \$1,347,519,318 |
| Less: | Mississauga | | -50,000,000 | 0 |
| | Caledon | | -18,765,365 | -20,459,365 |
| Net Region own-purpose Debt | | | \$1,559,233,742 | \$1,327,059,953 |

Funds Reduction

As at December 31, 2013, the Region had internal borrowings of \$41.4 million (2012: 74.8 million) to fund capital construction in social housing and long-term care.

The debt policy adopted by Council in 2011 addresses funds provided through internal borrowings and the reduction in 2013, of \$33 million, reflects the issuance of a 40 year debenture for social housing.

GF Fixed Income: Investments by Counterparty



As of : 31-Dec-2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|--------------------------------------|--------|--------------------|-------------------|------------------|------------|
| CHT | AAA | 9,250,000 | 50.0% | 0.4% | 30 |
| CMHC | AAA | 10,000,000 | 50.0% | 0.5% | 30 |
| EDC | AAA | 5,000,000 | 50.0% | 0.2% | 30 |
| FARM CREDIT | AAA | 5,000,000 | 50.0% | 0.2% | 30 |
| Subtotal - FEDERAL GUARANTEE >= AAA- | | 29,250,000 | 95.0% | 1.3% | |
| CANADA | AAA | 85,000,000 | 100.0% | 3.8% | 30 |
| Subtotal - CANADA >= AAA- | | 85,000,000 | 100.0% | 3.8% | |
| FEDERAL SECTOR | | 114,250,000 | 100.0% | 5.2% | |
| ALBERTA CFA | AAA | 5,000,000 | 25.0% | 0.2% | 30 |
| BRITISH COLUMBIA | AAA | 86,530,853 | 25.0% | 3.9% | 30 |
| Subtotal - PROVINCIAL >= AAA- | | 91,530,853 | 75.0% | 4.1% | |
| DURHAM DSB | AA- | 7,409,000 | 10.0% | 0.3% | 15 |
| MANITOBA | AA | 50,751,242 | 20.0% | 2.3% | 15 |
| ONTARIO | AA- | 201,500,250 | 20.0% | 9.1% | 15 |
| ONTARIO EFC | AA- | 148,341,920 | 20.0% | 6.7% | 15 |
| OSBFC | AA- | 3,500,000 | 10.0% | 0.2% | 15 |
| SASKATCHEWAN | AA+ | 15,170,000 | 20.0% | 0.7% | 15 |
| YORK REGION DSB | AA- | 5,898,000 | 10.0% | 0.3% | 15 |
| Subtotal - PROVINCIAL >= AA- | | 432,570,412 | 75.0% | 19.5% | |
| FIN QUEBEC | A+ | 11,000,000 | 10.0% | 0.5% | 15 |
| HYDRO QUEBEC | A+ | 145,781,000 | 10.0% | 6.6% | 15 |
| NB MFC | A+ | 27,333,000 | 10.0% | 1.2% | 15 |
| NEW BRUNSWICK | A+ | 32,148,686 | 10.0% | 1.5% | 15 |
| NEWFOUNDLAND | A | 5,301,000 | 10.0% | 0.2% | 15 |
| NOVA SCOTIA | A+ | 32,007,629 | 10.0% | 1.6% | 15 |
| PEI | A | 8,257,000 | 10.0% | 0.4% | 15 |
| QUEBEC | A+ | 64,088,277 | 10.0% | 2.9% | 15 |
| Subtotal - PROVINCIAL >= A- | | 325,916,592 | 20.0% | 14.8% | |
| PROVINCIAL SECTOR | | 850,017,857 | 75.0% | 38.5% | |

GF Fixed Income: Investments by Counterparty



As of : 31-Dec-2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|------------------------------|--------|--------------------|-------------------|------------------|------------|
| DURHAM | AAA | 14,514,000 | 20.0% | 0.7% | 30 |
| HALTON | AAA | 28,786,000 | 20.0% | 1.3% | 30 |
| LONDON | AAA | 4,921,000 | 20.0% | 0.2% | 30 |
| MFA BC | AAA | 87,770,000 | 20.0% | 4.0% | 30 |
| PEEL | AAA | 21,261,000 | 20.0% | 1.0% | 30 |
| SASKATOON | AAA | 5,216,000 | 20.0% | 0.2% | 30 |
| WATERLOO | AAA | 29,404,000 | 20.0% | 1.3% | 30 |
| YORK | AAA | 54,145,000 | 20.0% | 2.4% | 30 |
| Subtotal - MUNICIPAL >= AAA- | | 246,017,000 | 60.0% | 11.1% | |
| BC TLINK | AA | 4,199,000 | 15.0% | 0.2% | 15 |
| CITY OF GUELPH | AA | 4,800,000 | 15.0% | 0.2% | 15 |
| EDMONTON | AA+ | 19,000,000 | 15.0% | 0.9% | 15 |
| LAVAL | AA- | 20,000,000 | 15.0% | 0.9% | 15 |
| MUSKOKA | AA | 2,000,000 | 15.0% | 0.1% | 15 |
| NIAGARA | AA | 6,596,000 | 15.0% | 0.3% | 15 |
| OTTAWA | AA+ | 16,575,000 | 15.0% | 0.7% | 15 |
| QUEBEC CITY | AA | 35,000,000 | 15.0% | 1.6% | 15 |
| REGINA | AA+ | 7,700,000 | 15.0% | 0.3% | 15 |
| TORONTO | AA | 90,685,000 | 15.0% | 4.1% | 15 |
| VANCOUVER | AA | 20,718,000 | 15.0% | 0.9% | 15 |
| WELLINGTON COUNTY | AA | 4,906,000 | 15.0% | 0.2% | 15 |
| Subtotal - MUNICIPAL >= AA- | | 232,179,000 | 50.0% | 10.5% | |
| MONTREAL | A+ | 99,200,000 | 10.0% | 4.5% | 15 |
| Subtotal - MUNICIPAL >= A- | | 99,200,000 | 10.0% | 4.5% | |
| MUNICIPAL SECTOR | | 577,396,000 | 60.0% | 26.1% | |

GF Fixed Income: Investments by Counterparty



As of : 31-Dec-2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|-----------------------------------|--------|--------------------|-------------------|------------------|------------|
| BROADWAY CCT | AAA | 10,000,000 | 10.0% | 0.5% | 10 |
| CANADIAN CREDIT CARD TRUST | AAA | 1,000,000 | 10.0% | 0.0% | 10 |
| CARD TRUST | AAA | 20,000,000 | 10.0% | 0.9% | 10 |
| GENESIS TRUST II | AAA | 2,800,000 | 10.0% | 0.1% | 10 |
| GLACIER CCT | AAA | 13,000,000 | 10.0% | 0.6% | 10 |
| GOLDEN CCT | AAA | 10,000,000 | 10.0% | 0.5% | 10 |
| NHA MBS | AAA | 2,000,000 | 10.0% | 0.1% | 10 |
| Subtotal - ASSET BACKED >= AAA | | 58,800,000 | 10.0% | 2.7% | |
| GE CAPITAL CAN | AA | 6,000,000 | 5.0% | 0.3% | 10 |
| OPB FINANCE TRUST | AA+ | 5,000,000 | 5.0% | 0.2% | 10 |
| Subtotal - OTHER CORPORATE >= AA- | | 11,000,000 | 5.0% | 0.9% | |
| BMO | AA- | 63,120,000 | 20.0% | 3.8% | 20 |
| BNS | AA | 75,291,000 | 20.0% | 6.1% | 20 |
| CIBC | AA- | 57,000,000 | 20.0% | 2.6% | 20 |
| NATIONAL BANK OF CANADA | AA- | 88,000,000 | 20.0% | 6.7% | 20 |
| ROYAL BANK (RBC) | AA- | 168,250,000 | 20.0% | 7.6% | 20 |
| Subtotal - BANKS SCH I >= AA- | | 451,661,000 | 35.0% | 26.7% | |
| CORPORATE SECTOR | | 521,461,000 | 35.0% | 30.3% | |

GF Fixed Income: Portfolio by Credit Rating

| | | |
|-------------------------------|----------------------|---------------|
| Greater than AAA- | 510,597,853 | 24.7% |
| Greater than AA- | 1,127,410,412 | 54.6% |
| Greater than A- | 425,116,592 | 20.6% |
| TOTAL CURRENT HOLDINGS | 2,063,124,857 | 100.0% |

Debt Retirement Fund: Investments by Counterparty/Rating



As of : December 31, 2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|------------------------------|--------|------------------|-------------------|------------------|------------|
| WATERLOO | AAA | 1,467,000 | 100.0% | 59.5% | 30 |
| Subtotal - MUNICIPAL >= AAA- | | 1,467,000 | 100.0% | 59.5% | |
| TORONTO | AA | 1,000,000 | 50.0% | 40.5% | 15 |
| Subtotal - MUNICIPAL >= AA- | | 1,000,000 | 100.0% | 40.5% | |
| MUNICIPAL SECTOR | | 2,467,000 | 100.0% | 100.0% | |

Debt Retirement Fund: Portfolio by Credit Rating

| | | |
|-------------------------------|------------------|---------------|
| Greater than AAA- | 1,467,000 | 59.5% |
| Greater than AA- | 1,000,000 | 40.5% |
| TOTAL CURRENT HOLDINGS | 2,467,000 | 100.0% |

SF - Series DQ: Investments by Counterparty/Rating



As of : December 31, 2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|------------------------------|--------|---------------------|-------------------|------------------|------------|
| ONTARIO | AA- | 21,228,875 | 55.0% | 51% | 30 |
| Subtotal - PROVINCIAL >= AA- | | 21,228,875 | 100.0% | 51% | |
| HYDRO QUEBEC | A+ | 4,200,000 | 30.0% | 10% | 30 |
| NOVA SCOTIA | A+ | 594,000 | 30.0% | 1% | 30 |
| QUEBEC | A+ | 3,769,953 | 30.0% | 9% | 30 |
| Subtotal - PROVINCIAL >= A- | | 8,563,953 | 50.0% | 21% | |
| PROVINCIAL SECTOR | | 29,792,828 | | 72% | |
| PEEL | AAA | 11,750,000 | 100.0% | 28% | 30 |
| Subtotal - MUNICIPAL >= AAA- | | 11,750,000 | 35.0% | 28% | |
| MUNICIPAL SECTOR | | 11,750,000 | | 28% | |
| TOTAL | | \$41,542,828 | | 100% | |

Sinking Fund: Portfolio by Credit Rating

| | | |
|-------------------------------|-------------------|---------------|
| Greater than AAA- | 11,750,000 | 28.3% |
| Greater than AA- | 21,228,875 | 51.1% |
| Greater than A- | 8,563,953 | 20.6% |
| TOTAL CURRENT HOLDINGS | 41,542,828 | 100.0% |

SF - Series EB: Investments by Counterparty/Rating



As of : December 31, 2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|------------------------------|--------|---------------------|-------------------|------------------|------------|
| ONTARIO | AA- | 1,662,500 | 55.0% | 9% | 30 |
| ONTARIO EFC | AA- | 7,800,000 | 55.0% | 43% | 30 |
| Subtotal - PROVINCIAL >= AA- | | 9,462,500 | 100.0% | 53% | |
| QUEBEC | A+ | 1,669,400 | 30.0% | 9% | 30 |
| Subtotal - PROVINCIAL >= A- | | 1,669,400 | 50.0% | 9% | |
| PROVINCIAL SECTOR | | 11,131,900 | | 62% | |
| PEEL | AAA | 6,859,000 | 100.0% | 38% | 30 |
| Subtotal - MUNICIPAL >= AAA- | | 6,859,000 | 35.0% | 38% | |
| MUNICIPAL SECTOR | | 6,859,000 | | 38% | |
| TOTAL | | \$17,990,900 | | 100% | |

Sinking Fund: Portfolio by Credit Rating

| | | |
|-------------------------------|-------------------|---------------|
| Greater than AAA- | 6,859,000 | 38.1% |
| Greater than AA- | 9,462,500 | 52.6% |
| Greater than A- | 1,669,400 | 9.3% |
| TOTAL CURRENT HOLDINGS | 17,990,900 | 100.0% |

SF - Series EC: Investments by Counterparty/Rating



As of : December 31, 2013

| Counterparty | Rating | Par Value | Approved Exposure | Current Exposure | Term Limit |
|------------------------------|--------|---------------------|-------------------|------------------|------------|
| ONTARIO | AA- | 3,147,000 | 55.0% | 17% | 30 |
| Subtotal - PROVINCIAL >= AA- | | 3,147,000 | 100.0% | 17% | |
| HYDRO QUEBEC | A+ | 3,299,000 | 30.0% | 18% | 30 |
| QUEBEC | A+ | 9,400,000 | 30.0% | 51% | 30 |
| Subtotal - PROVINCIAL >= A- | | 12,699,000 | 50.0% | 69% | |
| PROVINCIAL SECTOR | | 15,846,000 | | 87% | |
| PEEL | AAA | 2,437,000 | 100.0% | 13% | 30 |
| Subtotal - MUNICIPAL >= AAA- | | 2,437,000 | 35.0% | 13% | |
| MUNICIPAL SECTOR | | 2,437,000 | | 13% | |
| TOTAL | | \$18,283,000 | | 100% | |

Sinking Fund: Portfolio by Credit Rating

| | | |
|-------------------------------|-------------------|---------------|
| Greater than AAA- | 2,437,000 | 13.3% |
| Greater than AA- | 3,147,000 | 17.2% |
| Greater than A- | 12,699,000 | 69.5% |
| TOTAL CURRENT HOLDINGS | 18,283,000 | 100.0% |

Total of all Sinking Funds: Portfolio by Credit Rating

| | | |
|-------------------------------|----------------------|---------------|
| Greater than AAA- | 21,046,000 | 27.0% |
| Greater than AA- | 33,838,375 | 43.5% |
| Greater than A- | 22,932,353 | 29.5% |
| TOTAL CURRENT HOLDINGS | 77,816,728.00 | 100.0% |