
For Information

REPORT TITLE: 2020 Treasury Report

FROM: Gary Kent, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide the annual results of Treasury activities in accordance with the Region of Peel's Investment Goals and Policies (F20-05) and Debt Management Policy (F20-06); and, to provide the annual results of energy commodity hedging performance in accordance with the Energy Commodity Procurement Policy (F35-44). This report also fulfills certain legal reporting requirements under the *Municipal Act, 2001*.

REPORT HIGHLIGHTS

- For the year ended December 31, 2020 the General Fund generated gross earnings for the Region of Peel of \$80.6 million, equivalent to 3.4% realized earnings rate on weighted average portfolio holdings of \$2,444 million.
 - Approximately 95% of earnings were allocated to Regional reserves, 2% allocated to operations and 3% to bank accounts related to Peel Housing Corporation operations.
 - All investments were in accordance with the Region of Peel's Investment Goals and Policies and statutory requirements.
 - All commodity price hedging agreements during 2020 were in accordance with the Energy Commodity Procurement Policy.
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DISCUSSION

1. Background

In accordance with Ontario Regulation 438/97 (as amended) of the *Municipal Act, 2001*, as amended, and the Region of Peel's ("Region") Investment Goals and Policies, the Treasurer is required to report annually on the Region's investment portfolio, including the performance of the portfolio and its consistency with the Investment Goals and Policies set out by the Region.

Further, under Ontario Regulation 653/05 (as amended) of the *Municipal Act, 2001*, as amended, and the Region's Energy Commodity Procurement Policy, the Treasurer is required to report annually on the Region's commodity hedging performance.

a. Compliance

All transactions executed during 2020 were in compliance with the *Municipal Act, 2001*, as amended, applicable regulations and the Region's Investment Goals and Policies. The fixed price hedge volumes for energy that were purchased for 2020 were consistent with

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the Region of Peel's Energy Commodity Procurement Policy and goals to address risks on commodity price volatility and were in alignment with the Region's risk tolerance. Appendix I contains the Treasurer's statement of compliance.

2. Market Summary

Early 2020 estimates for 2020 global GDP annual growth were approximately 3.0%, while Canadian growth was expected to remain stable at ~1.6%. Overnight policy interest rates were also expected to remain relatively unchanged, and longer-term rates to move gradually higher. However, as the impact of COVID-19 increased dramatically during March 2020 and through the remainder of the year, initial growth and interest rate forecasts became largely irrelevant.

The immediate impact of the COVID-19 pandemic on the economy was significant. Financial markets experienced extreme volatility through March and April, with the Bank of Canada (BoC) stepping in with a number of programs to help restore market confidence - the BoC lowered the overnight policy rate from 1.50% to 0.25% during March and implemented a number of monetary stimulus programs. Despite a rebound in Q3 and Q4, Canada saw 2020 GDP decline by more than 5%. Inflation was muted during 2020, primarily a result of the COVID-19 pandemic, with CPI and Core CPI at 0.7% and 1.2% year-over-year, respectively.

Bond yields ended 2020 near all-time lows, with 10- and 30-year Government of Canada bond yields ending 2020 down 1.0% and 0.5%, respectively. Further, despite a rapid sell off in March 2020, the Canadian stock market recovered to end 2020 little changed from the prior year.

Looking forward, it is expected that the pace of the economic recovery will remain uncertain and highly dependent on the path of the COVID-19 pandemic and effective vaccine rollout. Current BoC forecasts have real GDP growth rebounding to ~6.5% and 4.0% in 2021 & 2022, respectively.

3. Cash Management

As at December 31, 2020, the General Fund portfolio carrying value (amortized book value), including cash holdings was \$2,811 million and the Sinking Fund portfolio carrying value, including cash was \$385 million. Cash holdings for the General Fund totalled \$407 million as at December 31, 2020, down from \$551 million as at December 31, 2019. Additional details are provided in Appendix II.A.

Despite the decline in the absolute level of short-term interest rates and average cash balances, earnings on cash holdings were optimized as Treasury staff were able to source attractive short-term deposit rates and implement a more active approach to managing short term cash holdings.

In response to the COVID-19 pandemic, increased oversight of cash management activities was implemented to ensure sufficient liquidity to meet key business needs.

4. Debt

Under the *Municipal Act*, 2001 sections 401 to 417, the Region has the authority to issue debt for its own municipal purposes, and also, as an upper-tier municipality, acts to issue debentures on behalf of its lower-tier municipalities, if/when required. A summary of 2020 activity and outstanding debt is as follows:

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- On June 16, 2020, the Region issued a \$200 million debenture for its own purposes maturing in 2051 with an all-in financing rate of 2.572%. This new debt issuance will increase annual debt service costs by \$10.3 million.
- As at December 31, 2020, the Region's own source net debt totalled approximately \$1,409 million, including \$114 million in Peel Housing Corporation's (PHC) related debt. Appendix II.B contains additional details.

5. Investments

a. General Fund

The General Fund is comprised of cash and investments held for working capital, reserves and reserve funds, and other funds of the corporation. The Fund is managed to meet the following objectives: preservation of capital, adequate liquidity, and optimizing returns within the specified risk tolerance in order to help the Region meet future spending needs. During 2020, the General Fund generated earnings of \$80.6 million, on a weighted average portfolio value of \$2,444 million and had a realized earnings rate of 3.4%. The majority of earnings were allocated to reserves (\$76.6 million), and \$1.6 million was allocated to operations, with \$2.4 million to bank accounts related to PHC operations.

During 2020 the Region allocated \$130 million to the ONE Investment Canadian Equity Fund, representing approximately 5% of the General Fund portfolio. ONE Investment is the municipality's agent for the investment prescribed under O. Reg. 438/97. As at December 31, 2020, the market value of the holding was \$146.98 million, equating to an unrealized gain of ~\$17 million. This allocation further strengthens the General Fund portfolio's asset allocation by improving diversification without compromising the liquidity of the portfolio. This investment represents the first equity investment by the Region since 2014.

Summary of General Fund Performance:

	Realized (A)	Unrealized (B)	Region of Peel - Total Return (A+B)	Benchmark - Total Return ¹
1-year	3.4%	1.9%	5.3%	5.5%
3-year	3.2%	0.6%	3.8%	3.5%

¹Total benchmark return is a blend of FTSE TMX Indices.

- **Realized Returns vs. Inflation**
 - During 2020, the General Fund's realized return of 3.4% exceeded the rolling 12-month average Toronto CPI inflation rate of 0.3%, by 3.1%
 - Over the trailing 3-year period the General Fund's average realized return of 3.2% exceeded average Toronto CPI of ~1.8%, by 1.4%
- **Total Returns vs. Benchmark**
 - Total return for the General Fund during 2020 was 5.3%, slightly underperforming the 5.5% total return on the benchmark
 - In light of the heightened uncertainty related to COVID-19 during 2020, liquidity levels (i.e. cash and short-term holdings) were increased as a precautionary measure to ensure the Region's ability

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to meet financial obligations was not impacted. As a result, total return of the General Fund did not benefit as much from declining interest rates.

- Over the past 3-year period, the General Fund's total return of 3.8% exceeded the 3.5% total return of the benchmark by ~0.3%.

Additional performance and portfolio characteristics are provided in Appendix II.C.

From time to time, the Region invests in its own securities no different than any other portfolio investments where the Region sees value relative to other similar securities. As at December 31, 2020, the Region owned \$70 million of its own bonds which comprised 2.2% of the overall portfolio. In addition, there was one transaction related to Region of Peel bonds in 2020 for the General Fund. Appendix II.E. contains details of holdings and transactions throughout 2020.

b. Sinking Funds

Sinking Funds are established upon issuance of sinking fund debentures, and managed separately, per *Municipal Act*, 2001 (section 409), with an amount contributed annually to the Sinking Fund which, with interest compounded annually, is in an amount estimated to be sufficient to pay the principal of the debentures at maturity.

During 2020, the seven Sinking Funds generated total gross earnings of \$11.2 million, with the total aggregate amortized book value of the Sinking Funds increasing from \$327 million to approximately \$385 million, inclusive of contributions of annual provision payments. The investment returns outperformed the target returns for four Sinking Funds while three generated returns less than their respective targets during 2020. Sinking Funds DQ and EP have life to date deficits of \$234,782 and \$19,170, respectively at the end of 2020 as they continue to underperform the target return. While Brampton's portion of Sinking Fund EC had a small deficit during 2020, it continues to have a positive life to date balance and current investment holdings have yields very close to the target return. Market interest rates fell significantly during 2020, making it more difficult to invest contributed provision payments at yields equal to or greater than target rates. As required by *Municipal Act*, 2001, the Region will contribute the shortfall during 2021. Further details for individual Sinking Funds are contained in Appendix II.D.

c. Portfolio Costs

Portfolio costs are measured using management expense ratios (MER). The MER represents the direct operational cost of the investment portfolio relative to the size of the assets under management.

Treasury Services' MER for fixed income and cash holdings was approximately 3.9 basis points (0.039%) in 2020, which was slightly lower than the five-year average of 4.0 basis points. By comparison, an equivalent fixed income and cash portfolio managed by ONE Investment would have an MER of 31.1 basis points. By managing this portion of the portfolio internally, the Region was able to save approximately 27.1 basis points, equivalent to fee savings of \$6.9 million in 2020. This represents excellent value for money relative to alternative options.

The equity position was charged an MER of 60 basis points (0.6%) by the fund

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administrator ONE Investment. Effective 2021, ONE Investment has reduced the fees to 50 basis points (0.5%).

6. Energy Procurement Performance

a. Electricity

No electricity hedge volumes were procured for 2020. This strategy allowed the Region to take advantage of the low spot market prices that averaged \$0.01265/kWh in 2020, which was approximately 47% lower than the most competitive forward market hedge price for 2020 (\$0.024/kWh). The net benefit to the Region of not hedging was approximately \$500,000.

b. Natural Gas

The Region hedged 62.5% of its approximately 15.71 million m³ of natural gas requirements for 2020, based on a “moderately volatile” projection of the 2020 market condition. The fixed-price hedge volume of 9.82 million m³ and index fixed-transportation volume of 5.89 million m³ was purchased from both the Region’s gas supplier and the Housing Services Corporation (HSC) at an average price of \$0.1437/m³. This represents a total hedge cost of approximately \$1.30 million, a total index fixed-transportation cost of approximately \$0.93 million and a total transaction fee cost of \$0.029 million. The net benefit to the Region of hedging natural gas was approximately \$50,000.

The Region benefited from hedging in 2020 in an aggregate amount of \$550,000. Further details on energy procurement performance are in Appendix II.F.

7. Treasury Services Initiatives

During 2020, liquidity and sustainability of the Region’s capital program remained a strong focus as the impacts of the COVID-19 pandemic were largely unknown. Improvements were made to the capital cash flow process and the Capital Working Group was established to enhance data intelligence in support of capital planning, financing and investing activities. The Custodial RFP, procurement award and implementation is complete with significant improvements to processes, procedures, reporting (compliance, performance, etc), and analytics. The Custodian provides safekeeping services for the Region’s investments providing greater control, transparency, and risk mitigation across our investment activities. Additional revenues are also generated for the Region by the Custodian on assets held through the securities lending program.

Effective January 1, 2019, amendments to the *Municipal Act*, 2001 and O. Reg. 438/97 came into force, allowing Ontario municipalities to 'opt-in' to the Prudent Investment framework. The Prudent Investment framework allows a municipality to invest funds not immediately required in any investment that is deemed appropriate. Discussions with other municipalities, Municipal Finance Officers Association and the Province on Prudent Investor and opportunities for improvement of the debt and investment sections of the *Municipal Act*, 2001 continued early in the year however were paused due to the pandemic. The Province has indicated that the Debt and Investment Committee established by the Province but paused for the last several years will begin to meet again in 2021. The committee is comprised of provincial and municipal representatives and focuses on matters related to debt and investments activities within the municipal sector.

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FINANCIAL IMPLICATIONS

The revenue generated through investment activities in 2020 was allocated to reserves (95%), operations (2%) and bank accounts related to PHC operations (3%). In 2020, The Region issued a \$200 million debenture for its own purposes maturing in 2051. This new debt issuance will increase annual debt service costs by \$10.3 million.

CONCLUSION

The Region's 2020 Treasury activities have been undertaken in accordance with its Investment Goals and Policies. These 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.

Commodity price hedging was undertaken in 2020 in accordance with its Energy Commodity Procurement Policy which guides prudent management of the risk of commodity price volatility.

APPENDICES

Appendix I – Certificate of the Treasurer

Appendix II – 2020 Treasury Report

For further information regarding this report, please contact Julie Pittini, Director, Treasury Services, Ext. 7120, julie.pittini@peelregion.ca.

Authored By: Tony Liu, Operations Manager, Treasury Services

Reviewed and/or approved in workflow by:

Department Commissioner, Division Director, Financial Support Unit and Legal Services.

Treasurer's Statement of Compliance

(made pursuant to section 8 of Ontario Regulation 438/97, and sections 4 and 7 of Ontario Regulation 653/05)

The report to Peel Regional Council, dated June 24, 2021 and titled 2020 Treasury Report from Gary Kent, Commissioner of Corporate Services and Chief Financial Officer (the "Report") has been prepared in accordance with and satisfy the requirements of:

- a) *The Municipal Act, 2001* as well as Ontario Regulations 438/97 and 653/05, and
- b) the Region of Peel's Investment Goals and Policies, and
- c) the Region of Peel's Energy Commodity Procurement Policy

which documents shall be referred to collectively as the "Applicable Legislation and Policies".

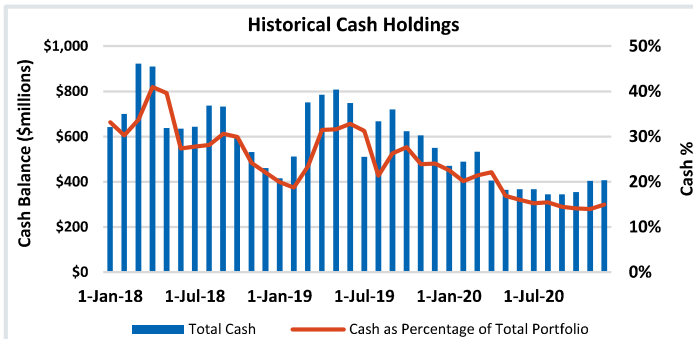
The statements and descriptions contained within the Report pursuant to the requirements of the Applicable Legislation and Policies are in my opinion accurate and are consistent with the Region of Peel's statement of policies and goals.



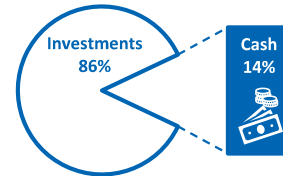
Stephanie Nagel, BBA, CPA, CGA, MPA
Treasurer & Director of Corporate Finance
Region of Peel

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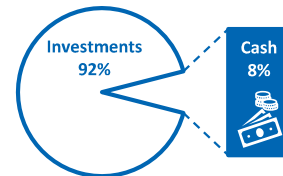
Appendix II.A: Cash Management



2020 General Fund cash holdings totaled \$407M, down from \$551M at the end of 2019

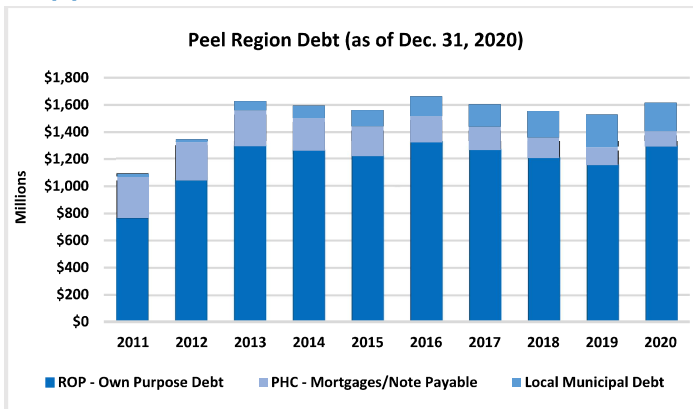


2020 Sinking Fund cash holdings totaled \$29M, down from \$46M at the end of 2019



- Earnings on cash holdings were optimized as staff continue to source attractive short-term deposit rates and implement a more active approach to managing short term cash holdings.
- Treasury staff continue to collaborate with the Region’s program areas to develop longer term cash flow forecasts to optimize the Region’s cash position over time.

Appendix II.B: Debt



In 2020, the Region had own source net debt of \$1,406M

The Region had a \$118M increase in net debt

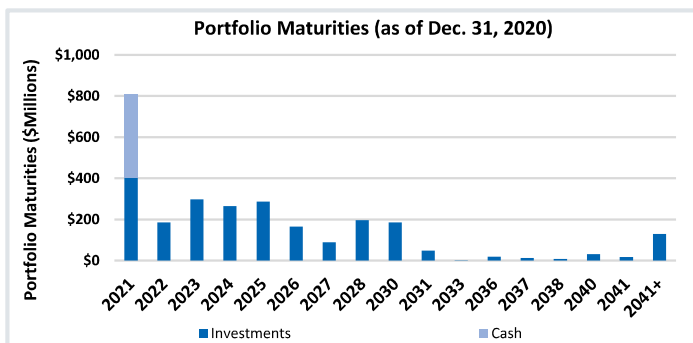


This includes \$114M in PHC related debt.

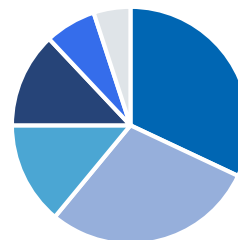


Debt is split by the Region of Peel “own purpose debt”, Peel Housing Corporation (PHC) debt, and local municipal debt.

Appendix II.C: Investments – General Fund



Sector Distribution



- Provincial = 32%
- Banks/Corporates = 29%
- Cash = 14%
- Municipal = 13%
- Federal = 7%
- Equity = 5%

- The Region continues to structure the portfolio using a laddered approach (i.e. similar level of maturities in all years) where possible, to match the timing of maturities to the Region’s cash requirements.

Investment Returns vs. Market Benchmark	2020	2019	2018
Annual Investment Earnings ¹ (millions)	\$80.6	\$78.2	\$67.5
Realized Annual Investment Returns ¹ (A)	3.4%	3.2%	2.9%
Unrealized Annual Investment Returns (B)	1.9%	0.7%	-0.8%
Total Annual Return (A + B)	5.3%	3.9%	2.1%
Total Benchmark Return ² (C)	5.5%	3.0%	1.9%
Value Add (A + B - C)	-0.2%	0.9%	0.2%

- Portfolio returns underperformed the benchmark by **0.2%**
- Increased earnings by **\$2.4M**

¹ The fixed income realized earnings rate is based on earned revenues (interest income, realized capital gains/losses, amortized premiums/discounts, and securities lending income).

² Total benchmark return is a blend of FTSE TMX Indices.

Appendix II.C: Investments – General Fund (cont.)

Investment Returns vs. Inflation	2020	2019	2018
Annual Investment Earnings (millions)	\$80.60	\$78.20	\$67.50
Rolling 4-year Average Investment Returns ¹ (realized)	3.1%	2.9%	2.8%
Rolling 4-year Average Inflation ²	1.7%	2.1%	2.2%
Value Add (returns – inflation)	1.4%	0.7%	0.6%

➔ Portfolio returns exceeded inflation by **1.4% in 2020**

➔ A major goal of the General Fund is the preservation of purchasing power over the long run. Inflation is used as a barometer of the General Fund's long-term minimum return requirement.

Appendix II.D: Investments – Sinking Funds

Sinking Fund Holdings and Surplus/Deficit (as of Dec. 31, 2020)

Series	Gross Outstanding (Millions)	Issue Date	Maturity Date	Target Return	(Millions)		Holdings (Millions)			Earnings Surplus / (Deficit)		
					Annual Provision Payments	Total Provision Payments (Cumulative)	Investments (Amortized Book Value)	Cash	Total	Region of Peel	City of Brampton	Town of Caledon
DQ	\$500	Jun 29/10	Jun 29/40	4.00%	\$8.9	\$89.2	\$107.6	\$1.3	\$108.9	(\$232,254)	N/A	(\$2,528)
EB	\$200	Oct 06/11	Dec 01/21	2.50%	\$7.8	\$70.5	\$70.5	\$9.6	\$80.1	\$1,191,173	N/A	\$3,832
EC (RoP)	\$300	Oct 30/12	Oct 30/42	2.50%	\$6.8	\$54.7	\$62.5	\$1.4	\$63.9	\$4,155,109	N/A	N/A
EC (Brampton)	\$23	Apr 15/19	Oct 30/42	2.50%	\$0.7	\$1.4	\$1.4	\$0.0	\$1.4	N/A	\$22	N/A
EP	\$33	Jun 20/13	Jun 20/53	4.00%	\$0.3	\$2.4	\$0.9	\$1.9	\$2.8	(\$19,170)	N/A	N/A
EQ	\$250	Aug 23/13	Dec 02/33	3.25%	\$9.1	\$63.5	\$64.0	\$6.8	\$70.8	\$738,859	N/A	N/A
FX	\$150	Nov 02/16	Nov 02/26	2.00%	\$13.7	\$54.8	\$49.3	\$7.9	\$57.2	\$856,175	N/A	N/A
TOTALS					\$47.4	\$336.4	\$356.2	\$28.9	\$385.2			

➔ The objective of each Sinking Fund is to meet or exceed the target return. The target return is the estimated return requirement necessary to ensure that each Sinking Fund is fully funded at maturity to repay its obligation.

➔ **4 of 7** Sinking Funds had investment returns exceeding the target return.

Appendix II.E: Investments Held in Region of Peel Securities

Region of Peel Bonds – Holdings

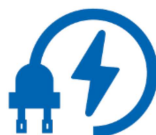
Date	Par Value		% of Portfolio
	Portfolio ⁴	RoP Bonds ⁵	
Dec. 31/20	\$3,213,620,209	\$70,679,000	2.2%
Dec. 31/19	\$2,880,347,215	\$71,189,000	2.5%
Dec. 31/18	\$2,752,357,130	\$70,711,000	2.6%
Dec. 31/17	\$2,579,877,871	\$55,811,000	2.2%

Region of Peel Bonds – Transactions

Portfolio	Transaction	Date	Coupon	Par Value	Price		Yield
					Purchase	Sale	
GF	Maturity	Jun. 29/20	4.35%	\$510,000	99.78	100.00	4.53%
DQ				None			
EC				None			
EP				None			
EQ				None			
FX				None			

Appendix II.F: Energy Procurement Performance

No electricity hedge volumes were procured for 2020



This strategy allowed the Region to take advantage of the low spot market prices that averaged \$0.01265/kWh in 2020, which was approximately 47% lower than the most competitive forward market hedge price for 2020 (\$0.024/kWh).

The total risk mitigated from volatility in the natural gas market in 2020 was **\$49,552**



The Region of Peel hedged 62.5% of its natural gas requirements for 2020. The fixed price hedge volume and index fixed-transportation volume was purchased from both the Region of Peel's gas supplier and the Housing Services Corporation (HSC) at a total hedge cost of approximately \$1.30 million, a total index fixed-transportation cost of approximately \$0.93 million and a total transaction fee cost of \$0.029 million.

¹ The fixed income realized earnings rate is based on earned revenues (interest income, realized capital gains/losses, amortized premiums/discounts, and securities lending income).

² Toronto CPI.

⁴ Total of General Fund and six Sinking Fund portfolios.

⁵ RoP investment portfolios.