
For Information

REPORT TITLE: 2021 Treasury Report

FROM: Gary Kent, CPA, CGA, ICD.D, 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, 2021, the General Fund generated gross earnings for the Region of Peel of \$59.6 million, equivalent to 2.01% realized earnings rate on weighted yearly average portfolio holdings of \$2,963 million.
- Approximately 96% of earnings were allocated to Regional reserves, 3% allocated to operations and 1% to Peel Housing Corporation.
- All investments were in accordance with the Region of Peel's Investment Goals and Policies and statutory requirements.
- All commodity price hedging agreements during 2021 were in accordance with the *Municipal Act, 2001*, and associated Ontario Regulation 653/05.

DISCUSSION

1. Background

In accordance with the *Municipal Act, 2001*, and associated Ontario Regulation 438/97, 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 the *Municipal Act, 2001*, and associated Ontario Regulation 653/05, 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 2021 were in compliance with the *Municipal Act, 2001*, applicable regulations and the Region's Investment Goals and Policies. The fixed price hedge volumes for energy that were purchased for 2021 were consistent with the Region of

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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. The Region's Investment Goals and Policies (F20-05) was reviewed, and no changes are being recommended at this time.

2. Market Summary

During early 2021, COVID-19 remained a significant headwind, both from a health and economic standpoint, as cases increased, and strict containment measures were re-implemented. However, high vaccination rates in Canada were expected to help mitigate, to some extent, the strain on the health care system and reduce negative health outcomes.

In January 2021, the Bank of Canada (BoC) continued to view extraordinary fiscal and monetary stimulus as necessary to support households and businesses. Considerable economic slack remained in early 2021 following an economic decline of 5.5% in 2020.

The Canadian economy experienced higher than expected growth of 4.6% in 2021, compared to earlier estimates of 4.0%. Inflation, however, accelerated to 3.4%, materially higher than the BoC's January 2021 forecast of 1.6%. Inflation is expected to remain elevated in 2022, with the most recent BoC forecast at 5.3% (compared to the 1.7% forecast for 2022 made in January 2021). Construction inflation has also accelerated at a rapid pace (15.3% year-over-year), which has led to increased costs related to the Region's capital spending programs.

As inflation proved to be less transitory than first expected in early 2021, Canadian bond yields increased significantly during the year (between ~0.6% and 0.9%), moving off historically low levels seen in 2020. Market volatility also increased in the latter part of 2021 as central banks began discussing the removal of monetary stimulus in early 2022 to combat increases in inflation.

Since the beginning of 2022, several key events have had material impacts on markets globally and domestically. The Russia/Ukraine conflict which began in February 2022 has led to increased uncertainty in markets and spikes in many commodities. As commodity prices have continued to push inflation higher, the BoC increased rates a total of 0.75% so far in 2022, increasing the overnight policy rate to 1.00%. Fixed income markets expect a further six to seven 0.25% increases during the remainder of 2022. Given the removal of some of the extraordinary monetary support that was provided following the onset of the COVID-19 pandemic and increased inflation expectations, fixed income markets have experienced negative total returns through the end of Q1 2022.

3. Liquidity Management

As at December 31, 2021, the General Fund portfolio carrying value (amortized book value), including cash holdings, was \$3,025 million and the Sinking Fund portfolio carrying value, including cash, was \$363 million. Cash holdings for the General Fund totalled \$387 million as at December 31, 2021, down from \$407 million as at December 31, 2020. 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 through attractive short-term deposit rates and more actively managing the Region's liquidity. Treasury continues to work with

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respective program areas to ensure an optimal level of liquidity is held to meet operating/capital requirements.

In late 2021, Treasury was granted an exception by the Treasurer to take advantage of attractive investment opportunities which resulted in the liquidity ratio falling slightly below the Investment Policy lower limit of 15%. Forecasts anticipated liquidity to rebound in the first quarter of 2022 and by early March 2022, liquidity returned above target levels, and the exemption was no longer required.

4. Debt

Under the *Municipal Act, 2001* (s. 401-417), the Region has the authority to issue debt for its own municipal purposes, and, as an upper-tier municipality, acts to issue debentures on behalf of its lower-tier municipalities.

Treasury Services continued to engage in multiple investor relations activities, such as conferences, investor meetings and ongoing dialogue with the Region's syndicate members. These activities contributed to the successful placement of three separate debentures (on behalf of the Region and lower-tiers) in 2021. Treasury also supported City of Brampton in securing a loan arrangement through Canada Infrastructure Bank (financial close March 2022) to finance the electrification of Brampton's bus fleet.

A summary of 2021 activity is as follows:

- On January 29, 2021, the Region issued a 1-10 year Serial Debenture for \$47.1 million on behalf Mississauga (\$43 million) and Caledon (\$4.1 million) with an all-in financing rate of 1.213%.
- On September 27, 2021, the Region issued a \$130 million debenture for its own purposes and \$20 million for Brampton maturing in 2051 with an all-in financing rate of 2.928%. This new debt issuance will increase the Region's annual debt service costs by \$6.8 million.
- On October 27, 2021, the Region issued \$51 million on behalf of Mississauga (\$47 million) and Caledon (\$4 million) with an all-in financing rate of 2.05%.
- On December 1, 2021, the \$200 million bullet debenture series EB matured, reducing the Region's annual debt service costs by \$14.8 million.
- The Region's debenture activity resulted in a net decrease of \$8 million in annual debt service costs.

As at December 31, 2021, the Region's own source net debt totalled approximately \$1,365 million, including \$119 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 Region. The General Fund is actively managed to meet the following objectives: preservation of capital, adequate liquidity, and optimizing returns within the specified risk tolerance to support the Region's future spending needs. During 2021, the General Fund generated earnings of \$59.6 million on a weighted average portfolio value of \$2,963 million and had a realized earnings rate of 2.01%. The majority of

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earnings were allocated to reserves (\$57.2 million), and \$1.8 million was allocated to operations, with \$0.6 million to PHC.

The Region continues to hold the \$130 million position (book value) in the ONE Investment Canadian Equity Fund, established in 2020. This represents approximately 5% of the General Fund portfolio. As at December 31, 2021, the market value of the holding was \$177.29 million, equating to an unrealized gain of ~\$47 million. This allocation further strengthens the General Fund portfolio's asset allocation by improving diversification without compromising the risk and liquidity of the portfolio.

Environmental Social & Governance (ESG) Bond Holdings

Since 2020, the Region has invested over \$100 million in ESG related bonds. Specific initiatives supported by these bonds range from climate awareness/green energy to supporting improved outcomes (e.g. health equality in low income nations, supporting women owned businesses). The Region also invests in bonds issued by First Nations Financing Authority (FNFA), which seeks to provide access to funding for First Nations communities within Canada to support ESG initiatives within their communities.

Summary of General Fund Performance:

	Realized (A)	Unrealized (B)	Region of Peel - Total Return - (A+B)	Benchmark - Total Return ¹
1-year	2.01%	-2.18%	-0.17%	-0.24%
4-year	2.87%	-0.10%	2.77%	2.51%

¹Total Benchmark Return is a blend of FTSE TMX Indices & TSX Composite. 5% equity weight added to the benchmark as of Jan. 1, 2021

- For the year ended December 31, 2021, the General Fund generated gross earnings for the Region of Peel of \$59.6 million, equivalent to 2.01% realized earnings rate on weighted yearly average portfolio holdings of \$2,963 million.
- Realized returns lagged 4-year Toronto BCPI of ~6.4% by 3.5% due to a spike in construction material costs in 2021, resulting in a change in BCPI of 15.3% for 2021. Over a longer time horizon, realized returns have exceeded BCPI.

Total Returns vs. Benchmark

- Total return for the General Fund during 2021 was -0.17%, slightly outperforming the -0.24% total return on the benchmark.
 - Higher yields during 2021 resulted in a -1.89% return on Peel's fixed income holdings, in line with the benchmark.
 - The Region's equity portfolio returned 20.62% on the Region's ~5% allocation to the One Investment Equity Fund.
 - Attractive deposit rates also contributed positively to the portfolio during 2021.
- Over the past 4-year period, the General Fund's total return of 2.77% exceeded the 2.51% total return of the benchmark by 0.26%.

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

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Transactions in Own Securities

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, 2021, the Region owned \$59 million of its own bonds which comprised 1.7% of the overall portfolio. As at December 31, 2020, the proportion of the Region's own securities comprised 2.2% of the overall portfolio which translates to a 0.5% decrease year-over-year. In addition, there were two transactions related to Region of Peel bonds in 2021 for the General Fund. Appendix II.E. contains details of holdings and transactions throughout 2021.

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 funds which, with interest compounded annually, is in an amount estimated to be sufficient to pay the principal of the debentures at maturity.

During 2021, the eight sinking funds generated total gross earnings of \$12.8 million, with the total aggregate amortized book value of the sinking funds decreasing slightly from \$385 million to approximately \$363 million inclusive of annual provision payments. The reduction in value is due to Sinking Fund EB's maturity in 2021. After accounting for its maturity payment, Sinking Fund EB was left with a surplus value of \$1.14 million. This surplus was redistributed to other sinking funds on a pro rata basis as per the *Municipal Act, 2001* and approved by the Sinking Fund Committee.

The investment returns outperformed the target returns for four sinking funds while four generated returns less than their respective targets during 2021. Sinking Fund EP and Brampton's Sinking Fund EC have life to date deficits of \$40,748 and \$13,489 respectively at the end of 2021 as they continue to underperform the required return. Required returns are established at the time of borrowing and therefore required returns for some sinking funds were set above current market rates. While market interest rates increased during 2021, interest rates continue to remain low by historical standards, making it difficult to invest contributed provision payments at historical required returns. As required by the *Municipal Act, 2001*, the Region will contribute any shortfalls during 2022. 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 3.0 basis points (0.03%) in 2021, which was slightly lower than the five-year average of 3.7 basis points. By comparison, an equivalent fixed income and cash portfolio managed by ONE Investment would have an MER of 32.3 basis points (0.323%). By managing this portion of the portfolio internally, the Region was able to save approximately 29.3 basis (0.293%) points, equivalent to fee savings of \$9.4 million in 2021. This represents excellent value for money relative to alternative options.

Effective January 1, 2021, ONE Investment reduced the fees on their equity fund by 10 basis points (0.1%) to a MER of 50 basis points (0.5%) per year.

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6. Energy Procurement Performance

a) Electricity

No hedge volumes were procured for 2021 because projections showed that 2021 market conditions would be relatively stable. This strategy allowed the Region to take advantage of the low spot market prices that averaged \$0.02675/kWh in 2021, which was approximately 5.4% lower than the average forward market hedge price for 2021 (\$0.02829/kWh). The net benefit to the Region of not hedging electricity in 2021 based on a 10% hedge volume was approximately \$65,000.

b) Natural Gas

The Region of Peel hedged 64.9% of its approximately 15.89 million cubic meters (m³) of natural gas requirements for 2021, based on a “moderately volatile” gas market condition and the Region’s moderate risk appetite. A hedge volume of 9.33 million m³ was purchased from the Region of Peel’s gas supplier at an average price of \$0.1301/m³ and a hedge of 0.98 million m³ was purchased from the Housing Services Corporation (HSC) at \$0.1869/m³. This represents a total hedge cost of approximately \$1.4 million. A total fixed-transportation cost for the balance of 5.6 million m³ on spot gas was approximately \$1.05 million. The total risk mitigated of the 64.9% hedge against the volatility in the natural gas spot market which averaged \$0.1886/m³ for 2021, was approximately \$547,000.

The Region benefited from the energy procurement strategy in 2021 in an aggregate amount of \$612,000. Further details on energy procurement performance are in Appendix II.F.

7. Treasury Services Initiatives

During 2021, liquidity and sustainability of the Region’s capital program remained a strong focus. Improvements were made to the capital cash flow process to enhance data intelligence in support of capital planning, monitoring financial sustainability and optimizing investing activities.

A new Treasury Management System (TMS) is currently being implemented with a Go Live date of Q3 2022. Once implementation is complete, the new TMS will significantly streamline processes, reduce manual tasks, and improve data collection for analysis and reporting at a cost similar to the legacy TMS system. The TMS implementation is the final piece of the Cash Management Strategy as per the May 2017 Audit and Risk Committee report.

FINANCIAL IMPLICATIONS

The revenue generated through investment activities in 2021 was allocated to reserves (96%), operations (3%) and PHC (1%). In 2021, the Region issued a \$130 million debenture for its own purposes maturing in 2051. Sinking Fund EB’s \$200 million debenture matured in 2021, resulting in a net decrease in annual debt service costs of \$8 million.

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CONCLUSION

The Region's 2021 Treasury activities have been undertaken in accordance with its Investment Goals and Policies and Debt Management Policy. These provide the Region with an effective and efficient investment and debt management operation which maximizes the rate of return on investment while ensuring safety of principal and liquidity while working within the standards of care set out in the policies.

Commodity price hedging was undertaken in 2021 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 - 2021 Treasury Dashboard

Authored By: Julie Pittini, Director, Treasury Services



Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate 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 9, 2022 and titled "2021 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



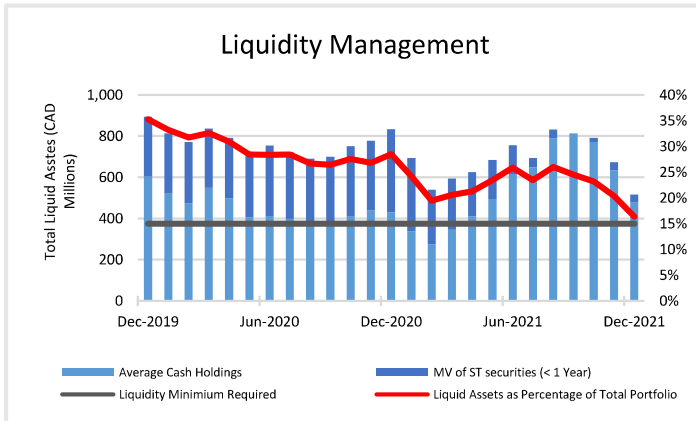
Stephanie Nagel, BBA, CPA, CGA, MPA

Treasurer & Director of Corporate Finance

Region of Peel

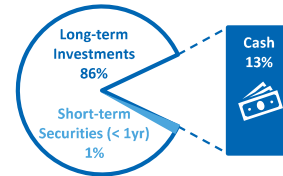
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Appendix II.A: Liquidity Management

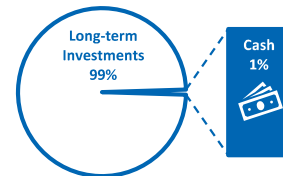


- Earnings on cash holdings were optimized as staff were able to source more attractive short-term deposit rates and implement a more active approach to managing short term cash holdings.
- Treasury staff continue to collaborate with the Region's program areas to develop longer term cash flow forecasts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

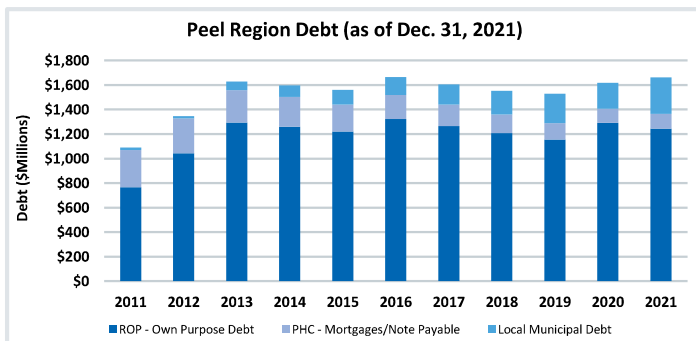
2021 General Fund cash holdings totaled \$387M, down from \$407M at the end of 2020



2021 Sinking Fund cash holdings totaled \$3.6M, down from \$29M at the end of 2020



Appendix II.B: Debt



In 2021, the Region had own source net debt of \$1,364M



This includes \$119M in PHC related debt.

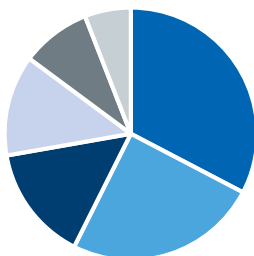
The Region had a \$42M decrease in net debt



Debt is split by the Region of Peel "own purpose debt", Peel Housing Corporation (PHC) debt, and area municipality debt.

Appendix II.C: Investments – General Fund

Sector Distribution



- Banks/Corporates 33%
- Provincial 25%
- Federal 15%
- Cash 13%
- Municipal 9%
- Equity 6%

Investment Returns vs. Market Benchmark	2021	2020	2019	2018	2017
Annual Investment Earnings ¹ (millions)	\$59.6	\$80.6	\$78.2	\$67.5	\$57.7
Realized Annual Investment Returns ¹ (A)	2.0%	3.4%	3.2%	2.9%	2.9%
Unrealized Annual Investment Returns (B)	-2.2%	1.9%	0.7%	-0.8%	N/A
Total Annual Return (A + B)	-0.2%	5.3%	3.9%	2.1%	N/A
Total Benchmark Return ² (C)	-0.2%	5.5%	3.0%	1.9%	2.1%
Value Add (A + B - C)	0.0%	-0.2%	0.9%	0.2%	N/A

Portfolio returns were equivalent to the benchmark
2021 realized earnings were lower due to historically low interest rate environment

Investment Returns vs. Inflation	2021	2020	2019
Annual Investment Earnings (millions)	\$59.6	\$80.60	\$78.20
4-year Average Investment Returns ¹ (realized) (A)	2.9%	3.0%	2.9%
4-year Average Inflation ³ (B)	2.4%	1.7%	2.1%
Value Add vs Inflation (A-B)	0.5%	1.4%	0.8%

Portfolio returns exceeded inflation by 0.5%
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 Portfolio's long-term minimum return requirement.

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 & TSX Composite. 5% equity weight added to the benchmark as of Jan. 1, 2021.

³ Toronto CPI.

Appendix II.D: Investments – Sinking Funds

Sinking Fund Holdings and Surplus/Deficit (as of Dec. 31, 2021)

Series	Issue Date	Maturity Date	(\$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	Jun 29/10	Jun 29/40	\$8.9	\$98.1	\$122.2	\$1.6	\$123.8	\$1,122,786	N/A	\$11,805
EC (RoP)	Oct 30/12	Oct 30/42	\$6.8	\$61.5	\$72.6	\$0.7	\$73.2	\$4,901,901	N/A	N/A
EC (Brampton)	Apr 15/19	Oct 30/42	\$0.7	\$2.1	\$2.2	\$0.0	\$2.2	N/A	(\$13,489)	N/A
EP	Jun 20/13	Jun 20/53	\$0.3	\$2.8	\$3.2	\$0.0	\$3.2	\$706,293	N/A	N/A
EQ	Aug 23/13	Dec 02/33	\$9.1	\$72.6	\$82.0	\$0.3	\$82.3	(\$40,748)	N/A	N/A
FX	Nov 02/16	Nov 02/26	\$13.7	\$68.5	\$72.3	\$0.6	\$72.9	\$1,380,551	N/A	N/A
HE (Region)	Jun 16/21	Jun 16/51	\$8.9	\$5.3	\$5.0	\$0.4	\$5.4	\$50,396	N/A	N/A
TOTALS			\$49.0	\$310.8	\$359.5	\$3.6	\$363.1			

- ➔ 4 of 8 Sinking Funds had investment returns exceeding the target.
- ➔ Debenture Series EB matured in 2021. After accounting for the maturity payment, EB's Sinking Fund was left with a surplus of \$1.135 million which was redistributed to other Sinking Funds.
- ➔ 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.

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

Region of Peel Bonds – Holdings

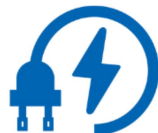
Date	Par Value		% Of Portfolio
	Portfolio ⁴	RoP Bonds ⁵	
Dec. 31/21	\$3,404,169,360	\$59,348,000	1.7%
Dec. 31/20	\$3,213,620,209	\$70,679,000	2.2%
Dec. 31/19	\$2,880,347,215	\$71,189,000	2.5%
Dec. 31/18	\$2,752,357,130	\$70,711,000	2.6%
Dec. 31/17	\$2,579,877,871	\$55,811,000	2.2%
Yr. over Yr. Change	\$190,549,151	-\$11,331,000	

Region of Peel Bonds – Transactions

Portfolio	Transaction	Date	Coupon	Par Value	Price		Yield
					Purchase	Sale	
GF	Maturity	Jun. 10/21	2.75%	\$2,500,000	104.10	100.00	1.96%
GF	Purchase	Nov. 08/21	2.15%	\$2,700,000	99.61		2.20%
EB	Sell	Nov. 19/21	3.50%	\$11,531,000	106.64	100.11	-0.81%
DQ				None			
EC				None			
EP				None			
EQ				None			
FX				None			
HE				None			

Appendix II.F: Energy Procurement Performance

No electricity hedge volumes were procured for 2021



This strategy allowed the Region to take advantage of the low spot market prices that averaged \$0.02675/kWh in 2021, which was approximately 5.4% lower than the average forward market hedge price for 2021 (\$0.02829/kWh).

The Region of Peel hedged 64.9% of natural gas requirements for 2021



The total risk mitigated from volatility in the natural gas market due to hedging was \$547,000 in 2021.

⁴Total of General Fund and seven Sinking Fund portfolios.

⁵RoP investment portfolios.