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REPORT
Meeting Date: 2025-06-26
Regional Council

For Information

REPORT TITLE: **2024 Treasury Report**

FROM: Davinder Valeri, CPA, CA, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide the annual results of Treasury activities in accordance with Peel Region'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, 2024, total investment income was $113.6[1] million for Peel and Peel Housing Corporation (PHC).
- Approximately 95 per cent of earnings were allocated to Peel reserves, and 5 per cent to PHC.
- The Region did not borrow in capital markets during 2024 given the evolving legislative backdrop; however, the Region raised a total of $450 million on behalf of the Region, the City of Mississauga and the Town of Caledon through the Ontario Financing Authority (OFA) in the form of ten-, twenty-, and thirty-year debentures.
- All investment and debt activity were in accordance with Peel Region's policies and statutory requirements.
- All commodity price hedging agreements during 2024 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 Peel Region's ("Peel") Investment Goals and Policies, the Treasurer is required to report annually on Peel's investment portfolio, including the performance of the portfolio and its compliance with the Investment Goals and Policies approved by Regional Council.

Further, under the *Municipal Act, 2001*, and associated Ontario Regulation 653/05, and Peel's Energy Commodity Procurement Policy, the Treasurer is required to report annually on Peel's commodity hedging performance.

[1] Reported investment income of $113.6 million does not match with the financial statements due to minor accounting adjustments.

2. Compliance

All portfolio activities and positions during 2024 were in compliance with the *Municipal Act, 2001*, applicable regulations, Peel's Investment Goals and Policies and Peel's Debt Management Policy. The fixed price hedge volumes for energy that were purchased for 2024 were consistent with Peel's Energy Commodity Procurement Policy goals to address risks on commodity price volatility and were in alignment with Peel's risk tolerance. Appendix I contains the Treasurer's Statement of Compliance.

Peel's Investment Goals and Policies (F20-05) and Debt Management Policy (F20-06) were reviewed. A minor administrative change was made to the Investment Goals and Policies (F20-05) which addresses a management action plan resulting from the 2024 internal audit. No changes are being recommended to the Debt Management Policy (F20-06).

3. Market Summary

In 2024, the Bank of Canada (BoC) shifted its monetary policy stance from tightening to easing. The policy shift aimed to support economic growth amid moderating inflation and global trade uncertainties. As a result, the BoC decreased the overnight rate five times in 2024, to 3.25 per cent (1.75 per cent lower compared to the end of 2023). Further, on January 29, 2025 and March 12, 2025, the BoC cut interest rates 0.25 per cent each time, bringing the overnight rate to 2.75 per cent.

Inflation in Canada in the fourth quarter of 2024 was closer to BoC's target policy rate of 2 per cent. Tariffs and their impact on the economy have resulted in higher levels of uncertainty and rising short-term inflation expectations. The BoC forecasts to have inflation increase to about 2.4 per cent by fourth quarter of 2025 and reach its target inflation of about 2 per cent by the end of 2026.

In 2024, the global economy grew at 3.2 per cent compared to Canada's economic growth of 1.6 per cent. On a per capita basis, Canada's economic growth was negative, primarily a result of low productivity and weakening consumer demand. Canadian GDP growth is expected to remain low for 2025 and 2026. Job markets in Canada and the US remain tight but unemployment is expected to rise due to global trade uncertainty. Consumer sentiment and business confidence in Canada has significantly weakened due to tariffs and is forecasted to weaken further in 2025 and 2026.

Shorter-term Government of Canada (GoC) bond interest rates decreased, while longer term rates increased in 2024. Although shorter term rates were lower at the year-end, shorter dated securities (e.g. cash) earned rates of return higher than many longer dated investments during the year. Also, all-in borrowing costs for the Canadian municipal sector experienced a small increase in 2024 relative to 2023 given the move higher in longer-term GoC rates, which was offset to some extent by slightly tighter municipal spreads relative to underlying GoC benchmarks.

Despite the tensions in the Middle East and Russia's war on Ukraine, oil prices increased in early 2024 but decreased later in the year, resulting in no year-over-year change. Equity markets experienced positive returns, with the TSX returning 21.7 per cent while S&P500 returned 25.0 per cent in 2024. The ongoing geopolitical conflicts and tariff threats continue to impact global growth and inflation outlooks, potentially posing downside risks in 2025.

4. Liquidity Management

As of December 31, 2024, the General Fund portfolio's amortized book value, including cash holdings was $3,311 million (2023 – $3,207 million). Cash and cash equivalent holdings as of December 31, 2024, totalled $365 million (2023 – $282 million). The increase in the General Fund portfolio's size compared to 2023 was mostly due to debenture proceeds ($345 million) raised through the OFA in October. Historically, Peel has relied on issuing debentures through capital markets; however, given the changing legislative backdrop, financing was provided by the Province through the OFA. Additional details are provided in Appendix II.A.

As short-term interest rates moved lower in 2024, earnings on cash holdings were optimized through securing attractive short-term deposit rates and more actively managing Peel's liquidity. The liquidity balances held throughout 2024 include both cash and short-term investment holdings less than one-year and averaged 22.8 per cent of the General Fund portfolio. Holdings were split across High Interest Savings Accounts (HISA), Guaranteed Investment Certificates (GIC) and fixed income securities. Higher liquidity was held due to the uncertainty resulting from the changing legislative backdrop. Treasury continues to work with respective program areas to ensure an optimal level of liquidity is held to meet the Region's obligations.

5. Debt

Under the *Municipal Act, 2001*, Peel has the authority to issue debentures for its own municipal purposes, and, as an upper-tier municipality, issues debentures on behalf of its local municipalities.

As of December 31, 2024, Peel's own source net debt totalled approximately $1,440 million (2023 – $1,186 million), including $65 million in PHC related debt. During 2024, Peel's net debt outstanding increased by approximately $254 million, attributable to financing from OFA partly offset by required contributions and interest earnings on sinking funds.

On October 18th, the Region priced three amortizing debentures, for a total of $450 million with the OFA. As part of the 10-year debenture, $40 million was issued on behalf of the City of Mississauga, with an additional $14.7 million raised for the Town of Caledon. A 20-year debenture in the amount of $50 million was also issued on behalf of the City of Mississauga, and a 30-year debenture in the amount of $345.3 million was issued for the Region.

Treasury Staff continue to work with key stakeholders within and outside the organization to ensure reliable inputs into debt issuance forecasts and financial risk monitoring of key debt related metrics. Improved internal processes and continued engagement with investors have assisted Treasury staff with structuring a low cost and efficient debt issuance program to meet the financing requirements of Peel and local municipalities. Engaging investors through investor relations activities, monitoring and identifying key financial metrics as it relates to Peel's financial sustainability and flexibility allows for improved decision making. Appendix II.B contains additional details.

A. Recent Transaction

Peel completed a $300 million, 3.85 per cent coupon, 10-year conventional bond offering on April 8, 2025. This transaction represents Peel's first capital markets issuance since February 2022. This issuance supported borrowing needs of $190 million for the Region, $60 million on behalf of the City of Mississauga and $50 million on behalf of the City of Brampton at an all-in cost of 3.93 per cent. The transaction was oversubscribed by 1.5 times representing over $450 million in demand with participation from 28 investors from North America despite global market volatility, reflecting strong investor interest and confidence. Peel has historically been a regular issuer in the public Canadian debt market issuing approximately $3 billion in debentures since 2010.

6. 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 Peel. The General Fund is managed to meet the following objectives: preservation of capital, adequate liquidity, and optimizing returns within the specified risk tolerance to support Peel's future spending needs.

In 2024, Peel's reported investment income was $113.6 million (2023 – $103.8 million). The General Fund's total net assets of $3,263 million (2023 – $3,100 million) had a realized earnings rate of 3.50 per cent (2023 – 2.80 per cent). Higher realized earnings in 2024 were driven by higher interest rates on reinvestment, favourable interest rates on cash balances and higher than average distributions on ONE equity portfolio. The higher-than-average distributions of $20.5 million comprised of $3.2 million of income and $17.3 million of capital gains. These distributions were significantly higher than the historical average distribution of $2.0 million of income and $3.4 million of capital gains. The $15.1 million of excess distributions in 2024 were driven by positive equity returns and increased investor flow into and out of the ONE equity portfolio leading to higher realized capital gains. Future distributions are expected to revert back to levels closer to the historical average. The General Fund earnings were allocated as follows: $107.9 million was allocated to reserves and $5.7 million to PHC.

Compared to the end of the prior year, 2024 short term rates (less than one year) decreased while longer term rates increased. The fall in rates for short term securities resulted in positive investment returns on short-term holdings, but these were partly offset by the negative returns of longer dated securities. Equities also performed well, as market sentiment towards a softer economic landing became more widely expected. For the one-year period, the aggregate Canadian fixed income index was up 4.2 per cent, and the TSX equity index up 21.7 per cent.

i. Summary of General Fund Performance:

	Realized (A)†	Unrealized (B)	Peel's Total Return (A+B)	Benchmark Total Return* (C)	Value Add (A+B-C)
1-year	3.50%	2.11%	5.61%	5.46%	0.15%
5-year	2.87%	-0.68%	2.19%	2.14%	0.05%

*Total Benchmark Return is a blend of FTSE TMX Indices & TSX Composite – 91 Day T-bill (20%); FTSE 1–5-year Gov't (45%); FTSE 5–10-year Gov't (30%); S&P/TSX Composite (5%)

a) Total Returns vs. Benchmark

The combination of coupon rates and change in interest rates during 2024 resulted in positive fixed income returns on a total return basis. Total return for the General Fund during 2024 was 5.61 per cent, outperforming the 5.46 per cent total return of the benchmark. Over the past five-year period, the General Fund's total return of 2.19 per cent exceeded the benchmark by 0.05 per cent.

For the one-year period ending December 31, 2024:

- Cash holdings performed well, returning 5.6 per cent vs. the benchmark of 4.9 per cent. Attractive rates on Peel's cash deposits through its banking partners were the major driver of outperformance.
- Fixed income also outperformed its benchmark, returning 5.0 per cent vs. 4.6 per cent on the benchmark. A higher allocation to corporates, lower allocation to Government of Canada Bonds as well as strong investment selection in the government and municipal sector accounted for the outperformance.
- Equity returned 20.3 per cent, underperforming the TSX index which returned 21.7 per cent. The primary driver was a higher allocation to communication services and lower allocations to energy, materials and financial stocks. In 2024, the average equity allocation for the fund was 3.6 per cent vs the benchmark weight of 5 per cent. This under allocation to equities resulted from a staff decision to reduce portfolio risk in late 2022 by selling half (2.5 per cent) of the equity allocation – subsequently, in early 2023 and through the majority of 2024, the equity allocation was held at approximately 2.5 per cent out of prudence, given the changing legislation affecting Peel and uncertainty with respect to Peel's ability to access capital during this period. In Q4 2024, $35 million was deployed, increasing the allocation to 3.6 per cent at the end of 2024 compared to 2.8 per cent in 2023. The under allocation to equities detracted about 0.21 per cent from the total fund return.

b) Realized Return versus Inflation

For the year ended December 31, 2024, the General Fund generated gross earnings for Peel of $113.6 million, or 3.50 per cent realized earnings rate on amortized book value of $3,311 million.

Five-year realized returns of 2.9 per cent lagged five-year Toronto Consumer Price Index (CPI) of 3.4 per cent by 0.5 per cent due to the spike in inflation since 2021. Over a longer horizon, realized returns have exceeded Toronto CPI.

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

ii) Environmental Social and Governance (ESG) Bond Holdings

As of December 31, 2024, Peel held approximately $239 million in ESG related bonds. Specific initiatives supported by these bonds range from climate awareness/green energy to supporting improved outcomes in key priorities (e.g. health equality in low-income nations, supporting women owned businesses). Peel also invests in bonds issued by First Nations Financing Authority (FNFA), which seek to provide access to funding for First Nations communities within Canada to support ESG and economic initiatives within their communities. Appendix II.E contains further details on the initiatives Peel's investments are supporting.

iii) Transactions in Own Securities

From time to time, Peel invests in its own securities no different than any other portfolio investments where Peel sees value relative to other similar securities. As of December 31, 2024, Peel owned $42.5 million of its own bonds which comprised 1.1 per cent of the overall portfolio par value for both General and Sinking Funds (2023 – 1.2 per cent). There were no transactions related to Peel bonds in 2024. Appendix II.F contains details of holdings and transactions throughout 2024.

B. Sinking Funds

Sinking funds are established upon issuance of sinking fund debentures and managed on a segregated basis, pursuant to the *Municipal Act, 2001*, with annual contributions which, with interest compounded annually, is estimated to be sufficient to retire the debentures at maturity.

During 2024, the eight sinking funds generated total gross earnings of $20.9 million (2023 – $11.5 million) with the total aggregate amortized book value of the sinking funds increasing to approximately $553 million inclusive of annual provision payments (2023 – $480 million). As of December 31, 2024, the market value of the sinking funds was $502.8 million (2023 - $440.6 million).

The life-to-date investment returns outperformed the target returns for seven sinking funds while one sinking fund generated returns less than the required return on a life-to-date basis. Sinking Fund EP, has a life to date deficit of $25,314 at the end of 2024. During the extremely low-interest rate environment spanning 2015 to 2021, it was difficult to source investments that achieved the required rates of return, contributing to the life-to-date deficits. Investments made in 2022, 2023 and 2024 are expected to increase earnings on overall Sinking Fund investments over time.

As required by the *Municipal Act, 2001*, Peel will contribute any shortfalls during 2025. 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 internally manages the fixed income and cash holdings of the portfolio. In 2024, the MER for this portion of the portfolio was 0.03 per cent, which was in line with the five-year average of 0.03 per cent. By comparison, an equivalent fixed income and cash portfolio managed by ONE Investment would have an MER of 0.33 per cent which is 11 times the cost compared to managing the portfolio internally. By managing this portion of the portfolio internally, Peel was able to save approximately 0.30 per cent, equivalent to fee savings of $10.5 million in 2024. This represents significant value for money relative to alternative options.

Peel continues to hold a position in the ONE Investment Canadian Equity Fund which has an MER of 0.5 per cent per year. The overall MER on Peel's entire portfolio (fixed income, cash and equity holdings) for 2024 was 0.05 per cent compared to an externally managed portfolio at 0.36 percent.

7. Energy Procurement Performance

A. Electricity

No electricity hedge volumes were procured for 2024 because projections showed that 2024 market conditions would be relatively stable and there was ample room created by the Global Adjustment rates which act as a natural hedge against spot price fluctuations. The Region's exposure to the spot market was minimal and the increases in the spot market during the period were offset by decreases in Global Adjustment costs. This strategy allowed the Region to take advantage of the low spot market prices that averaged $0.03213/kWh in 2024, which was lower than the competitive forward market hedge price for 2024 which averaged $0.04685/kWh. The net benefit to the Region of not hedging in 2024 based on a 10 per cent hedge volume was approximately $607,936.

B. Natural Gas

The Region of Peel hedged 66 per cent of its approximately 17.1 million cubic meters (m^3) of natural gas requirements for 2024, based on a "highly volatile" gas market condition and the Region's moderate risk appetite. A hedge volume of 10.16 million cubic meters was purchased from the Region of Peel's natural gas suppliers at an average price of $0.1780/cubic meters, and a hedge volume of 1.14 million cubic meters was purchased from the Housing Services Corporation (HSC) at various delivery points at an average price of $0.1966/cubic meters inclusive of transaction fees. The total hedge cost was approximately $2.19 million. The Region also purchased spot/index volumes with fixed-price transportation for 5.80 million cubic meters at a total spot/index cost of approximately $0.62 million inclusive of transaction fees. The average index prices in 2024 were low due to a warmer than normal winter, thus there was no cost avoidance realized by the hedge volumes compared with index prices. However, compared with Enbridge's quarterly supply rates (default supply if not on hedge contracts), which averaged $0.1948/cubic meters, the Region's total supply cost for hedge and index volumes in 2024 was lower by approximately $675,979. Further details on energy procurement performance are in Appendix II.G

RISK CONSIDERATIONS

Peel monitors and manages investment risk at the total portfolio level, and on a relative basis compared to the portfolio's benchmark. Overall, risk is governed by Peel's Investment Goals and Policies approved by Council and aligns to Peel's Risk Appetite Framework. Additionally, managing against a market benchmark allows staff to identify, compare, and quantify the risks of the portfolio more specifically. Given the portfolio is comprised of approximately 75 to 85 per cent fixed income securities, interest rate risk is one of the most significant risks to the portfolio. To manage the interest rate risk of the portfolio, staff closely monitor the sensitivity of various interest rate shifts and manages the maturity profile of the portfolio to closely align to that of the benchmark.

The portfolio is well diversified across allowable sectors and issuers to avoid undue risk in a specific issuer or sector. Through the course of 2024, Peel invested across several sectors, with the average credit quality of the overall portfolio extremely high. Staff continued to maintain a conservative position within equities due to the uncertainty related to accessing capital. Peel increased its equity position to approximately 5 per cent in second half of 2024.

In adherence to Peel's Debt Management Policy, staff ensure adequate infrastructure, services, and resources is available to support existing and growing communities, financial sustainability, and structuring of debt that provides flexibility to meet financial obligations and support intergenerational equity.

The Region's Aaa/AAA credit rating was affirmed in 2024 by Moody's Ratings (Moody's) and S&P Global Ratings (S&P), marking the 29th consecutive year Peel has held the highest possible rating. The Region's financial position is supported by a growing local economy, backed by strong population along with stable and predictable revenues from property tax and utility fees. The Region's prudent financial management, positive operating balances, high liquidity and reserve balances also contribute to the Region's financial strengths. Current debt levels are considered modest. Moody's and S&P do however note that elevated and growing capital requirements coupled with lower-than-expected development charge collections could pose a risk to the downside. Further, higher reliance on debt than currently forecast could also pressure the Region's credit rating. Staff continues to closely monitor several key financial metrics and regularly update forecasts to ensure the Region is financially sustainable and flexibility.

Portfolio liquidity averaged 22.8 per cent of the General Fund portfolio during 2024 which is slightly higher compared to historical levels which remains between 15 to 20 per cent of the General Fund portfolio. The increase in liquidity is due to the portfolio being managed more conservatively due to the uncertainty created by Bill 112/185. The historical levels of liquidity have been sufficient to cover operational and capital outflows. Staff continue to evaluate available sources of financing (e.g. capital markets, federal/provincial programs, internal financing, etc.) to ensure that the lowest cost of financing can be achieved over the long-term, without undue risk to the Region's capital and borrowing programs.

BILL 112 RISKS AND IMPLICATIONS

On June 8, 2023, the Province passed Bill 112, the *Hazel McCallion Act (Peel Dissolution), 2023* and created a Transition Board to make restructuring recommendations to the Province. The Transition Board was dissolved on December 31, 2024 pursuant to O. Reg. 547/24. The Transition Board's recommendations have not been released to the Region.

On June 4, 2025, Bill 45, the Peel Transition Implementation Act, 2025, was introduced. If passed, Bill 45 will transfer jurisdiction over regional roads — including related stormwater infrastructure — from Peel Region to Mississauga, Brampton and Caledon on July 1, 2026, and will transfer jurisdiction over waste collection from Peel Region to the three lower-tier municipalities on January 1, 2026.

FINANCIAL IMPLICATIONS

Peel's reported 2024 investment income was $113.6 million. The investment income was allocated as follows: approximately 95 per cent to reserves, and 5 per cent to PHC. The investment portfolio continues to be managed efficiently at a MER of 0.05 per cent compared to outsourcing at a cost of 0.36 per cent. The net benefit to the Region of not hedging electricity in 2024 was approximately $607,936 and the total supply cost for natural gas in 2024 was lower by approximately $675,979 under the Region's supply strategy.

CONCLUSION

Peel's 2024 treasury and energy hedging activities have been undertaken in compliance with the Investment Goals and Policies, Debt Management Policy, and Energy Commodity Procurement Policy. These policies provide Peel with strong governance practices. Staff remain committed to delivering effective and efficient investment, borrowing and hedging programs to support Regional services.

APPENDICES

Appendix I - 2024 Certificate of the Treasurer
Appendix II - 2024 Treasury Dashboard

Davinder Valeri, CPA, CA, Chief Financial Officer and Commissioner of Corporate Services

Authored By: Safal Bhattarai, Treasury Portfolio Manager, Treasury Services