MA-B2-1

Region of Peel
Working for you

REPORT

DATE: June 1, 2010

REPORT TITLE: **2009 TREASURY REPORT**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That in compliance with Provincial Regulation 438/97, as amended by O. Reg. 292/09, governing municipal investment practices, the annual report, attached as Appendix I to the report of the Treasurer & Director of Corporate Finance, dated April 13, 2010, titled "2009 Treasury Section's Report", be approved.

REPORT HIGHLIGHTS

- In compliance with Provincial Regulation 438/97, as amended by O. Reg 292/09, it is the opinion of the Treasurer & Director of Corporate Finance that all investment transactions during 2009 were made in accordance with the investment policies and goals adopted by the Region of Peel.
- The internally managed investment program continues to demonstrate its effectiveness. If the Region were to reinvest the General Fund into the ONE money market and bond funds, at the current term composition, it would amount to a cost of 35 basis points or an additional annual budget of $4.4 million.
- Over the course of 2009, the weighted average book value of the General Fund totalled $1.4 billion, a decrease of 4.2% from last year ($1.46 billion).
- The fixed income assets of the General Fund earned $60 million, which equates to a yield of 4.3%.
- During 2009 the yield for the General Fund exceeded the comparable composite DEX yield index by 2.5% or $35 million.
- As at December 31, 2009, the market value of the Region's ONE equity fund holding was $4.7 million, (2008: $3.7 million) which was an unrealized loss of 5.5% since inception and a 26.7% increase from last year.
- The weighted average book value of the Caledon Debt Retirement Fund during 2009 was $18.4 million.

DISCUSSION

1. Background

The 2009 Treasury Section's Report has been prepared in compliance with Provincial Regulation 438/97, as amended by O. Reg 292/09, 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	ROP Funding Review,
Section V	Outlook for 2010.

The Treasury Section's Report was last presented to Council and approved on April 2, 2009.

2. Investment Policy

In compliance with Provincial Regulation 438/97, as amended by O. Reg 292/09, it is the opinion of the Treasurer & Director of Corporate Finance that all investment transactions, during 2009, were made in accordance with the investment policies and goals adopted by the Region of Peel in April of 2009.

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 Corporation, KPMG.

The investment policy details:

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

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

The Region of Peel's investment limitations to be followed in the balance of 2010 are shown in Appendix A. These limits reflect the requirement of the current eligible investment legislation and the Region's own judgement on prudent investment standards. All investment activity must adhere to these limits.

There have been no changes to the sector and term limitations from 2009. The separate lines for Asset Backed Securities and Credit Unions have been removed to recognize that these categories fall under the existing corporate sector limits.

A summary of the limitations specified in the Investment Policy for Peel Housing Corporation have also been included in Appendix A.

3. Investment Review

a) Investment Management Overview

The Treasury section's management expense ratio, over the past 5 years, has averaged 3 basis points (0.03%). If the Region were to reinvest the General Fund into the ONE money market and bond funds, at the current term composition, it would amount to a cost of 35 basis points (0.35%) or an additional annual budget of $4.4 million. 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).

b) General Fund

Key indicators from the general portfolio investment review include:

- The weighted average book value of the General Fund totalled $1.4 billion.
- Fixed Income Investments
    - 53% of assets held are rated AAA, the majority of this being the federal sector.
    - The average term to maturity, during 2009, was 3.1 years.
    - The provincial/municipal/corporate sectors comprise 71% of the portfolio.
    - The fixed income assets of the General Fund earned $60 million, which equates to a yield of 4.3%.
    - During 2009 the fixed income yield for the General Fund exceeded the comparable DEX yield index by 2.5% or $35 million.
- Equity Investments
    - As at December 31, 2009, the market value of the Region's ONE equity fund holding was $4.7 million, which was an unrealized loss of 5.5% since inception.
    - In comparison to the end of 2008, the ONE equity fund gained 26.7% in market value.
    - While the ONE equity fund return results are disappointing, it must be viewed in context of the fact this is a long term investment, with a horizon of 7 to 10 years before the funds are anticipated to be required.

c) Caledon Debt Retirement Fund

Key indicators from the Debt retirement portfolio investment review include:

- Earned revenues totaled $753,915, which equates to a yield of 4.1% on the 2009 weighted average book value of $18.4 million.
- The Town of Caledon's debenture issue (series AD), connected with the Caledon Debt Retirement Fund, had $26.5 million in principal and interest payments outstanding as at 2009/12/31.
- At December 31, 2009, Caledon's Debt Retirement Fund's assets are sufficient to fund $17.6 million of the Series AD debenture issue's liabilities (until 2016/12/14).
- This leaves an $8.8 million unfunded debenture liability for Caledon until the debenture matures in 2019/12/14. At year end, an investment of $6.6 million would have been sufficient to fund the $8.8 million unfunded debenture liability.
- Caledon's Council has approved a plan for annual contributions to the Caledon Hydro Reserve Fund that will by December 2016 be sufficient to fund this unfunded debenture liability.

d) Peel Housing Corporation

At year end the total market value of the SHIF investment was $5.0 million which was an unrealized gain of 16% from the end of last year and a neutral position from inception.

As stipulated in the PHC Investment policy, the funds invested with SHIF represent long term cash flows and as such are matched with the longer term structure of the SHIF Bond and Equity funds.

4. ROP Funding Review

As at the end of December 2009, the ROP had $5.3 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority) and $337.3 million PHC social housing mortgages.

The Region had internal borrowing of $284 million at December 31, 2009 as follows:

- $55.6 million to fund capital construction in social housing and long-term care, and
- $228.4 million to temporarily fund negative balances in Development Charge Reserve funds.

The Region does not currently have a policy which sets out limits for Internal Borrowing. Staff are doing research in this area and will bring a separate report with recommendations for Council consideration.

5. Outlook for 2010

After a year of contraction, the consensus forecast, by the Canadian banks, is a return to growth in 2010. Real GDP was -2.6% for 2009 and is expected to rebound to around 3% for 2010 and 3.0% in 2011. Inflation was minor in 2009, 0.3%, but is expected to rise to 1.7% in 2010.

In an effort to stimulate economic growth, the Bank of Canada has maintained short rates at extremely low levels. During 2009, the rate on Government of Canada 91 day treasury bills dropped from 0.8% at the start of the year to 0.3% at the end of the year. The prime lending rate ended the year at 2.3%. As at the time of writing, the forecast for the prime lending rate is to be 2.9% by the end of 2010 and 4.8% by the end of 2011. The 5 year Government of Canada bond rate ended 2009 at 2.6% and is expected to rise marginally to end 2010 at 3.6%.

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.

Norma Trim
Chief Financial Officer
and Commissioner of Corporate Services

Approved for Submission:

D. Szwarc, Chief Administrative Officer

For further information regarding this report, please contact Dave Bingham at extension 4292 or via email at dave.bingham@peelregion.ca

Authored By: Janice Tuffnail

c. Legislative Services

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APPENDIX 1

Region of Peel
Working for you

Corporate Services

2009 TREASURY SECTION'S REPORT

Dated: April 13, 2010

Prepared by:
Janice Tuffnail
Former Senior Treasury and Portfolio Manager
Corporate Service, Corporate Finance, Treasury

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I. INVESTMENT POLICY

In compliance with Provincial Regulation 438/97, as amended by O. Reg 292/09, it is the opinion of the Treasurer & Director of Corporate Finance that all investment transactions, during 2009, 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 Corporation, KPMG.

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 & 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 2009, there were two funds under management, the General Fund (GF) and the Town of Caledon Debt Retirement Funds.

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 by O. Reg. 292/09).

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.

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

The Region of Peel's and Peel Housing Corporation's investment limitations, to be followed in the balance of 2010, are shown in Appendix A. These limits reflect the requirement of the current eligible investment legislation and the Region's own judgement on prudent investment standards. All investment activity must adhere to these limits.

There have been no changes to the sector and term limitations from 2009. The separate lines for Asset Backed Securities and Credit Unions have been removed to recognize that these categories fall under the existing corporate sector limits.

D. Reporting

The Treasury section will provide a review of Treasury related activity, on a quarterly basis, to the Chief Financial Officer and Commissioner of Corporate Services and the Treasurer & Director of Corporate Finance. 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 Commissioner of Corporate Services and the Treasurer & 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.

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 & Director of Corporate Finance's opinion, no longer consistent with the investment policies and goals adopted by the municipality, the Treasurer & 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

A. Investment Management Overview

The Treasury section reports through the Corporate Finance division (part of Corporate Services Department) and is composed of a Senior Treasury and Portfolio Manager and two Analysts.

Treasury's internally managed investment program continues to demonstrate its effectiveness. The Treasury section's management expense ratio (operational cost relative to the size of the assets under management), over the past 5 years, has averaged 3 basis points (0.03%). This 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).

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 a cost of 35 basis points (0.35%) or an additional annual budget of $4.4 million.

B. General Fund

The GF includes reserves and reserve funds, working capital and other funds within the Region. Over the course of 2009, the weighted average book value of the GF totalled $1.4 billion, a decrease of 4.2% from last year ($1.46 billion) and 10.0% since 2005.

Included in the weighted average book value is a $5.0 million equity position that was added in 2008 and a USD position of $8.0 million (CAD equivalent). The equity position is a long term investment (7 to 10 year horizon) and the USD position matches outstanding USD purchase orders for the Region.

1. Fixed Income Investments

a) Credit Analysis

Over the past five years, the AAA exposure has been reduced from 57% to 53%. There was no change to any of the credit rating exposures from last year. The GF remains conservatively invested in high quality bonds.

At year end, the two largest holdings, with an AAA rating, were Canada and CHT (Canada Housing Trust) which is a federal guarantee. Ontario (7.4%), the Bank of Montreal (6.2%) and New Brunswick (4.2%) were the three largest AA rated counterparties. Over the course of the year, holdings of assets with an A rating or less accounted for only 6.0% of the portfolio. The largest A rated holding, at year end, was Quebec at 4.1%.

During 2009, there were no assets with credit rating that fell below what is permitted under current eligible investment legislation.

CREDIT RATING ANALYSIS

(% par value)

Annual Average	2005	2006	2007	2008	2009
AAA	57%	56%	56%	53%	53%
AA	40%	39%	39%	41%	41%
A	4%	4%	5%	6%	6%
TOTAL	100%	100%	100%	100%	100%

b) Term Analysis

Holdings in assets maturing within one year decreased from 25% ($369 million) in 2008 to 24% ($326 million) in 2009. The 1 to 5 year term component of the portfolio has been steadily increasing, over the past 5 years, in response to the Region's increased level of capital spending for a similar term projected in the 10 year capital plan. During the same time, the > 5 year exposure has been decreasing as there is less cash surplus to reinvest into longer term assets.

As a result of the above mentioned changes to the term structure, the average term of the portfolio has further declined to 3.1 years which is shorter than last year and significantly shorter than the past 5 years.

TERM ANALYSIS

(% par value)

Annual Average	2005	2006	2007	2008	2009
< 1 year	20%	16%	23%	25%	24%
1-5 year	46%	47%	44%	48%	53%
> 5 years	35%	37%	33%	27%	24%
TOTAL	100%	100%	100%	100%	100%

Weighted Avg Term (yrs)	4.1	4.3	3.8	3.4	3.1

c) Sector Analysis

The GF continually maintains a large weighting in federally guaranteed bonds. This reflects the conservative nature of the portfolio as well as the mandate to ensure adequate liquidity. During 2009, 29% ($394 million) of the portfolio was invested in the federal sector.

The exposure to the federal sector has been continually reduced over the past five years as revised municipal legislation, over the same time frame, has expanded the scope of eligible investments in other sectors.

Diversifying into other sectors provides the opportunity to enhance the portfolio's yield. Exposure to the provincial, municipal and corporate sectors accounted for 71% of the GF investments. The largest provincial holding is the Province of Ontario; the largest municipal holding is Municipal Financing Authority of BC (an agency of the province of BC) and the largest corporate holdings are the Bank of Montreal. As at December 31, 2009, 0.9% ($10.9 million) of the GF was invested in Region of Peel debentures. This is unchanged from last year.

SECTOR ANALYSIS

(% par value)

Annual Average	**2005**	**2006**	**2007**	**2008**	**2009**
Federal	35%	30%	29%	28%	29%
Provincial	27%	27%	25%	24%	26%
Municipal	21%	23%	23%	23%	23%
Corporate	17%	20%	22%	25%	22%
TOTAL	100%	100%	100%	100%	100%

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

d) Investment Transactions

Over the course of the year, on a monthly basis, short term (under 1 year) purchases for the GF averaged $482 million par value in size and 10 days in term. The vast majority of short term purchases are in the corporate sector (98%) and the counterparties are the Schedule I Banks.

Over the course of 2009, long term transactions (purchases and sales) for the GF totalled $139 million (par value) of which $97 million were purchases with an average term of 3.8 years. Federal and provincial bond purchases were the most frequent (40% and 27% respectively).

e) Fixed Income Investment Yield

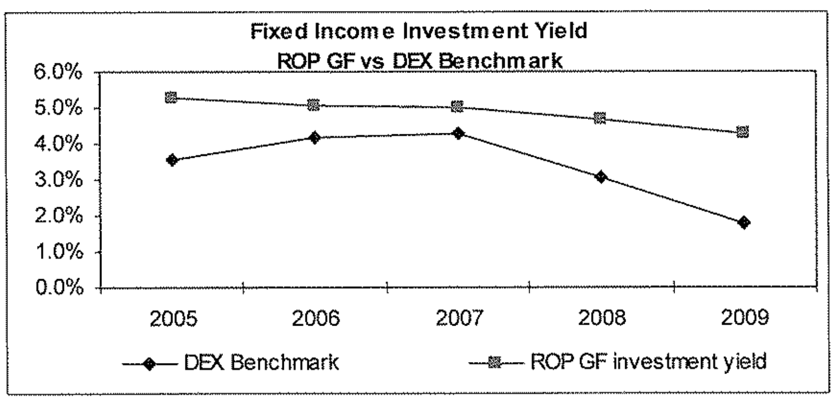
The gross fixed income investment yield is based on earned revenues (interest income, realized capital gains/losses, amortized premiums/discounts and securities lending income) as a percentage of the weighted average book value and net of expenses. In 2009, the fixed income assets of the GF earned $60 million, which equates to a yield of 4.3% after management fees. This compares to a yield of 4.7% ($68 million) in 2008. The average investment yield, over the past 5 years, was 4.8%. The decline in the GF's fixed income investment yield reflects low yields world wide. Interest rates beyond 1 year rose marginally last year, but remain at historically low levels. By year end, 5 year Canada's, which started the year at 1.8%, rose to 2.6%. Treasury bills maturing in 3 months rates fell from 0.8% at the start of the year to 0.3% at the end.

The monthly earnings rate is used to allocate interest earned to the various components of the GF. It is set based on the 12 month average of the investment yield net of an estimate of total administration charges (10 basis points). For 2009, the average earnings rate was 4.2% (versus 4.7% during 2008). If at year end, the actual administration cost is less than the 10 basis points, the remaining investment income is allocated to the reserve funds.

f) 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 2009 the fixed income yield for the GF exceeded the comparable composite DEX yield index by 2.5% or $35 million. The average benchmark interest rate over the course of 2009 was 1.8% which is significantly lower than 2008 (3.1%). On average, over the past 5 years, the GF has outperformed the DEX yield by 1.5% or $22 million per year. The Region's yield tends to outperform the benchmark yield during periods of declining rates, due to the fact that only a small portion of the GF is being reinvested at the lower rates. Most of the fixed income assets, in the GF, were purchased at considerably higher rates that what is currently available in the financial markets.



It is important to note that enhancement to the returns earned by the portfolio was accomplished within the strict guidelines imposed by Municipal Legislation and the Region's investment policy.

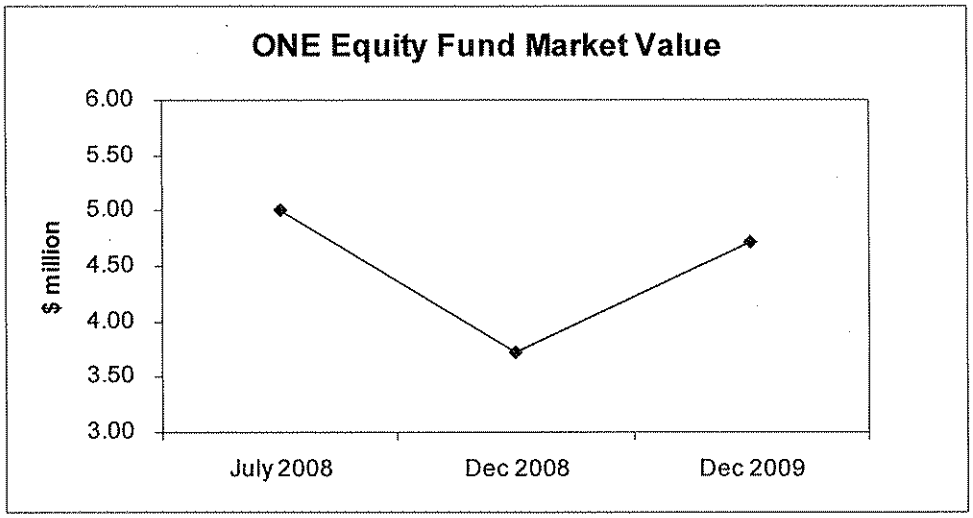
2. Equity Investment

In March 2008, Regional Council approved the by-law required to enter into the ONE equity fund. On July 4, 2008, the Region invested $5 million in the ONE equity fund.

This fund is operated by 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 seek to provide superior long-term investment returns through capital growth and dividend yield by investing in a diversified, conservatively managed portfolio of equity securities issued by corporations, as permitted by applicable regulations from time to time.

As at December 31, 2009, the market value of the Region's ONE equity fund holding was $4.7 million, which was an unrealized loss of 5.5% since inception. In comparison to the end of 2008, the ONE equity fund gained 26.7% in market value.



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

The total ONE equity fund balance is $66 million (of which the Region accounted for $5 million or 8%) and the management fees are 60 basis points (0.60%)

3. Total Investment Yield

The fixed income portion of the GF accounts for 99.6% 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 4.3%.

4. Deferred Revenue

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 is 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 current size of the GF, this equates to $5.2 million.

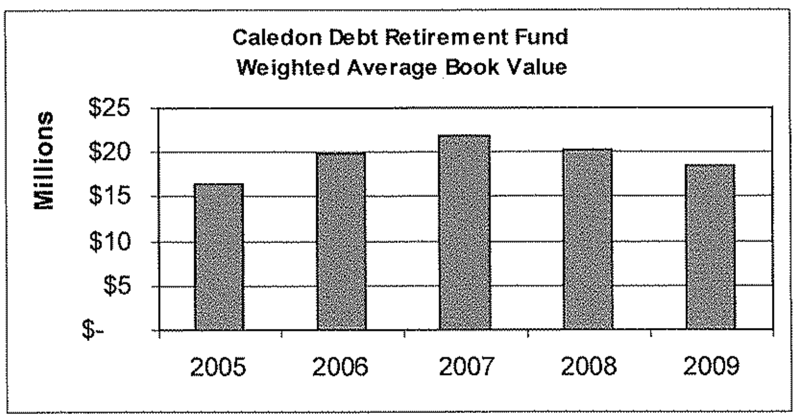
C. Caledon Debt Retirement Fund

The Caledon Debt Retirement Fund is under the direction of the Debt Retirement Committee which is comprised of the Treasurers from the three area municipalities and the Regional Treasurer & Director of Corporate Finance as the 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 $17.7 million.

The weighted average book value of the Caledon Debt Retirement Fund during 2009 was $18.4 million. The cash position, during that time, was 16% or $2.8 million.



1. Credit and Sector Analysis

On average, over last year, the AAA credit exposure was 37% versus 44% during 2008. The reason for this change was maturity of a $3 million maturity of AAA rated Waterloo bonds. As at year end, the largest AAA holding was Peel (19.0%). The largest AA holdings was Vancouver (24.9%) and Montreal was the only A holding (16.2%).

During 2009, there were no assets with credit rating that fell below what is permitted under current eligible investment legislation.

CREDIT ANALYSIS

(% par value)

Annual Averages	2005	2006	2007	2008	2009
AAA	76%	67%	53%	44%	37%
AA	8%	19%	31%	39%	47%
A	17%	14%	16%	17%	15%
Total	100%	100%	100%	100%	100%

Since the cash flows are known for the Debt Retirement Fund, 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 have consistently accounted for the vast majority of the assets held by the fund. As at year end, holdings in Region of Peel bonds totalled $2.7 million which is unchanged from the end of last year.

SECTOR ANALYSIS

(% par value)

Annual Averages	2005	2006	2007	2008	2009
Provincial	3%	1%	0%	0%	0%
Municipal	97%	99%	100%	100%	100%
Banks & ABS	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

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

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 2009, Caledon's Debt Retirement earned $753,915 which equates to a yield of 4.1%. This compares to $867,804 or 4.3% last year. The average investment yield, over the past 5 years, was 4.2%.

3. Unfunded Outstanding Debentures

The Town of Caledon's debenture issue (series AD), connected with the Caledon Debt Retirement Fund, had $26.5 million in principal and interest payments outstanding as at 2009/12/31.

Caledon's Debt Retirement Fund's assets are sufficient to fund $17.6 million of the Series AD debenture issue's liabilities (until 2016/12/14). This leaves an $8.8 million unfunded debenture liability for Caledon until the debenture matures in 2019/12/14. At current interest rates, the net present value of the remaining exposure is approximately $6.6 million.

D. Peel Housing Corporation

In September 2007, Peel Housing Corporation (PHC) invested $5 million in the Social Housing Investment Fund (SHIF). This fund is managed by SHSC Financial

Inc. and the portfolio advisor is Phillips, Hagar and North Investment Management Ltd.

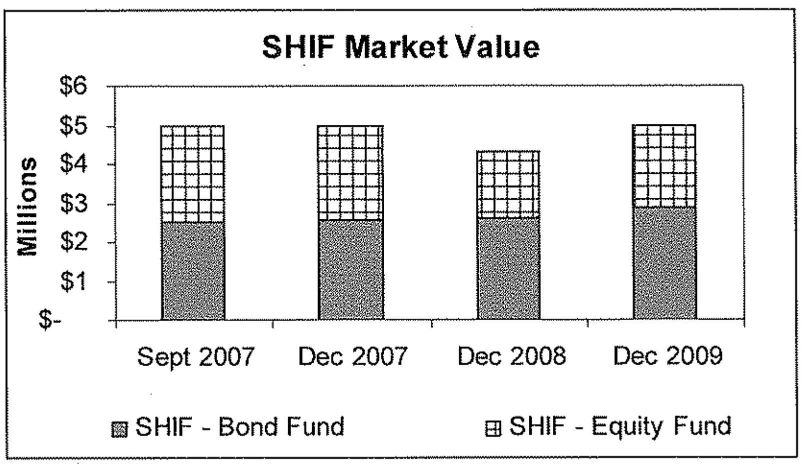
The $5 million was used to purchase $2.5 million of the Canadian Bond Fund and $2.5 million of the Canadian Equity Fund. At the end of 2009, the total market value of the SHIF investment was $5.0 million which was an unrealized gain of 16% from the end of last year and a neutral position from inception.

The Bond Fund earned 8.5% last year and the Equity Fund earned 28%. Since inception, the Bond Fund has earned 6% and the Equity Fund has lost 6%.

As stipulated in the PHC Investment policy, the funds invested with the SHIF represent long term cash flows and as such are matched with the longer term structure of the SHIF Bond and Equity funds.

In addition to the SHIF investments, PHC also had a $20.7 million cash position with the Region which is part of the GF and earned the earnings rate for the GF.

PHC is in compliance with all of the limits established in the investment policy.

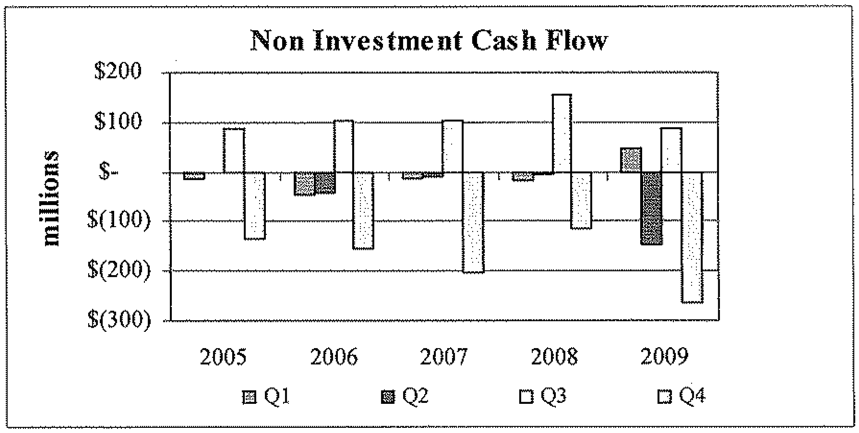


III. CASH MANAGEMENT REVIEW

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 it is required. Cash inflows to the Region include tax levies, wastewater and water deposits, development charges and 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 cash outflow of $278 million during 2009. This is the largest net outflow for the past 5 years. As is typically the case, the bulk of the inflows occur during the third quarter and the outflows occur during the last quarter of the year. On average, over the past five years, there has been an annual non investment cash outflow of $116 million per year.

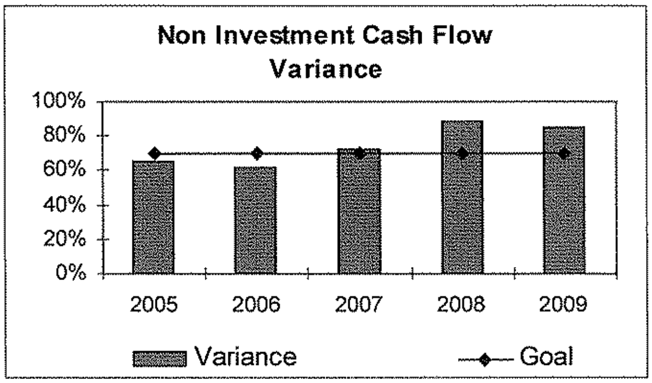


B. Performance Measurement for Cash Management

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 2009 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.

During the past year, the Region experienced average daily cash flows in the magnitude of $14.8 million (absolute value). Given this magnitude, the variance target for the year was +/- $2.1 million. Over the course of last year the variance in the bank balance was within the target range for 85% of the time, exceeding our goal. This compares to 89% in 2008.



IV. ROP FUNDING REVIEW

A. Funds Received by the ROP

As at the end of December 2009, the ROP had $5.3 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority) and $337.3 million PHC social housing mortgages.

B. Funds Provided by the ROP

As at the end of December 2009, the ROP had $5.3 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority) and $337.3 million PHC social housing mortgages.

The Region had internal borrowing of $284 million at December 31, 2009 as follows:

- $55.6 million to fund capital construction in social housing and long-term care, and
- $228.4 million to temporarily fund negative balances in Development Charge Reserve funds.

The Region does not currently have a policy which sets out limits for Internal Borrowing. Staff are doing research in this area and will bring a separate report with recommendations for Council consideration.

V. OUTLOOK FOR 2010

After a year of contraction, the consensus forecast, by the Canadian banks, is a return to growth in 2010. Real GDP was -2.6% for 2009 and is expected to rebound to around 3% for 2010 and 3.0% in 2011. Inflation was minor in 2009, 0.3%, but is expected to rise to 1.7% in 2010.

In an effort to stimulate economic growth, the Bank of Canada has maintained short rates at extremely low levels. During 2009, the rate on Government of Canada 91 day treasury bills dropped from 0.8% at the start of the year to 0.3% at the end of the year. The prime lending rate ended the year at 2.3%. As at the time of writing, the forecast for the prime lending rate is to be 2.9% by the end of 2010 and 4.8% by the end of 2011. The 5 year

Government of Canada bond rate ended 2009 at 2.6% and is expected to rise marginally to end 2010 at 3.6%.

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APPENDIX A - INVESTMENT LIMITATIONS FOR 2010

SECTOR LIMITATIONS FOR 2010

	Credit Rating	Exposure Limitations			Term Limitations
		GF		DRF	GF
SECTOR		**minimum**	**maximum**	**maximum**	**maximum**
FEDERAL					
Canada	AAA	**10%**	100%	100%	30 years
Federal Guarantees	AAA	0%	50%	100%	30 years
Supranationals *	AAA	0%	5%	5%	30 years
FEDERAL TOTAL		**20%**	**100%**	**100%**	
PROVINCIAL					
Provincial **	AAA	0%	50%	100%	30 years
	AA	0%	35%	55%	15 years
	A *	0%	20%	30%	10 years
	BBB *	0%	10%	20%	5 years
PROVINCIAL TOTAL		**0%**	**50%**	**100%**	
MUNICIPAL	AAA	0%	35%	100%	30 years
	AA	0%	20%	50%	15 years
	A *	0%	10%	20%	10 years
MUNICIPAL TOTAL		**0%**	**35%**	**100%**	
CORPORATE ***					
Banks Schedule I	AAA or AA	0%	35%	35%	15 years
	A *	0%	20%	30%	1year
Banks Schedule II & III *	AAA or AA	0%	10%	20%	1 year
Other Corporates *	AAA	0%	20%	20%	5 years
	AA	0%	5%	5%	5 years
CORPORATE TOTAL		**0%**	**35%**	**100%**	
ONE Equity Fund		**0%**	**10%**		

GF – General Fund

DRF – Debt Retirement Fund

* no individual counterparty exposure shall exceed 5% for the General Fund

** includes Provincial Guarantees; Ontario Infrastructure Projects Corporation; and School Boards

*** must be rated by 2 or more rating agencies.

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APPENDIX A - INVESTMENT LIMITATIONS FOR 2010

CREDIT LIMITATIONS FOR 2010

Credit Rating	Description	Limitations	
		GF	DRF
AAA	Extremely Strong Quality	100%	100%
AA	Very Strong Quality	50%	100%
A	Strong Quality	35%	55%
BBB	Good Quality	10%	20%

GF – General Fund

DRF – Debt Retirement Fund

TERM LIMITATIONS FOR 2010 - GENERAL FUND

	Percentage	
	Minimum	Maximum
less than or equal to 1 year (short term)	10%	100%
over 1 year, up to and including 5 years	0%	55%
over 5 years, up to and including 10 years	0%	40%
beyond 10 years	0%	20%

PEEL HOUSING CORPORATION

(book value)	Minimum	Maximum
Cash position with Region of Peel	25%	100%
SHIF Bond Fund	$0 million	$5 million
SHIF Equity Fund	$0 million	lesser of 10% of the total SHIF Equity Fund or $5 million

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VI. APPENDIX B - INVESTMENTS BY COUNTERPARTY

- General Fund
- Caledon Debt Retirement Fund

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GF Fixed Income: Investments by Counterparty Report - CAD

As of: December 31, 2009 | **The Regional Municipality of Peel**

Counterparty	Rating	Par Value	Approved Exposure	Current Exposure	Term Limit
CANADA	AAA	195,000,000	100.0%	16.9%	30
CANADA		**195,000,000**	**100.0%**	**16.9%**	
CHT	AAA	74,250,000	50.0%	6.4%	30
CMHC	AAA	20,000,000	50.0%	1.7%	30
EDC	AAA	25,000,000	50.0%	2.2%	30
FARM CREDIT	AAA	10,000,000	50.0%	0.9%	30
FEDERAL GUARANTEE		**129,250,000**	**50.0%**	**11.2%**	
IADB	AAA	5,000,000	5.0%	0.4%	30
SUPRANATIONAL		**5,000,000**	**5.0%**	**0.4%**	
FEDERAL SECTOR		**$329,250,000**	**100.0%**	**28.0%**	
ALBERTA	AAA	5,000,000	15.0%	0.4%	30
ALBERTA CFA	AAA	38,630,000	10.0%	3.3%	30
BRITISH COLUMBIA	AAA	40,000,000	25.0%	3.5%	30
MANITOBA	AA	20,000,000	18.0%	1.7%	15
NEW BRUNSWICK	AA	48,500,000	18.0%	4.2%	15
ONTARIO	AA	85,000,000	18.0%	7.4%	15
ONTARIO INFRASTR	AA	6,000,000	5.0%	0.5%	15
OSBFC	AA	14,400,000	5.0%	1.2%	15
SASKATCHEWAN	AA	10,000,000	18.0%	0.9%	15
SIMCOE DSB	AA	2,810,000	5.0%	0.2%	15
FIN QUEBEC	A	5,000,000	5.0%	0.4%	10
NB MFC	A	10,143,000	5.0%	0.9%	10
QUEBEC	A	42,000,000	5.0%	3.6%	10
PROVINCIAL SECTOR		**327,483,000**		**28.3%**	
DURHAM	AAA	9,623,000	18.0%	0.8%	30
HALTON	AAA	26,147,000	18.0%	2.3%	30
LONDON	AAA	5,375,000	18.0%	0.5%	30
MFA BC	AAA	62,993,000	18.0%	5.4%	30
PEEL	AAA	10,939,000	18.0%	0.9%	30
WATERLOO	AAA	11,129,000	18.0%	1.0%	30
YORK	AAA	46,748,000	18.0%	4.0%	30
HAMILTON	AA	12,769,000	10.0%	1.1%	15
NIAGARA	AA	8,826,000	10.0%	0.8%	15
OTTAWA	AA	13,301,000	10.0%	1.2%	15
REGINA	AA	2,350,000	10.0%	0.2%	15
TORONTO	AA	40,640,000	10.0%	3.5%	15
VANCOUVER	AA	22,190,000	10.0%	1.9%	15
WINDSOR	AA	2,678,000	10.0%	0.2%	15
LAMBTON	A	5,000,000	5.0%	0.4%	10
MONTREAL	A	7,400,000	5.0%	0.6%	10
MUNICIPAL SECTOR		**288,108,000**		**24.9%**	
		$615,591,000		**53.0%**	
ALGONQUIN CCT	AAA	12,000,000	5.0%	1.0%	5
CAN CAP AUTO REC	AAA	5,000,000	5.0%	0.4%	5

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GF Fixed Income: Investments by Counterparty Report - CAD

As of: December 31, 2009 **The Regional Municipality of Peel**

Counterparty	*Rating*	*Par Value*	*Approved Exposure*	*Current Exposure*	*Term Limit*
GLACIER CCT	AAA	5,000,000	5.0%	0.4%	5
GLOUCESTER CCT	AAA	10,000,000	5.0%	0.9%	5
GOLDEN CCT	AAA	15,000,000	5.0%	1.3%	5
ASSET BACKED SEC		**47,000,000**	**20.0%**	**4.1%**	
GE CAPITAL CAN	AA	8,000,000	2.0%	0.7%	5
OTHER CORPORATE		**8,000,000**	**20.0%**	**0.7%**	
BMO	AA	72,040,000	18.0%	6.2%	15
BNS	AA	50,000,000	18.0%	4.3%	15
CIBC	AA	15,000,000	18.0%	1.3%	15
RBC	AA	14,000,000	18.0%	1.2%	15
TD BANK	AA	5,000,000	18.0%	0.4%	15
BANKS SCH I		**156,040,000**	**35.0%**	**13.5%**	
CORPORATE SECTOR		**$211,040,000**	**35.0%**	**18.0%**	
TOTAL CURRENT HOLDINGS		**$1,155,881,000**			

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Debt Retirement Fund: Investment by Counterparty Report

As of: December 31, 2009 **The Regional Municipality of Peel**

Counterparty	Rating	Par Value	Approved Exposure	Current Exposure
HALTON	AAA	1,000,000	100.0%	7.1%
PEEL	AAA	2,674,000	100.0%	19.0%
WATERLOO	AAA	1,866,000	100.0%	13.3%
HAMILTON	AA	1,739,000	50.0%	12.4%
TORONTO	AA	1,000,000	50.0%	7.1%
VANCOUVER	AA	3,500,000	50.0%	24.9%
MONTREAL	A	2,275,000	20.0%	16.2%
MUNICIPAL SECTOR		**$14,054,000**	**100.0%**	**100.0%**
TOTAL CURRENT HOLDINGS		**$14,054,000**		**100.0%**