MA-A4-1

Region of Peel
Working for you

REPORT
Meeting Date: July 7, 2011
Regional Council

DATE: June 15, 2011

REPORT TITLE: **2010 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 of the Treasurer and Director of Corporate Finance, dated June 15, 2011, titled "2010 Treasury Section's Report" attached as Appendix I to the report of the Chief Financial Officer and Commissioner of Corporate Services, dated June 15, 2011, titled "2010 Treasury Report", be approved;

And further, that the following changes to the investments limitations be implemented:

1) **General Fund: increase the approved limit from 35% to 50% for Schedule A Bank Sector with a maximum of one-half of this limit allocated to any one financial institution.**

2) **General Fund: reduce the minimum of Government of Canada AAA bond holdings from 10% to 5% of the overall portfolio.**

3) **Introduce a new investment portfolio entitled Sinking Fund Contribution Fund (SFCF) and the establishment of a new set of investment limitations designed specifically for the fund during the early formative years.**

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 2010 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 36 basis points or an additional annual budget of $4.6 million.
- Over the course of 2010, the weighted average book value of the General Fund totalled $1.27 billion, a decrease of 9.1% ($120 million) from last year ($1.39 billion).
- The fixed income assets of the General Fund earned $48 million, which equates to a yield of 3.8% which exceeded the comparable composite DEX yield index by 2.1% or $26 million.
- As at December 31, 2010, the market value of the Region's ONE equity fund holding was $5.28 million, (2009: $4.7 million) which was an unrealized gain of 5.6% since inception of the Region's original investment.

DISCUSSION

1. Background

The 2010 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 June 24, 2010.

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 2010, were made in accordance with the investment policies and goals adopted by the Region of Peel in June of 2010.

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, Deloitte & Touche LLP.

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 2011 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.

Staff is recommending changes to the sector and term limitations from 2010. The approved exposure limits on Schedule A Banks has been increased to 50% (from 35%) to permit Treasury to invest funds at the best available rates. As well, the investment policy of maintaining 10% of the overall portfolio in Government of Canada AAA investments has been reduced to 5% of the overall portfolio, as these funds are the lowest yielding investments with the portfolio and investments are generally held to maturity.

Beginning in 2011, a new Investment Policy for the Region's Sinking Fund Contribution Fund (SFCF) is necessary. The Region issued 30 year sinking fund debt in 2010, which requires annual payments to a sinking fund be made. The full repayment of principal in 2040 was based upon an assumed rate of 4% within the SFCF. To accomplish a return of at least 4%, flexibility is required as to the investment limitations that govern this portfolio. The key differential in the SFCF from the Region's General Fund portfolio is that the duration of the portfolio is known with certainty, being June 29, 2040. All of the invested assets must be converted to cash effective that date in order to repay bondholders. In the early years of the SFCF, there will be relatively small amounts of cash to invest and maintaining a balanced portfolio approach will be next to impossible, as it will entail many smaller purchases of bonds. It is recommended that until the SFCF attains a net asset value of at least $50 million that broader investment limitations apply, as summarized in Appendix A. These investment limitations are temporary in nature due to the size of the portfolio. Further review of these investment limitations will be conducted when the SFCF exceeds the $50 million threshold (in approximately 6 years), with the goal of revising the investment limitations to those that are applied to the General Fund.

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

3. Investment Review

a) Investment Management Overview

The Treasury section's management expense ratio was 4 basis points (0.04%) in 2010. 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 36 basis points (0.36%) or an additional annual budget of $4.6 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 $1.27 billion, a decrease of 9.1% ($120 million) from last year ($1.39 billion).

- Fixed Income Investments
  - 47% of assets held are rated AAA, the majority of this being the federal sector.
  - The average term to maturity, during 2010, was 2.6 years.
  - The provincial/municipal/corporate sectors comprise 49% of the portfolio.
  - The fixed income assets of the General Fund earned $48 million, which equates to a yield of 3.8%.
  - During 2010 the fixed income yield for the General Fund exceeded the comparable DEX yield index by 2.1%.

- Equity Investments
  - As at December 31, 2010, the market value of the Region's ONE equity fund holding was $5.28 million (2009; $4.7 million), which was an unrealized gain of 5.6% since inception of the Region's original investment.
  - The ONE equity fund return results are 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 $672,645, which equates to a yield of 4.0% on the 2010 weighted average book value of $16.7 million.
- The Town of Caledon's debenture issue (series AD), connected with the Caledon Debt Retirement Fund, had $23.8 million in principal and interest payments outstanding as at 2010/12/31.
- At December 31, 2010, Caledon's Debt Retirement Fund's assets are sufficient to fund $15.3 million of the Series AD debenture issue's liabilities (until 2016/12/14).
- This leaves an $8.5 million unfunded debenture liability for Caledon until the debenture matures in 2019/12/14. At year end, an investment of $6.9 million would have been sufficient to fund the $8.5 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 $5.4 million which was an unrealized gain of 7.8% from last year and an unrealized gain of 2.4% from inception of the Corporation's original investment.

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 2010, the ROP had $5.5 million in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority) and $320.9 million PHC social housing mortgages.

The Region had internal borrowing of $291 million at December 31, 2010 as follows:

- $62 million to fund capital construction in social housing and long-term care, and
- $229 million to temporarily fund negative balances in Development Charge Reserve funds (Note: Subsequent to year end, these were permanently funded from a $67.3 million Canada Mortgage and Housing Corporation loan issued in February 2011 and an additional $200 million of debentures issued in March 2011).

Regional staff, in consultation with staff from the Area Municipalities is currently developing a debt policy for Council consideration. The policy will address funds provided through internal borrowings.

5. Outlook for 2011 and 2012

Revised real Gross Domestic Product (GDP) growth was 3.3% in 2010 and 3.9% (annualized) in Q1 2011, in line with expectations. For the full year, GDP is expected to decrease marginally to 2.9% in 2011. Inflation continues to remain low, with core Consumer Price Index (CPI) inflation at 1.7% in 2010 and expectations are in the range of 1.8% in 2011.

The Bank of Canada did raise the overnight bank rate in 2010 from record low levels, however, due to the strength in the CAD dollar and relatively low CPI, it is not expected that further short term interest rate hikes will occur until the Bank of Canada's meeting In September.

During 2010, the rate on Government of Canada 91 day T-bills rose from a low of 0.3% at the beginning of the year to 0.98% at year end. The prime lending rate increased during the year to 3% but is still considered at the low end of the spectrum. However, forecasts for 2011 and 2012 point to higher rates. The Bank of Canada overnight rate is expected to close out the year at 1.85% and continue rising to 3.5% by the fourth quarter of 2012. Similarly, 10 year Government of Canada benchmark bonds are forecast to close out 2011 at 3.70% and rise to 4.25% by the fourth quarter of 2012.

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: *Paul L. Pohl*

c. Legislative Services

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APPENDIX 1

Region of Peel
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Corporate Services

2010 TREASURY SECTION'S REPORT

Dated: June 15, 2011

Prepared by:
Paul Pohl
Senior Treasury and Portfolio Manager
Corporate Services

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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 2010, 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, Deloitte and Touche LLP.

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 2010, there were two funds under management, the General Fund (GF) and the Town of Caledon Debt Retirement Funds (DRF).

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.

In 2010 the Region undertook a borrowing program to fund capital expansion related to water and waste water projects. On June 29, 2010, 30 year term sinking fund debt of $300 million was issued. The issuance of debt has impacted the investment activities of the Treasury section in several ways.

1. General Fund (GF) limitations

Large amounts of cash are now settling with much greater frequency, which have impacted the daily volatility of funds we invest. For short term investments, the Schedule A Banks offer the best returns. However, interest rates offered by the various banks can vary from institution to institution. The current investment limitations have impacted Treasury's ability to invest these funds at the best available rates, as we have come up against the approved exposure limitation of 35% for Schedule A Banks. **Our recommended course of action is to increase the approved limit to 50% for the Schedule A Bank sector and that as before, only ½ of this limit be allocated to any one financial institution, i.e., 25% of the GF portfolio.**

Secondly, the current investment policy of maintaining 10% of the overall portfolio in Government of Canada AAA investments is having an adverse impact upon the overall income returns of the GF portfolio. While it is prudent to maintain a portion of the portfolio in safe, secure investments, the rates paid by the Government of Canada bonds are by far the lowest paying instruments that are held in the portfolio. There are other AAA rated investments available, such as Provincial and Municipal bonds but due to their smaller size and perceived illiquidity, such investments pay a higher return of interest than comparable Government of Canada bonds. The Region's prevailing investment strategy is to buy and hold securities, so the risk of liquidity is not an issue. **It is therefore recommended that we reduce the minimum of Government of Canada AAA bond holdings from 10% to 5% of the overall portfolio.**

2. Peel Housing limitations

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

3. Sinking Fund Contribution Fund (SFCF) limitations

Beginning in 2011, we will require a new investment portfolio, entitled **Sinking Fund Contribution Fund (SFCF),** a fund that will hold the contributions of the sinking fund debt of $300 million (as at December 31, 2010). Under the terms of the debenture issue, we are required to fund and maintain a sinking fund investment account through to the debt maturity date. Commencing on June 29' 2011, annual sinking fund contributions of $8,915,049.57 (note that this payment includes additional debt issued in March of 2011 with the re-opening of the June 29, 2010 debt issue) will be made, through to June 2040. This repayment amount was calculated based upon an assumed annual return of 4% within the SFCF.

To accomplish a return of at least 4%, flexibility is required as to the investment limitations that restrict this portfolio. The key differential in the SFCF portfolio from the GF portfolio is that the duration of the portfolio is known with certainty, being June 29, 2040. All investments must be converted into cash effective that date, i.e., cash flows are known. In the early years of the SFCF, there will be relatively small amounts of cash to invest and maintaining a balanced portfolio approach (as we do with the much larger GF portfolio) will be next to impossible, as it will entail many smaller purchases. It is therefore recommended that until the SFCF attains a net asset value at least $50 million that the following broad investment limitations apply to the SCFC portfolio:

Sector	Credit Rating	Minimum	Maximum
a. Federal	AAA	0%	100%
b. Provincial	AAA/AA	0%	100%
c. Municipal	AAA/AA	0%	100%
d. Bank Schedule 1	AA/A	0%	50%
e. One Equity Fund		0%	**50%***

*total ROP funds invested (GF, DRF and SCFC) within the One Equity Fund shall not **exceed 10% of the One Equity market value. The value of the ONE Equity Fund as at April 30, 2011 was $69.7 million. A 10% investment limitation would equal $6.9 million.**

These investment limitations are temporary in nature due to the size of the portfolio. Further review of these investment limitations will be conducted when the SFCF exceeds the $50 million threshold (in approximately 6 years).

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 currently composed of a Senior Treasury and Portfolio Manager and two Analysts. In the 2011 budget, approval was granted to permit Treasury to add an additional Full Time Employee (FTE) to its staffing complement. This additional FTE will be hired to take on the additional workload attributable to the Region issuing long term debt in 2010 and beyond, with costs to be recovered accordingly.

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) was 4 basis points in 2010 (0.04%) and 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). 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 36 basis points or an additional annual budget of $4.6 million.

B. General Fund

The GF includes reserves and reserve funds, working capital and other funds within the Region. Over the course of 2010, the weighted average book value of the GF totaled $1.27 billion, a decrease of 9.1% from last year ($1.39 billion). Since 2008, the GF has declined, on average, 5.1% each year primarily due to cyclical capital plan funding requirements.

1. Fixed Income Investments

a) Credit Analysis

Over the past five years, the AAA exposure has been reduced from 56% to 47%. There was no change to any of the credit rating exposures from last year. The GF remains conservatively invested in high quality bonds.

Within the holdings of assets with an AA credit rating, the largest positions are with the Province of Ontario (5.7%) and the Bank of Montreal (4.4%). The Province of Quebec is the largest A rated holding at 6.1%.

CREDIT RATING ANALYSIS

(% par value)

Annual Average	**2006**	**2007**	**2008**	**2009**	**2010**
AAA	56%	56%	53%	53%	47%
AA	39%	39%	41%	41%	47%
A	4%	5%	6%	6%	6%
TOTAL	100%	100%	100%	100%	100%

During 2010, there were no assets with credit rating that fell below what is permitted under current eligible investment legislation.

b) Term Analysis

During 2010, the average term of the portfolio was 2.6 years, down from 3.1 years at the end of the 3rd quarter. The largest exposure remains in assets maturing in 1-5 years ($608 million or 49% of the portfolio). The term composition reflects the anticipated reserve expenditure according to the current 10 year Region of Peel (ROP) capital plan.

TERM ANALYSIS

(% amortized book value)

Annual Average	2006	2007	2008	2009	2010
< 1 year	16%	23%	25%	24%	33%
1-5 year	47%	44%	48%	53%	49%
> 5 years	37%	33%	27%	24%	18%
TOTAL	100%	100%	100%	100%	100%

Weighted Avg Term (yrs)	4.3	3.8	3.4	3.1	2.6

c) **Sector Analysis**

During the year, 23% of the portfolio was invested in the federal sector, a 6% decrease from last year. The shift from the federal sector to primarily the corporate sector is the result of revised municipal legislation, over the same time frame, and expanded scope of eligible investments. Investments in the provincial and municipal sectors remain stable. Diversifying into the corporate sector provides the opportunity to enhance the portfolio's performance, especially critical in the current low interest rate environment.

As at December 31, 2010, 1.4% ($17.9MM) of the GF was invested in ROP debentures.

SECTOR ANALYSIS

(% amortized book value)

Annual Average	2006	2007	2008	2009	2010
Federal Sector	30%	29%	28%	29%	23%
Provincial Sector	27%	25%	24%	26%	26%
Municipal Sector	23%	23%	23%	23%	22%
Corporate Sector	20%	22%	25%	22%	28%
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 2010, investment transactions (purchases and sales) were primarily short term, with an average of $493 million per month (versus $482 million in 2009). The weighted average term of short term purchases was 14 days (versus 10 days in 2009).

The vast majority of short term purchases are in the corporate sector (98%) and the counterparties are the Schedule I Banks.

In 2010, long term transactions (purchases and sales) for the GF totalled $48 million (par value) of which $23 million were purchases with an average term of 3.5 years.

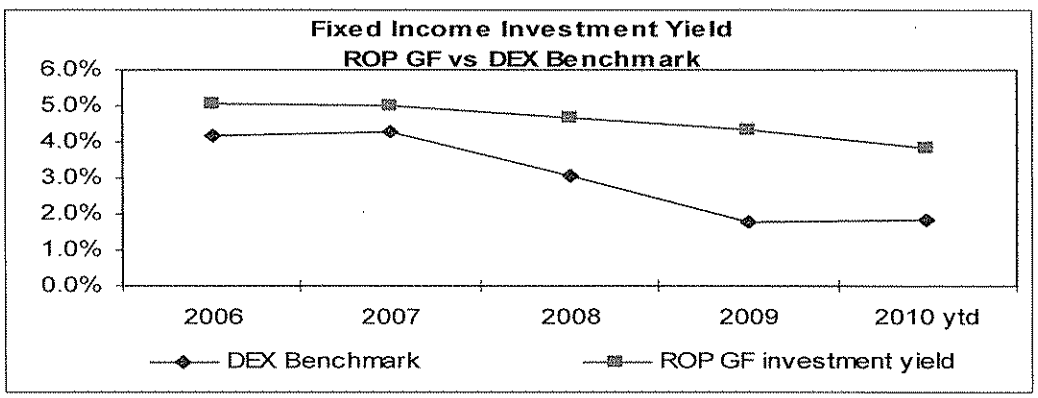
e) **Fixed Income Investment Yield**

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 2010, the bond holdings of the GF earned $48MM, which equates to a yield of 3.8% (after management fees). This compares to a yield of 4.3% ($60MM) in 2009. The average investment yield, over the past 5 years, was 4.6%. The decline in the GF's bond yield reflects lower overall yields in bonds, as well as a shortening of the duration of the GF portfolio which results in lower yields. Interest rates remain at historically low levels and any re-investment of funds is booked at lower yields. By year end, 5 year yields of Government of Canada bonds were 2.4%, down from last year's rate of 2.6%.

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 2010 the fixed income yield for the GF exceeded the comparable composite DEX yield index by 2.1%. The average benchmark interest rate over the course of 2010 was 1.7%, which is lower than 2009 (1.8%). On average, during the past 5 years, the GF has outperformed the DEX yield by 1.6% or $22MM annually. 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 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. Under current provincial legislation, the ONE Equity Fund is the only equity fund that is a permitted investment for municipalities. On July 4, 2008, the Region invested $5 million in the ONE equity fund. This fund is operated by Local

Authority Services (LAS) (a subsidiary of the Association of Municipalities of Ontario) and CHUMS (a subsidiary of the Municipal Finance Officers' Association of Ontario). The investment manager is Guardian Capital Management. The ONE Equity Fund began accepting investments on January 2, 2007 and the funds objective is:

> To 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, 2010, the market value of the Region's ONE equity fund holding was $5.28MM, which is an unrealized gain of 5.6% since inception of our original purchase. Compared on an annual basis, the ONE equity fund increased by 11.75% year over year, but underperformed the broader S&P/TSX Composite index, which increased 17.61% year over year.

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

The total ONE equity fund balance is $69.7MM (of which the Region accounted for $5 million or 6.9%) 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 3.8%.

4. Deferred Revenue Account

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

The target size of the deferred revenue account was set at 15% of the volatility value of the GF's assets with maturities beyond one year. The volatility value is calculated by determining the impact to market value given a 1% shift in the yield curve. Based on the current size of the GF as at December 31, 2010, this equates to a reserve of $5.5 million.

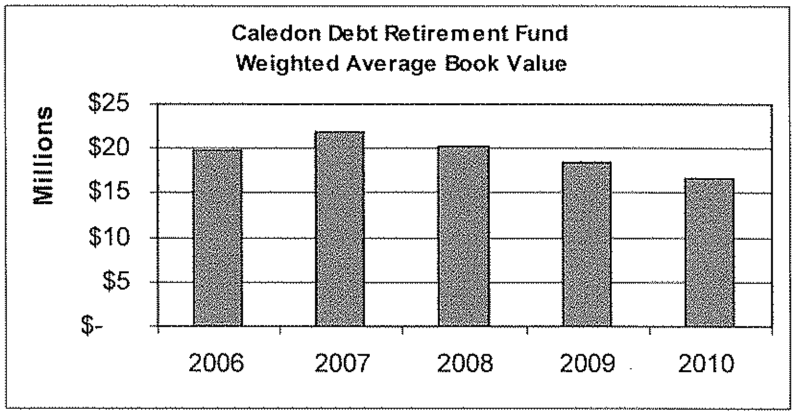
C. Caledon Debt Retirement Fund

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 2010 was $16.7MM (compared to $18.4MM last year).



1. Credit and Sector Analysis

On average, over last year, the AAA credit exposure was 54% versus 37% during 2009. As at year end, the largest AAA holding was Peel (27.2%). The largest AA holding was Vancouver (35.6%).

During 2010, 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	2006	2007	2008	2009	2010
AAA	67%	53%	44%	37%	54%
AA	19%	31%	39%	47%	46%
A	14%	16%	17%	15%	0%
	100%	100%	100%	100%	100%

Since the cash flows are known for the DRF and assets are purchased to closely match those liabilities, liquidity is not an issue. The focus is on maximizing returns while maintaining high quality assets. As such, Municipal bonds represent an ideal investment and explain why they accounted for all of the assets held by the fund during 2010 year to date.

SECTOR ANALYSIS

(% amortized book value)

Annual Average	2006	2007	2008	2009	2010
Provincial	1%	0%	0%	0%	0%
Municipal	99%	100%	100%	100%	100%
Banks & ABS	0%	0%	0%	0%	0%
	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 2010, Caledon's Debt Retirement earned $672,645 which equates to a yield of 4.0%. This compares to $753,915 or 4.1% last year. The average investment yield, over the past 5 years, is 4.2%.

3. Unfunded Outstanding Debentures

The Town of Caledon's debenture issue (series AD), connected with the Caledon Debt Retirement Fund, had $23.8 million in principal and interest payments outstanding as at 2010/12/31.

Caledon's Debt Retirement Fund's assets are sufficient to fund $15.3 million of the Series AD debenture issue's liabilities (until 2016/12/14). This leaves an $8.5 million unfunded debenture liability for Caledon until the debenture matures in 2019/12/14. At interest rates as at Dec 31st, the net present value of the remaining exposure is approximately $6.9 million.

D. Peel Housing Corporation

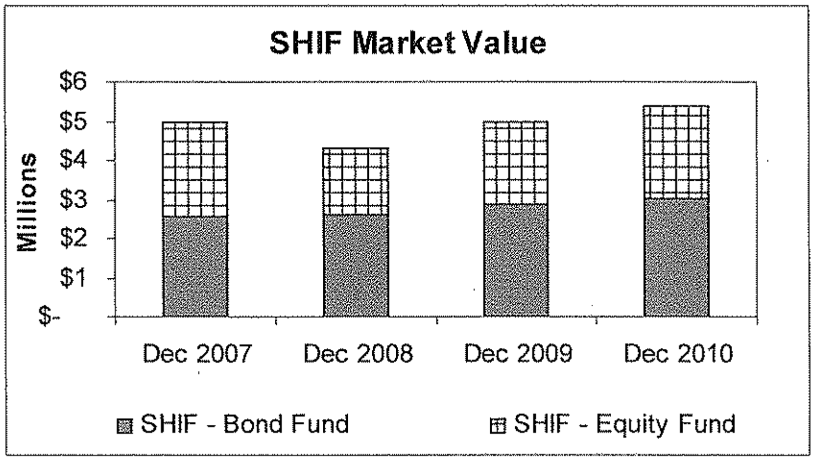
In September 2007, Peel Housing Corporation (PHC) invested $5 million in the Social Housing Investment Fund (SHIF). This fund is managed by SHSC Financial Inc. and the portfolio advisor is Phillips, Hagar and North Investment Management Ltd.

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 2010, the total market value of the SHIF investment was $5.4MM, an unrealized gain of 2.3% from inception of the Corporation's original investment.

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 $13.3MM 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 federal/provincial grants. Cash outflows from the Region include disbursements to external vendors, the Ontario Works program, and Social Housing and staff salaries.

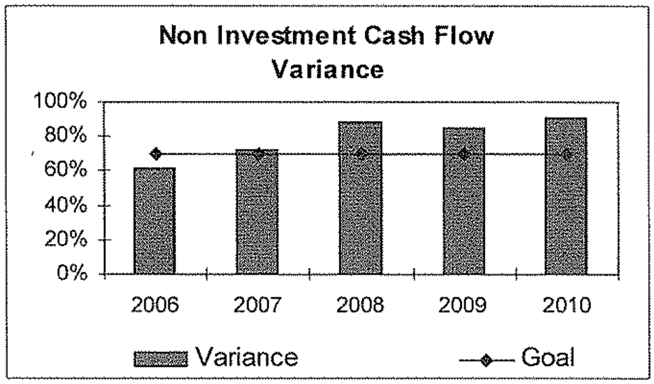
Excluding investment income, the Region experienced a net cash outflow of $50MM during 2010, which was below the 5 year average of $114 million per year.

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 2010 to reflect the Region's use of electronic transmission of funds which dramatically improved the accuracy of our forecasting.

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

To date, the daily average cash flow (absolute value) is $25MM (compared to $14.8MM last year), making the ROP's variance target +/- $3.8MM (+/-$2.1MM last year). For 2010, this target has been achieved 91% of the time, exceeding our goal (last year the variance in the bank balance was within the target range for 85% of the time).



IV. ROP FUNDING REVIEW

A. Funds Received by the ROP

As at the end of December, ROP had $5.5MM in short-term borrowings (promissory notes with United Way of Peel Region and the Credit Valley Conservation Authority) and $320.9MM in PHC social housing mortgages.

B. Funds Provided by the ROP

The Region had internal borrowing of $291MM as at December 31, 2010 as follows:

- $62MM to fund capital construction in social housing and long-term care, and
- $229MM to temporarily fund negative balances in Development Charge Reserve funds (Note: Subsequent to year end, these were permanently funded from a $67.3 million Canada Housing and Loan Corporation loan issued in February 2011 and an additional $200 million of debentures issued in March 2011).

Regional staff, in consultation with staff from the Area Municipalities, is currently developing a debt policy for Council consideration. This policy will address funds provided through internal borrowings.

V. INTEREST RATE OUTLOOK FOR 2011 and 2012

Revised real GDP growth was 3.3% in 2010 and 3.9% (annualized) in Q1 2011, in line with expectations. For the full year, GDP is expected to decrease marginally to 2.9% in 2011.

Inflation continues to remain low, with core CPI inflation at 1.7% in 2010 and expectations are in the range of 1.8% in 2011.

The Bank of Canada did raise the overnight bank rate in 2010 from record low levels, however, due to the strength in the CAD dollar and relatively low CPI, it is not expected that further short term interest rate hikes will occur until the Bank of Canada's meeting In September.

During 2010, the rate on Government of Canada 91 day T-bills rose from a low of 0.3% at the beginning of the year to 0.98% at year end. The prime lending rate increased during the year to 3% but is still considered at the low end of the spectrum. However, forecasts for 2011 and 2012 point to higher rates. The Bank of Canada overnight rate is expected to close out the year at 1.85% and continue rising to 3.5% by the fourth quarter of 2012. Similarly, 10 year Government of Canada benchmark bonds are forecast to close out 2011 at 3.70% and rise to 4.25% by the fourth quarter of 2012.

VI. APPENDIX A - INVESTMENTS BY COUNTERPARTY

- General Fund
- Caledon Debt Retirement Fund

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APPENDIX A - INVESTMENT LIMITATIONS FOR 2011

SECTOR LIMITATIONS FOR 2011

	Credit Rating	Exposure Limitations				Term Limitations	Term Limitations
		GF		DRF	SFCF	GF	SFCF
SECTOR		minimum	maximum	maximum	maximum	maximum	maximum
FEDERAL							
Canada	AAA	5%	100%	100%	100%	30 years	30 years
Federal Guarantees	AAA	0%	50%	100%	100%	30 years	30 years
Supranationals [1]	AAA	0%	5%	5%	5%	30 years	30 years
FEDERAL TOTAL		**5%**	**100%**	**100%**	**100%**		
PROVINCIAL							
Provincial [2]	AAA	0%	50%	100%	100%	30 years	30 years
	AA	0%	35%	55%	100%	15 years	30 years
	A [1]	0%	20%	30%	30%	15 years	30 years
	BBB [1]	0%	10%	20%	20%	5 years	5 years
PROVINCIAL TOTAL		**0%**	**50%**	**100%**	**100%**		
MUNICIPAL	AAA	0%	35%	100%	100%	30 years	30 years
	AA	0%	20%	50%	100%	15 years	30 years
	A [1]	0%	10%	20%	50%	15 years	30 years
MUNICIPAL TOTAL		**0%**	**35%**	**100%**	**100%**		
CORPORATE [3]							
Banks Schedule I	AAA or AA	0%	50%	50%	50%	20 years	30 years
	A [1]	0%	20%	30%	50%	1year	5 years
Banks Schedule II & III [1]	AAA or AA	0%	10%	20%	50%	1 year	30 years
Other Corporates [1]	AAA	0%	20%	20%	50%	10 years	30 years
	AA	0%	5%	5%	**5%**	10 years	10 years
CORPORATE TOTAL		**0%**	**35%**	**100%**	**100%**		
ONE Equity Fund [4]		**0%**	**10%**		**50%**		

GF – General Fund

DRF – Debt Retirement Fund

SFCF - Sinking Fund Contribution Fund

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

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

3 must be rated by 2 or more rating agencies.

4 Cumulative maximum for all investments, 10% of total One Equity Fund

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GF Fixed Income: Investments by Counterparty Report - CAD

As of: December 31, 2010 | **The Regional Municipality of Peel**

Counterparty	*Rating*	*Par Value*	*Approved Exposure*	*Current Exposure*	*Term Limit*
CANADA	AAA	145,000,000	100.0%	12.8%	30
CANADA		**145,000,000**	**100.0%**	**12.8%**	
CHT	AAA	74,250,000	50.0%	6.5%	30
CMHC	AAA	20,000,000	50.0%	1.8%	30
EDC	AAA	20,000,000	50.0%	1.8%	30
FARM CREDIT	AAA	10,000,000	50.0%	0.9%	30
FEDERAL GUARANTEE		**124,250,000**	**50.0%**	**10.9%**	
IADB	AAA	5,000,000	5.0%	0.4%	30
SUPRANATIONAL		**5,000,000**	**5.0%**	**0.4%**	
FEDERAL SECTOR		**$274,250,000**	**100.0%**	**24.0%**	
ALBERTA	AAA	27,735,000	15.0%	2.4%	30
ALBERTA CFA	AAA	33,630,000	10.0%	3.0%	30
BRITISH COLUMBIA	AAA	35,000,000	25.0%	3.1%	30
MANITOBA	AA	20,000,000	18.0%	1.8%	15
NEW BRUNSWICK	AA	48,500,000	18.0%	4.3%	15
ONTARIO	AA	65,000,000	18.0%	5.7%	15
ONTARIO INFRASTR	AA	16,000,000	5.0%	1.4%	15
OSBFC	AA	14,400,000	5.0%	1.3%	15
SASKATCHEWAN	AA	5,000,000	18.0%	0.4%	15
FIN QUEBEC	A	22,400,000	5.0%	2.0%	10
NB MFC	A	10,143,000	5.0%	0.9%	10
NOVA SCOTIA	A	12,000,000	5.0%	1.1%	10
QUEBEC	A	47,000,000	5.0%	4.1%	10
PROVINCIAL SECTOR		**356,808,000**	**50.0%**	**31.4%**	
DURHAM	AAA	3,623,000	18.0%	0.3%	30
HALTON	AAA	17,268,000	18.0%	1.5%	30
LONDON	AAA	5,375,000	18.0%	0.5%	30
MFA BC	AAA	67,392,000	18.0%	5.9%	30
PEEL	AAA	17,871,000	18.0%	1.6%	30
WATERLOO	AAA	11,129,000	18.0%	1.0%	30
YORK	AAA	46,748,000	18.0%	4.1%	30
HAMILTON	AA	5,436,000	10.0%	0.5%	15
NIAGARA	AA	8,826,000	10.0%	0.8%	15
OTTAWA	AA	9,672,000	10.0%	0.9%	15
REGINA	AA	2,350,000	10.0%	0.2%	15
TORONTO	AA	38,539,000	10.0%	3.4%	15
VANCOUVER	AA	22,190,000	10.0%	2.0%	15
WINDSOR	AA	8,318,000	10.0%	0.7%	15
MONTREAL	A	7,400,000	5.0%	0.7%	10
MUNICIPAL SECTOR		**272,137,000**	**35.0%**	**24.0%**	
		$628,945,000		**55.0%**	
ALGONQUIN CCT	AAA	9,000,000	5.0%	0.8%	5
GLOUCESTER CCT	AAA	10,000,000	5.0%	0.9%	5
GOLDEN CCT	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, 2010 **The Regional Municipality of Peel**

Counterparty	*Rating*	*Par Value*	*Approved Exposure*	*Current Exposure*	*Term Limit*
ASSET BACKED SEC		**24,000,000**	**20.0%**	**2.1%**	
GE CAPITAL CAN	AA	8,000,000	5.0%	0.7%	5
OTHER CORPORATE		**8,000,000**	**20.0%**	**0.7%**	
BMO	AA	50,500,000	18.0%	4.4%	15
BNS	AA	45,500,000	18.0%	4.0%	15
CIBC	AA	40,000,000	18.0%	3.5%	15
NATIONAL BANK	AA	20,000,000	18.0%	1.8%	15
RBC	AA	40,000,000	18.0%	3.5%	15
TD BANK	AA	5,000,000	18.0%	0.4%	15
BANKS SCH I		**201,000,000**	**35.0%**	**17.7%**	
CORPORATE SECTOR		**$233,000,000**	**35.0%**	**21.0%**	
TOTAL CURRENT HOLDINGS		**$1,136,195,000**			

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Debt Retirement Fund: Investment by Counterparty Report

As of: December 31, 2010 **The Regional Municipality of Peel**

Counterparty	Rating	Par Value	Approved Exposure	Current Exposure
MFA BC	AAA	1,189,000	100.0%	12.1%
PEEL	AAA	2,674,000	100.0%	27.2%
WATERLOO	AAA	1,467,000	100.0%	14.9%
TORONTO	AA	1,000,000	50.0%	10.2%
VANCOUVER	AA	3,500,000	50.0%	35.6%
MUNICIPAL SECTOR		**$9,830,000**	**100.0%**	**100.0%**
TOTAL CURRENT HOLDINGS		**$9,830,000**		**100.0%**