

Board Report



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| To | Investment Board |
| Subject | 2024 Investment Management Annual Report |
| Date | March 20, 2025 |
| Department Head Approval | Not Applicable |
| Executive Management Approval | Not Applicable |
| CAO Approval | Not Applicable |

Recommendation(s):

1. That the Report to the Investment Board concerning the 2024 Investment Management Annual Report approved by the Investment Board on March 20, 2025, be received for information.
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Executive Summary:

The purpose of this Report is to present the performance of the investment portfolio in 2024 in accordance with Ontario Regulation 43/18, as amended, of the *Municipal Act, 2001*.

Key Findings:

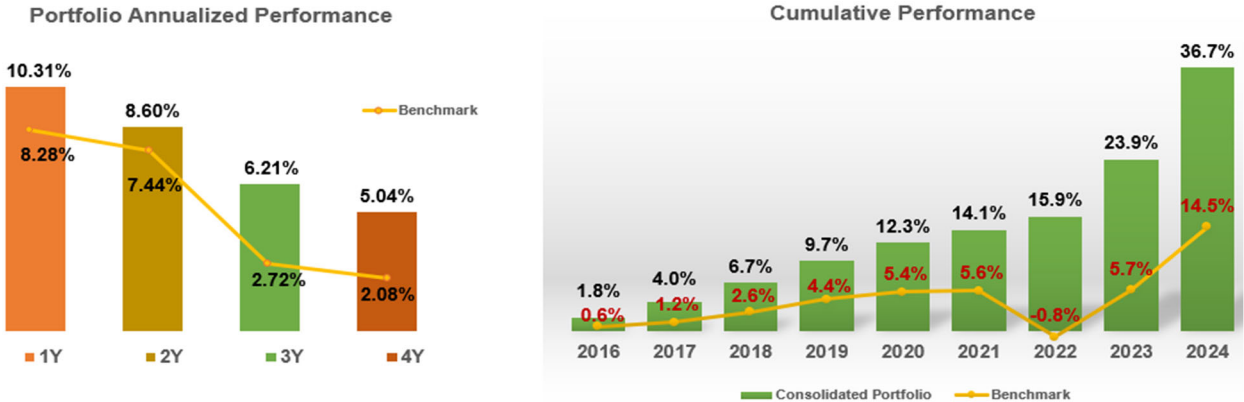
The consolidated portfolio returned \$47.03 million or 10.31%, outperforming its benchmark by 2.03%.

The consolidated portfolio earned a total return of \$47.03 million on an average portfolio value of \$472.14 million. This represents a year over year total return improvement of \$19.62 million (2023 vs. 2024) or a 72% increase.

Of the \$47.03 million total return, \$24.48 million came from interest income, dividends and realized capital gains. The prudent investor portfolio contributed \$39.46 million (84%), while the operating assets added \$7.57 million (16%).

The consolidated percentage return was 10.31% against the portfolio's benchmark return of 8.28%, an outperformance of 2.03% driven by strong performance in fixed income, tactical asset allocation and trading activities (left chart below).

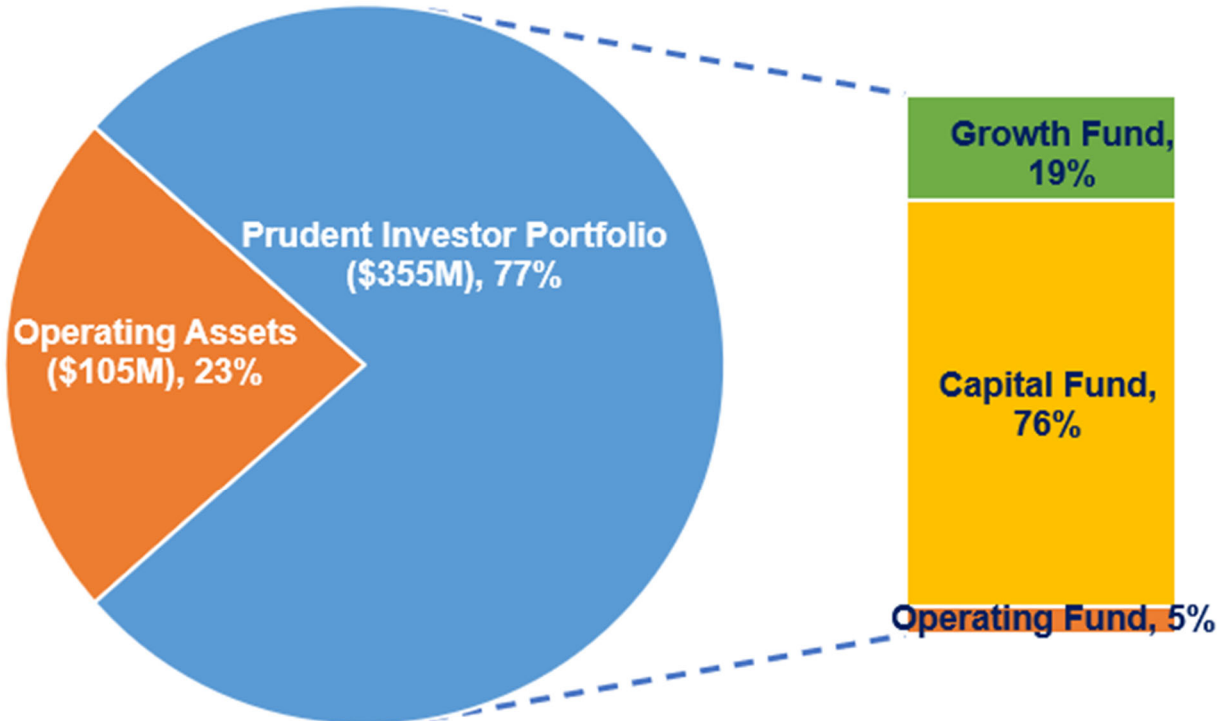
As of December 31st, the investment portfolio had a cumulative total return of 36.67% or 22.35% higher than the portfolio’s benchmark since the inception of the active investment management program in 2016 (right chart below).



Since the implementation of the prudent investor standard portfolio in 2021, which diversified assets across fixed income and equities, risk-adjusted returns have improved. Over this period, the 4-year annualized return reached 5.04%, outperforming the benchmark return of 2.08% by 2.96% as shown on the left chart above.

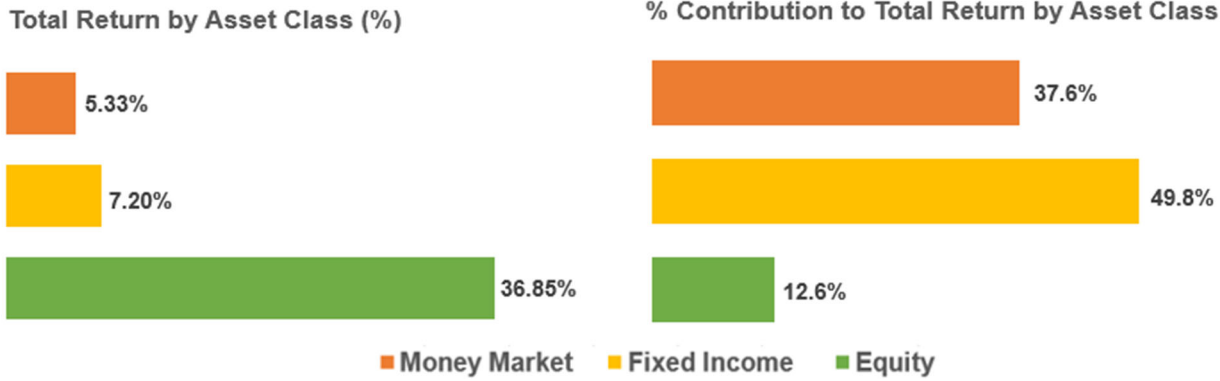
Assets are allocated between the prudent investor portfolio and operating assets.

As of December 31st, the consolidated investment portfolio had a market value of \$460 million, \$355 million (77%) allocated to the prudent investor portfolio and \$105 million (23%) to the operating assets invested in money market securities. As shown on the chart below, the prudent Investor portfolio is comprised of the growth fund (19%) fully invested in equity, the capital fund (76%) holding fixed income assets and the operating fund (5%) invested in money market securities.



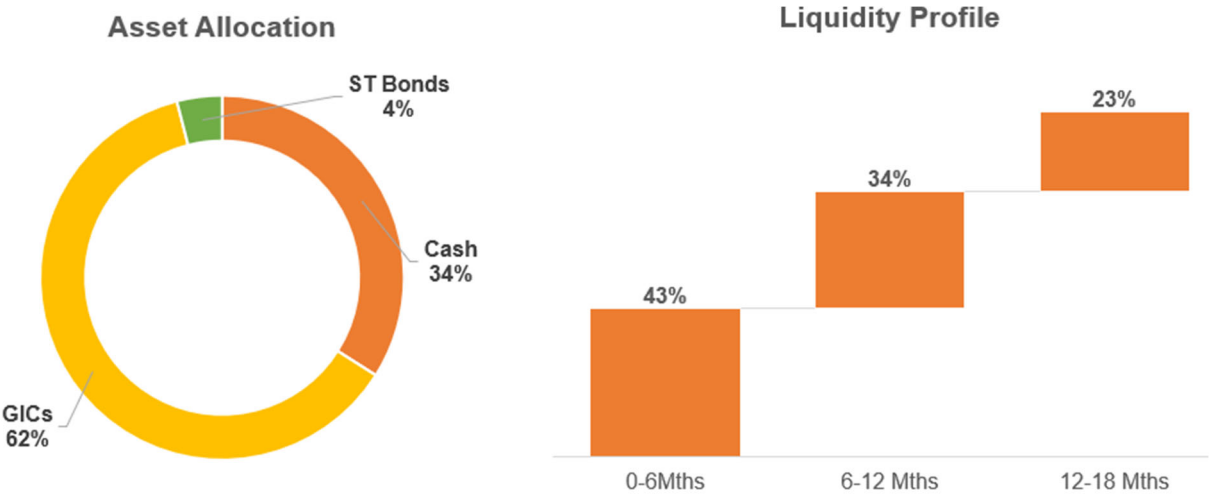
The prudent investor portfolio returned 12.93% contributing 84% to the consolidated investment portfolio return of 10.31%.

The consolidated investment portfolio is comprised of investments in equities, fixed income and money market securities. Money market securities are split between the operating assets (35%) and the operating fund (3%). The graphs below show the performance and contribution of each asset class to the consolidated portfolio performance of 10.31%



The Operating Fund saw a return of 5.33% (0.53% above its benchmark).

This fund is designed to meet the City’s liquidity needs and is comprised of money market securities. It achieved a return of 5.33%, outperforming the Canada 3-month Treasury Bill Index’s 4.80% return by 0.53%. This outperformance was driven by active security selection and strong cash flow forecasting, enabling the fund to take advantage of higher-yielding short-term opportunities beyond cash.



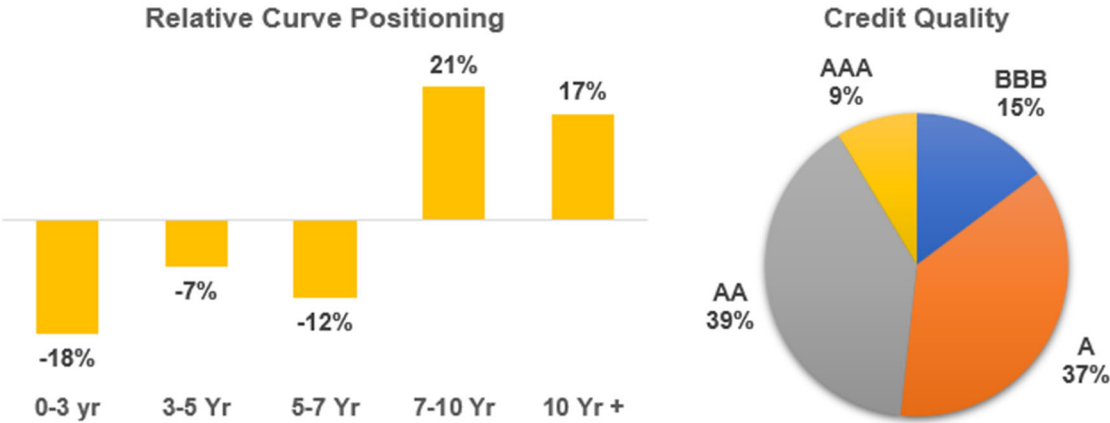
The Capital Fund returned 7.20%, outperforming its benchmark by 1.93%.

This fund is designed to align with the City’s cash needs for ongoing and planned capital projects scheduled for completion within the next five years. It is composed of fixed-income instruments, including government and investment-grade corporate bonds. The

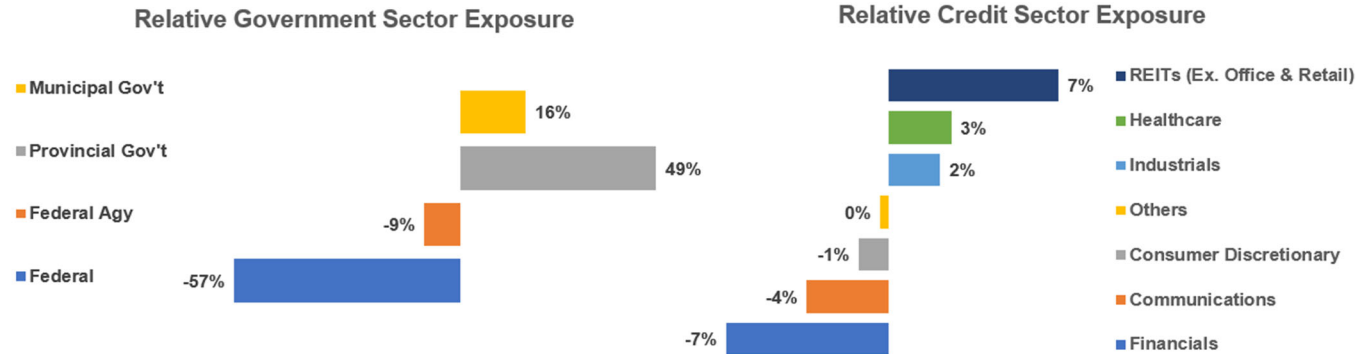
fund delivered a 7.20% return on a weighted average balance of \$234.95 million, outperforming the Canada Aggregate 1–10 Year Bond Index benchmark’s return of 5.26% by 1.93%. This outperformance was driven by active management decisions, mainly tactical duration tilts and security selection.

Following a 0.40% increase in 5–10-year yields in the first quarter, the fund added high-quality corporate, provincial, and municipal bonds in the 5–10 year and 10+ year sectors, taking advantage of market uncertainty around rate cut timing. Duration was extended in June ahead of the Bank of Canada’s anticipated rate cut, locking in favourable yields for longer. These tactical trades were the key drivers of the fund’s strong performance.

The charts below show the relative yield curve positioning and credit quality exposures as of December 31st and do not capture the changes in positioning throughout the year. As a result of the Canada Post strike in December, a portion of short-term bonds were redeemed early to shore up the cash position in case of a prolonged disruption. Consequently, the curve positioning shows a larger underweight in the short end of the curve than would otherwise have been present at year end.



The fund’s sector allocation also played a crucial role in performance. The portfolio maintained a tactical tilt toward corporate bonds and gradually reduced the position through rebalancing trades to improve the portfolio credit quality. Corporate bonds outperformed government bonds by an average of 3.00% in 2024. Within corporate holdings, the fund emphasized residential and industrial REITs, Healthcare, Industrials, and Utilities while maintaining an underweight position in financials and communications to manage credit risk.



The Growth Fund outperformed its benchmark by 7.37%, earning \$18.94 million

This Fund aims to achieve long-term capital growth for the City by investing primarily in Canadian and U.S. equities, following a benchmark of 50% S&P 500 Index and 50% S&P/TSX Composite Index. As of December 31, the fund had a market value of \$69.98 million, generating a total return of \$18.94 million. This included \$5.69 million from dividends and realized capital gains, and \$13.24 million from unrealized capital gains. The fund achieved a 36.85% total return on a weighted average balance of \$59.72 million, outperforming its benchmark (29.47%) by 7.37%, driven by well-timed trading activities in the first half of the year.

The U.S. equity portfolio was rebalanced early in the year, to align more closely with S&P 500 sector weights. Meanwhile the Canadian portfolio was diversified beyond the S&P/TSX 60 to reflect a more broad-based market exposure. These trades generated more than US\$3 million in capital gains, and the favorable timing of reinvesting these proceeds just before market surges (as shown on the next chart), March for the S&P 500 and May for S&P TSX Composite, significantly boosted performance. By the end of Q1, the US equity portfolio outperformed its benchmark by 9.1%, marking its best quarterly performance since the adoption of the Prudent Investor standard.

The portfolio maintained a 5% geographic tilt toward the U.S., anticipating continued U.S. economic strength compared to a slower Canadian economy. This positioning benefited CAD-denominated investors by approximately 10% gauged by the CAD vs USD return of the S&P500. US equities were the best performing equity market in the G20 for 2024 with an impressive 36% in CAD, compared to 22% for Canadian equities. Both markets achieved back-to-back gains in excess of 20% (2023 and 2024), a very rare occurrence.



In 2024, all S&P 500 sectors achieved positive returns, with Communications (53%),

Information Technology (49%), Financials (42%), and Consumer Discretionary (42%) leading the pack. In Canada, top performers included Information Technology (38%), Financials (30%), Energy (24%), and Materials (21%), the latter boosted by a gold price surge. Early profit-taking in these sectors significantly enhanced portfolio outperformance.

Additional Background Information and Analysis:

Market Commentary

Back-to-back double digit equity performance. In 2024, equity markets in the U.S. and Canada posted impressive gains, driven by economic resilience and sector-specific tailwinds. The S&P 500 surged, posting its second straight year of over 20% returns, a rare feat last seen in 1997-1998, boosted by AI momentum, growth optimism, and post-election expectations of deregulation and tax cuts under President Trump. The S&P/TSX Composite returned 22%, led by Technology (38%) and Financials (30%), while the S&P 500 delivered 36.9% in CAD (24.6% USD), driven by Communications (53%) and Technology (49%). Broader US market participation reduced reliance on the "Magnificent 7," though they still accounted for ~50% of S&P 500 gains. The Canadian dollar weakened following the election and tariff threats, enhancing US asset returns for Canadian investors.

The bond markets. The bond markets shifted as yield curves moved from inverted to slightly upward-sloping. Canadian front-end rates fell 1.68%-1.86%, boosting short-term bonds (1-5 Year Index: 5.56%), while long bonds lagged (10+ Year Index: 1.50%). The Aggregate Bond Index returned 4.03%, with corporates (6.48%) outperforming government bonds (3.22%) by over 3.00%, reflecting tighter spreads.

Inflation moderated but remained uneven. In the US, headline inflation eased from its 2022 peak, though persistent energy and food costs kept it sticky. Core PCE inflation held steady at 2.3%, reflecting pressures in services and housing. In Canada, headline CPI fell from 3.4% (Dec 2023) to 1.8% (Dec 2024), aided by lower energy prices. Core inflation cooled from 3.6% to 2.5% but remained under pressure from shelter costs in a supply-constrained market. Both nations tamed headline inflation, but entrenched core pressures signaled lingering challenges.

Economic global growth slowed but persisted. US GDP expanded by 2.5%, supported by robust consumer spending and tech/energy investments, though per capita growth was muted at ~1% due to population increases. Canada's GDP grew 2.2%, after a surprisingly stronger than expected in Q4 driven by a sharp increase in personal spending, and stimulative fiscal policies (tax-holiday). The rapid immigration kept per capita GDP into negative territory for most of the year, straining resources despite boosting aggregate output.

Labor markets remained resilient with pockets of weakness. US unemployment saw an uptick from 3.5% to 4.1% by year-end, tempered by low labor force participation and softening in the technology sector. Canada's rate climbed from 5.8% to 6.7%, reflecting immigration-driven workforce growth and regional disparities, notably in housing-

dependent provinces. Underemployment and eroding real wages posed additional concerns.

Monetary policy diverged. The Federal Reserve delayed rate cuts until September, delivering a surprise 0.50% reduction for a total of 1.00% for the year, reacting to mixed data and economic resilience. The Bank of Canada began easing in June with 0.25%, accelerating to 1.75% in total, including a 0.50% cut in October, amid weaker growth. Policy rates ended above inflation, maintaining relatively restrictive stances.

Market Outlook

2025 presents a challenging landscape for both Canada and the US. In Canada, inflation is decelerating and is expected to remain within the Bank of Canada’s 1-3% target, allowing room for monetary easing. However, U.S. tariffs under the Trump administration could disrupt this trajectory, driving up prices and risking a recession that might demand further rate reductions. Canada’s GDP growth is forecasted to be 1.8% in 2025 and 2026 (BoC), though these estimates may prove optimistic amid widespread uncertainty, impact of tariffs, and record-high household debt, which is likely to curb consumer spending.

The Canadian dollar is likely to remain under pressure. The Canadian dollar faced significant pressure in 2024, dropping from US\$0.74 to US\$0.68 and appearing to be heading to the 2002 lows of US\$0.62. Expectations are that the Canadian dollar will remain under pressure in 2025, potentially challenging new lows before any eventual recovery. Why? Weaker global demand for commodities, narrowing trade balance, and widening interest-rate differentials between Canada and the US as the two economies appear on opposite trajectories which has continued to fuel a carry trade (investors can borrow at lower rates in Canada and invest at higher rates in the US meanwhile benefiting from the appreciation of the US dollar).

Overall, trade, fiscal, and political headwinds in both nations call for a cautious approach to equities and bonds in 2025. Notwithstanding the economic fallout of tariffs on American households, the U.S. anticipates growth between 1.7% and 2.7%, supported by short-term consumer spending and business investment, with core inflation below 2.5%. Yet, President Trump’s fiscal agenda, including tax cuts and increased spending, could inflate deficits and debt, stirring bond market volatility. U.S. equities expect modest gains, particularly in tech, but elevated valuations and policy uncertainties heighten correction risks.

Alternatives:

There are no alternatives available related to the recommendation or in relation to this Report.

Strategic Plan Alignment:

| | | |
|---------------------------------|--|--|
| Affordable Place to Live | | |
| Community Safety | | |
| Thriving Community | | |

| | | |
|---------------------------------------------|---|------------------------------------------------------------------------------------------------------------|
| Infrastructure Community Investments | | |
| Responsible Governance | √ | Reporting the performance of the investment portfolio in 2024 in accordance with Ontario Regulation 43/18. |

Consultation and Engagement:

There was no public consultation required in relation to this Report.

Environmental and Climate Change Impact Matters:

There are no environmental and/or climate change impact matters related to the recommendation.

Appendix:

Appendix A – Regulatory Disclosures

Appendix B – Investment Policy Statement

Appendix C – Investment Plan

Report Authors:

T. Rayaisse, Portfolio Manager and J. Bayley, Investment Analyst

File #:

Not applicable

Pending Number (if applicable):

Not applicable

APPENDIX "A"

Regulatory Disclosures

i) Performance

The Corporation of the City of Barrie earned a total return of 10.31% in 2024, 2.03% higher than the benchmark return of 8.28%.

Statement of Treasurer regarding Compliance with Investment Policy

I, Colleen Smith, Treasurer of the City of Barrie, hereby state that in my opinion, all investments are consistent with the City's investment policy and investment plan.

C. Smith, CPA, CA
Treasurer