



REPORT
Meeting Date: 2022-06-23
Peel Living Annual General Meeting

REPORT TITLE: **Peel Housing Corporation Board – Amendment No.3 to Shareholder Direction**

FROM: Andrea Warren, General Manager, Peel Housing Corporation

RECOMMENDATION

1. **That the amendments to Schedule “B” of the Peel Housing Corporation Shareholder Direction attached as Appendix I to the report of the General Manager for Peel Housing Corporation, listed on the June 23, 2022 Peel Living Annual General Meeting agenda titled “Peel Housing Corporation Board – Amendment No.3 to Shareholder Direction”, be approved.**

REPORT HIGHLIGHTS

- The Regional Municipality of Peel is the sole shareholder of Peel Housing Corporation (PHC) which is governed by a board of directors comprised of Regional staff.
- Members of Regional Council constituting the directing mind of the sole shareholder have issued a Shareholder Direction setting out the relationship between the sole shareholder and the PHC Board, including decisions of the board which require shareholder approval.
- This report recommends an amendment to Schedule “B” of the Shareholder Direction to update the list of Regional policies set out therein.

DISCUSSION

1. Background

On December 13, 2018, Regional Council as sole Shareholder of Peel Housing Corporation approved a Shareholder Direction which outlined the relationship and expectations of the PHC Board (the Board).

On June 27, 2019, at the Annual General Meeting for PHC, Regional Council, in its capacity as the sole Shareholder of PHC, approved revisions to the Shareholder Direction, which were required to align the Shareholder Direction more closely with new PHC By-laws and related governance documents.

On September 12, 2019, at the special meeting of the Shareholder, an amendment to the Shareholder Direction was approved, permitting the Board to approve, without an additional requirement for Shareholder approval, certain transactions involving the transfer of permanent easements interests where such transfer is being made to The Regional Municipality of Peel. At that meeting, staff committed to return to the Shareholder to bring forward for consideration a further recommendation for amendment to the Shareholder

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Direction with respect to other transaction types involving interests in or the use of PHC land that do not warrant a requirement of Shareholder approval.

On January 9, 2020, at the special meeting of the Shareholder, an amendment to the Shareholder Direction was approved to revise the list of specific types of real property and financial transactions that can be approved by the Board of Directors without requirement for additional Shareholder approval.

The Shareholder Direction prohibits PHC from establishing any policies, procedures or by-laws that differ from the Region's with respect to all matters set out in Schedule "B" of the Shareholder Direction, without first obtaining Shareholder approval. Following a thorough review of the financial policies outlined in Schedule "B" of the Shareholder Direction, the Region's Treasury Division (who provides investment support to PHC) has recommended the schedule be updated to reflect changes made to the Regional policies set out therein and current investment best practices.

2. Proposed Amendments to Schedule "B"

Schedule "B", Section 5 of the Shareholder Direction, sets the following limitations applicable to PHC with respect to the Region's Investment Policy:

1. minimum of 25 per cent portion of cash position to be maintained with the Region;
2. maximum of \$5 million to be invested in the Long Term Bond Fund; and
3. maximum of the lesser of 10 per cent of the reported Equity Fund balance or \$5 million to be invested in the Equity Fund.

The above limitations were established in 2007 based on best practices at the time. The Region's Treasury Division is recommending that these limitations be removed. The removal of these limitations will ensure alignment to current best practices and will result in the intended alignment of the investment policies of both the Region and PHC, as further described below.

1. Minimum of 25 per cent portion of cash position to be maintained with the Region

The Region's Investment Goals and Policies (IPS) requires a minimum of 15 per cent liquidity (i.e. cash and securities maturing in <1 year) compared to PHC's 25 per cent requirement. Despite the lower liquidity threshold, the Region's total cash allocation is sufficient to meet any cash requirements by PHC given the scale.

2. Maximum of \$5 million to be invested in the Long Term Bond Fund

Historically, PHC invested assets with a third party investment manager. Since 2013, the fixed income assets have been invested alongside the Region's General Fund. This external investment fund is available should staff deem appropriate but there is no requirement to use the fund. In fact, the investment holdings and historical returns are similar in nature to the Region's General Fund portfolio however, the annual management fee for the Encasa Canadian Bond Fund is approximately 0.91 per cent, compared to the approximately 0.04 per cent internal management fee at the Region.

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Removing the reference to the Long Term Bond Fund from the Shareholder Direction does not result in any material change in the risk profile of PHC investments. Going forward, the Region's Investment Officers, on behalf of PHC, have the flexibility to evaluate amongst available investment options without limitation to a specific investment vehicle.

3. Maximum of the lesser of 10 per cent of the reported Equity Fund balance or \$5 million to be invested in the Equity Fund

PHC has invested in the Encasa Equity Fund since 2007 with an initial investment of \$2.5 million and upper limit of \$5 million which reflected a 5-10 per cent allocation to equities. While the equity investment did not exceed \$5 million, the allocation within the PHC investment portfolio has ranged between 7-17per cent representing a significant change in risk.

The Region's IPS allows for a maximum of 10 per cent equities and is therefore consistent with the initial equity allocation decision. This percentage allocation approach creates a mechanism for rebalancing asset allocations and managing the overall risk within the portfolio, consistent with industry best practice. The IPS also permits Investment Officers to evaluate other equity options allowable by the Region which may be more advantageous to PHC in the future. Based on industry research and back testing of PHC's equity allocation, rebalancing portfolio holding results in improved long-term risk adjusted returns in addition to the stronger risk controls.

In addition to removing the limitations set out in Section 5 of Schedule "B" of the Shareholder Direction, Section 3 of Schedule "B" should also be removed in its entirety as it references the Region's Cash Management Policy however the Region does not have a Cash Management Policy.

RISK CONSIDERATIONS

In reviewing the risk appetite and needs of PHC, there are no significant differences in risk appetite between PHC and the Region, as it relates to the investment portfolio. The limitations set out in the Shareholder Direction are similar to principals of those set out in the Region's IPS. Removing reference to the limitations set out above will result in the intended alignment of the Region's and PHC's investment policies while not putting PHC at any additional financial risk.

FINANCIAL IMPLICATIONS

As at March 31, 2022, the market value of the Encasa Equity Fund holding was approximately \$5,800,000, or 12 per cent of total PHC assets. The portfolio will be reviewed at the time the administrative changes have been made and if required, Investment Officers will rebalance the portfolio to ensure compliance with the IPS.

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APPENDICES

Appendix I – Amendment No.3 to Shareholder Direction

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