



## Policy GP-25 – Legacy Fund Policy

<b>Governance Policy GP-25</b>	<b>Section:</b> Corporate Services
<b>Issue Date:</b> March 25, 2025	<b>Approval Date:</b> March 25, 2025
<b>Review Date:</b>	<b>Initiating Department:</b> Financial Management and Planning

### Purpose:

This Policy provides objectives, investment approach and targets, eligible investment guidelines, responsibilities and reporting requirements for the management of the Norfolk County Legacy Fund. The Policy and principles within seek to ensure funds are invested in a prudent and effective manner.

### Definitions:

**Council:** Norfolk County Council

**Initial Value:** The Legacy Fund initial value is the total net proceeds of \$67,708,240.27 from the sale of Norfolk Power Inc. to Hydro One. Proceeds from the sale were received in two payments: the first on August 29, 2014, upon closing (\$66,005,803.27) and the second on February 10, 2015 (\$1,702,437.00).

**Legacy Fund:** The Norfolk County Legacy Fund is the special fund approved by Council to separately maintain and manage proceeds from the sale of Norfolk Power Inc.

**Policy:** The Legacy Fund Policy as set out herein

**Portfolio Value:** The principal protected value of notes, PPNs, bonds, plus the market value of equities and cash & equivalents

### Legacy Fund Establishment:

On April 2, 2013, Council approved the Share Purchase Agreement with Hydro One for sale of all the issued and outstanding shares of Norfolk Power Inc. Subsequent to approving the sale, Council approved creation of the Norfolk County Legacy Fund (Legacy Fund) to separately govern and maintain the proceeds from the sale.

Net sale proceeds to the County from Hydro One totaled \$67,708,240.27.

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When established the following principles were included and have remained since fund inception: the initial value be preserved, the Fund be treated as a long-term investment, and that investment earnings be used for municipal purposes and more specifically to provide funding for Capital Projects.

### Investment Objectives:

The primary objectives for the Legacy Fund, in order of priority, are:

1. Adherence to statutory requirements
  - All investment activities be made in line with Section 418 of the *Municipal Act, 2001* and *Ontario Regulation 438/97*, as amended
2. Capital Preservation
  - Legacy Fund capital cannot fall below the initial value
  - Reduce and limit downside capture
3. Cash Flow Generation
  - Achieve a sufficient rate of return and cash flow to support annual capital commitments
4. Long Term Capital Growth
  - Improve long term performance of Legacy Fund capital, and return consistency, generating capital growth for excess earnings withdrawals

### Overall Investment Approach and Targets:

The investment approach used for the Legacy Fund is an endowment model, and performance will be monitored through goals based investing. A description of each of these philosophies follows in the section below:

#### Endowment Model:

An endowment model is an investment model where withdrawals are at a predetermined rate annually regardless of the actual single year returns of the portfolio. When returns are above the rate of withdrawal the excess funds are maintained in the portfolio. When the actual returns are less than the rate of withdrawal the annual withdrawal is maintained and is funded by prior excess returns or by future excess returns.

#### Goals Based Investing

Goals based investing will be used to evaluate the performance of the Legacy Fund. This means that investment decisions will be driven by the County's specific Legacy Fund goals. The efficacy of the investment strategy will be measured by reviewing progress toward achieving each Legacy Fund goal.

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The purpose of following goals based investing is to allow more accurate monitoring of success by tracking goals separately. Additionally, this will allow performance management to be focused on meeting the needs of the County's Legacy Fund, instead of focusing on market volatility.

The goals monitored will include the investment objectives, as well as the targeted rate of return. Following the guidelines below, it is expected returns will be at least at the targeted rate. The targeted annual rate of return is 4.0%.

### Legacy Fund Investment Guidelines:

In addition to following statutory requirements, all Legacy Fund investments be made within the following asset class guidelines:

<b>Asset Class</b>	<b>Minimum Level</b>	<b>Target Level</b>	<b>Maximum Level</b>
<b>Cash &amp; Equivalents</b> Short Term Treasuries/High Interest Savings	<b>0%</b>	<b>0%</b> 0%	<b>10%</b>
<b>Canadian Fixed Income</b> 5-Year Income Generation Bond Ladder Fixed Income Notes & Interest Rate Notes	<b>20%</b>	<b>30%</b> 12% 18%	<b>50%</b>
<b>Total Cash &amp; Fixed Income</b>	<b>20%</b>	<b>30%</b>	<b>50%</b>
<b>Equities &amp; Equity Linked PPNs*</b> Step Up Autocallable Notes Canadian Equities & Growth PPNs linked to Canadian Markets Growth PPNs linked to U.S. Markets Growth PPNs linked to International Markets	<b>50%</b>	<b>70%</b> 20% 35% - 15%	<b>80%</b>
<b>Total Equities &amp; Equity Linked PPNs</b>	<b>50%</b>	<b>70%</b>	<b>80%</b>

\*PPN stands for Principal Protected Note

Asset class selection is subject to the following additional restrictions:

1. At minimum, the initial value must be principally protected
2. The portfolio value over the initial value can be invested in Canadian Equities, within the following thresholds: A minimum of 0%, up to a maximum of 15%.

## **Withdrawals from the Legacy Fund:**

The following list outlines the plans for withdrawals, or earnings distribution, from the Legacy Fund:

- a) In principle, income from the investment of the Legacy Fund must be used for municipal purposes, and more specifically focus on providing for capital expenditures
- b) When the actual returns are less than the annual withdrawal, the annual withdrawal is maintained. This is based on the long-term view of the portfolio and it is expected the shortfall in return will be provided by prior or future year excess investment returns.
- c) Any change to the annual withdrawal is required to be approved by Council. The maximum amount for the annual withdrawal shall be based on the targeted annual rate of return and the initial value.
- d) Excess investment earnings – If the portfolio value grows to be in excess of 120% of the initial value after consideration of the annual withdrawal, the Treasurer may initiate a special withdrawal limited to the portfolio value in excess of 120%. Use of the excess earnings is to be for debt mitigation and reserve stabilization, based on the Treasurer's discretion.

Council endorsement has been received for the following annual withdrawals from the Legacy Fund:

- \$2.0 Million per year to be contributed to a prioritized capital reserve
- \$0.5 Million per year be retained for Norfolk General Hospital, ending in 2025

## **Responsibilities:**

The Treasurer shall develop and maintain suitable procedures, which provide for effective control and management of the Legacy Fund to ensure the fund is properly managed and is adequately protected, consistent with this Policy.

The Treasurer shall review the Policy every 5 years, at minimum, to ensure continued alignment with goals and effectiveness.

The Treasurer shall be authorized to enter into arrangements with banks, investment dealers/managers, custodians, brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities in a manner that conforms to the *Municipal Act, 2001* and this Policy.

Legacy Fund investment transactions shall be authorized by two of the following positions: Treasurer, Deputy Treasurer, or Mayor.

**Reporting Requirements:**

Monthly, the Treasurer shall provide a Legacy Fund performance report to Council, through e-mail. That report shall include:

- i. The portfolio value, and balances by asset class
- ii. A summary of the year's: withdrawals, deposits, annual withdrawal commitments, and excess investment earnings (if applicable)
- iii. Average annual returns: Year to date, since inception

Annually, the Treasurer shall present a staff report to Council. That report shall include:

- i. Statement regarding performance of the investment portfolio
- ii. Summary of investments during the current reporting period
- iii. Report on the balances in the Legacy Fund
- iv. Summary of the investment return and distribution of funds
- v. Information regarding current year's withdrawals, including special withdrawals (if applicable)
- vi. A statement as to whether or not all investments are consistent with the provisions of the Policy
- vii. If applicable, recommendations regarding changes to the Policy or investment guidelines
- viii. Such other information the Treasurer feels should be considered by Council