

Policy No.:

Section: Your Government and People

Policy Title: Bruce Telecom Legacy Fund Investment Policy

Adopted Date: March 6, 2024

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Revision Date:

1. Summary

In February 2024, the Municipality of Kincardine sold the shares of Bruce Telecom Holdings Inc. (BT) to Windsor Private Capital for net proceeds of \$32 million. A policy that governs the management and use of this fund is necessary in order to protect the fund for the perpetual benefit of Municipality of Kincardine taxpayers.

2. Purpose

The purpose of this Policy is to:

- Outline roles and responsibilities with regards to governing and managing the Bruce Telecom Legacy Fund (“Legacy Fund”), with the goal of preserving and protecting the fund in perpetuity;
- Confirm the long term investment strategy, which is aimed at maximizing the return within legislated limits;
- Provide direction for the use of investment earnings as approved by Council during the annual budget process;
- Clarify the treatment of the allowance set aside for potential liabilities;
- Outline the reporting requirements to ensure public accountability, transparency and awareness of the activities transacted through the Bruce Telecom Legacy Fund on a regular basis.

3. Guiding Principles

The following guiding principles shall be adhered to when managing the Municipality of Kincardine’s Legacy Fund investment portfolio:

- i. Ensure investment activities are in compliance with statutory limitations
- ii. Ensure preservation of capital
- iii. Ensure an adequate level of liquidity
- iv. Maximize the investment income return for the benefit of the community

4. Scope

This policy applies to all investments made through the Legacy Fund. The Legacy Fund is an investment fund established in 2024 by the Municipality of Kincardine with the net proceeds from the sale of Bruce Telecom Holdings Inc. to Windsor Private Capital.

5. Definitions

Capital – For the purpose of this Policy, refers to the net proceeds from the sale of Bruce Telecom Holdings Inc. to Windsor Private Capital.

In Perpetuity – An unlimited duration or for all of time.

Legacy Fund – An endowment style investment strategy designed to preserve the initial Capital investment while providing a stable income return for the investor.

Legacy Fund Advisory Committee – A Committee comprised of the Mayor, Treasurer and Chief Administrative Officer

Liquidity – A measure of an asset's convertibility to cash.

ONE Investment – A not-for-profit entity that operates the ONE Investment Program, a co-mingled investment strategy in which local governments and the broader Ontario public sector can invest, as well as a Prudent Investor Program.

Preservation of Capital – The concept of ensuring the principal value of investments is maintained despite fluctuations in various market conditions.

Rate of Return – The gain or loss of an investment over a specified period of time expressed as a percentage of the investment's cost.

Securities – A tradeable financial asset including bonds, debentures, treasury bills, commercial paper, repurchase agreements, promissory notes and asset-backed Securities.

Treasurer – An individual appointed by Council in accordance with the *Municipal Act, 2001* who is responsible for handling all of the financial affairs of the Municipality on behalf of and in the manner directed by Council.

6. Governance and Management

The Municipality of Kincardine Council has the fiduciary responsibility to ensure that all aspects of the Legacy Fund are governed and managed in accordance with this Policy. The obligation to protect the principal proceeds received from the sale of Bruce Telecom is essential.

6.1 The Treasurer, in consultation with the Legacy Fund Advisory Committee, has the overall authority and responsibility for the prudent investment of the

Municipality's Legacy Fund portfolio in accordance with this Policy and the *Municipal Act, 2001*.

6.2 The Legacy Fund Advisory Committee will meet annually and will be responsible for:

- Reviewing the investment performance of the Legacy Fund in accordance with this policy
- Review the current investment guidelines for the Legacy Fund
- Make recommendations to Council with respect to changes to this policy
- Reviewing the amount of current year transfer of earnings from the Legacy Fund

6.3 The Treasurer will report to Council annually on Legacy Fund investment activity and returns.

6.4 Council approval is required for any changes to the Bruce Telecom Legacy Fund Investment Policy.

7. Investment Strategy:

The Bruce Telecom Legacy Fund is a perpetual fund established based on the desire of Council of the Corporation of the Municipality of Kincardine to continue the legacy of Bruce Telecom for current and future residents. The intention is the Legacy Fund will be used for the benefit of the community and as ongoing recognition of the community benefit that Bruce Telecom provided.

- 7.1 All investments shall be governed by the Municipal Act, 2001 and Ontario Regulations 438/97 which provide the legislative authority and regulations for municipal investments.
- 7.2 The investment portfolio will be structured to maintain reasonably liquidity (ease in converting to cash), minimize risk, and manage interest rate fluctuations.
- 7.3 Preservation of the principal sum is the primary objective of the investment program. Accordingly, investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio.
- 7.4 The investment transition plan as it pertains to the net proceeds of sale received and the establishment of this fund, is outlined in Appendix A of this policy
- 7.5 Once fully transitioned, the allocation of investments will be monitored on an ongoing basis and are intended to be maintained within the ranges identified in the following table:

Legacy Fund Investment Asset Mix			
Portfolio	Minimum	Target	Maximum
Cash: High Interest Savings Account (HISA)	0%	0%	5%
Equities: ONE Canadian Equity Portfolio	45%	50%	55%
Fixed Income: ONE Canadian Corporate Bond Portfolio	20%	25%	30%
ONE Canadian Government Bond Portfolio	20%	25%	30%

7.6 Based on their periodic review, the Legacy Fund Advisory Committee shall recommend appropriate changes to the Bruce Telecom Legacy Fund investment mix to Council for consideration.

7.7 All reallocations within the investment guidelines can be considered in collaboration with ONE Investment and the professional investment manager(s).

8. Use of Investment Earnings

The following uses of the Legacy Fund investment earnings have been determined as eligible for consideration:

8.1. Contribution toward the cost of major assets/infrastructure that benefit the Municipality of Kincardine:

- The contribution may be made to a reserve fund intended specifically to finance a major capital project(s) or assist in offsetting the costs of a major asset which is deemed to provide a benefit to the Municipality.
- The major capital project, as well as the specific use of funding (in whole or in part) which originally flowed from the Legacy Fund, must be explicitly approved by Council, through the annual budget process.
- It is not necessary for the related capital expenditure to be made in the same year as the contribution to a reserve fund. It may be necessary to contribute a sum over a long period of time to build sufficient funds to upfront finance the expenditure on a “pay-as-you-go” basis.
- The amount of the transfer to the reserve fund will be determined annually, and specifically approved by Council resolution.

9. Allowance for Future Liabilities

The Share Purchase Agreement includes indemnification provisions and relating to unknown liabilities as at the date of closing of the transaction. Council has earmarked \$X as an Allowance for potential future litigation or other obligations arising from the transaction for a period of 2 years, with the funds to be held in the Legacy Fund. The following processes relate to this Allowance:

- Any claim against the Municipality of Kincardine arising from the sale transaction for which the indemnification provisions apply will be reported to Council, with legal advice as required;
- Council-approved claims costs that relate to this indemnification provision will be funded from the Allowance component of the Legacy Fund and clearly reported as such;
- Upon completion of the 2-year period, any surplus funds deemed to be available within the Allowance will become part of the principal proceeds of sale within the Legacy Fund.

10. Annual Capital Contribution Calculation, Limits and Timing

10.1. The amount of the first initial transfer was determined by Council to be \$250,000 to be used to decrease the 2024 tax-supported operating budget. This amount was taken from the net proceeds of the sale transaction, thereby reducing the principal amount available for perpetual investment.

10.2. The first capital contribution transfer from the Legacy Fund shall occur one year from the date of the inception of the Fund, subject to Council approval as per section 8 of this policy. The fund inception date shall be deemed to be within 30 days of the date that monies are received from the sale of Bruce Telecom Holdings Inc.

10.3. All future transfers shall be made each year on or around the anniversary date of the inception of the Fund, subject to Council approval as per section 8 of this policy.

10.4. The amount of the first transfer to capital to be considered by Council shall be \$500,000.

10.5. All subsequent transfers to be considered will be indexed annually by 2%.

10.6. At no time will a transfer from the Legacy Fund be permitted that will cause the value in the Legacy Fund to fall below the initial capital investment of \$32 million unless authorized by Council.

10.7. The Municipality targets income distributions from the Legacy Fund of \$500,000 per year, conditional on the market value of the Legacy Fund being above the value of the initial capital investment.

11. Related Policies

Policy GG.2.11 Investment Policy
By-law 2023-081 Budget Policy

12. Related Documents/Legislation

Municipal Act, 2001
Ontario Regulation 438/97

Appendix A – Transition Plan

In order to mitigate market fluctuations, the net proceeds of sale shall be invested in a phased approach.

The transition plan for the Legacy Fund will include setting aside \$X million from the investment portfolio to address contingencies, as advised by legal council. The monies would be invested in cash like investments, inclusive of HISA, bank account or GICs for a period of up to 2 years after which these balances would be invested into the investment portfolio.

Initial Capital Contribution (Approximately \$X)*

Timeframe	ONE – Canadian Equity	ONE – Government Bond	ONE – Corporate Bond	High Interest Savings Account	GIC (or High Interest Savings Account)
0 months	12.50%	6.25%	6.25%	50.00%	25.00%
6 months	25.00%	12.50%	12.50%	25.00%	25.00%
12 months	37.50%	18.75%	18.75%	0.00%	25.00%
18 months	50.00%	25.00%	25.00%	0.00%	0.00%

* up to 5% of investments can be held in HISA or GIC investments at any time for operational purposes.

Amount set aside for Contingencies (Approximately \$X)

Timeframe	ONE – Canadian Equity	ONE – Government Bond	ONE – Corporate Bond	High Interest Savings Account	GIC (or High Interest Savings Account)
0 months	0%	0%	0%	Up to 100%	Up to 100%
6 months	0%	0%	0%	Up to 100%	Up to 100%
12 months	0%	0%	0%	Up to 100%	Up to 100%
24 months	0%	0%	0%	Up to 100%	Up to 100%
36 months	50.00%	25.00%	25.00%	0.00%	0.00%

Beyond the transition plan, the portfolio composition shall follow subsection 7.5 of this policy.