



# Case Sharing on Setting Reserves and Investment Policies

**Loretta Fong**

**Vice Chairman of  
Finance and Administration Committee**

**Hong Kong YWCA**

## 1. Reserves Policy

- Purposes
- Types of Reserves
- Funding and Operation
- Approval Authorities
- Application Procedures for Using Reserves
- Reporting and Monitoring

## 2. Investment Policy

- Purposes
- Investment Objectives
- Responsibilities
- Restrictions on Investments
- Asset Allocation
- Reporting and Monitoring

# **PART 1**

## **RESERVES POLICY**

# Purposes

- To set out how the Association finances its overall operations to meet its strategic, financial and operational objectives
- To ensure core services and ongoing operations can be maintained and sustained
- To define the types, purposes and intended use of each type of reserve fund
- To set out the procedures and authority for using each type of reserve fund

# *Classification of Reserves*

## **Unrestricted**

- Operation Reserve

## **Designated**

- Building Development Fund
- Service Development Fund
- Staff Training and Welfare Fund

## **Restricted**

- Government Reserves

# *Funding and Operation of Reserves*

## (1) Operation Reserve

- Unrestricted fund set aside by the Board to maintain ongoing operations
- Funded by surplus of non-subvented services
- Target minimum is defined as *three months' average budget operating expenditure of the following financial year*
- If the targeted level is exceeded, the excess could be transferred to other reserves
- If less than target safety level, the reserve is to be replenished within 12 months



# *Funding and Operation of Reserves*

## (2) Building Development Fund (BDF)

- For major capital enhancement and improvement

# *Funding and Operation of Reserves*

## (3) Service Development Fund (SDF)

- For enhancement of existing services or development of new services and social business





# *Funding and Operation of Reserves*

## (4) Staff Training and Welfare Fund

- For staff training and welfare (such as staff performance reward and incentive)

# *Funding and Operation of Reserves*

## **For all the designated funds**

- Can be further broken down to designate the funds for different purposes
- A certain percentage of annual operation surplus or any other amount can be prescribed by the Board or FAC to be allocated to these funds

# *Funding and Operation of Reserves*

## (5) Government Reserves

- They are restricted funds
- Mainly include:
  - LSG Reserve
  - Provident Fund and MPF Reserves
  - Reserves accumulated for funding from government with restricted purposes (e.g. schooling and other time-based projects)

# *Funding and Operation of Reserves*

## LSG Reserve –

- Only used on Funding and Service Agreement activities and related support services and activities
- Level of cumulative LSG Reserve is capped at 25% of the Association's LSG subvented services' operating expenditure, excess is to be refunded to the Government

# Approval Authority

- Different level of approval authority for using reserves was defined based on the approval amount

<u>First Level</u>	<u>Second Level</u>
Deputy Chief Executive / Directors	
Chief Executive	
Service Committee	
FAC	Executive Committee/ The Board

# *Reporting and Monitoring*

- The status of each reserve will be calculated at the end of each financial year based upon audited financial results
- Board or FAC will review the adequacy of the reserves amounts and make recommendations

# **PART 2**

## **INVESTMENT POLICY**

# Purposes

- To provide guidelines for the prudent management of the Association's asset, cash and investments (the "Portfolio")
- To assist the Board of Directors in supervising and monitoring the Portfolio
- To ensure the creation and implementation of a sound long-term investment strategy
- To define the Association's investment objectives and the responsibilities
- To provide guidelines for the Board, FAC and Investment Subcommittee (ISC)





# *Investment Objectives*

- Preservation of Purchasing Power
- Long-Term Growth
- Time Horizon
- Risk Tolerance
- Liquidity Requirements

# *Responsibilities*

- Board delegated investment and monitoring responsibilities to FAC
- Implementation of the Policy is performed by the FAC, designated staff, Investment Advisors/ Managers
- FAC further delegates the investment function to Investment Sub-Committee (ISC)
- Responsibilities of ISC, staff and Investment Advisors/ Managers are clearly defined



## *Restrictions on Investments*

- No leveraged purchasing or margin transactions, no short sales
- No investment in hedge funds or private equity funds
- No investment violating our VMV
- Any investment potentially generating unrelated business taxable income (UBTI) requires prior approval of the Board

# Asset Allocation

- (i) Investable Sum
  - The Board or FAC will decide from time to time the portion of Investable Sum to be set aside for investment purpose
  - Generally exclude Government Reserves, Operation Reserve and certain portion of designated funds
  - The *lower and upper limits* and *respective target allocation* of each asset class (bonds, equity, cash & bank deposits, etc) are defined

# *Asset Allocation*

## (ii) Non-Investable Sum

- Cash and cash equivalents, which means fixed deposits with tenor not more than three months



# *Reporting and Monitoring*

- Performance Benchmarks are defined by ISC
- ISC periodically reviews the performance of the Investment Advisors/Manager
- Periodic reports to FAC/ Board



***Thank You***

