

A CONCISE GUIDE ON

NGO INVESTMENT



About The Hong Kong Council of Social Service

The Hong Kong Council of Social Service (“HKCSS”) is a federation of non-government social service agencies of Hong Kong representing more than 490 Agency Members that provide quality social services through their 3,000 operating units in Hong Kong.

HKCSS’s vision is to build a welfare sector that is highly accountable, efficient, effective and responsive to social needs, safeguarding the long-term sustainable development of society and the well-being of citizens. For more information about our organisation, *please visit :*

<http://hkcss.org.hk/?lang=en>

© 2020 The Hong Kong Council of Social Service
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, financial, investment, tax or other professional advice. Please refer to your advisors for specific advice.

CONTENTS

<i>Preface</i>	01
<i>Section I : General Explanatory Notes</i>	03
Why Would NGOs Make Investment	03
Fund Available for Investment	03
Types of Investment for NGOs	04
Risk Tolerance	04
Risk & Reward Consideration	04
Investment Portfolio	05
Investment Expenses	05
Tax Consideration	05
Responsibilities of the Board	06
Investment Committee	06
Review and Reporting	06
Use of External Advisors	07
Conflict of Interest	07
Investment Policy	07
Socially Responsible Investment	07
Compliance Review	08
<i>Section II : Sample Investment Policy Statement</i>	09
Purpose	09
Responsibilities of the Board	09
Responsibilities of the Investment Committee	10
Investment Objective	10
General Investment Guidelines	11
Permitted Investments	11
Prohibited Investments	13
Socially Responsible Investment	13
Borrowing	13
Conflict of Interest	14
Internal Controls	14
Performance Measurement	15
Policy Review	15
<i>Section III : Resources and Reference Materials</i>	16
<i>Appendix : Sample Terms of Reference - Investment Committee</i>	17
<i>Acknowledgement</i>	20



PREFACE

HKCSS conducted the “Survey on Financial Reserves of Social Service Agencies”¹ in 2019 and has noted that the NGOs, among other things, need more support and guidance to enhance their financial governance with respect to investment making. With the objective of strengthening NGOs’ knowledge in this regard, this concise guide is prepared, comprising the following three sections:

Section I : General Explanatory Notes

Section I provides a brief discussion of the basic principles relating to the various aspects of NGO investment to give readers an overview of the key considerations when making investment. This section is written in plain language and, to the extent possible, has avoided the use of professional jargons.

Section II : Sample Investment Policy Statement

Section II is a sample Investment policy statement. The sample has been prepared in the form of a template to serve as a practical tool for those who may need guidance to build up one. It has covered all the key topics that should be included in a typical investment policy statement. It can be tailored, shortened or expanded to suit the purpose and circumstances of the NGOs. In addition, certain suggested parameters are included in the template to illustrate how the policy works. It should be noted that they are not standard requirements and NGOs must exercise their discretion when determining their own limits and thresholds.

Section III : Resources and Reference Materials

Section III is a list of additional reference materials which NGOs may find useful and of interest.

¹ Website of the "Survey on Financial Reserves of Social Service Agencies" Report : <https://governance.hkcss.org.hk/node/360>

This concise guide on investment is intended to help enhance NGOs' knowledge on investment making and identify areas where further advice or assistance that may be needed. It is acknowledged that the relevance of this guide to the NGOs may vary according to their size and maturity. When using this guide, due consideration must be given to the NGOs' own situation, including but not limited to their financial capabilities, investment expertise and governance structure, etc.

In case of doubt, consultation should be made with professional advisors.

SECTION I

General Explanatory Notes



Why Would NGOs Make Investment

The primary reason for making investment is to increase resources for fulfilling the missions of the NGOs in addition to that generated from service provision and donation, thereby ensuring their long-term financial sustainability. The source of fund available for investment can broadly be classified as reserves accumulated from operation and working capital that are not put to use immediately.

Before making an investment, an NGO must ask why it wants to do so. This can be for generating income to cover its recurring expenditures, for preserving its assets from erosion by inflation or for capital appreciation. This investment objective will dictate how the investment should be made and be directly linked to the risk tolerance of the NGO. In general, if an NGO wants to get higher return from its investment, it should be prepared to take a higher risk.



Fund Available for Investment

Another fundamental question for consideration is how much money an NGO can invest and for what time span. When investing, the NGO should be clear when the amount put to investment will be needed for operational or other use and make sure that it will be available at that time.

There are specific requirements for an NGO supported by Social Welfare Department's Lump Sum Grant ("LSG") to invest its reserves². For LSG reserves, investment can only be made in the form of HK dollar bank deposits and HK Dollar bonds or certificate of deposits subject to certain investment criteria and conditions. NGOs receiving LSG are expected to be familiar with the requirements and fully in compliance.

² Website of the Lump Sum Grant Manual :
https://www.swd.gov.hk/en/index/site_ngo/page_subventions/sub_lsgmanual



Types of Investment for NGOs

Common types of investment are bank deposits, equities, fixed income investments (e.g. bonds) and mutual funds. They are relatively straight forward and the risks associated with them can be easily understood. There are more complex products such as commodities and derivatives in the market, and NGOs are generally not advised to invest in these products without full knowledge of their nature and associated risks. In addition, while many investors invest in physical properties for value preservation purpose, it will lock up significant amount of capital and is illiquid for quick realisation. It should be considered only by NGOs with financial resources well above their normal operational needs, and who have the ability to hold it for long term purpose and wish to build a more diversified investment portfolio.



Risk Tolerance

Measuring and determining risk tolerance is the first step to take before choosing the best investments for investors' financial goals. Risk tolerance is the amount of risk an investor can tolerate, such as volatility in the market or fluctuation in value of individual investment. The reward for taking on risks is the potential for a greater investment return. If the financial goal has a long time-horizon, more money can be made by carefully investing in higher risk assets, such as equities or fixed income investments, than less risky assets.

Risk profiles of investors are often categorised as conservative, moderate or aggressive. A conservative investor favours investments that maintain the capital amount while an aggressive investor is willing to risk losing money to get potentially better results.

Determination of an NGO's risk tolerance is the responsibility of the Board of Directors (the "Board").



Risk & Reward Consideration

No investment is risk free and there is always a possibility that the investment will bring loss to the investors. Investors must find out how a loss may arise and the potential exposure. NGOs making investment must fully understand the risks associated with their investment and their implication on the continuation of their operations. Investment should be made only if the loss is affordable should it happen.

Investment with the least risk is term deposit with licensed banks, but interest income is usually low and funds will be locked up for the entire tenor of the term deposit. The rate of return will generally be higher for deposits with a longer tenor.

Equities, fixed income investments and mutual funds are some other common forms of investment. They offer a relatively higher return than bank deposits but their market value is subject to fluctuation. In general, investment in equities offers a relatively higher return than fixed income investments. However, the associated risk is also higher. For share investments, it is preferable for NGOs to select blue chip companies with growth potential and high liquidity, allowing quick realisation when there is a need to do so. For fixed income investments, NGOs should consider those with a maturity date that they are able to hold on to without the need of selling them before maturity, which may result in a capital loss.

There are many kinds of mutual funds with different investment focus and parameters. NGOs must assess the associated risks when investing in these funds.

It is important for NGOs to establish their own risk tolerance level, and assess the potential return against the investment risk before making any investment decision.



Investment Portfolio

An investment portfolio is usually made up of a combination of equities, fixed income investments and cash. By varying the proportion of these components, the portfolio will yield different rate of return.

The risk tolerance of the NGO will have a direct impact on the determination of asset allocation. A higher weight towards fixed income investment and cash reflects a lower tolerance to the risk of capital loss.



Investment Expenses

There are expenses associated with an investment transaction such as acquisition expenses (including commission), custodian charge, etc. If an NGO appoints an investment manager to manage its investment portfolio on its behalf, a fee will be incurred for the service. All related expenses must be deducted from the gain from the investment (comprising interest/dividend income and capital gain/loss) to arrive at the net return.



Tax Consideration

NGOs which are qualified charities are exempt from tax under Section 88 of the Hong Kong Inland Revenue Ordinance subject to conditions. Hong Kong Inland Revenue Department has issued the Tax Guide for Charitable Institutions and Trusts of a Public Character³. NGOs should be aware of the requirements for getting tax exemption for investment returns as stipulated in the Tax Guide.

³ Website of the Tax Guide: https://www.ird.gov.hk/eng/pdf/tax_guide_for_charities.pdf



Responsibilities of the Board

The Board of an NGO is responsible for stewardship of all the operations of the NGO including investment making. The Board should make an informed decision on whether investing certain amount of its reserves is best for the NGO, and if so, what kind of investment should be made. The Board should consider the ongoing funding need for the normal operations and long term development of the NGO and, hence, determine its risk tolerance level.

The Board should formally discuss and set an investment policy, and properly communicate it to the staff. The Board has fiduciary responsibilities over the investment decision and its subsequent management. The Board should ensure proper operational structure, control and procedures are put in place covering the whole investment process, from making and recording the investment to performance tracking and review.



Investment Committee

The Board may delegate its responsibility to an Investment Committee (“IC”) to handle investment related matters such as recommending and implementing investment policies and strategies; hiring and firing of investment managers, banks and financial institutions; monitoring the performance of the investment portfolio on a regular basis; and making report to the Board for final assessment. Please refer to the Appendix for a sample terms of reference of the IC.

Where applicable, setting up an IC would be the recommended practice. For smaller NGOs, the Board may carry out the function of IC without setting up a committee. In such case, advisors and experts could be invited to attend Board meetings as required to ensure that there is appropriate expertise in financial management and investment to advise the Board. Alternatively for NGOs with an existing Finance Committee, it is possible to combine the finance and investment functions in the same committee. In this latter case, the Board should ensure such committee would possess sufficient knowledge and experience in both financial management and investment in order to effectively perform the role.



Review and Reporting

Every 6 months or at shorter intervals, the Board should review and assess the overall performance of the investment portfolio, whether the investment function is operating satisfactorily and in line with the investment policies and guidelines. Where an IC is established, the assessment will be based on the report of the Committee. The role of the IC is to assist the Board and not to substitute the Board in discharging the overall investment responsibility.

At least once a year, the Board should review the investment policy statement and make changes, where appropriate, to cater for the changing need of the NGO.



Use of External Advisors

It is imperative that the Board or some of its members have adequate knowledge and experience in making investment. If such expertise is lacking in the Board, the NGO may consider to use the service of external professionals (for example, investment managers or financial experts) to advise them on a paid or pro-bono basis. However, the ultimate investment decision rests with the Board.



Conflict of Interest

There may be situation where an investment decision is made based on the advice of a member of the Board or the IC who is an investment advisor. When taking the advice, the Board should be mindful that potential conflict of interest may arise. In addition, any Board or staff member involved in the investment decision may derive direct or indirect benefits from the transaction. There should be a policy requiring all Board/Committee/staff members to declare their interest when it arises, if any, and to refrain from participating in the decision making process. This conflict of interest policy should be well communicated within the NGO and strictly enforced.



Investment Policy

It is advisable for an NGO intending to hold an investment portfolio to have a written policy that clearly sets out its investment objectives. The written policy will provide a framework on making investment decisions, such as the types of investment to be made, risk management, and performance monitoring. In addition to being a tool to effectively manage the NGO's resources, an investment policy will help demonstrate good governance and enhance both accountability and transparency.

The sample investment policy statement provided in Section II is a basic template for reference by NGOs who are beginning to set up such policy. NGOs should make their best endeavor to tailor the template to suit their own situation. Consultation with qualified professional is recommended in case of need.



Socially Responsible Investment

Increasingly, Environmental, Social and Governance (“ESG”) criteria are playing a key role in determining whether investment in a particular business entity is desirable in terms of its ethical impact and sustainable practices. In addition to financial returns, investments

should also aim to create social or environmental outcomes that are positive and measurable. Socially responsible investment (“SRI”) entails looking at areas such as the business entity’s carbon footprint, board diversity and community development initiatives, which are the focus of the United Nations Sustainable Development Goals⁴.

The competency of a business entity in managing ESG issues could affect both its image and performance in the long term. This might also have a substantial impact on the value of its shares. Moreover, investing in entities with a poor ESG track record might not be in alignment with the objectives and mission of the NGO.

Examples of ESG issues and risks relevant to NGOs include:

- environmental management, policy, reporting and performance
- chemicals of concern, mining and quarrying
- climate change and greenhouse gases
- pollution
- labour standards and supply chains
- controversial industries e.g. tobacco, alcohol, gambling, military, pornography
- animal testing

The best practice for ESG investing embraces both generating investment returns for an NGO and protecting its core values. NGOs should consider the relevance of different ESG criteria and the impact of these ESG issues on its image and reputation. The preferred investment sectors and those of concern should be clearly stated in the investment policy for execution by their investment managers.



Compliance Review

To ensure that the investment decisions are made in accordance with an NGO’s investment policies and guidelines, the Board should perform regular reviews along with its IC.

⁴ Website of United Nations Sustainable Development Goals: <https://www.un.org/sustainabledevelopment>

SECTION II

Sample Investment Policy Statement

Note - The following is a sample investment policy statement for reference. NGOs should make their best endeavor to tailor it to suit their own situation.

[Name of NGO]

Statement of Investment Policy

Approved by the Board of Directors on *[Date]*

1. Purpose

1.1 This policy statement documents the investment objectives, policies, guidelines and eligible securities related to all assets held by *[NGO]*. This policy statement:

- Clarifies the duties and responsibilities of the Board of Directors (the “Board”) concerning the decision and management of investments;
- Communicates the objectives to the Board, staff, donors and funding sources, investment advisors and other relevant stakeholders;
- Stipulates the policies and procedures in connection with the making of investments; and
- Governs the ongoing execution and oversight of the organisation’s investment activities.

2. Responsibilities of the Board

2.1 The Board has the ultimate fiduciary responsibility for *[NGO]*’s investment portfolio. The Board must ensure that appropriate policies governing the management of investment portfolio are in place and that these policies are being effectively implemented. In discharging these responsibilities, the Board sets and approves the Investment Policy Statement, and establishes an Investment Committee (“IC”) to assist in the oversight of the investment function.

3. Responsibilities of the Investment Committee

3.1 Members of the IC are not held accountable for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which decisions are made in respect to the [NGO]'s assets. The IC is responsible for the development, recommendation, implementation and maintenance of all policies relative to [NGO]'s investments and shall:

- Recommend long-term and short-term policies and objectives for investment;
- Develop and/or propose policy recommendations to the Board with regard to the oversight of [NGO]'s investments;
- Monitor and evaluate the performance of all those responsible for managing the investments;
- Periodically meet with management, investment consultants and/or other outside professionals involved in the investment process and track their performance; and
- Conduct regular review and evaluation to confirm the policies and guidelines, investment activities, risk management controls and processes continue to be applicable and consistently meeting the investment goals and objectives of [NGO].

4. Investment Objective

4.1 The primary objective of the [NGO]'s investment portfolio is to:

- Generate income from the investment portfolio with an emphasis on capital preservation. Despite the conservative nature of the portfolio, there is willingness to assume some measures of risk to achieve capital growth over the long term.

Note - The following are alternative objectives that can be adopted (state your own investment objective if not covered by any of them):

- *Maintain real value of the [NGO]'s assets against inflation. In order to achieve the investment objective, appropriate measures of risk shall be assumed. The Board acknowledges that the associated risks are fully understood and considered acceptable when approving the investment.*
- *Provide a source of income to cover the recurring expenditure. In order to achieve the investment objective, some measures of risk shall be assumed. The Board acknowledges that the associated risks are fully understood and considered acceptable when approving the investment.*
- *Earn marginal income for the [NGO]. However, the [NGO] has little appetite to assume any significant measures of risk that may result in a loss of its capital.*

4.2 The amount of fund available for investment shall be in line with [NGO]'s policy for reserves management.

5. General Investment Guidelines

5.1 The investments made out of [NGO]'s own funds must comply with the requirements, guidelines and restrictions imposed by the Board from time to time.

Note - If Lump Sum Grant subvention from Social Welfare Department is received, add the following paragraph:

5.2 The investment made out of the surpluses of the subvention from Social Welfare Department ("SWD"), including but not limited to Lump Sum Grant ("LSG") and related reserves, must comply with the respective requirements as set out in LSG manual, circulars or other guidelines issued by SWD from time to time.

6. Permitted Investments

Note - The following paragraphs are for reference only and should be used with due regard to the NGOs' own investment objectives and financial situation. **The permitted investments set out below are suitable for the stated objective under paragraph 4.1.** The limit, threshold and period in bracket [#] are used by many investors in practice, however, NGOs must exercise their discretion and make adjustment as appropriate before adoption. NGOs adopting other investment objectives should compile their own list of permitted investments as advised by their investment advisors and duly approved by the Board.

6.1 Purchase of the following investment products are permitted provided that approval has been obtained from a simple majority of the Board members, of which consensus from the Chairman of the Board and the Honorary Treasurer is mandatory:

Note - If there is an IC, use the following statement:

6.1 Purchase of the following investment products are permitted provided that approval has been obtained from a simple majority of the IC members including the Committee Chairman:

- (a) Enhanced Yield Deposits (including Currency-linked Deposits) or Structured Notes
- These deposits or notes (with or without principal protection features) are permissible provided that they do not result in leveraging the overall portfolio.
 - Total maximum investment under this category cannot exceed **[# 20%]** of the investment portfolio.
 - Maturity: The tenor of such investments cannot exceed **[# 3 years]**.
- (b) Term Deposits
- Part of the liquid investment can be held in term deposits. The permissible currencies are – HK dollars, US dollars and other currencies such as Euros, Australian dollars, Canadian dollars, New Zealand dollars, Chinese yuan and British pounds sterling as approved by the Board/IC.
- (c) Fixed Income Investments
- Fixed income investments should be restricted to issues with investment grade as rated by Standard & Poors (“S&P”) or Moody’s.

Note - Depending on the risk tolerance of the NGO, a limit can be set for bonds of credit rating lower than A. For example, “The weighting of bonds of credit rating between A- and BBB- should not exceed 20% of the total market value of the total investment portfolio”.

- The maximum limit for aggregate holdings of a single issuer is **[# 10%]**. Hong Kong SAR Government (and other government, for example G7, as approved by the Board/IC) issued bonds are not subject to the above restrictions.
 - Part of the portfolio may include bond funds rather than in individual fixed income securities. In this instance, the average credit quality of the bond fund should be not lower than A (as rated by S&P).
 - The average maturity profile of the fixed income portion of the investment portfolio is **[# 7 years]**.
 - Hong Kong corporate bonds that are not rated can be included in the portfolio if recommended by the IC and approved by the Board.
 - Maturity: the average maturity of the bond portfolio should not exceed **[# 7 years]** and the maturity of individual issues should not exceed **[# 10 years]**.
- (d) Equities – Shares and Funds
- Equity exposure can be achieved through the purchase of shares, exchange traded funds (ETFs) and equity funds.

- The shares and ETFs must be listed on the Hong Kong Stock Exchange and other major global stock exchanges. Companies in whose shares are purchased must have a market capitalization value of not less than **[# HKD 5 billion]**.
- Total equity exposure is limited to **[# 40%]** of the overall investment portfolio.

(e) Alternative Investments

- Alternative Investments are limited to hedge funds, fund of hedge funds (“FoHF”) and private equity funds. Investments in FoHF shall not result in leveraging the overall portfolio. The maximum exposure is limited to **[# 20%]** of the overall portfolio under any circumstances.

7. Prohibited Investments

7.1 **[NGO]** shall not make any investment not specifically permitted by this policy statement.

8. Socially Responsible Investment

8.1 In alignment with the objective/mission of **[NGO]**, investment in the following industries is prohibited:

Example of exclusion list (to be decided by NGO):

- | | |
|------------------|-----------------------------|
| • <i>Gaming</i> | • <i>Weapons</i> |
| • <i>Alcohol</i> | • <i>Adult Products</i> |
| • <i>Tobacco</i> | • <i>Fossil Fuels, etc.</i> |

8.2 Subject to meeting the investment guidelines stipulated in this policy statement, preference will be given to investment in industries that aligns with the objective/mission of **[NGO]**.

Example of positive list (to be decided by NGO):

- | | |
|----------------------------|--------------------------------------|
| • <i>Education</i> | • <i>Affordable Housing</i> |
| • <i>Healthcare</i> | • <i>Businesses aligned with the</i> |
| • <i>Renewable Energy</i> | <i>United Nations Sustainable</i> |
| • <i>Environmental and</i> | <i>Development Goals, etc.</i> |
| <i>Green Industries</i> | |

9. Borrowing

9.1 **[NGO]** shall not borrow money for investment purpose.

10. Conflict of Interest

- 10.1 This standard applies to the members of the Board and IC as well as all staff employed by [NGO] (collectively called “Affected Persons”), in the execution of their duties.
- 10.2 The Affected Persons, in the execution of their duties, shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of [NGO]’s portfolio.
- 10.3 It is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if approved by the Board.
- 10.4 No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the individual deals in the course of performance of his/her duties and responsibilities for the Board. It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Chairman of the Board. The Chairman, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Board.
- 10.5 No Affected Person who has or is required to make disclosure as contemplated in this policy statement shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he/she has made or is required to make disclosure.

11. Internal Controls

- 11.1 The Board shall ensure that there are proper and effective internal procedures to control investments, which should cover the following aspects:
- safe custody of investments;
 - periodic reconciliation with the statements from banks and other parties concerned;
 - keeping of proper accounting records for the transactions;
 - regular checking of any irregularities of the investment operation to ensure compliance of the investment policies and guidelines; and
 - regular assessment of the investment performance and returns.

12. Performance Measurement

12.1 The Board shall review on a **[quarterly/semi-annual]** basis the performance of the investment portfolio and investment guidelines, and make updates and revisions, where necessary.

Note: If there is an IC, use the following paragraph:

*12.1 It will be the responsibility of the IC to review on a **[quarterly/semi-annual]** basis the performance of the investment portfolio and investment guidelines, and report to the Board for updates and revisions as necessary.*

12.2 The review together with any decision made shall be properly documented in the minutes of the meeting of the Board and **[the IC]** accordingly.

13. Policy Review

13.1 This policy statement may be reviewed and revised at any time, but it must be formally reviewed by the Board **[under the advice of the IC,]** at least once in every calendar year. No modification may be made without the explicit approval of the Board.

13.2 Any discussion and decision in the above regard shall be properly documented in the minutes of the meeting of the Board, and this policy statement shall be updated accordingly.

SECTION III

Resources and Reference Materials

The documents listed below are useful reference related to NGOs' investment. Organisations working on an investment policy statement should be familiar with their contents as appropriate:

- (a) Lump Sum Grant Manual, October 2016, Social Welfare Department
- (b) Lump Sum Grant Circular No. 9/2003 - Use of Lump Sum Grant and Lump Sum Grant Reserve, Social Welfare Department
- (c) Tax Guide for Charitable Institutions and Trusts of a Public Character, 2020, Inland Revenue Department
- (d) CPAs for NGOs: Quick Guide Series - Governance & Accountability, The Hong Kong Institute of Certified Public Accountants (HKICPA)
- (e) CPAs for NGOs: Quick Guide Series - Reserve Policy, HKICPA
- (f) CPAs for NGOs: Quick Guide Series - Internal Control & Audit, HKICPA
- (g) A Concise Guide on NGO Reserves, 2020, The Hong Kong Council of Social Service (HKCSS)
- (h) Sample Code of Conduct for Board Members & Staff of Non-governmental Organisations in Social Welfare Sector (Full Version), 2015, Independent Commission Against Corruption & HKCSS
- (i) Principles of Responsible Ownership, 2016, Securities and Futures Commission
- (j) Sustainable Development Goals, United Nations

APPENDIX

Sample Terms of Reference - Investment Committee

The purpose of this document is to offer some guidance for NGOs to develop a policy for the committee that oversees their investment activities. The terms of reference would clarify the scope and range of roles, eliminating duplication and overlap. More importantly, this process will facilitate meeting the fiduciary responsibilities to fulfil the organisations' mission.

The sample below will serve as a tool to help create individual NGO's own committee blueprint that meets its organisational needs. Organisation will need to customize the final version based on its specific goals. This sample document is for information and reference purposes only.

[Name of NGO]

Investment Committee

Terms of Reference

Approved by the Board of Directors on *[Date]*

1. Objective

1.1 The Investment Committee ("IC"), is a committee of the Board of Directors (the "Board"). The purpose of the IC is to assist the Board in monitoring the effectiveness of the investment governance framework and the investment activities of *[NGO]*.

1.2 The IC may, within the scope of its responsibilities:

- perform activities and make recommendations to the Board consistent with these terms of reference;
- engage advisors as it considers necessary to carry out its duties.

1.3 The IC has no management role in investment.

2. Membership

- 2.1 The members of the IC shall be appointed by the Board.
- 2.2 The number of members of the IC including the Chairman shall be *[# 3 OR any number as approved by the Board]*. The total number of members is suggested to be odd number to facilitate decision making .
- 2.3 The majority of the members of the IC including the Chairman shall be members of the Board.
- 2.4 The term of the IC members shall be *[# 2 years OR other term as approved by the Board]* . The members can be re-appointed if approved by the Board.
- 2.5 Members of the IC should possess sufficient knowledge and experience in financial management and investment in order to perform the responsibility of IC.

3. Meetings

- 3.1 The IC shall meet at least *[# 2 times a year OR as frequently as approved by the Board]* . The schedule of meetings shall be agreed in advance to enable reports be made at the Board meeting that immediately follows.
- 3.2 Additional meetings may be convened as required.
- 3.3 To form a quorum, a simple majority of the members by headcount including the Chairman should be present.
- 3.4 Both the agency head and the finance manager shall attend the meeting, and the finance manager shall act as secretary of the meeting.
- 3.5 Investment advisors, experts and/or other Board members may be invited to attend the meeting as required and agreed by the Chairman of the IC.
- 3.6 Minutes of the IC meeting together with the action lists should be prepared and circulated for members' comments before Chairman's approval and adoption at the next IC meeting.
- 3.7 Copy of the approved minutes should be included in the papers for information of the Board at the next Board meeting.

4. Responsibilities

- 4.1 The responsibilities of the IC include the following:
 - Review the appropriateness of the *[NGO]*'s investment strategies, policies and objectives, and make recommendation for changes, where necessary, for consideration and adoption by the Board;

- Monitor and evaluate the [NGO]'s investment performance in comparison to the investment targets;
- Monitor and evaluate the performance of all those responsible for the execution of investment transactions and management of the portfolio;
- Review periodically the effectiveness of the investment governance structures in operation, and make recommendation for changes, where necessary; and
- Perform any other finance and investment related work as instructed by the Board.

5. Reporting to the Board

5.1 The IC shall, through its Chairman, report to the Board at each Board meeting on matters relevant to its role and responsibilities. At least once a year, the IC should confirm to the Board the effectiveness of the [NGO]'s investment strategies, policies and objectives, governance structure, monitoring, control, and management of [NGO]'s investments, and if any modification is warranted, make appropriate recommendations for consideration and approval by the Board.

6. Performance Evaluation

- 6.1 In order to ensure that the IC is fulfilling its duties, the IC shall periodically obtain feedback from the Board on its performance and implement any agreed actions that are found to be necessary.
- 6.2 On an annual basis, the Board shall conduct a formal evaluation on the performance of the IC and its individual members. In this regard, the Chairman of the IC shall provide any information the Board may request to facilitate the evaluation.

7. Review of Terms of Reference

- 7.1 The IC shall review these terms of reference periodically and discuss any changes that may be required. Where necessary, recommendation shall be made to the Board for consideration and approval to amend the terms of reference.
- 7.2 The Board will also initiate amendment to these terms of reference as they deem appropriate.

ACKNOWLEDGEMENT

This Guide was developed with the valuable guidance and inputs from an Expert Group formed under the NGO Governance Platform Project of HKCSS. Special thanks are due to the following Expert Group members for their tremendous contribution in compiling this Guide for reference of concerned NGOs:

NGO representatives	Ms Jane CHAN	<i>Honorary Secretary, Fu Hong Society</i>
	Mr Anthony CHEUNG	<i>Honorary Treasurer, Friends of the Earth (HK)</i>
	Ms Loretta FONG	<i>Vice Chairman, Finance & Administration Committee, Hong Kong Young Women's Christian Association</i>
	Ms Sabrina HO	<i>Chairperson, The Child Development Centre</i>
	Ms Serena MAK	<i>Board Governor, Friends of the Earth (HK)</i>
HKICPA representatives	Mr Arthur CHAN	<i>Partner, Assurance, PricewaterhouseCoopers</i>
	Mr David SAMY	<i>Partner, Advisory Services, Ernst & Young</i>
HKCSS representative	Mr Peter WAN	<i>Member, Steering Committee on NGO Governance Platform Project, HKCSS</i>
Researcher of the "Survey on Financial Reserves of Social Service Agencies"	Ms Melissa FUNG	<i>Partner, Risk Advisory, Deloitte</i>