

Dear Residents

INVESTMENTS OF TOWN COUNCIL'S FUNDS

Lately in the media, there were reports concerning town councils' investments of sinking fund in risky financial instruments. I wish to take this opportunity to explain to you the Bishan-Toa Payoh Town Council's philosophy and policy concerning the sinking fund, and that your monthly Service and Conservancy Charges (S&CC) are well managed and utilised wisely.

Our **Philosophy** is to provide the best services to residents of Bishan-Toa Payoh GRC by always focusing on our core competency - Estate Management. We outsource the fund management activities to professional fund managers, as we want to keep our focus on what we do best, and that is keeping your estate clean and well maintained. The Town Council does not itself make investments, except for Singapore dollar Fixed Deposits.

The Fund Managers we appoint operate under strict guidelines set by the Town Council. Our investment **Policy** and mandate to them is not to seek high returns through risky investments, but to preserve the real value of the funds and to protect against inflation. Accordingly, we instruct our appointed Fund Managers to ensure, as a basic minimum, capital-guarantee¹ for all our investments. They are to adopt a conservative strategy.

We have a set of **Procedures** to appoint the Fund Managers. The steps are as follows:

1. Town Council Management prepares the proposal request that stipulates Term Period and Capital Guarantee in the draft mandate.
2. Fund Managers are invited to make proposals.
3. Management conducts preliminary evaluation & shortlists the proposals before recommending to the Finance & Admin (F&A) Committee.
4. Short-listed Fund Managers will present their proposals to F&A Committee.
5. F&A Committee deliberates the proposals and selects the Fund Manager, and recommends their selection for Town Council's approval.
6. Councillors deliberate and approve the appointment.

Some of you may want to know if Bishan-Toa Payoh Town Council funds had been invested in **Lehman Brothers minibonds**. I would like to assure you that we did not invest any funds in Lehman Brothers minibonds or other credit-linked notes.

As Chairman of Bishan-Toa Payoh Town Council, I am pleased to say that our prudent and conservative approach to investing the sinking funds has reaped acceptable dividends with minimal risk. We will continue to be prudent, and to provide value-added services to residents, and create a safe and pleasant living environment for you and your family.

I have provided an FAQ list that should answer some of your queries.

Zainudin Nordin
Chairman

¹“Capital-guarantee” means that principal sum is guaranteed by the Fund Manager that the amount will not be diminished or reduced at the expiry of the Term Period, and that the Fund Manager will make good any shortfall if the amount is diminished or reduced at the expiry of the Term Period.

FAQs on Town Council Investments

- 1) **How was the performance of the Town Council’s investments in the last 6 years?**

The average return of the managed funds over last 6 years was 5.1% per annum, which is higher than the average interest of about 0.9% per annum earned on fixed deposits over the same period.

The current funds under professional fund management yield a combined average return of 3.0%.

- 2) **Will the S&CC be increased as a result of the loss or lower investment income expected from your investment funds?**

No, the Town Council would like to assure residents that it will not increase S&CC as a result of reduced returns in investment.

- 3) Will future improvements in HDB estates be postponed or affected? Will there be insufficient funds left to support ongoing or future projects?**

The Town Council's funds are healthy and intact and we would like to assure residents that all our upgrading / improvement projects and cyclical works will not be compromised and will proceed as planned.

The Town Council will be carrying out a total of \$127.7 million of lift upgrading and major cyclical works in the next 5 years.

Details of works include: lift upgrading works (\$75.0 million), redecoration & repainting works (\$13.7 million), re-roofing (\$6.8 million), rewiring (\$11.0 million), lift part replacement (\$4.9 million) and pumps/pipe replacement works (\$16.3 million).

- 4) How much of the Town Council funds was affected by the Lehman Brother-linked products?**

Bishan-Toa Payoh Town Council funds are not exposed to Lehman Brothers-linked products or other credit-linked notes products.

The Town Council's investment mandates issued to the Professional Fund Managers are generally conservative and stringent.

5) How has the Town Council invested its Sinking Funds and what other investments did the Town Council make?

As at September 2008, 75.5% of our funds, amounting to \$110.1 million, are invested in Singapore Government / Statutory Board bonds or placed in fixed deposits. The rest of the funds of \$29.0 million are managed and invested by Professional Fund Managers appointed by the Town Council in a diversified portfolio which includes equities and conservative securities such as bonds and unit trusts. The current funds under professional fund management yield a combined average return of 3.0%.

In accordance with the Town Councils Act, the amount that the Town Council can invest in non-government stocks, funds or securities is capped at 35% of the sinking fund.

6) Would your Town Council be able to recover any of your investments?

The global financial crisis has an unprecedented impact on the liquidity of the financial markets around the world. However, all our funds are capital-guaranteed by the Professional Fund Managers.

- 7) How does your Town Council make your investment decisions and who makes them? Do you have experienced people looking after your funds and investments?**

The Town Council outsources its fund management activities to Professional Fund Managers, so that it could focus on its core competency in Estate Management. Also, the Town Council does not itself make investments, except for Singapore dollar Fixed Deposits.

The Town Council had formalised procedures in the appointment of fund managers. Appointment of fund managers are evaluated against criteria such as performance of the fund managers, fees charged and mandates to be issued. The Town Council explores and considers various options at the Council meetings and decisions are made after careful considerations by the Councillors.

- 8) Can the Town Councils guarantee that their investments will always generate net positive returns? What actions will be taken to prevent future investment losses like these?**

All investments carry an element of risk. From time to time, some investments will not deliver the hoped for returns. However, the key challenge is to have a prudent and diversified investment approach that achieves a healthy return over the long run. This is necessary because the sinking funds are used for long term projects such as replacement of lifts and water supply systems as well as repainting, re-roofing and electrical re-wiring works.

9) In light of what has happened, are Town Councils going to review the way they manage their funds?

In this uncertain investment climate, Town Councils will continue to be prudent. We will keep reviewing our investment approach in the light of the global downturn and in compliance with the Ministry's guidelines. At this juncture, it is prudent to invest more in Singapore Government securities.

10) What is the purpose of Sinking Funds?

Sinking funds are used to carry out long-term projects such as cyclical work and lift upgrading. We need to build up enough sinking funds over time so that such works can be carried out as and when the need arises.

Examples of such works are: replacement of lifts, water pumps and pipes, re-roofing of roofs and repairs and redecorations to blocks. Lift replacements are carried out every 28 years on average. Town Councils also use their sinking funds to fund their co-payment of lift upgrading. The funding for these large expenditures is collected over time as part of the monthly Service and Conservancy Charges (S&CC). This way, residents do not have to incur a large sum every time one of these works needs to be done. Through prudent investment of the sinking funds to generate healthy returns, Town Councils have managed to keep S&CC affordable amidst inflation over the years.

11) Why is there a strong need to grow the funds?

In investing funds for long-term needs, the key objective is to generate a healthy return that more than offsets the rate of inflation, thus helping to increase the overall value of the sinking funds.

12) What proportions of the Service and Conservancy Charges and Grants-in-aid are transferred to the Sinking funds?

Currently, Town Councils are required to contribute at least 30% to 35% of the amount of Service and Conservancy Charges, and Grants-in-aid (varies according to property room type) into their sinking funds.

<u>Property Type</u>	<u>% of Service and Conservancy Charges and Grants-in-aid</u>
1-Room to 3-Room	30
4-Room and above	35
Executive and above	35
Shop with living accommodation	35
Commercial property	35

- 13) **Will your Town Council publicise details of your investments in the financial statements?**

Like all entities, the Town Council prepares financial statements in accordance to the Singapore Financial Reporting Standards (FRS), which prescribe the disclosure requirements of financial statements, including investments. This is in line with current standards. In addition, the types of investments made by our Professional Fund Managers and the market value of each investment are also disclosed in our annual audited financial statements.

- 14) **Can your Town Council do better in terms of disclosure and transparency to residents who pay service and conservancy charges?**

The Town Council's annual reports are published at our website www.btptc.org.sg. Information on Town Council's investments is disclosed in the annual reports.

- 15) **Are there enough transparency and audit processes in place to ensure checks and balances against the use of such funds?**

Yes. The Town Council prepares financial statements in accordance to the Singapore Financial Reporting Standards (FRS), which prescribe the disclosure requirements of financial statements, including investments. This is in line with current standards. These financial statements are audited by external auditors which are approved by the Auditor-General's Office and the Ministry of National Development and presented to Parliament. The Town Council's current auditor is RSM Chio Lim.

- 16) **If the Town Council makes a tidy profit from investments, what happens to the principal sum and the investment gains? Is there enough transparency in this area?**

In accordance to Town Councils Act and financial rules, all income and gains pertaining to Sinking Fund shall be accounted back to Sinking Fund Account. The sinking funds are utilised for major cyclical works and lift upgrading.

- 17) **Whether there are any minutes or records of the Town Council's deliberations on decisions to invest in structured products, and if so whether the Town Council intends to disclose them?**

Proper records are kept of all investment decisions and transactions. These records are opened to auditor's scrutiny. Appointment of auditors is subject to approval by Auditor-General's Office and the Ministry of National Development.