

FOR CONSIDERATION

January 31, 2012

To: The Members

From: Gayle M. Horwitz

Subject: Fiscal Year Ended October 31, 2011 Investment Report and Investment Policies and Procedures

Request For: Approval of Fiscal Year Ended October 31, 2011 Investment Report and of BPCA Investment Guidelines

Background:

The guidelines are designed to conform to Section 2925 (6) of the Public Authorities Law and the Investment Guidelines for Public Authorities and Regulation 2 NYCRR (Part 203) issued by the Office of the State Comptroller. Section 2925 (6) of the Public Authorities Law requires each public authority to annually prepare and approve an investment report which describes the Authority's investment guidelines and any amendments to the guidelines, investment policies and procedures, the results of the annual independent audit, the Authority's investment income and a list of the fees associated with those investments, as well as commissions or other charges paid to each investment banker, broker, agent, dealer and advisor.

The report for this fiscal year is supplemented by a "Review of Investment Performance" to provide the Members with a comprehensive and detailed report of the Authority's investment portfolio, investment strategy and earnings performance for the fiscal year and a market commentary.

The attached report is being presented to you in accordance with this requirement. After the Members approve the report, it will be submitted and/or posted to:

1. NYS Division of the Budget,
2. NYS Department of Audit and Control,
3. NYS Comptroller;
4. NYS Public Authorities Information Reporting System (PARIS)
5. The Authority website
6. The Chairmen and ranking Minority Members of the
 - a. NYS Senate Finance Committee;
 - b. NYS Assembly Ways and Means Committee

The Authority's Investment Committee is comprised of senior management who, in consultation with a professional investment and advisory management firm, help formulate the Authority's investment strategy. In January 2002, at the request of the Members, it was determined that a Member should serve on the Committee, and Mr. David Cornstein currently represents the Members in that capacity.

The Investment Report and Investment Guidelines which were revised and enhanced previous fiscal year, remain unchanged. The following Appendices have been updated for Fiscal Year 2011:

1. APPENDIX B- Investment Report Fiscal Year Ended October 31, 2011
2. APPENDIX C- Fiscal Year Ended October 31, 2011- 2011 Year In Review

In September 2009, the Members authorized a contract with Public Financial Management (“PFM”) to serve as investment advisor to the Investment Committee, extending their tenure as investment advisor after an extensive public bid process. Senior management has worked with PFM to model a portfolio consistent with the investment objectives set forth by the Committee and the guidelines approved by the Members. The attached report includes an outline of market conditions and the investment strategy employed by fiscal quarter, as well as, an update on the portfolio’s performance.

Requested Action:

The Members are requested to approve the attached Investment Report and Investment Guidelines.

Recommendation:

Based on the foregoing, I recommend approval of the attached resolution.

Attachments:

- Resolution to Approve BPCA’s Fiscal Year Ended 10/31/11 Investment Report
Investment Report and Investment Guidelines
- Public Accountant's Fiscal Year End 2011 Letter to the Members - Re: Compliance with Investment
Guidelines (to be delivered at the Members’ meeting)



BATTERY PARK CITY AUTHORITY

INVESTMENT REPORT & GUIDELINES

FISCAL YEAR ENDED

OCTOBER 31, 2011

JANUARY, 2012

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OCTOBER 31, 2011	<u>(SEPARATE FILE ATTACHED)</u>

1. OVERVIEW OF INVESTMENT GUIDELINES

1.1. Definitions

“Authority” means the Battery Park City Authority, a corporate municipal instrumentality of the State of New York, established pursuant to the Act (“**Act**” shall mean the Battery Park City Authority Act, Title 12 of Article 8 of the Public Authorities Law [constituting Chapter 43-a of the Consolidated Laws of the State of New York] as added by Chapter 343 of the Laws of 1968, as amended).

“Board” means the Members of the Battery Park City Authority Board

“Investment Funds” means monies and financial resources available for investment by the Authority.

“Investment Securities” means any or all of the investment obligations.

“Rating Agencies” means Standard & Poor’s Corporation, Moody’s Investor Service, and Fitch Ratings.

“State” means the State of New York.

1.2. Purpose and Scope

The purpose of these guidelines (“Guidelines” or “Investment Guidelines”) is to establish the parameters, responsibilities, and controls for the investment and the management of Investment Funds. These Guidelines have been adopted by, and can be changed only by, the Board.

These Guidelines shall govern the investment and reinvestment of Investment Funds and the sale and liquidation of Investment Securities, as well as the monitoring, maintenance, accounting, reporting, and internal controls by and of the Authority with respect to such investment and reinvestment of Investment Funds and sale and liquidation of Investment Securities.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

1.3 Compliance

Section 2925 (6) of the State Public Authorities Law requires the Authority to annually prepare and approve an investment report which describes the Authority's Investment Guidelines and any amendments to the Guidelines, investment policies and procedures, the results of the annual independent audit, the Authority's investment income and a list of the fees associated with those investments, as well as commissions or other charges paid to each investment banker, broker, agent, dealer and advisor (**SEE - APPENDIX B – INVESTMENT REPORT FYE OCTOBER 31, 2011**).

1.4. Roles and Responsibilities

It shall be the responsibility of the Chief Financial Officer to ensure that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in New York and the guidelines established by the State Comptroller’s Office and the Governmental Accounting Standards Board (GASB). The Assistant Treasurer, acting on behalf of the Board as custodian of the Investment Policy is responsible for ensuring that all aspects of the investment management program are executed in a manner

consistent with the Guidelines. A description of operating controls is attached as Appendix A to these Guidelines.

An investment committee (“Investment Committee”) will be appointed by the Board to develop and execute investment strategy for the Authority’s Investment Funds. The Investment Committee is comprised of one member of the Board, as well as the following senior management of the Authority: President and CEO, Chief Financial Officer, Assistant Treasurer, General Counsel, and internal audit (in a non – voting capacity). The Investment Committee may consult with a qualified investment advisor/manager in the course of fulfilling its responsibilities.

The Authority’s external auditor will conduct an annual audit of the investment management activity to ensure compliance with the Investment Guidelines by Treasury and the external investment manager, if any. The findings of the audit shall be formally documented and submitted annually to the Chief Financial Officer and the Board.

1.5. Standard of Prudence

The standard of prudence to be applied to the investment of the Authority’s Investment Funds shall be the “Prudent Person Rule” that states:

“Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

Authorized Authority officials and employees involved in the investment process acting in accordance with the laws of the State, these Guidelines and any other written procedures pertaining to the administration and management of the Investment Funds and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that any negative deviations are reported in a timely fashion to the Chief Financial Officer or another authorized official and that reasonable and prudent action is taken to control and prevent any further adverse developments.

1.6. Conflict of Interest

Authority Officers and employees involved in the investment process (Investment Officials) shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officials shall not:

1. accept any money, loan, gift, favor, service, or business or professional opportunity that could influence them in the performance of their official duties;
2. accept any business or professional opportunity when they know there is a reasonable likelihood that the opportunity is being afforded to influence them in the performance of their official duties;
3. enter into any personal investment transactions with the same individual with whom business is conducted on behalf of the Authority; or
4. Disclose or use confidential information that is not generally available to the public for their own or another person's financial benefit.

1.7. Review, Amendments, Updates and Revisions

The Assistant Treasurer and the Chief Financial Officer will review the Guidelines on an annual basis, or as required, to ensure continued effectiveness of the Investment Guidelines. The Guidelines shall be submitted to the Board annually for review and approval. Modifications to the Investment Guidelines may be required as

business needs and requirements change. Any amendments must be reviewed and approved by the Chief Financial Officer and submitted to the Board for final approval. Subsequent to any modifications to the Investment Guidelines, revised Guidelines must be distributed to Authority personnel on the approved distribution list as well as any external investment advisor/manager and Financial Institutions.

2. INVESTMENT MANAGEMENT OBJECTIVES

2.1. Investment Objectives

The Authority's Investment Funds shall be managed to accomplish the following hierarchy of objectives:

1. **Legality** - The Authority shall comply with all investment guidelines required for public authorities in the State with regards to general investment practices and the management of public funds.
2. **Safety** - Next to legality, safety of principal is the foremost objective of the investment program. Investments of the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
3. **Liquidity** - The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the Authority, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.
4. **Return** - The Authority's portfolio shall be managed in such a fashion as to maximize the return on all investments (up to the "arbitrage allowance" in bond funds) within the context and parameters set forth by the investment objectives stated above.

2.2. Authorized Investment Securities

The investment of Authority funds is limited by the law creating the Authority to "obligations of the State or of the United States of America or obligations the principal of and interest on which are guaranteed by the State or the United States of America" or any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to section ninety-eight of the State finance law. On October 21, 2003, the Act was amended regarding investments to allow any monies of the Authority, including the proceeds of bonds or notes, not required for immediate use, at the discretion of the Authority to be invested in obligations of the State, U.S. Government and its agencies, or in any other obligations in which the State Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law., The 2003 and 2009 bond resolutions allow all investments alternatives included in the Act, as follows:

1. Bonds and notes of the United States.
2. Bonds and notes of this State.
 - 2-a. General obligation bonds and notes of any state other than this State, provided that such bonds and notes receive the highest rating of at least one independent rating agency designated by the State Comptroller.
3. Obligations for the payment of which the faith and credit of the United States or of this State are pledged.
 - 3-a. Notes, bonds, debentures, mortgages and other evidences of indebtedness of the United States Postal Service; the federal national mortgage association; federal home loan mortgage corporation;

student loan marketing association; federal farm credit system or any other United States government sponsored agency, provided that at the time of the investment such agency or its obligations are rated and the agency receives, or its obligations receive, the highest rating of all independent rating agencies that rate such agency or its obligations, provided, however, that no more than two hundred fifty million dollars may be invested in the obligations of any one agency.

4. Judgments or awards of the court of claims of this state.

5. Stocks, bonds, or notes of any county, town, city, village, fire district or school district of this state issued pursuant to law.

6. Mortgage bonds or any obligations for the payment of money, no matter how designated, secured by another instrument representing a lien on specific real property or a leasehold thereof, heretofore or hereafter and at the time of the assignment thereof to the comptroller insured by the federal housing administrator or any of his successors in office and guaranteed by the United States under the provisions of the national housing act, as amended or supplemented. Any such mortgage bonds or obligations as aforesaid in which the State Comptroller has invested or shall have invested pursuant to this subdivision shall be serviced by the State Comptroller or in his discretion, by mortgages, as such are defined by the national housing act, as amended or supplemented, duly appointed by him and subject to the inspection and supervision of some governmental agency. The State Comptroller may receive and hold such debentures and certificates or other obligations as are pursuant to law.

7. Bonds and notes of the Savings and Loan Bank of the state of New York.

8. Bonds or notes of any housing authority of this state duly issued pursuant to law.

9. Bonds or notes of any regulating district of this state duly issued pursuant to law.

10. Bonds or notes of any drainage improvement district of this state duly issued pursuant to law.

11. Bonds or notes of the authorities or commissions set forth below when issued pursuant to law:

a. Port of New York Authority.

b. Niagara Frontier Authority.

c. Triborough bridge and tunnel authority.

d. Thousand Islands Bridge Authority.

e. New York State Bridge Authority.

f. New York City Tunnel Authority.

g. Lake Champlain Bridge Commission.

h. Lower Hudson Regional Market Authority.

i. Albany Regional Market Authority.

[j. *Repealed.*]

k. American Museum of Natural History Planetarium Authority.

l. Industrial Exhibit Authority.

m. Buffalo Sewer Authority.

n. Whiteface Mountain Authority.

o. Pelham-Portchester Parkway Authority.

p. Jones Beach State Parkway Authority.

q. Bethpage Park Authority.

r. Dormitory Authority.

s. Central New York Regional Market Authority.

t. Erie County Water Authority.

u. Suffolk County Water Authority.

v. New York State Thruway Authority.

w. Genesee Valley Regional Market Authority.

- x. Onondaga county water authority.
 - y. Power Authority of the state of New York.
 - z. Ogdensburg Bridge and Port Authority.
 - aa. [See, also, par. aa below] East Hudson Parkway Authority.
 - aa. [See, also, par. aa above] Niagara Frontier Port Authority.
 - bb. Northwestern New York Water Authority.
 - cc. Metropolitan Commuter Transportation Authority.
 - dd. [See, also, par. dd below] Niagara Frontier Transportation Authority.
 - dd. [See, also, par. dd above] New York State Pure Waters Authority.
 - ee. Rochester-Genesee Regional Transportation Authority.
 - ff. [See, also, par. ff below] Capital District Transportation Authority.
 - ff. [See, also, par. ff above] Central New York Regional Transportation Authority.
12. Obligations of the International Bank for Reconstruction and Development duly issued pursuant to law.
13. Obligations of the inter-American development bank duly issued pursuant to law.
- 13-a. Obligations of the Asian Development Bank duly issued pursuant to law.
- 13-b. Obligations of the African Development Bank duly issued pursuant to law.
- 13-c. Obligations of the International Finance Corporation duly issued pursuant to law.
14. [See, also, subd. 14 below] Collateral trust notes issued by a trust company, all of the capital stock of which is owned by not less than twenty savings banks of the state of New York.
14. [See, also, subd. 14 above] Bonds and notes issued for any of the corporate purposes of the New York state housing finance agency.
15. Bonds and notes issued for any of the corporate purposes of the New York state medical care facilities finance agency.
16. Bonds and notes issued for any of the corporate purposes of the New York state project finance agency.
17. Bonds and notes issued for any of the corporate purposes of the municipal assistance corporation for New York City.
18. Obligations of any corporation organized under the laws of any state in the United States maturing within two hundred seventy days provided that such obligations receive the highest rating of two independent rating services designated by the State Comptroller and that the issuer of such obligations has maintained such ratings on similar obligations during the preceding six months provided, however, that the issuer of such obligations need not have received such rating during the prior six month period if such issuer has received the highest rating of two independent rating services designated by the State Comptroller and is the successor or wholly owned subsidiary of an issuer that has maintained such ratings on similar obligations during the preceding six month period or if the issuer is the product of a merger of two or more issuers, one of which has maintained such ratings on similar obligations during the preceding six month period, provided, however, that no more than two hundred fifty million dollars may be invested in such obligations of any one corporation.
19. Bankers' acceptances maturing within ninety days which are eligible for purchase in the open market by federal reserve banks and which have been accepted by a bank or trust company, which is organized under the laws of the United States or of any state thereof and which is a member of the federal reserve system and whose short-term obligations meet the criteria outlined in subdivision eighteen of this section. Provided, however, that no more than two hundred fifty million dollars may be invested in such bankers' acceptance of any one bank or trust company.
20. No-load money market mutual funds registered under the Securities Act of 1933, as amended, and

operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, provided that such funds are limited to investments in obligations issued or guaranteed by the United States of America or in obligations of agencies or instrumentalities of the United States of America where the payment of principal and interest are guaranteed by the United States of America (including contracts for the sale and repurchase of any such obligations), and are rated in the highest rating category by at least one nationally recognized statistical rating organization, provided, however, that no more than two hundred fifty million dollars may be invested in such funds.

The State Comptroller, whenever he deems it for the best interest of any of such funds, may dispose of any of the securities therein or investments therefore, in making other investments authorized by law, and he may exchange any such securities for those held in any other of such funds, and the comptroller may take such action as may be necessary to obtain the benefits of the insurance provided for in the national housing act, and may draw his warrant upon the treasurer for the amount required for such investments and exchanges.

Notwithstanding the provisions of any other general or special law, the comptroller shall not invest the moneys of any fund in any security or securities except as above described, provided, however, that:

- a) the comptroller may, in order to maximize the rate of return on investments, invest the moneys belonging to the New York interest on lawyer account fund in notes, securities and deposits of banking institutions which accept IOLA accounts, and
- b) the provisions of this section shall not limit the types of investments that may be made with moneys belonging to the volunteer ambulance service award fund established by section two hundred nineteen-h of the general municipal law.

2.3. Portfolio Diversification

The Authority's Investment Funds shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the aggregate portfolio of Investment Funds, based on book value at the time of purchase, permitted in each eligible security is as follows:

US Treasuries	100%
Federal Agencies	100% (\$250 million max per issuer)
Commercial Paper	Lesser of 5% or \$250 million per issuer
Bankers' Acceptances	Lesser of 5% or \$250 million per issuer
Money Market Funds	Lesser of 25% or \$250 million
Municipal Bonds	10%

2.4. Investment Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the Authority is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the Authority in order to avoid the forced sale of securities prior to maturity.

Investments shall have a stated maturity or weighted average life of not more than ten (10) years unless

specifically approved by the Investment Committee.

3. OPERATING PARAMETERS & CONTROLS

3.1. Authorized Officers and Employees

Investment decisions on behalf of the Authority shall be made by the Chief Financial Officer, or by the Assistant Treasurer or the external Investment Managers, under the supervision of the Chief Financial Officer. Investment transactions shall be implemented by the Chief Financial Officer, or by the Assistant Treasurer, or the professional investment and advisory management firm on the Investment Committee, under the supervision of the Chief Financial Officer.

3.2. Competitive Selection

For each transaction, a minimum of three quotes shall be obtained and documented from Dealers and/or Banks, except in the purchase of government securities at their initial auction or upon initial offering, and the most favorable quote accepted.

3.3. Compliance Audit

An annual independent audit of all investments will be performed by the external auditors. The Authority's financial statements with respect to investments, which are required to be prepared in conformance with generally accepted accounting principles for governments ("GAAP"), shall contain all of the note disclosures on deposits with financial institutions and investments required by the Governmental Accounting Standards Board Statements No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", dated April 1986. The Annual Investment Audit:

- Shall determine whether: the Authority complies with its own investment policies; investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's assets; and a system of adequate internal controls is maintained.
- Shall determine whether the Authority has complied with applicable laws, regulations and these Investment Guidelines; and
- Shall be designed to the extent practical to satisfy both the common interest of the Authority and the public officials accountable to others.

The results of the Annual Investment Audit shall be set forth in a report (the "Annual Investment Audit Report") which shall include without limitation:

- A description of the scope and objectives of the audit
- A statement that the audit was made in accordance with generally accepted government auditing standards
- A statement of negative assurance on items tested
- A description of any material weakness found in the internal controls
- A description of any non-compliance with the Authority's own investment policies as well as applicable laws,
- regulations and the State Comptroller's Investment Guidelines
- A statement on any other material deficiency or reportable condition as defined by *Governmental Auditing Standards* identified during the audit not covered above
- Recommendations, if any, with respect to amendment of these Guidelines

Investment practices and controls will be subject to review and testing by internal auditors on a surprise basis at the discretion of the VP of Internal Audit, President and CEO and/or the Board.

3.4. Written Contracts and Confirmations

A written confirmation shall be required for each investment transaction. However, the Authority shall not be required to enter into a formal written contract provided that the Authority's oral instructions to its broker, dealer, agent, investment manager/advisor, or custodian with respect to such transactions are confirmed in writing at the earliest practicable moment.

3.5. Safekeeping and Custody

All investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by a third-party custodian who may not otherwise be a counterparty to the investment transaction.

All securities shall be held in the name of the Authority and will be free and clear of any lien.

All investment transactions will be conducted on a delivery-vs.-payment basis. Payment for investments shall be made only upon receipt by the custodian of the physical security, or in the case of securities in book-entry form, when credited for the custodian's account, which shall be segregated for the Authority's sole use. The custodian shall issue a safekeeping receipt to the Authority listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports that list all securities held for the Authority, the book value of holdings and the market value as of month-end.

The custodian may act on oral instructions from the CFO, Assistant Treasurer or investment advisor under the direction of the CFO. Such instructions are to be confirmed in writing immediately by an authorized signatory of the Authority.

Representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Authority shall be bonded in such a fashion as to protect the Authority from losses from malfeasance and misfeasance. If required by the Chief Financial Officer, appropriate Authority Officials may also be bonded in such a fashion.

3.6. Internal Controls

An operating procedures manual will be developed to control all Authority investment activity. The manual will be consistent with these Guidelines, shall be approved by the Chief Financial Officer, and shall include the following:

- the establishment and maintenance of a system of internal controls;
- methods for adding, changing or deleting information contained in the investment record, including a description of the document to be created and verification tests to be conducted;
- a data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and
- requirements for periodic reporting and a satisfactory level of accountability.

3.7. Notification Concerning Violations of Investment Guidelines

In the event that these Investment Guidelines are violated, the Chief Financial Officer shall be informed

immediately and advised of any corrective action that should be taken, as well as the implication of such action.

4. QUALIFIED FINANCIAL INSTITUTIONS

4.1. Qualifications for Brokers, Dealers and Agents

The Director of Treasury Operations and/or the Authority's Investment Manager shall maintain a list of broker/dealers that are approved for investment purposes ("Qualified Institutions"). Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- "primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- registered as a dealer under the Securities Exchange Act of 1934;
- member in good standing of the Financial Industry Regulatory Authority (FINRA);
- registered to sell securities in the State; and
- the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

When selecting trading partners, the Authority will also consider the firm's quality, size, and reliability, the Authority's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated transactions.

4.2. Qualifications for Investment Advisors/Managers

For the purpose of rendering investment management/advisory services to the Authority, the Authority may qualify any bank or trust company organized under the laws of any state of the United States of America, any national banking association, and any partnership, corporation, or person which is:

- Authorized to do business in the State as an investment manager/advisor; and
- Registered with the Securities & Exchange Commission under the Investment Advisor Act of 1940 or exempt from registration.

The Authority shall also consider the firm's capitalization, quality, size and reliability, the Authority's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated engagement.

4.3. Qualifications for Custodial Banks

To be eligible to hold Investment Securities purchased by the Authority or collateral securing its investments, a custodial bank shall be a member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book-entry transfer of Investment Securities to the credit of the Authority. The custodian should not be the same party that is selling the Investment Securities. To be eligible to perform custodial services, the Chief Financial Officer must affirmatively find that the proposed custodial bank is financially sound. This shall be determined by review of the financial statements and credit ratings of the proposed custodial bank.

4.4. Ongoing Disclosure

All brokers, dealers and other financial institutions described in sections 4.1, 4.2, and 4.3 shall be provided with current copies of the Authority's Investment Guidelines. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the Authority has investment transactions.

4.5. Affirmative Action

Article 15-A of the Executive Law and 9 NYCRR Part 4.21 regarding affirmative action shall apply with respect to the Authority's investment activities. The Authority shall seek to utilize minority and women-owned financial firms in the conduct of the Authority's investment activities.

Management reporting is required by the Authority in order to track compliance with policy guidelines, assess the performance of the portfolio and to inform appropriate management personnel.

5. REPORTING

5.1. Management Reporting

In order to manage the Investment Funds effectively and to provide Authority management with useful information, it is necessary for the Treasury Department to report reliable and timely information regarding the investment transactions that take place.

A Quarterly Management Report on the investment management program shall be prepared and presented to the CFO and the Authority's Board of Trustees. The Quarterly Management Report shall include:

- An indication of all new investments;
- A portfolio inventory;
- Credit quality of each holding;
- Duration (or average maturity) of each fund;
- Mark-to-market valuations on investments and collateral; and
- A breakdown of the portfolio by counterparty.

An Annual Investment Report shall be submitted to the Board of Trustees and filed with the State Division of the Budget, State Comptroller, State Senate Finance Committee, and Assembly Ways and Means Committee. The Annual Investment Report shall include the following:

- The investment guidelines in compliance with Section 2925(3) of the Public Authorities Law and any amendments since last reported;
- An explanation of the investment guidelines and amendments;
- The results of the Annual Independent Audit (described in Section 3.3.);
- Investment income record of the Authority; and
- A list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and manager/advisor rendering investment associated services to the Authority since the date of the last investment report.

The attached report is being presented to you in accordance with this requirement.

After approval of the report, it will be submitted or posted to:

- State Division of the Budget,
- State Department of Audit and Control,
- State Comptroller,
- State Public Authorities Information Reporting System (PARIS)
- Authority website
- The Chairmen and Ranking Minority Members of the Senate Finance Committee and Assembly Ways and Means Committee

5.2. Performance Reporting

In order to ensure the effectiveness of the Authority's investment strategy, it is important to measure the performance of the portfolio. The performance measurement process can be broken into four categories:

- Investment benchmark – The Authority will continuously measure its performance against a benchmark having an average maturity comparable to the portfolios.
- Performance measurement – Each quarter the Authority must measure the performance of its investment portfolio versus its benchmark. By continuously measuring results against this standard benchmark, the Authority can determine a pattern of over/under performance.
- Identify sources of over/under performance – The Performance Reports distributed to the CFO must include information on the source of over/under performance.
- Disseminate results – Results shall be distributed to the CFO and the Board in a timely manner.

APPENDIX A – OPERATING CONTROLS

Distribution of the Investment Guidelines

The guidelines and all subsequent amendments, revisions and updates shall be distributed to Authority personnel per the approval of the Chief Financial Officer.

During the period in which the Authority retains an investment manager, the investment manager must also receive the investment guidelines and all amendments, updates, or revisions to insure compliance with the most current guidelines.

Exhibit –Investment Guidelines Distribution Matrix

Distribution List	Frequency
Board of Members	As Necessary
Chief Financial Officer	As Necessary
Controller	As Necessary
Assistant Treasurer	As Necessary

Roles and Responsibilities in Executing the Investment Guidelines

The roles and responsibilities for investment management at the Authority rest primarily with the Finance Department although other departments have important roles. The matrix below defines the roles and responsibilities of all parties involved in the execution of the Investment Guidelines.

Exhibit –Policy Roles & Responsibility Matrix

Roles	Responsibility	Frequency
Board	<ul style="list-style-type: none"> • Final Approval of the guidelines • Approval of exceptions to the guidelines (e.g. new) • Approval of revisions to the guidelines 	<ul style="list-style-type: none"> • Annual • As necessary • As necessary
Chief Financial Officer (“CFO”)	<ul style="list-style-type: none"> • Approval of the guidelines • Approval of investment strategy • Approval of performance measurements • Approval of minor exceptions to the guidelines (i.e. amounts, maturities) 	<ul style="list-style-type: none"> • Annual • Annual • Ongoing • As necessary
Assistant Treasurer	<ul style="list-style-type: none"> • Serve as custodian of the guidelines • Develop investment strategy • Review investment strategy • Establish performance measurements • Distribution of guidelines and amendments • Annual review of guidelines • Oversight of investment activity • Invest funds as provided for in the guidelines • Keep abreast of developments in the markets 	<ul style="list-style-type: none"> • Ongoing • Annual • Ongoing • Ongoing • As necessary • Annual • Ongoing • Ongoing • Ongoing

	<ul style="list-style-type: none"> Review performance information Management reporting 	<ul style="list-style-type: none"> Monthly Daily, Weekly Monthly,
Assistant	<ul style="list-style-type: none"> Collect performance information Distribute performance information Keep abreast of developments in the markets and notify the Assistant Treasurer 	<ul style="list-style-type: none"> Weekly Weekly Ongoing
Investment Manager	<ul style="list-style-type: none"> Develop investment strategy Review investment strategy Invest funds as provided for in the guidelines Reporting investment portfolio 	<ul style="list-style-type: none"> Annual Ongoing Ongoing Daily, Monthly Quarterly

Segregation of Duties

The Authority requires adequate segregation of duties to prevent possible fraud, operational errors, misappropriation of funds, unauthorized trades, concealment of trades and manipulation of accounting records. Personnel involved in risk monitoring activities should be segregated from risk taking (i.e. executing transactions).

Exhibit – Segregation of Duties Matrix

Activity to be Performed	Segregation Level
Trade Execution	Individuals who are authorized to execute transactions should not confirm and settle the trades or conduct account
Trade Confirmation	Individuals who conduct confirmations should not execute transactions.
Settlement – Disbursing and Receiving Funds	Individuals who handle cash settlement on the trades should not execute the trades. Cash settlement shall be transacted by any one of the authorized Authority signatories who did not participate in the trade execution. Only one signature is required due to the nature of the transaction, i.e., transfer of assets (including transfers in excess of \$25,000).
Account Reconciliation	Account reconciliation activities must be segregated from trade execution activities.

Management Reporting

Exhibit – Summary of Management Reporting

Report	Contents	Audience	Frequency
Management Report	Investment portfolio, mark-to-market valuations, collateral, counterparty	Chief Financial Officer, Board	Quarterly
Annual Investment Report	Investment Guidelines, explanation of Investment Guidelines & amendments, annual investment audit, annual investment income, total fees and commissions paid	Chief Financial Officer, Board (File with Division of the Budget, State Comptroller, State Finance Committee, Assembly Ways and Means Committee)	Annually

Exhibit – Summary of Treasury Performance Reporting

Report	Contents	Audience	Frequency
Performance Report	Investment performance vs. benchmark variance analysis	CFO, Board	Quarterly

Operating Procedures

Operating procedures for the administration of the Authority's investment program should include the following:

- Each disbursement of funds (and corresponding receipt of Investment Securities) or delivery of Investment Securities (and corresponding receipt of funds) shall be based upon proper written authorization. If the authorization is initially given orally, there shall be written or telegraphic confirmation from an authorized signatory of the Authority to the custodian;
- The process of initiating, reviewing and approving requests to buy and sell Investment Securities shall be documented and retained for audit purposes. Dealer limits should be established and reviewed regularly;
- Custodians must have prior authorization from the Authority to deliver obligations and collateral. All transactions must be confirmed in writing to the Authority. Delivery of obligations sold shall only be made upon receipt of funds;
- Custodial banks shall be required to report whenever activity has occurred in the Authority's custodial account;
- There shall be at least monthly verification of both the principal amount and the market values of all investments and collateral. Appropriate listings shall be obtained from the custodian and compared against the Authority's records;
- A record of investments shall be maintained. The records shall identify the Investment Security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and custodian of collateral;
- The establishment and maintenance of a system of internal controls;

- Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;
- A data base of records incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices, and related information necessary to manage the portfolio;
- Requirements for periodic reporting and a satisfactory level of accountability.

These procedures below describe in more detail the methods employed by the investment officers (Treasurer and Assistant Treasurer) to formulate and initiate investment transactions and include the records and documentation used in processing an investment from the time of its initiation to the recording and reconciliation on the Authority's accounting records.

1. The Treasurer or Assistant Treasurer maintains a schedule of all current investments and updates schedule on a timely (daily) basis as securities mature and/or new investments are initiated. A Calendar of investment maturities is maintained and updated as chronological reminder (tickler file) or maturities.
2. All investments are initiated via:
 - a. specific written investment instruction sent to the Trustee or
 - b. verbal investment instructions followed up by written confirmation
3. The Treasurer will initiate the investments by reviewing the investment schedule and calendar on a daily basis to determine investments to be made over the following week based on Investment Committee strategies agreed to by the Investment Committee and weekly phone meetings working group. All investments are available online real time (next day) basis.

The Treasurer considers many factors in forming investment decisions, such as:

- a. existing bond resolution requirements and conditions
 - b. other existing agreements affecting investments/cash flow (i.e. Settlement Agreement; Agreement and Consent dated September 22, 1988, Agreement for Certain Payments, Lease Agreements etc.)
 - c. HLC BPCA Cash Flow Requirements and Internal Investment Policies
 - d. current and future market conditions (i.e. interest rates)
 - e. New York State Comptroller's Guidelines (attached) and
 - f. published market surveys, consultant reports, etc., relating to securities available, interest rates and investment strategies.
4. Copies of the bank confirmation letters sent to the Trustee Bank are filed in the Treasurer's chronological file and in a monthly folder for that particular Bank account.
 5. All investments are available to the President and others for review and discussed at Investment Committee Meetings. A copy of the Investment Instructions Memo is retained in the Treasurer's file and a copy is maintained in the bank reconciliation files.

Documentation for securities purchased including the information as to brokers solicited for quotes shall be retained and filed by the Authority, the Trustee, or Investment Advisor. Corporate funds which are not invested are collateralized or insured by FDIC and balances receive compensating interest at the 90 day T bill rate to mitigate banking fees. Reconciliation of monthly Trustee statements are performed. This includes reconciliation of investment transactions, investment income, and portfolio holdings. Corresponding journal entries are subsequently posted to the Authority's general ledger. The Controller or Senior Accounting Manager initials and dates these reconciliations when reviewed to signify timely approval and completion.

6. Quarterly investment schedules are reviewed by the Investment Committee and made available to the Board. Investment schedules are audited by the Authority's public accountants at year end. The auditors request and receive confirmation of our cash and security holdings as of fiscal year end. In addition, the Authority's Internal Audit department periodically audits investments.

The procedures will be subjected to regular audits by internal and external auditors as required. Procedures are to be revised and updated on an annual basis and referenced in the Investment Policy and Procedure Statement, approved by the Members, in accordance with Section 2925(6) of the Public Authorities Law.

APPENDIX B – INVESTMENT REPORT FYE OCTOBER 31, 2011

The Hugh L. Carey Battery Park City Authority (the Authority) and the Battery Park City Parks Conservancy (the Conservancy), a blended component unit of the Authority, collectively referred to as “the Organization” carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organization’s ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority’s investments in securities are held by the Authority’s financial institutions in the Authority’s name. The Authority’s investments in U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than ‘A-1’ grade; investments in federal agency and mortgage backed securities have the highest credit rating of ‘AAA’ and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated ‘AAA.’ All other deposits or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority’s name.

Total investments and deposits held by the Organization at October 31, 2011 and 2010 included within the balance sheet accounts: investments, corporate designated, escrowed and OPEB funds, bond resolution funds and residential lease required funds are as follows:

	<u>October 31, 2011</u>			<u>October 31, 2010</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Weighted average maturity (years) (a)</u>	<u>Cost</u>	<u>Fair value</u>	<u>Weighted average maturity (years) (a)</u>
U.S. Treasury securities:						
Treasury Bills	\$ 81,423,660	81,425,813	0.26	\$ 171,104,972	171,107,241	0.11
Treasury Bonds	61,994,188	65,643,181	3.50	31,079,020	34,686,046	4.39
Treasury Strips	337,562	813,127	6.03	337,562	770,478	6.73
Total						
U.S. Treasury securities	143,755,410	147,882,121		202,521,554	206,563,765	
Commercial paper	149,706,411	149,715,500	0.03	124,417,803	124,448,261	0.07
Federal agency securities	114,249,213	116,802,041	1.58	253,927,380	257,843,712	1.14
Federal agency mortgage backed securities	17,906,006	19,115,943	2.91	20,832,761	22,145,994	2.70
Municipal bonds	26,702,842	27,912,487	3.75	18,053,041	18,681,814	3.84
Total investments	452,319,883	461,428,092	1.31	619,752,539	629,683,545	0.97
Cash and cash equivalents	931,314	931,314		2,501,170	2,501,170	
Total investments and deposits	\$ <u>453,251,197</u>	<u>462,359,406</u>		<u>622,253,710</u>	<u>632,184,715</u>	

(a) Portfolio weighted average effective duration

The Organization’s investment objectives for the portfolio are to generate a rate of return in excess of selected benchmarks, provide diversification to the total portfolio, and provide an appropriate level of liquidity for the Authority’s operations.

The Organization's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, Ginnie Mae securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies provided that its obligations receive the highest credit rating; (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days provided that such obligations receive the highest rating of two independent rating services (commercial paper) which as of October 31, 2011 were A1/P1; (iv) municipal bonds issued by New York authorities and currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

Interest rate risk is the probability of loss on investments from future changes in interest rates, which can adversely affect their fair value. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as callable bonds and mortgage-backed securities. The interest rate risk of the Organization's portfolio is measured according to effective duration.

Investments of amounts in funds and accounts established under the various 2003 and 2009 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Corporate-designated, escrowed and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund, project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserve and funds designated for the payment of medical benefits to the Authority's retirees.

Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds are largely comprised of security and escrow deposits held by the Authority for the residential buildings.

The Conservancy maintains its cash in bank deposits and certificates of deposits, which are guaranteed by the FDIC up to \$250,000. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000. All cash balances are placed into overnight interest bearing accounts.

Fees

There were no fees, commissions or other charges paid to investment bankers, brokers, agents, or dealers for rendering investment related services to the Authority during the fiscal year and all investments are competitively bid. Consultant fees in the amounts of approximately \$330,000 to PFM Asset Management LLC were incurred during the current fiscal year for professional money management advice to the Authority's Investment Committee.

Investment Income Record

Attached is 'Review of Investment Performance' report which includes a portfolio of all investments held by the Authority at 10/31/11 and details of investment earnings.

APPENDIX C- FISCAL YEAR ENDED OCTOBER 31, 2011 -- 2011 YEAR IN REVIEW

BPCA FY2011: A Year in Review

Summary of Bond Market and Authority Portfolio Strategy

First Quarter: November 1, 2010 – January 31, 2011

Market Summary

A sharp November interest rate reversal drove intermediate- and long-term interest rates higher, ending a seven-month trend of lower rates. The market-reversal followed an early November announcement by the Federal Reserve of a plan to purchase up to \$600 billion of U.S. Treasury securities via a second round of Quantitative Easing (QE2). The Fed's QE2 program was designed to prevent deflation and support economic recovery in the United States.

Economic data showed signs of improvement throughout the quarter as GDP appeared to accelerate towards the end of the year, largely because of a fairly significant inventory drawdown (largest decline in nearly twenty years). However, the housing market continued to be a major headwind to recovery, as housing starts remained at depressed levels and new home sales remained well below 15-year historical averages. Although the unemployment rate remained elevated, the headline rate fell by 0.8% to end the first quarter of FY2011 at 9.0%. On the heels of growing optimism over improvements in employment and wage increases, consumer confidence reached an eight-month high in January.

Portfolio Strategy Recap

- The Investment Committee maintained its focus on safety of principal, restricting the purchase of commercial paper to a small group of highly-rated companies. Commercial paper continued to be an attractive short-term alternative relative to similar maturing Treasuries and agencies.
- Towards year end, short-term federal agency spreads widened approximately 7-10 basis points (0.07% to 0.10%). The Investment Committee viewed this as an opportunity to replace short-term U.S. Treasury securities with federal agency securities of similar maturity.
- Liquidity was managed with extreme care to ensure that returns were maximized. Given the continued resolve of the Federal Open Market Committee (FOMC) to maintain the Federal Funds Target Rate in the 0% to 0.25% range for an "extended period," PFM positioned shorter-term portfolios, liquidity permitting, longer than the benchmark.
- As interest rates in general drove higher towards 2010 year end – for example, the yield on a 2-year Treasury note increased approximately 35-45 basis points – the Authority increased the duration of its Longer-Term Portfolio Strategy by focusing new purchases in primarily 2- to 5-year maturities, capturing the steepest portions of the yield curve. By the end of the quarter, the Authority's longer-term portfolios were positioned at about 95% to 100% of the benchmark duration, representing an increase of 5% to 10% quarter over quarter.

Second Quarter: February 1, 2011 – April 30, 2011

Market Summary

Intermediate- and long-term interest rates remained relatively unchanged throughout the second quarter of FY2011. Returns for the previous 12 months for longer fixed-income strategies were significantly higher

than returns of cash-equivalent and money market investments, which remain near zero. Rates experienced significant intra-quarter volatility as the natural disaster in Japan and geopolitical unrest temporarily counteracted the upward trend in rates that resulted from positive domestic economic outlook. Although Fed resolve remained unchanged, an internal debate over monetary policy strategies took center stage in Washington.

Behind the domestic optimism was a slew of positive economic news. On the labor front, the economy created 700,000 jobs during the quarter ended April 30, 2011. Manufacturing continued to carry the recovering economy on its shoulders, while retail sales and commodity and stock prices strengthened. Further, the effects of Congress' move to extend the Bush era tax cuts, along with reductions in the payroll (Social Security) tax, helped bolster the recovery.

Portfolio Strategy Recap

- For longer-term portfolios, as interest rates trended lower, the Investment Committee allowed securities to roll down the yield curve, capturing market value appreciation as securities approached maturity while shortening duration and protecting principal against interest rate increases.
- As a result of the natural disaster in Japan and political turmoil in North Africa and the Middle East, interest rates were quite volatile throughout the quarter. The Authority's increased allocation to the federal agency mortgage-backed sector added significant value to its longer-term portfolios. The agency mortgage-backed sector outperformed the federal agency and U.S. Treasury sectors by 40 to 60 basis points (approximately 2% annualized).
- In March, the State of New York issued general obligation bonds at an attractive spread and the Authority's portfolios participated in the issue. The Authority's allocations to the municipal sector increased the diversification of the overall portfolio and added an incremental yield advantage relative to federal agency and U.S. Treasury securities of similar maturity.
- With no change in sight for FOMC rate policy, shorter-term portfolios continued to track their benchmark. The Authority's Shorter-Term Portfolio Strategy was driven by liquidity needs.

Third Quarter: May 1, 2011 – July 31, 2011

Market Summary

The third quarter of FY2011 brought a change to overall economic sentiment. Interest rates across the yield curve fell on fears of an economic slowdown and, as a result, longer-duration fixed-income portfolios significantly outperformed cash-equivalent portfolios. Two factors caused the significant interest rate drop: first, weak economic reports set off fears of slower growth versus original expectations; second, sovereign debt concerns in Europe sparked a flight-to-quality in the U.S. government securities market. By July 31, yields on Treasury securities had fallen sharply and it had now become common for short-term U.S. Treasury Bills to trade at negative yields.

Worries over slowing growth in the U.S. emerged after a series of weaker-than-expected economic reports. The U.S. economy grew at an annual rate of only 0.4% for the quarter ended March 31, far below expectations and lower than the 3% to 4% that is typical at this stage in an economic recovery. After several months of positive labor market news, job production came to a grinding halt. Manufacturing activity declined, with a manufacturing index falling from its five-year high to near-contraction levels.

Portfolio Strategy Recap

- Large portfolio cash outflows during the quarter dictated strategy for the Authority's shorter-term portfolios. The combination of (1) commercial paper maturities funding large expenses and bond

- The rally in interest rates continued through the third quarter of FY2011. As a result, the Investment Committee continued to allow a majority of the securities in the Authority's longer-term portfolios to roll down the yield curve and shorten in duration – a defensive tactic designed to protect portfolio principal in the event of interest rate increases.
- The Investment Committee again added allocations to New York City bonds in the Authority's portfolio in early June at approximately 55 basis points (0.55%) over the yield on 3-year U.S. Treasury notes, which added significant value to the Authority's Longer-Term Portfolio Strategy.

Fourth Quarter: August 1, 2011 – October 31, 2011

Market Summary

The fourth quarter proved to be one of the most historic quarters in recent history. Intermediate- and long-term rates fell sharply for the second consecutive quarter, in many cases to new all-time lows. Market participants digested a myriad of events, including a slowdown in U.S. and global economies, heightened concern over European sovereign and bank debt, budget and debt ceiling wrangling in Washington, S&P's downgrade of the U.S. government and agency credit ratings, and bold new Federal Reserve initiatives. These factors caused a collapse in consumer and business confidence, a sell-off in equity markets, and a continued "flight-to-quality" to U.S. Treasuries.

In its August statement and in an unprecedented move, the FOMC announced that it would maintain the federal funds target rate at its current near-zero range through at least mid-2013. The Fed's explicit policy announcement and continued European debt concerns continued to be the key drivers of the money markets. Treasury and agency yields remained very close to 0%, while strong investor demand for agencies kept short-term Treasury to federal agency spreads very narrow. European debt concerns caused most measures of credit risk to trend higher, with 3-month LIBOR trading above 0.50% for the first time since July of 2010. European banks found it extremely difficult to fund in U.S. markets, as many large investors avoided those issuers.

Despite the abundance of obstacles, the Fed communicated its preparedness to consider "the range of policy tools available to promote a stronger economic recovery in a context of price stability." At its September meeting, and in response to weakening economic data, the Fed announced "Operation Twist," an initiative to purchase longer-term Treasury and agency securities and simultaneously sell shorter-term securities. The Fed's intent was to spur economic growth by decreasing longer-term borrowing rates. The combination of "Operation Twist" and a continued flight-to-quality to U.S. Treasury securities caused the yield curve to flatten significantly by 2011 fiscal year end, though the yield curve remained relatively steep when viewed on a historical basis.

Portfolio Strategy Recap

- In line with the Authority's fiscal year end, short-term portfolios were managed with a strong emphasis on liquidity. Care was taken to ensure that funds were available when needed and to not expose the Authority to the risk of forced sales to raise needed liquidity.
- New York State Code requires that federal agencies or their obligations receive the highest credit rating by any ratings agency that rates federal agency debt. As a result of S&P's downgrade of the credit ratings of federal agencies to AA+, the Authority's portfolios were permitted to hold, but not permitted to purchase, federal agency debt. Portfolio strategy moving forward was impacted significantly as a result of the downgrade and New York State Code requirements.

- In October, as Treasury to federal agency spreads narrowed to 20 basis points from their nearly two and a half year wide of 30 basis points, the Investment Committee reallocated a portion of the Authority's federal agency exposure into high-quality commercial paper and U.S. Treasury securities, capturing significant realized gains from the rally in the agency sector.
- Mortgage-backed and municipal allocations remained constant and continued to add significant value to the Authority's portfolios relative to intermediate- and longer-term U.S. Treasury and federal agency securities of similar duration.

Portfolio Performance Update

The Authority's longer-term funds produced extremely competitive returns over the past 12-month, 3-year, and since inception periods.

During the past year and in a period when it was not uncommon for ultra-short term Treasury securities to trade at negative yields, the Authority's Short-Term Investment Strategy produced total returns of approximately 15 basis points.

By adhering to a long-term, conservative investment approach, the Investment Committee was able to produce solid performance without sacrificing a commitment to safety, liquidity, and long-term portfolio objectives. Long-term portfolio strategies were defensive, and focused on maintaining shorter durations than respective benchmarks to protect principal values in the event of rising yields. These strategies were designed to produce competitive absolute returns while managing interest rate and market risks. In short-term portfolios, liquidity needs and Fed policy dictated strategy.

Summary of Total Return by Investment Strategy and Account			
	1 Year Ending October 31, 2011	3 Years Ending October 31, 2011	Since Inception
<i>Long-Term Investment Strategy</i>			
2003 Reserve Fund	3.62%	6.01%	5.73%
BPCPC Operating Reserve	2.70%	5.77%	5.66%
BPCPC Operating Reserve Contingency	3.23%	6.43%	6.15%
Insurance Fund	3.17%	6.29%	6.25%
Operating Budget Reserve	3.38%	6.58%	6.29%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	3.53%	5.07%	5.69%
BPCA Other Post Employment Benefits	3.00%	6.08%	5.13%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	3.53%	5.07%	4.78%
BPCPC Other Post Employment Benefits	2.80%	n/a	4.67%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	3.53%	n/a	5.56%
<i>Short-Term Investment Strategy</i>			
2003 Pledged Revenue	0.15%	0.26%	2.17%
2003 Project Operating Fund	0.15%	0.23%	2.15%
Joint Purpose Fund	0.11%	0.35%	2.28%
<i>Benchmark: Merrill Lynch 3-Month U.S. Treasury Bill Index</i>	0.13%	0.18%	2.07%

Notes:

1. Performance on trade date basis, gross-of-fees in accordance with the CFA Institute's Global Investment Performance Standards
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Periodic performance numbers are presented both as the periodic return and on an annualized basis. The annualized return assumes the periodic return is compounded at the same rate and is presented for reference only. The actual annual return will be the result of chaining the most recent four quarterly returns.
4. Since inception performance for all portfolios other than 'BPCA Other Post Employment Benefits' and 'BPCPC Other Post Employment Benefits' is calculated from January 31, 2006 to present.

Since inception performance for the BPCA Other Post Employment Benefits performance is calculated from January 31, 2008 to present.

Since inception performance for the BPCPC Other Post Employment Benefits performance is calculated from February 12, 2010 to present.

**APPENDIX D – SEE ATTACHED “REVIEW OF INVESTMENT PERFORMANCE
QUARTER ENDED OCTOBER 31, 2011 REPORT”**

APPROVAL OF THE INVESTMENT REPORT AND GUIDELINES FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011

BE IT RESOLVED, that the Investment Report and Guidelines of the Hugh L. Carey Battery Park City Authority (the Authority) for the fiscal year ended October 31, 2011 in the form presented to this meeting, be, and hereby is approved; and be it further

RESOLVED, that the Authority Investment Report and Guidelines in the form presented to this meeting be, and hereby are, approved; and be it further

RESOLVED, that the Treasurer of the Authority be, and hereby is, directed to file said Investment Report (including the Guidelines) with the: (1) NYS Division of the Budget; (2) NYS Department of Audit and Control; the Chairman and ranking Minority Members of the (3) New York State Senate Finance Committee; and (4) New York State Assembly Ways and Means Committee, as required by Section 2925 of the Public Authorities Law, Public Authorities Accountability Act of 2005 and the New York State Comptroller's Regulation 2 NYCRR (Part 203); that the Secretary of the Authority be, and hereby is, directed to file said Investment Report (including the Guidelines) with the minutes of this meeting; and that Investment Report information be posted to the Authority's website and the NY State - Public Authorities Reporting System (PARIS); and be it further

RESOLVED, that any and all actions taken by any officer of the Authority in connection with the negotiation or preparation of such policies and procedures are hereby ratified, confirmed and approved.