

## **FOR CONSIDERATION**

January 29, 2013

To: The Members

From: Demetrios Boutris

Subject: Fiscal Year Ended October 31, 2012 Investment Report and Investment Policies and Procedures

Request For: Approval of Fiscal Year Ended October 31, 2012 Investment Report and of BPCA Investment Guidelines

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### **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 this fiscal year to formalize Authority's requirements for MBE/ WBE participation (see Guidelines added section 1.8 "Diversity") and board oversight of the Authority's investment portfolio (see Guidelines added Section 1.9 – on Investment Committee). In addition, modifications to 2.3. Portfolio Diversification regarding the investments allowed in Municipal Bonds.

The following Appendices have been updated for Fiscal Year 2011:

1. APPENDIX B- Investment Report Fiscal Year Ended October 31, 2012
2. APPENDIX C- Fiscal Year Ended October 31, 2012- 2011 Year In Review

In October 2012, 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 reports in appendices B and C 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 10/31/12 Investment Report and Investment Guidelines
- Public Accountant's Fiscal Year End 2012 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, 2012**

**JANUARY, 2013**

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<b>OCTOBER 31, 2012</b>	<b><u>(SEPARATE FILE ATTACHED)</u></b>

# **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, 2012**).

## **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.

### **1.8 Diversity – MBE/WBE Participation**

It is the Authority's standard practice to reach out to these MWBE brokers/dealers to provide them opportunities to trade for Investment Securities. The Authority requirement that ten percentage (10%) of annual costs under the 2013 service agreement for investment advisory services be allocated to a certified MWBE firm,

### **1.9 Oversight – Investment Committee**

An Investment Committee was established to formalize oversight of the Authority's investment portfolio with the charter below:

#### **Battery Park City Authority (BPCA)**

#### **INVESTMENT COMMITTEE CHARTER**

#### **INTRODUCTION**

The Investment Committee has been established to assist the Board in fulfilling its oversight responsibilities by establishing BPCA's investment policies and overseeing its investments. The Committee's responsibilities and powers as delegated by the Board are set forth in this Charter. Whenever the Committee takes action, it exercises its independent judgment on an informed basis that the action is in the best interests of BPCA. In doing so, the Committee may rely to a significant extent on information and advice provided by management and independent advisors.

#### **COMPOSITION**

The Committee shall consist of at least three (3) Members who shall be appointed by the Chairperson, one of whom the Chairperson shall appoint as Chair of the Committee. The Chairperson shall be an additional non-voting member of the Committee, provided that if there shall be any vacancy or vacancies in the whole number of the Members of the Board as prescribed by law, the Chairperson may serve as a voting member of the Committee. Each member of the Committee shall be an "independent member," as defined in Public Authorities Law § 2825 (2). Members of the Committee shall possess the necessary skills to understand the duties and functions of the Committee and shall be familiar with general investment policies and best practices.

#### **MEETINGS**

The Committee shall meet four (4) times a year or more frequently, as may be necessary and appropriate to carry out its responsibilities. The Committee may ask members of management or others to attend the meetings and provide pertinent information as appropriate. Meetings may be in person or by video conference, if necessary.

In addition, the Committee:

- Shall act only on the affirmative vote of a majority of the members present at a meeting or by unanimous consent.
- Is expected to maintain free and open communication with management and the Board.
- Shall have authority to retain independent legal, accounting or other advisors if determined appropriate, in its sole judgment, provided such consultants are approved by the full Board.
- Submit the minutes of all Committee meetings to the Board and regularly report to the Board on Committee matters, actions taken and issues discussed at its meetings.
- Review and reassess the adequacy of this Charter annually and propose to the Board any changes to the Charter.
- The Committee shall evaluate its performance annually and report its conclusions to the Board.

## **DUTIES AND RESPONSIBILITIES**

The Committee has the authority, including, but not limited, to:

- Approve the investment and risk limits for the investment portfolio.
- Review the investment policies for BPCA, including, where applicable, asset classes, liquidity, the use of debt, and risk management.
- Approve the annual investment program.
- Authorize investments and ratify investments made pursuant to delegated authorities.
- Review the investment performance of BPCA's accounts and funds, including benchmarks and attribution.
- Review the organization and staffing of the investment management advisory function.
- Review the quality of the investment services provided to BPCA, such as
  - Oversee the business and investment strategy;
  - Evaluate investment performance, performance benchmarks and attribution; and
  - Review costs, pricing and profitability.

## **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	20%

- a) Require a minimum "A" category rating for all municipal securities permitted by the Policy (NY State, other states, and issues of local NY governments).
- b) Establish a maximum allocation of no greater than 10% per issuer.

### **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***

<b>Distribution List</b>	<b>Frequency</b>
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***

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

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

### 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*

<b>Report</b>	<b>Contents</b>	<b>Audience</b>	<b>Frequency</b>
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*

<b>Report</b>	<b>Contents</b>	<b>Audience</b>	<b>Frequency</b>
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, 2012

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, 2012 and 2011 included within the balance sheet accounts: investments, corporate designated, escrowed and OPEB funds, bond resolution funds and residential lease required funds are as follows:

	October 31, 2012			October 31, 2011		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities:						
Treasury Bills	\$ 224,971,358	225,061,425	0.04	\$ 81,423,660	81,425,813	0.26
Treasury Bonds	65,717,070	69,641,656	3.93	61,994,188	65,643,181	3.50
Treasury Strips	337,562	848,898	5.31	337,562	813,127	6.03
Total						
U.S. Treasury securities	<u>291,025,990</u>	<u>295,551,979</u>		<u>143,755,410</u>	<u>147,882,121</u>	
Commercial paper	48,583,817	48,603,400	0.04	149,706,411	149,715,500	0.03
Federal agency securities	44,442,067	46,299,346	2.18	114,249,213	116,802,041	1.58
Federal agency mortgage backed securities	15,936,242	16,928,410	3.16	17,906,006	19,115,943	2.91
Municipal bonds	<u>30,189,630</u>	<u>31,650,366</u>	4.43	<u>26,702,843</u>	<u>27,912,487</u>	3.75
Total investments	<u>430,177,746</u>	<u>439,033,501</u>	1.33	<u>452,319,883</u>	<u>461,428,092</u>	1.31
Cash and cash equivalents	<u>3,310,020</u>	<u>3,310,020</u>		<u>931,314</u>	<u>931,314</u>	
Total investments and deposits	<u>\$ 433,487,766</u>	<u>442,343,521</u>		<u>\$ 453,251,197</u>	<u>462,359,406</u>	

(a) Portfolio weighted average effective duration

As of October 31, 2012 and 2011, restricted assets included cash and cash equivalents and investments with less than 91-day maturities amounting to \$121,117,265 and \$208,682,514, respectively.

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, 2012 were A1/P1; and (iv) municipal bonds issued by New York authorities, provided that they 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 reserves 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.

## **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, 2012 YEAR IN REVIEW**

### **BPCA FY2012 A Year in Review**

#### **Summary of Bond Market and Authority Portfolio Strategy**

##### ***First Quarter: November 1, 2011 – January 31, 2012***

###### *Market Summary*

The U.S. economy continued to strengthen with the outlook for modest to moderate growth over the next several quarters supported by positive reports on jobs, factory output, consumption, and strength in equities. Indicators showed improvement in labor market conditions, with the unemployment rate reaching a three-year low of 8.3%. Signs of a tentative recovery in the housing market appeared, but significant foreclosures in the pipeline suggested a higher inventory of unoccupied homes. Uncertainty abroad centered on Europe; however, the European Central Bank's (ECB) Long-Term Refinancing Operation (LTRO) plan to loan unlimited cash to banks for three years at 1% helped abate some of the more serious concerns.

Short-term interest rates remained near 0% due to the Federal Reserve's (Fed) continued commitment to keep the target rate between zero and 0.25% until late 2014. As yields remained relatively unchanged over the quarter, the higher income of intermediate-term securities helped intermediate-term portfolios to significantly outpace shorter duration portfolios. Shorter-term U.S. Treasury securities fluctuated within a narrow range during the quarter. And after periods of significant decline from flight-to-quality reactions to concerns abroad, intermediate-term rates stabilized largely due to positive economic data.

###### *Portfolio Strategy Recap*

- Fiscal year-end liquidity needs drove the Authority's Short-Term Investment Strategy while Fed policy and relative uncertainty in Europe continued to guide the money market sector.
- The Fed's policy to maintain the fed funds target rate at its current range until late 2014 removed much of the uncertainty for interest rate increases. As such, the Investment Committee positioned portfolio durations closer to benchmarks.
- For the Authority's Longer-Term Strategy, new purchases were focused in the steep portions of the yield curve, allowing for increased levels of roll down potential.
- Municipal, federal agency and federal agency mortgage-backed securities holdings continued to benefit the portfolio through their high yields and accompanying spread tightening.

##### ***Second Quarter: February 1, 2012 – April 30, 2012***

###### *Market Summary*

The quarter was marked by a continuation of loose monetary policy worldwide. The U.S. economy continued to recover, albeit at a slow pace, as the labor and housing markets and core inflation indicators remained relatively stagnant. But as economic conditions weakened across the globe, many central banks followed Fed policies and implemented additional levels of accommodation of their own. Although the Fed maintained its commitment to keeping interest rates at low levels until at least late 2014, with Operation Twist scheduled to end in June 2012, anticipation regarding further U.S. quantitative easing was high.

During the quarter, short- to intermediate-term portfolios with diversified fixed-income holdings (including federal agency bonds) outpaced those solely invested in Treasuries. Federal agencies performed well, as

spreads compared to Treasuries narrowed markedly on the continued reduction of debt issuance by the federal housing agencies. Increased optimism about the U.S. economic recovery contributed to a general reduction in risk premiums across most asset classes during the quarter.

#### *Portfolio Strategy Recap*

- For the Authority's Short-Term Investment Strategy, liquidity remained the priority but the Authority was successful in capturing the yield advantage available in slightly longer maturities (3-4 month U.S. Treasury Bills).
- High-quality commercial paper remained an attractive investment; however, shrinking supply created limited opportunities. The European debt crisis, changing issuance patterns, and downgrades all impacted supply of high quality issuers.
- In the Authority's Longer-Term Investment Strategy, the Investment Committee generally allowed portfolio durations to naturally drift short (96%) of the benchmark as intermediate-term yields remained relatively unchanged over the quarter.
- In mid-March, as yields moved sharply higher, the Authority seized the opportunity to strategically extend duration and swapped federal agency securities with remaining maturities of approximately one year for 10-year U.S. Treasuries at yields over 2%.
- Credit spreads in general widened to attractive levels relative to U.S. Treasuries of similar maturity in mid-April and the Authority benefited by trading 5½-year U.S. Treasuries for 5-year New York City GO Bonds at an approximately 42 basis point (0.42%) yield pick-up relative to the sold Treasuries, realizing over \$82,000 in gains.

#### ***Third Quarter: May 1, 2012 – July 31, 2012***

#### *Market Summary*

Economic data remained humdrum as economic activity disappointed and seemingly reversed the trend of what had been positive data. GDP in the U.S. grew at a meager 1.5% to 2.0%, job production was lackluster, and the housing market showed only modest improvements. Meanwhile, the European economic picture worsened, as Spain fell into its second recession since 2009 and the European debt crisis continued to pose challenges. Emerging-market economies also experienced slower growth and in response, central banks kept accommodative policies in place and, in some cases, increased support to their economies.

In the face of global uncertainty, investors fled to safe investments, pushing U.S. interest rates lower across the yield curve. The Fed maintained its overnight rate near 0% and announced that it would extend its "Operation Twist" program to the end of 2012. As a result, thirty-year mortgage rates fell to new lows and five- and ten-year Treasury yields dropped precipitously through the quarter. Treasury-agency spreads remained mostly unchanged.

#### *Portfolio Strategy Recap*

- In the Authority's Short-Term Investment Strategy, the portfolios were structured to meet the Authority's significant liquidity needs, in particular to satisfy the \$125 million in total payments to the City and State.
- As supply became available during the quarter, high-quality commercial paper provided excellent value in terms of both yield advantage and diversification. The Authority's allocation to commercial paper was increased by adding General Electric Company and Toyota Motor Credit Corporation to the portfolios, both rated A-1+ by Standard & Poor's.

- In the Authority's Longer-Term Investment Strategy, the Investment Committee focused on managing duration against the benchmark and prudently diversifying the portfolios into sectors that add value.
- Because the steepness of the yield curve declined (the spread between 2- and 10-year Treasuries reached its narrowest level in over four years), there was less value in longer-term U.S. Treasury securities.
- The Investment Committee increased allocations to municipal obligations, specifically New York City and the Triborough Bridge & Tunnel Authority, at yield advantages of between 0.8% and 1.1% over comparable duration U.S. Treasury securities.
- GNMA allocations were also modestly increased, with average yield advantages over comparable duration U.S. Treasury securities of approximately 1.5%.

#### ***Fourth Quarter: August 1, 2012 – October 31, 2012***

##### *Market Summary*

The U.S. presidential election, the looming “fiscal cliff”, and Superstorm Sandy took center stage during the quarter. In light of the distractions, economists and analysts alike expected the U.S. economy to continue to muddle along at 2% growth. While U.S. housing and jobs recoveries seemed to be building momentum, manufacturing activity continued to show persistent weakness.

The Fed announced that it would keep short-term rates at extremely low levels and revised its timeframe language to “through mid-2015” while also launching QE3, a new program to purchase \$40 billion in federal agency MBS each month until employment conditions improve. Additional easing measures by central banks around the world spurred investors' demand for riskier assets, resulting in strong performance for “risk-on” sectors such as municipals, corporate notes, mortgage-backed securities, and equities.

##### *Portfolio Strategy Recap*

- Fiscal year-end liquidity needs drove the Authority's Short-Term Investment Strategy.
- With the expectation of relatively low volatility and continued range-bound fixed-income yields, portfolio durations were positioned close to 100% of their benchmark.
- The Authority's allocation to federal agency securities benefited the portfolios as agency notes received a boost during the quarter when the Treasury Department accelerated the wind down of Fannie Mae's and Freddie Mac's investment portfolio holdings. In addition, federal agency MBS were aided by the Fed's decision to launch QE3.
- Municipal bonds also had a strong quarter despite ongoing concern that future tax policies may reduce the benefit of tax-exemption. The Authority's Longer-Term portfolios added six-year Nassau County Interim Financing Authority bonds at a yield of 1.8%, a yield advantage of 0.6% relative to similar duration U.S. Treasury securities.

#### **Portfolio Performance Update**

Total returns for the Authority's Long-Term Investment Strategy significantly outperformed its benchmark during the Fiscal Year.

During the past 12 months, the Federal Reserve maintained a steadfast resolve to target overnight interest rates at zero to 0.25% for the foreseeable future. Despite the significant headwinds for ultra short-term investors, the Authority's Short-Term Investment Strategy produced competitive total returns of approximately 8 basis points during this period, in line with the benchmark.

By adhering to a long-term, conservative investment approach, the Investment Committee was able to produce solid performance without sacrificing its commitment to safety, liquidity, and long-term portfolio objectives. The majority of the Authority's Short-Term and Long-Term portfolios measured on a total return basis have outperformed their benchmarks over the past 3-year and since inception periods.

<b>Summary of Total Return by Investment Strategy and Account</b>			
	<b>1 Year Ending October 31, 2012</b>	<b>3 Years Ending October 31, 2012</b>	<b>Since Inception</b>
<b><i>Long-Term Investment Strategy</i></b>			
2003 Reserve Fund	3.41%	4.26%	5.38%
BPCPC Operating Reserve Contingency	3.31%	4.42%	5.72%
Insurance Fund	3.33%	4.29%	5.81%
Operating Budget Reserve	3.78%	4.60%	5.91%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	2.65%	4.24%	5.23%
BPCA Other Post Employment Benefits	3.35%	4.18%	4.75%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	2.65%	4.24%	4.33%
BPCPC Other Post Employment Benefits	3.26%	n/a	4.15%
<i>Benchmark: Merrill Lynch 1-10 Year U.S. Treasury Index</i>	2.65%	n/a	4.47%
<b><i>Short-Term Investment Strategy</i></b>			
2003 Pledged Revenue	0.08%	0.12%	1.86%
2003 Project Operating Fund	0.09%	0.17%	1.84%
Joint Purpose Fund	0.06%	0.10%	1.95%
<i>Benchmark: Merrill Lynch 3-Month U.S. Treasury Bill Index</i>	0.08%	0.11%	1.77%

<b>Trade Summary 12-Months Ending October 31, 2012</b>						
<b>Investment Strategy</b>	<b># of Buys</b>	<b>Par Amount of Buys</b>	<b># of Sells</b>	<b>Par Amount of Sells</b>	<b># of Maturities</b>	<b>Par Amount of Maturities</b>
Long-Term	154	\$ 42,087,737	111	\$ 35,732,000	16	\$ 3,832,000
Short-Term	241	\$ 720,161,000	50	\$ 41,137,000	181	\$ 676,473,000
Other	242	\$ 1,278,601,000	77	\$ 22,434,000	254	\$ 1,279,183,000
<b>TOTAL</b>	<b>637</b>	<b>\$ 2,040,849,737</b>	<b>238</b>	<b>\$ 99,303,000</b>	<b>451</b>	<b>\$ 1,959,488,000</b>

*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. The total returns shown for periods longer than a year are the annualized returns for the stated period.
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, 2012 REPORT”**

**APPROVAL OF THE INVESTMENT REPORT AND GUIDELINES FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

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, 2012 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.