Hugh L. Carey Battery Park City Authority
Meeting of the Investment Committee
200 Liberty Street, 24th Floor
New York, New York 10281
January 24, 2022
9:00 a.m.

AGENDA

I. CALL TO ORDER

II. APPROVAL OF THE DECEMBER 15, 2021 MINUTES

III. APPROVAL OF INVESTMENT REPORT & GUIDELINES FOR FISCAL YEAR ENDED OCTOBER 31, 2021.

IV. MARKET UPDATE

V. MOTION TO ADJOURN

BOARD RESOLUTION

APPROVAL OF THE INVESTMENT GUIDELINES & REPORT FOR THE FISCAL YEAR ENDED OCTOBER 31, 2021

BE IT RESOLVED, that the Investment Guidelines & Report of the Hugh L. Carey Battery Park City Authority (the "Authority") for the fiscal year ended October 31, 2021 is substantially in the form presented to this meeting, be, and hereby is approved; and be it further

RESOLVED, that the Chief Financial Officer & Treasurer of the Authority be, and hereby is, directed to file said Investment Guidelines & Report 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); and be it further

RESOLVED, that Investment Guidelines & Report be posted on the NY State Public Authorities Reporting System (PARIS) and the Authority's website; and be it further
RESOLVED, that the Assistant Corporate Secretary of the Authority be, and hereby is, directed to file said Investment Guidelines & Report with the minutes of this meeting; and be it further

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

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INVESTMENT GUIDELINES & REPORT

FISCAL YEAR ENDED

OCTOBER 31, 2021

January 2022

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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 of Directors.

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

"Investment Securities" means any or all 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 management of Investment Funds. These Guidelines have been adopted by, and can be changed only by, the Board.

These Guidelines will 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 Investment 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. Such report is attached hereto as **Appendix B: Investment Report FYE October 31, 2021**.

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 Deputy 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. If the Board is not fully constituted, the entire Board may meet in lieu of the Investment Committee. The Investment Committee may consult with a qualified investment advisor/manager while 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 the 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 who (i) act 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 (ii) 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 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 Deputy 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. After 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 MBE/WBE brokers/dealers to provide them opportunities to trade for Investment Securities. The Authority required that thirty percentage (30%) of annual costs under the 2020 service agreement for investment advisory services be allocated to a certified MBE/WBE firm.

1.9 Oversight – Investment Committee

An Investment Committee was established to formalize oversight of the Authority's investment portfolio with the charter below. If the Board is not fully constituted, the entire Board may meet in lieu of the Investment Committee.

BATTERY PARK CITY AUTHORITY
INVESTMENT COMMITTEE CHARTER

PURPOSE & FORMATION

Pursuant to Article IV, Section 3 of the Authority's bylaws (the "Bylaws"), the purpose of the Investment Committee is to assist the Board in fulfilling its oversight responsibilities by establishing the Authority's investment policies and overseeing its investments.

COMPOSITION

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

DUTIES OF THE INVESTMENT COMMITTEE

The Investment Committee's duties and responsibilities are set forth in the Bylaws. Whenever the Investment Committee acts, it exercises its independent judgment on an informed basis that the action is in the best interests of BPCA. In doing so, the Investment Committee may rely to a significant extent on information and advice provided by management and independent advisors.

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

- Approve the investment and risk limits for the investment portfolio.

- Review the investment policies for the Authority, including, where applicable, asset classes, liquidity, the use of debt, and risk management.

- Approve the annual investment program.

- Authorize investments and ratify investments made by 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 the Authority, such as: a) overseeing the business and investment strategy, b) evaluating investment performance benchmarks and attribution, and c) reviewing costs, pricing, and profitability.

MEETINGS

The Investment Committee shall meet four (4) times a year or more frequently, as may be necessary and appropriate to carry out its responsibilities. The Investment 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 Investment Committee:

- Shall act only on the affirmative vote of a majority of the members present at a meeting.

- 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 Investment Committee meetings to the Board and regularly report to the Board on Investment 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.

- The Investment Committee shall evaluate its performance annually and report its conclusions to the Board.

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 (the "Comptroller") is authorized to invest pursuant to Section 98 (Investment of state funds) of the State Finance Law. As effective on November 20, 2015, the Act allows 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, the U.S. Government and its agencies, or in any other obligations in which the Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law. The 2003 General Bond Resolution and the 2009 and 2013 Revenue 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 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 five hundred 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 Comptroller has invested or shall have invested pursuant to this subdivision shall be serviced by the Comptroller or in his discretion, by mortgagees, 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 Comptroller may receive and hold such debentures and certificates or other obligations as are issued in payment of such insurance or guarantee.

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. (see footnote 2, Repealed)
    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. East Hudson Parkway Authority.
    bb. Niagara Frontier Port Authority.
    cc. Northwestern New York Water Authority.
    dd. Metropolitan Commuter Transportation Authority (now Metro. Transp. Auth.).
    ee. Niagara Frontier Transportation Authority.
    ff. New York State Pure Waters Authority.
    gg. Rochester-Genesee Regional Transportation Authority.

hh. Capital District Transportation Authority.
ii. 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. Collateral trust notes issued by a trust company, all the capital stock of which is owned by not less than twenty savings banks of the State of New York.

15. Bonds and notes issued for any of the corporate purposes of the New York State housing finance agency.

16. Bonds and notes issued for any of the corporate purposes of the New York State medical care facilities finance agency.

17. Bonds and notes issued for any of the corporate purposes of the New York State project finance agency.

18. Bonds and notes issued for any of the corporate purposes of the municipal assistance corporation for New York City.

19. 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 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 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 five hundred million dollars may be invested in such obligations of any one corporation.

20. 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 five hundred million dollars may be invested in such bankers' acceptance of any one bank or trust company.

21. 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 therefor, in making other investments authorized by law, and she 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 her warrant upon the treasurer for the amount required for such investments and exchanges.

Notwithstanding the provisions of any other general or special law, the State Comptroller shall not invest the moneys of any fund in any security or securities except as above described, provided, however, that: a) the State 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. Authorized Investments of Project Operating Funds – Additional Bond Issuers

The Authority has two classifications of Funds; Pledged Funds and Project Operating Funds. Pledged Funds, subject to the 2003 General Bond Resolution, may only be invested in securities specifically listed in Section 98 of the State Finance Law, as listed in Section 2.2 above. Project Operating Funds, those that are not pledged to bond holders, are also limited to Section 98 of the State Finance Law but may include bond issuers of the State whose authorizing statute specifically provides that bodies of the State are authorized to legally invest in the stated bond issuers' securities. The additional bond issuers ("Additional Bond Issuers"), while not specifically listed in Section 98 of the State Finance Law, and therefore are not eligible for investments of the Pledged Fund, but do qualify for investments of the Project Operating Fund, are as follows:

1. New York City Transitional Finance Authority.
2. New York Municipal Water Finance Authority.
3. New York City Housing Development Corporation.
4. New York State Urban Development Corporation.
5. Nassau County Interim Finance Authority.

2.4. 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%

In addition, the Authority requires:

a) Minimum "A" credit rating for all municipal securities permitted by the Policy (NY State, other states, and issues of local NY governments).

b) Maximum allocation of no greater than 10% per issuer, or such lower limit as specified above.

2.5. 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 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.

2.6. Environmental, Social, and Governance Investment Principles

The Authority's investment philosophy is anchored in the following core principle, which is fundamental and constant. Assets controlled by the Authority must be managed in accordance with this principle, regardless of the ebbs and flows likely to arise due to markets, politics and personalities.

The primary principle guiding the Authority's investments is the consideration of financial impact(s) on current and future requirements of the Authority. This manifests itself through investment practices that generate the greatest possible return, subject to an appropriate amount of risk, to support the Authority's mission of planning and sustaining a balanced community of commercial, residential, retail, and park space on the lower west side of Manhattan.

Within the context of this primary principle, the Authority must consider a holistic view of risk that accounts for various factors which could modify a return/risk objective. These include:

- Maintaining appropriate levels of liquidity for the Authority's operational needs;
- Mitigating downside financial risks;
- Understanding and appropriately managing reputational risk or legal liability; and,
- Protecting Authority assets from external pressures.

The Authority, as well as the Office of the New York State Comptroller, supports the practice of incorporating environmental, social, and governance ("ESG") factors with other conventional financial analytical tools when evaluating investment opportunities as these factors not only support the Authority's mission but they may help identify potential opportunities and risks which conventional tools miss. The Authority encourages its investment managers to include ESG factors in their analytical processes. The Authority prohibits investment in companies that are heavily reliant on fossil fuels. However, ESG considerations are only one factor in analyses and should not be used as exclusionary screens to eliminate specific entities or sectors from consideration. Relevant ESG factors will vary by industry and should be applied appropriately to help assess both risk and return.

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 Deputy Treasurer or the external investment manager, under the supervision of the Chief Financial Officer. Investment transactions shall be implemented by the Chief Financial Officer, or by the Deputy 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.
- Determine whether the Authority has complied with applicable laws, regulations and these Investment Guidelines.
- 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 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; and
- 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 Administration (who is also the Internal Controls Officer), President, 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 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, Deputy 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 were developed to control all Authority investment activity. The manual is 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

If 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 Authority's investment manager's 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 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 to track compliance with policy guidelines, assess the performance of the portfolio and to inform appropriate management personnel.

5. REPORTING

5.1. Management Reporting

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. 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 Authority's Board and filed with the State Division of the Budget, State Comptroller, State Senate Finance Committee, and State 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.

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

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

5.2. Performance Reporting

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 Directors	As Necessary
Chief Financial Officer ("CFO")	As Necessary
Controller	As Necessary
Deputy 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 of Directors	• Final Approval of the guidelines • Approval of exceptions to the guidelines (e.g. new investment types) • Approval of revisions to the guidelines	• Annual • As necessary • As necessary
Chief Financial Officer ("CFO")	• Approval of the guidelines • Approval of investment strategy • Approval of performance measurements • Approval of minor exceptions to the guidelines (i.e. amounts, maturities)	• Annual • Annual • Ongoing • As necessary
Deputy Treasurer	• 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 • Review performance information • Management reporting	• Ongoing • Annual • Ongoing • Ongoing • As necessary • Annual • Ongoing • Ongoing • Ongoing • Monthly • Daily, Weekly Monthly

Assistant	• Collect performance information • Distribute performance information • Prepare Investment Instruction Letter	• Quarterly • Quarterly • Ongoing
Investment Manager	• Develop investment strategy • Review investment strategy • Invest funds as provided for in the guidelines • Reporting investment portfolio	• Annual • Ongoing • Ongoing • Daily, Weekly 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 reconciliation activities.
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 breakdown	CFO, Board	Quarterly

Annual Investment Report	Investment Guidelines, explanation of Investment Guidelines & amendments, annual investment audit, annual investment income, total fees and commissions paid	CFO, 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 database 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; and
- Requirements for periodic reporting and a satisfactory level of accountability.

The procedures below describe in more detail the methods employed by the investment officers (Treasurer and Deputy 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, Deputy Treasurer or Investment Advisor 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 by the Investment Advisor via:

    a. specific written investment instruction sent to the Trustee; or
    b. verbal investment instructions followed up by written confirmation.

3. The Deputy Treasurer or Investment Advisor will initiate the investments by reviewing the investment schedule and calendar on a weekly basis to determine investments to be made over the following week based on Investment Guidelines and weekly working group meetings. All investments are available to review online on a real time (next day) basis.

   The Treasurer, Deputy Treasurer and Investment Advisor 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, as amended, Agreement for Certain Payments, Lease Agreements etc.);
    c. BPCA cash flow requirements and Investment Guidelines and Policies;
    d. current and future market conditions (i.e. interest rates);
    e. New York State Comptroller's Guidelines; and,
    f. published market surveys, consultant reports, etc., relating to securities available, interest rates and investment strategies.

4. Copies of the bank trade confirmation letters sent to the Trustee Bank are digitally filed in the Treasury folder

5. All investments are available to the President and others for review and discussed at Investment Committee meetings. A copy of the Investment Instructions Letter is retained in the Treasury folder 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, and Investment Advisor. Corporate funds which are not invested are collateralized or insured by FDIC. 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 BPCA Controller or Director of Financial Reporting 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 – FISCAL YEAR ENDED OCTOBER 31, 2021

Investments

The Authority carries all investments at fair value. Inherent risks that could affect the Authority's ability to provide services and meet its obligations as they become due are reported in accordance with U.S. GAAP. The Authority'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 at the time of purchase from all rating agencies that rate the obligation; (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); (iv) municipal bonds issued by the State of New York, its counties, towns and cities and New York authorities; and (v) the general obligations of any state provided that such obligations receive the highest rating by at least one rating agency. The Organization maintains its cash in bank accounts that 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 held by the Authority at October 31, 2021 and 2020, included within the statements of net position (deficit) as investments, corporate designated, escrowed and OPEB funds, bond resolution funds (see note 8) and residential lease required fund accounts, were as follows:

	October 31, 2021			October 31, 2020		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities:						
Treasury Bills	$ 284,443,705	284,458,532	0.25	$ 362,958,734	363,089,845	0.20
Treasury Bonds	96,519,069	95,838,581	3.29	78,024,170	80,306,380	3.45
Treasury Strips	2,478,639	2,599,300	3.27	2,478,639	2,624,746	4.24
Total U.S. Treasury securities	383,441,413	382,896,413		443,461,543	446,020,971	
Commercial paper	52,561,966	52,587,689	0.29	19,572,406	19,598,474	0.11
Federal agency securities	1,334,865	1,334,953	0.06	6,398,995	6,408,720	0.13
Federal agency mortgage backed securities	2,493,819	2,582,321	3.19	4,031,734	4,187,861	2.91
Municipal bonds	3,907,027	3,983,409	2.91	9,635,082	9,745,913	1.84
Supra National Agency	18,158,318	18,202,549	2.99	14,428,780	14,734,253	2.65
Total investments	461,897,408	461,587,334	1.05	497,528,540	500,696,192	0.87
Cash and cash equivalents	37,887,337	37,887,337		45,387,330	45,387,330	
Total investments	$ 499,784,745	499,474,671		$ 542,915,870	546,083,522	

(a) Portfolio weighted average effective duration

As of October 31, 2021 and 2020, restricted assets included cash and cash equivalents and investments with less than 91-day maturities amounting to $74,285,606 and $116,093,672 respectively.

The Authority's investment objectives for the portfolio are legal compliance, safety of principal, to meet liquidity requirements and to maximize legally allowable return.

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 Authority's portfolio is measured according to effective duration.

Investments of amounts in funds and accounts established under the 2003 General Bond Resolution, and the 2009, 2013 and 2019 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 and escrowed funds represent funds designated by the Authority's Board of Directors for specific purposes such as budget reserves, the Special Fund (see note 12), project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserves and funds designated for the payment of medical benefits to the Authority's retirees (OPEB funds).

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 amount of approximately $350,000 were paid to PFM Asset Management LLC ("PFMAM" during the current fiscal year for professional money management advice to the Authority's Investment Committee. PFMAM utilizes a MWBE firm, Ramirez Asset Management, as a subcontractor to manage a portion of the investment portfolio and they are paid 30% of the contract value for these services.

APPENDIX C

BPCA FY2021: A Year in Review
(Prepared by PFM Asset Management LLC)

Annual Summary

The 2021 fiscal year was marked by uncertainty surrounding the economic outlook due to the on-going Coronavirus pandemic. Unprecedented fiscal and monetary support provided relief to markets throughout the fiscal year. In November 2020, Congress passed the $900 billion relief Coronavirus Aid, Relief, and Economic Security ("CARES") Act to support Americans and encourage economic recovery. Another fiscal stimulus package quickly followed, a robust $1.9 trillion American Rescue Plan Act (ARPA) in early 2021 which included large allocations to state, local, and tribunal governments. The Federal Reserve ("Fed") continued its accommodative monetary policy support throughout the year by anchoring the Federal Funds Rate near zero and maintaining the pace of its open-market asset purchases. Purchases of U.S. Treasury securities totaled at least $80 billion per month, and purchases of federal agency mortgage-backed securities totaled at least $40 billion per month. As the U.S. reopened and made strides toward recovery, the economy saw elevated levels of inflation initially deemed transitory in nature by the Fed as material shortages and supply chain bottlenecks plagued the market. At the end of the fiscal year, the U.S. continued to recover with supply chain challenges and elevated inflation becoming centralized focuses of attention. Fed talks began shifting to the phase out of quantitative easing ("tapering") and focusing on the expected timetable for future rate hikes.

Summary of Bond Market and Authority Portfolio Strategy

First Quarter: November 1, 2020 – January 31, 2021

Market Summary

The first quarter was characterized by a resurgence in global coronavirus cases causing the reintroduction of some lockdown measures, increased vaccine inoculations, a change in administration in Washington, and moderating labor market and consumer spending data. During the first half of the quarter, Congressional lawmakers created and passed a $900B CARES Act relief bill that provided additional unemployment benefits, a second round of stimulus checks, and support for small businesses to continue to encourage economic recovery. In January, Joseph R. Biden was sworn in as the 46th President of the United States and immediately prioritized fighting the COVID-19 pandemic by proposing another $1.9 trillion American Rescue Plan Act ("ARPA") package designed to support families, schools, governmental entities, and small businesses. Monetary policy continued to remain accommodative, as rates remained unchanged near zero, and the Fed continued to purchase around $120 billion of bonds per month. Furthermore, the Fed reinforced its commitment to job creation and achieving maximum employment, even with the possibility of inflation running above its 2% target. The labor market showed slowing momentum late in 2020 and into the new year. After a strong start to the year, equity market momentum waned as the S&P declined 1.0% and the Dow Jones Industrial Average fell 2.0%. However, the tech-heavy Nasdaq composite rose 1.4%.

The U.S. economy grew at a significantly slower 4.0% annual rate in the fourth quarter of 2020, as consumer spending rose at a modest 2.5% annualized rate. Due to the COVID-induced recession, the economy contracted at -3.4% for the full year 2020. Heading into 2021, inflation was below the Fed's target of 2% as the core Personal Consumption Expenditure (PCE) index reading for January was 1.5%. Personal income and consumer confidence improved in December and January, but the U.S. labor market faltered as new job additions failed to meet expectations. The unemployment rate fell to 6.3% mainly due to discouraged workers leaving the workforce, and the job gap remained at 10 million compared to pre-pandemic employment levels.

Overall, the economy lost approximately 8.89 million jobs in 2020, as compared to adding 2.11 million jobs in 2019. On the manufacturing front, the ISM Manufacturing PMI survey remained in expansionary territory (above 50) and continued its steady rise from its lowest level of 32.4 occurring in January 2009.

Fixed income yield movement was muted to begin the quarter. The U.S. Treasury yield curve exhibited marginal flattening in December as the Fed continued to provide unprecedented support to the economic recovery. In January, the 10-year U.S. Treasury yield rose by 18 bps (0.18%) and the 30-year U.S. yield rose by 21 bps (0.21%). By fiscal quarter-end, the curve showed significant steepening as the spread between the 2 and 10-year Treasuries ended January significantly wider at 100 bps (1.00%).

Portfolio Strategy Recap

- Relative and absolute performance for long-term portfolios was strong for the quarter and the 12-month period ending January 31st. Returns for the quarter were positive and all portfolios outperformed their benchmarks, with outperformance ranging from 0.10% to 0.23% for the quarter and 0.13% to 0.33% for the year.
- The short-term portfolios performed generally in line the BAML 3 Month Treasury Bill index for the quarter and outperformed for the 12 months ending January 31, 2021. The relative return of the Short-Term portfolios benefited from attractive spreads in the high-quality commercial paper sector. Consistent with historical patterns, the 2003 Pledged Revenue Fund experienced significant activity as intra-fund transfers related to the beginning of the fiscal year were initiated.

Second Quarter: February 1, 2021 – April 30, 2021

Market Summary

Contrary to Q1, the second quarter saw significantly lower COVID-19 cases as vaccine inoculations ramped up, consumer spending strengthened, and inflationary expectations rose due to on-going fiscal and monetary policies. In March, Congress officially passed ARPA. At the April FOMC meeting, the Fed kept its monetary policy in place, holding interest rates near zero and maintaining $120 billion per month in asset purchases. Economic optimism, fiscal stimulus, and accommodative monetary policy fueled a rise in inflation expectations. Fed Chair Jerome Powell acknowledged the above-trend inflation and remained cautiously optimistic while characterizing near-term inflationary pressures as largely "transitory." Equity markets rebounded in February and advanced in March and April, supported by solid economic data and strong corporate earnings. In April, the S&P 500 gained 5.3% over the month to end near records highs. For the same period, the Dow Jones Industrial Average returned 2.8%; while the Nasdaq climbed 5.4%.

The U.S. economy grew an annualized rate of 6.4% in the first quarter of the calendar year (ending March 31, 2021) fueled by strong consumer spending. Personal consumption, the biggest GDP component, surged by nearly 11%, its second-fastest pace since the 1960s. As consumer demand accelerated, producers experienced material shortages and supply-chain challenges which drove up commodity prices. As lockdown measures eased, the economy added 1.3 million jobs in February and March, but only 266,000 in April; well below the 1 million jobs economists had predicted for the month. The unemployment rate remained near 6% with modest gains to the labor force participation rate during the quarter. The quarter ended with a job gap of 8.2 million compared to pre-pandemic levels.

During the quarter, the U.S. Treasury yield curve steepened. The 3-month Treasury yield declined by 6 bps (0.06%) to 0.01% and the 3-year Treasury increased by 18 bps (0.18%) to 0.35%. The yield on the benchmark 10-year Treasury rose by 54 bps (0.54%), closing the quarter at 1.63%. The Treasury Department significantly increased its borrowing estimates and expected to need approximately $1.3 trillion over the 2nd half of the fiscal year to help finance pandemic relief.

Portfolio Strategy Recap

- For the quarter, both portfolio and benchmark returns were negative due to the significant increase in longer term yields.

- The Reserve Fund performed in line with its benchmark, the 1-5 year U.S. Treasury index, for the quarter. The other longer-term portfolios outperformed the benchmark, the 1-10 year U.S. Treasury index, by a range of 16 –31 basis points (0.16% -0.31%).
- Both short-term portfolios performed in line with the benchmark for the quarter and 12-month period.
- As expected, Pledged Revenue experienced significant cash outflows during the quarter.

Third Quarter: May 1, 2021 – July 31, 2021

Market Summary

Similar to the second quarter, the third quarter was characterized by lower COVID-19 caseloads, strong consumer-oriented economic data, and elevated inflation. Pent-up consumer demand coinciding with material shortages and supply chain challenges continued to affect the market. The Fed left its stance on monetary policy unchanged noting that the economy had made progress toward its employment and inflation goals and emphasizing the view that the surge in inflation was transitory. As the economy reopened, strong job gains were seen in industries that were hit the hardest during the start of the pandemic. However, toward the end of the quarter, there was a resurgence in new COVID cases as the delta variant spread and vaccination rates slowed. Despite concerns about rising coronavirus cases, rising inflation, materials shortages, and supply-chain challenges, U.S. equity markets climbed to new record highs amid solid corporate earnings reports. The S&P 500 rose 2.4% in July; the Nasdaq rose 1.2%; while the Dow Jones Industrial Average returned 1.3%.

The U.S. economy grew at an annualized rate of 6.5% in the second quarter of the calendar year (ending June 30, 2021) which showed strong growth but fell short of estimates. GDP reflected robust consumer spending and outlays for business equipment but was held back by significant decreases in private inventories, residential investment, and federal government spending. Job growth was also strong during the quarter with the addition of 2.3 million jobs between the beginning of May and the end of July. May marked the first time in over a year that the number of Americans filing for unemployment benefits fell below 400,000 and by July, the unemployment rate fell to 5.4%. As the labor market experienced significant growth, price levels and business activity continued to increase. The Consumer Price Index (CPI) rose 5.4% over the 12 months through July, while core prices, excluding food and energy, gained of 4.3% over the same period. Producer prices (PPI) rose 7.8% YOY, the largest advance since this data series was first calculated in 2010. Manufacturing and services surveys highlighted rapid improvement in business activity despite supply constraints and rising input costs. Both ISM and Markit PMI surveys were near all-time highs.

Long-term Treasury yields fell during the quarter while short-term yields were unchanged, resulting in a flatter yield curve. The 3-month and 2-year Treasury yields finished the quarter at 0.06% and 0.19% respectively. The fall in the yield of the benchmark 10-year Treasury note (from 1.45% to 1.24%) in July marked the fourth consecutive monthly decline and the biggest monthly decline since the onset of the pandemic in March 2020.

Portfolio Strategy Recap

- The Reserve Fund outperformed the 1-5 Year U.S. Treasury benchmark by 5 basis points. Diversification away from Treasuries was additive to relative performance. Longer duration relative to the benchmark also contributed to outperformance.
- For the quarter, the portfolios managed to the 1-10 Year U.S. Treasury benchmark underperformed between 11 to 17 basis points.
- Both short-term portfolios returned 2 basis points for the quarter, outperforming the 3-Month U.S. Treasury benchmark, which returned 0 basis points.
- As expected, the Pledged Revenue portfolio had significant cash inflows during the quarter.

Fourth Quarter: August 1, 2021 – October 31, 2021

Market Summary

Economic conditions during the fourth quarter were characterized by slowing COVID-19 cases nationwide, record job openings, persistently high inflation data, and continued supply chain back-ups. Delta variant concerns and renewed public health restrictions continued from the prior quarter into August, but new cases slowed moving into September and October. At the November FOMC meeting, the Committee announced that asset purchases would be reduced by $15 million per month beginning in November and December. Despite this, Fed Chair Powell emphasized that the tapering would be completed before any changes to the overnight lending rate.

The U.S. economy grew at a slower rate than expected in the third quarter of 2021, dampened by the delta variant and ongoing supply chain issues. Following a 6.7% pace in the second quarter, U.S. real GDP expanded at just a 2% annualized rate in the third quarter. The GDP reading was reflective of a sharp slowdown in the pace of consumer spending, especially for durable goods, like autos and appliances. Consumer prices rose 6.2% YOY and inflation continued to remain elevated as supply chain challenges, material shortages, and a booming housing market persisted. Job gains fell short of expectations in August and September with under 400,000 jobs being added, but gains rebounded in October with the addition of 531,000 new jobs. Over the quarter, notable gains were made in leisure and hospitality, professional and business services, manufacturing and transportation, and warehousing. Despite the stall in job gains, the unemployment rate fell over the quarter to reach 4.6% in October, a recovery-cycle low. U.S. equity markets advanced over the quarter and reached all-time highs by the end of October.

The U.S. Treasury yield curve steepened in the first part of the quarter and "bear flattened"[1] in October. The 3-month yield remained stable and finished the fiscal year at 0.05%. Intermediate-term yields between the 2-year and 5-year maturities moved up materially between 32 bps and 34 bps (0.32% - 0.34%). The 10-year and 30-year yields moved down by -8 bps (-0.08%) and -20 bps (-0.20%), ending the fiscal year at 1.55% and 1.98%, respectively. The announcement of the tapering of bond purchases, elevated inflationary environment, and the unresolved debt ceiling impacted yield movements.

Portfolio Strategy Recap

- The Reserve Fund outperformed the 1-5 Year U.S. Treasury benchmark by 8 basis points. Diversification away from Treasuries was additive to relative performance albeit returns were negative because of pronounced intermediate rate steepening. Most investment-grade sectors produced positive excess returns for Q3, but at a lesser-pace than recent quarters.
- For the quarter, the portfolios managed to the 1-10 Year U.S. Treasury benchmark outperformed by between 2 to 5 basis points.
- Short-term funds' portfolios returned 2 basis points for the quarter, outperforming the 3-Month U.S. Treasury benchmark, which returned 1 basis points.
- Each short-term portfolio continues to be structured based on anticipated liquidity needs. Given the Fed has signaled it plans to complete its tapering program ahead of any changes to the Federal Funds Rate, we expect interest rates at the short end of the Treasury yield curve to remain anchored for the intermediate future.

Portfolio Performance Update

Absolute returns for the Authority's short-term investment strategies outperformed the benchmark returns

[1] "Bear flattener" refers to the convergence of interest rates along the yield curve as short term rates rise faster than long term rates in anticipation of the Fed tightening monetary policy.

during the fiscal year. For the year, the 2003 Pledged Revenue and 2003 Project Operating Fund outperformed by 5 bps (0.05%) and 4 bps (0.04%) respectively. Since inception, both portfolios continue to outperform the benchmark and largely dictated by cashflow needs.

Due to significant curve steepening, absolute returns were negative for the Authority's longer-term mandates. Despite the negative returns, all the portfolios outperformed their respective benchmarks for the fiscal year. Most notably, the BPCA Other Post-Employment Benefits outperformed by 45 bps (0.45%), while the BPCPC Other Post-Employment Benefits outperformed by 35 bps (0.35%). Sector diversification and a modestly defensive duration posture relative to indices was additive to outperformance.

	1-Year Ended October 31, 2021	3-Year Ended October 31, 2021	Since Inception
Long-Term Strategy:			
2003 Reserve Fund	**-0.49%**	**2.65%**	**3.04%**
BM: BAML 1-5 Year US Treasury Note Index	*-0.73%*	*3.03%*	*2.97%*
BPCPC Operating Reserve Contingency	**-1.23%**	**3.47%**	**3.45%**
Insurance Fund	**-1.25%**	**3.46%**	**3.40%**
Operating Budget Reserve	**-1.20%**	**3.47%**	**3.53%**
BM: BAML 1-10 Year US Treasury Note Index	*-1.48%*	*3.73%*	*3.19%*
BPCA Other Post-Employment Benefits	**-1.03%**	**3.81%**	**2.82%**
BM: BAML 1-10 Year US Treasury Note Index	*-1.48%*	*3.73%*	*2.59%*
BPCPC Other Post-Employment Benefits	**-1.13%**	**3.80%**	**2.35%**
BM: BAML 1-10 Year US Treasury Note Index	*-1.48%*	*3.73%*	*2.33%*
Short-Term Strategy:			
2003 Pledged Revenue	**0.10%**	**1.13%**	**1.21%**
2003 Project Operating Fund	**0.09%**	**1.11%**	**1.22%**
BM: BAML 3 Month US Treasury Bill Index	*0.05%*	*1.12%*	*1.15%*

Notes:

1. *Bank of America/Merrill Lynch (BAML) indices provided by Bloomberg Financial Markets. The total returns shown for periods longer than a year are the annualized returns for the stated period.*
2. *Performance of the highlighted portfolios was impacted in the 2nd and 3rd calendar quarters of 2019 by a temporary suspension of investment strategy in order to provide liquidity for the 2019 bond financing.*
3. *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*
4. *For the 'Reserve Fund,' the BAML 1-5 Year Treasury Index became the performance benchmark on July 31, 2013. For prior periods, the BAML 1-10 Year Treasury Index was utilized.*
5. *Since inception performance for the 'BPCA Other Post Employment Benefits' is calculated from January 31, 2008 to present.*
6. *Since inception performance for the 'BPCPC Other Post Employment Benefits' is calculated from February 12, 2010 to present.*