LONG ISLAND POWER AUTHORITY

INVESTMENT GUIDELINES

January 24, 2013
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1. Overview of Investment Guidelines

1.1. Definitions

“Authority” means the Long Island Power Authority, a corporate municipal instrumentality of the State of New York, established pursuant to Chapter 517 of the Laws of 1986 of the State of New York.

“Financing Documents” means the Electric System General Bond Resolution, adopted May 13, 1998 (the “General Bond Resolution”), the Electric System General Subordinated Revenue Bond Resolution, adopted May 20, 1998 (“Subordinated Bond Resolution”), the Reimbursement Agreement, dated as of May 1, 2003 among the Long Island Power Authority and WestDeutsche Landesbank Gironzentrals and various other banks named therein, the Reimbursement Agreement dated as of May 1, 2003 among the Long Island Power Authority and JPMorganChase Bank and various other banks named therein, and any other agreement with the issuer of any Credit Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution) or any Liquidity Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution), in each case as the same may be amended and supplemented from time to time.

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

“Investment Securities” means any or all of the investment obligations described in Section 2.2 hereof.


“State” means the State of New York.

1.2. Purpose and Scope

The purpose of these 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 of Trustees.

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. Management of Investment Program

1.3.1. 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 Executive Director of Finance, as custodian of the Investment Guidelines, 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 B to these Guidelines.

The 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. The findings of the audit shall be formally documented and submitted to the Chief Financial Officer and the Authority’s Board of Trustees.
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1.3.2. Standard of Prudence

The standard of prudence to be applied to the investment of the Authority's Portfolio 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.

1.3.3. 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.

1.3.4. Review, Amendments, Updates and Revisions

The Executive Director of Finance 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 Authority’s Board of Trustees annually for review and approval after review by the Finance and Audit Committee. 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 of Trustees for final approval. Subsequent to any modifications to the Investment Guidelines, revised guidelines must be distributed to Authority personnel on the approved distribution list and Financial Institutions described in Section 4.

2. Investment Management Objectives

2.1. Investment Objectives

The Authority’s Portfolio shall be managed to accomplish the following hierarchy of objectives:

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.

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.
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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.

Return - The Authority’s portfolio shall be managed in such a fashion as to maximize the return on investments within the context and parameters set forth by the investment objectives stated above.

2.2. Authorized Investment Vehicles

The Authority may invest its Investment Funds in any of the vehicles listed below unless superceded by more restrictive guidelines in any of the Financing Documents.

2.2.1. U. S. Government Obligations

1. U.S. Treasury Obligations. Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America;

2. STRIPS. Any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest hereof) of the character as described in (1);

3. Federal Agency Obligations. Obligations of any agency, subdivision, department, division or instrumentality of the United States of America rated ‘Aa3’ or higher by Moody’s or ‘AA-’ or higher by S & P; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America rated ‘Aa3’ or higher by Moody’s or ‘AA-’ or higher by S & P.

2.2.2. Repurchase Agreements

Repurchase Agreements if the following conditions are met:

1. the contract is fully secured by deliverable U.S. Government Obligations as described in Section 2.2.1 having a market value of at least one hundred two percent (102%) of the amount of the obligations principal and interest;

2. a master repurchase agreement or specific written repurchase agreement governs the transaction;

3. the repurchase agreement has a term to maturity of no greater than thirty (30) days;

4. the repurchase agreement is transacted on a delivery versus payment basis;

5. the securities are held free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee; the Trustee shall have received written confirmation from such third party that it holds such securities free and clear of any lien as agent for the Trustee; and such third party is either
   a. a Federal Reserve Bank, or
   b. a bank which is a member of the Federal Deposit Insurance Corporation and which (1) has its principal place of business within the State, (2) has combined capital and surplus of more than $1 billion, and (3) has a long-term debt rating of “Aa3” or higher by Moody’s or “AA-” or higher by S & P;

6. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority;

7. the Executive Director of Finance or appointed agent will value the collateral daily, and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

8. substitutions of collateral will be permitted only with advance written approval of the Chief Financial Officer;

9. The Authority will enter into repurchase agreements only with reputable firms that have a short-term debt rating of “A-1” or higher from one or more Nationally Recognized Statistical Rating Organizations (“NRSOs”) that rate the issuer (split-rated paper is not permitted) and are:
   a. primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have $25 billion in assets and $350 million in capital,
   b. a bank, savings bank or savings and loan association having $5 billion in assets and $500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal
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Reserve System, or
c. diversified securities broker-dealers who are members of the National Association of Securities Dealers having $5 billion in assets and $350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency.

10. no more than 10% or $50 million, whichever is less, of the Investment Funds will be invested with any single repurchase agreement counterparty.

2.2.3. Reserved

2.2.4. Commercial Paper
Unsecured short-term debt (including asset-backed commercial paper) of corporations incorporated under the laws of the United States or a state if the following conditions are met:

1. the maturity is no greater than 270 days;
2. the total holdings of an issuer’s paper does not represent more than five percent (5%) of the issuing corporation’s total outstanding commercial paper; and
3. the short-term debt rating is at least “A1” by S & P and “P-1” by Moody’s.

2.2.5. Corporate Notes, Master Notes and Asset-Backed Securities
Investment grade debt obligations issued by corporations that are incorporated and operating under the laws of the United States or a state, which meet the following requirements:

1. the final maturity is no greater than 2 years at the time of purchase,
2. has long term debt ratings of “AA-” or higher by S & P and “Aa3” or higher from Moody’s at the time of purchase for traditional corporate notes and master notes;
3. has a long-term debt rating of “AAA” or equivalent by S & P and Moody’s at the time of purchase for asset-backed securities; and
4. the obligation has a “hard-bullet” or guaranteed final maturity date.

2.2.6. Certificates of Deposit
Certificates of Deposit issued by a commercial bank with its primary place of business in the State if the following requirements are met:

1. the bank is a member of the Federal Deposit Insurance Corporation and has combined capital and surplus of more than $1 billion;
2. the bank has a long-term debt rating of “AA-” or higher by S & P or “Aa3” or higher by Moody’s.

2.2.7. Registered Investment Companies (Mutual Funds)
Shares in open-end, no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7 and invest exclusively in obligations permitted herein. The fund must be rated ‘AAAm’ or ‘AAAm-G’ or better by Standard & Poor’s Corporation, or the equivalent by another NRSRO. The fund must also be properly registered for sale in the State.

2.2.8. Investment Contracts
Investment agreements or guaranteed investment contracts (GICs) with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time the agreement or contract is entered into) of either “Aa3” or higher by Moody’s or “AA-” or higher by S & P.

2.2.9. Municipal Obligations
Municipal debt obligations provided that the payment of principal and redemption price, if any, and interest is irrevocably secured by U.S. Government Obligations as described in Section 2.2.1. The secured obligations must be deposited in an
escrow arrangement, which is irrevocable pledged to the payment of such municipal obligations, or any other municipal obligation rated either "Aa3" or higher by Moody’s or “AA-" or higher by S & P.

2.3. Variable Rate Notes

The use of variable rate notes (VRNs) is considered to be prudent in the management of the Authority’s Portfolio provided that the following criteria are met:

1. the final maturity (at the time of purchase) is no greater than three years for obligations of a Federal Agency and no greater than two years for corporate obligations or asset-backed securities;
2. the rate on the VRN resets no less frequently than quarterly;
3. the rate on the VRN resets with a frequency that produces a close tracking with money market rates;
4. the VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill or LIBOR, that correlates very highly (95% or greater) with overall changes in money market rates even under wide swings in interest rates;
5. any cap on the interest rate is at least 10% (1000 basis points) higher than the coupon at time of purchase; and
6. The Manager of Treasury Operations or Investment Manager will use pricing services, pricing matrices and "theoretical" pricing models to calculate the market value of all VRNs held in the portfolio and will regularly receive and record actual bids on all VRNs. Any material variances between standard pricing and actual bids will be reported immediately to the Chief Financial Officer. (A material difference is one in which the actual bid falls below .99 of the standard pricing or book value of the VRN.) Further, the value of actual bids received will be used to value the portfolio holding.
7. The use of Auction Rate Securities (ARS) is strictly prohibited.

2.4. Portfolio Diversification

Each portfolio 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 portfolio, based on book value at the time of purchase, permitted in each eligible security is as follows:

<table>
<thead>
<tr>
<th>Security</th>
<th>Maximum Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government Obligations</td>
<td>100% maximum</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>50% maximum</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>60% maximum</td>
</tr>
<tr>
<td>Corporate Notes, Master Notes and Asset-Backed Securities Combined</td>
<td>10% maximum</td>
</tr>
<tr>
<td>Domestic Certificates of Deposit</td>
<td>20% maximum</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>75% maximum</td>
</tr>
<tr>
<td>Investment Contracts</td>
<td>10% maximum</td>
</tr>
<tr>
<td>Municipal Obligations</td>
<td>10% maximum</td>
</tr>
<tr>
<td>Variable Rate Notes (Federal Agency and Corporate Combined)</td>
<td>25% maximum</td>
</tr>
</tbody>
</table>

Investment Funds will be diversified to limit the exposure to any one issuer. No more than 5% of the Investment Funds will be invested, collectively, in the securities of any single issuer or counterparty with the following exceptions:

<table>
<thead>
<tr>
<th>Security</th>
<th>Maximum Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations (including STRIPS)</td>
<td>100% maximum</td>
</tr>
<tr>
<td>Each Federal Agency</td>
<td>10% maximum</td>
</tr>
<tr>
<td>Repurchase Agreements Counterparties</td>
<td>Lesser of 10% or $50 million</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>75% maximum</td>
</tr>
</tbody>
</table>

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 in order to avoid the forced sale of securities prior to maturity.
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Generally, investments shall have maturities of 12 months or less. However, investment maturities may exceed 12 months provided that:

- The maturity does not exceed the expected disbursement date of those funds;
- The total average portfolio maturity is no greater than one year; and
- No individual maturity, except U.S. Government Obligations and Guaranteed Investment Contracts, exceeds three years.

Exceptions to these maturity limitations may be made by the Chief Financial Officer.

For the purpose of calculating the maturity of Investment Securities, maturity shall mean:

1. One day in the case of money market mutual funds, master notes, and other instruments that may be liquidated without notice.
2. The number of days remaining to the next reset date in the case of marketable floating rate securities,
3. The number of days remaining until the next put date in the case of securities subject to unconditional and irrevocable puts of the issue to the obligor, or
4. The actual number of days remaining until the maturity date for all other permitted investments.

Investments shall be made with the intent to hold the security until maturity, but may be sold prior to maturity if liquidity needs or market factors show that such action is necessary or prudent. After the sale, an analysis of the gain or loss in interest and/or principal shall be reported to the Chief Financial Officer with an explanation of why the sale was warranted.

### 2.6. Prohibited Investment Vehicles

The Authority is prohibited from the practices listed below:

- Auction Rate Securities (ARS);
- Investment in reverse repurchase agreements;
- Short sales (selling a specific security before it has been legally purchased);
- Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices;
- Investing in any security not specifically permitted by these Guidelines unless approved by the Chief Financial Officer.

### 2.7. Downgrades

In the event that a corporate issuer is placed on market watch or downgraded, the Chief Financial Officer shall be informed immediately and advised of any action to be taken. In the event that an issuer is downgraded out of compliance with the Authority’s authorized investment vehicles, by either or both rating agencies, the issue shall be sold and the Chief Financial Officer shall be informed immediately.

### 2.8. Process for Obtaining Approval for New Instruments

Approval for new instruments shall be obtained from the Authority’s Board of Trustees. Minor exceptions will require immediate approval from the CFO with final approval by the Board of Trustees. If the Board of Trustees comes to the decision not to approve a minor exception the investment will be liquidated immediately.

### 2.9. Nuclear Decommissioning Trust Funds

Sections 2.2, 2.3, 2.4 and 2.5 shall not govern the investment of the Nuclear Decommissioning Trust Funds (NDTF) for Nine Mile Point Unit 2. Separate investment provisions for the investment of the NDTF are attached (Appendix A).
3. Operating Parameters and Controls

The Authority has developed the following investment management controls to ensure that its assets are protected against loss, theft and misuse.

3.1. Authorized Officers and Employees

Investment decisions on behalf of the Authority shall be made by the Chief Financial Officer, or by the Executive Director of Finance 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 Executive Director of Finance or the external Investment Managers, under the supervision of the Chief Financial Officer.

3.2. Competitive Selection

For each transaction in excess of ten million dollars ($10,000,000) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall utilize competitive quotations. For each transaction which is equal to or less than ten million dollars ($10,000,000) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may utilize either competitive quotations or negotiated prices. The foregoing shall not apply to the purchase of government securities at initial auction or upon initial offering. 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

The Annual Investment Audit Report shall be submitted to the Chief Financial Officer and the Authority’s Board of Trustees.
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Three copies of the Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority’s fiscal year with the Coordinator of Public Authority Programs, Office of the State Comptroller, A.E. Smith Office Building, Albany, New York 12236.

3.4. Written Contracts and Confirmations

A written contract and/or 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 Chief Financial Officer, Executive Director of Finance, or Treasury Staff (designated by the Executive Director of Finance). 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.

Demand deposits, time deposits, and certificates of deposit issued by a commercial bank having a long term rating of “Aa3” or higher by Moody’s or “AA-” or higher by S & P do not require collateralization unless otherwise required by the Chief Financial Officer. All other demand deposits, time deposits, and certificates of deposit shall be collateralized for amounts over and above Federal Deposit Insurance Corporation coverage. All collateral shall be Authorized Investments as set out in Section 2. There shall be a written custodial agreement which, among other things, specifies the circumstances under which collateral may be substituted. The Authority should not accept a pledge of a proportionate interest in a pool of collateral. The market value and accrued interest of collateral should, at least, equal the value of the investment and any accrued interest at all times. The recorded value of collateral backing any investment should be compared with current market values (mark to market) at the time of the initial investment and monthly thereafter to be certain that it continues to be at least equal to the value of the investment plus accrued interest. The mark-to-market reviews should use “bid” prices from a constant source.

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.
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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 Executive Director of Finance 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 National Association of Securities Dealers (NASD);
- 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, 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 transaction.

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.
**LIPA Investment Guidelines**

### 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.

### 5. Reporting

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.

#### 5.1. Management Reporting

In order to manage the Investment Funds effectively and to provide 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.

#### 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 of Trustees in a timely manner.
6. Applicability

These Guidelines shall govern all investments initiated by the Authority after January 24, 2013 and shall not apply to any investments initiated by the Authority on or prior to January 24, 2013. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of, or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.
NUCLEAR DECOMMISSIONING TRUST FUND
INVESTMENT PROVISIONS

PERMISSIBLE INVESTMENTS

The Authority may invest in the vehicles listed below if, and to the extent, the same conforms to the additional restrictions, if any, of the Trust Agreement dated as of May 29, 1990, between Long Island Lighting Company and Mellon Bank, N.A. and all related amendments.

1. Obligations of the U.S. Government, and of an agency of the U.S. Government directly guaranteed or insured by the U.S. or de facto guaranteed by the U.S. Government, including without limitation the Federal National Mortgage Association, acting without specific U.S. Government guarantees as obligors or as trustees for obligations of affiliation of subsidiary entities, and including notes insured by the Farmers Home Administration.

2. Obligations at the time of their purchase rated “A” or better by S&P or Moody’s. In the event that a corporate issuer is placed on market watch or downgraded, the Investment Manager shall immediately notify the Executive Director of Finance. Securities rated “A” are limited to 30% of the total fixed income portfolio, and payable in U.S. dollars of:
   a) U.S. transportation, utilities, industrial, commercial or financial companies
   b) U.S. Government agencies not included under (1) above
   c) Obligations of state and local governments

3. Mortgage Pass-Through Obligations, Collateralized Mortgage Obligations, and Corporate Mortgage Obligations rated “AA” or better by S&P or “Aa” or better by Moody’s.


5. Certificates of Deposits, Eurodollar Certificates of Deposit, and Banker’s Acceptances of domestic banks with “A+” rating or better by S&P or “A1” or better by Moody’s.

6. Short-term money market investment accounts or “sweep accounts” that conform to the permissible investments under (1-5) above.

7. Portfolios or funds of securities designed to replicate the overall market as measured by the S&P 500 Index.


PORTFOLIO RESTRICTIONS

Investments in the above-mentioned securities are limited by the following:

1. No more than 5% of the portfolio may be invested in the securities of any one issuer with the exception of U.S. government/agency securities.

2. No more than 25% of the portfolio may be invested in securities of issuers in the same industry.

3. No more than 20% of the portfolio may be invested in municipal securities.

4. No more than 30% of the portfolio may be invested in notes and bonds rated “A”. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement.

5. The average overall rating of the portfolio must be maintained at all times at “AA”. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement.

6. Investments in the securities or other obligations of the Authority, the investment managers, the custodian, their parents or subsidiaries are prohibited.

7. Except for investments that replicate the composition of market indices or other non-nuclear sector mutual funds, investment in any entity owning one or more nuclear power plants is prohibited.

8. No more than 5% of the value in the Trust’s equity position, or 1.75% of the entire Trust, may be invested in S&P 500 Index Futures.
LIPA Investment Guidelines

PERFORMANCE OBJECTIVE
Investments must be managed to track the Lehman Brothers Government/Credit Bond Index. The portfolio’s duration should fall within a range of 20% below the duration of the index and 10% over the duration of the index.

The equity allocation target is 35% and must be rebalanced quarterly at plus or minus 5%.
LIPA Investment Guidelines

Appendix B - 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

<table>
<thead>
<tr>
<th>Distribution List</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Trustees</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Controller</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Executive Director of Finance</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Investment Manager</td>
<td>As Necessary</td>
</tr>
</tbody>
</table>

Roles and Responsibilities in Executing the Investment Guidelines

The roles and responsibilities for investment management at the Authority rest primarily with the Treasury 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

<table>
<thead>
<tr>
<th>Roles</th>
<th>Responsibility</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Trustees</td>
<td>Final Approval of the guidelines</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Approval of exceptions to the guidelines (e.g. new investment types)</td>
<td>As necessary</td>
</tr>
<tr>
<td></td>
<td>Approval of revisions to the guidelines</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer (“CFO”)</td>
<td>Approval of the guidelines</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Approval of investment strategy</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Approval of performance measurements</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Approval of minor exceptions to the guidelines (i.e. amounts, maturities)</td>
<td>As necessary</td>
</tr>
<tr>
<td>Executive Director of Finance</td>
<td>Serve as custodian of the guidelines</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Develop investment strategy</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Review investment strategy</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Establish performance measurements</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Distribution of guidelines and amendments</td>
<td>As necessary</td>
</tr>
<tr>
<td></td>
<td>Annual review of guidelines</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Oversight of investment activity</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Invest funds as provided for in the guidelines</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Keep abreast of developments in the markets</td>
<td>Monthly</td>
</tr>
<tr>
<td></td>
<td>Review performance information</td>
<td>Daily, Weekly</td>
</tr>
<tr>
<td></td>
<td>Management reporting</td>
<td>Monthly, Quarterly</td>
</tr>
</tbody>
</table>
**LIPA Investment Guidelines**

| Manager of Treasury Operations | Collect performance information
| | Distribute performance information
| | Keep abreast of developments in the markets and notify the Executive Director of Finance as needed
| | Weekly
| | Weekly
| | Ongoing
| Investment Manager | Develop investment strategy
| | Review investment strategy
| | Invest funds as provided for in the guidelines
| | Reporting investment portfolio
| | Annual
| | Ongoing
| | Ongoing
| | Daily, Monthly, Quarterly

**Segregation of Duties**

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

*Exhibit – Segregation of Duties Matrix*

<table>
<thead>
<tr>
<th>Activity to be Performed</th>
<th>Segregation Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Execution</td>
<td>Individuals who are authorized to execute transactions should not confirm and settle the trades or conduct account reconciliation activities.</td>
</tr>
<tr>
<td>Trade Confirmation</td>
<td>Individuals who conduct confirmations should not execute transactions.</td>
</tr>
<tr>
<td>Settlement – Disbursing and Receiving Funds</td>
<td>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).</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>Account reconciliation activities must be segregated from trade execution activities.</td>
</tr>
</tbody>
</table>

**Management Reporting**

*Exhibit – Summary of Management Reporting*

<table>
<thead>
<tr>
<th>Report</th>
<th>Contents</th>
<th>Audience</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Report</td>
<td>Investment portfolio, mark-to-market valuations, collateral, counterparty breakdown</td>
<td>Chief Financial Officer, Board of Trustees</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Annual Investment Report</td>
<td>Investment Guidelines, explanation of Investment Guidelines &amp; amendments, annual investment audit, annual investment income, total fees and commissions paid</td>
<td>Chief Financial Officer, Board of Trustees, (File with Division of the Budget, State Comptroller, State Finance Committee, Assembly Ways and Means Committee)</td>
<td>Annually</td>
</tr>
</tbody>
</table>

*Exhibit – Summary of Treasury Performance Reporting*

<table>
<thead>
<tr>
<th>Report</th>
<th>Contents</th>
<th>Audience</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Report</td>
<td>Investment performance vs. benchmark variance analysis</td>
<td>CFO, Board of Trustees</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>
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.
LIPA Investment Guidelines

Appendix C – Rating Definitions

MOODY’S

Short-Term Ratings
P-1 Superior
P-2 Strong
P-3 Acceptable
NP Not Prime

Long-Term Ratings\(^1\)
AAA Best Quality
AA High Quality
A Upper Medium Grade
Baa Medium Grade
Ba Speculative Elements
B Speculative
Caa Poor Quality
Ca Near or in Default
C Default

Note Ratings\(^3\)
MIG1/VMIG1 Best Quality
MIG2/VMIG2 High Quality
MIG3/VMIG3 Favorable Quality
MIG4/VMIG4 Adequate Quality
SG Speculative

Bond Fund Ratings
Aaa Best Quality
Aa High Quality
A Upper Medium Grade
Baa Medium Grade
Ba Speculative Elements
B Lacks Quality for Investment

Money Market Fund Ratings
Aaa Best Quality
Aa High Quality
A Upper Medium Grade
Baa Medium Grade
Ba Speculative Elements
B Lacks Quality for Investment

STANDARD & POOR’S

Short-Term Ratings
A-1+ Extremely Strong
A-1 Strong
A-2 Satisfactory
A-3 Adequate but susceptible to weakened capacity
B Significant Speculative Elements
C Vulnerable to Non-Payment
D Default

Long-Term Ratings\(^2\)
AAA Extremely Strong
AA Very Strong
A Strong
BBB Adequate
BB Speculative
B Low Vulnerability to Non-Payment
CCC Vulnerable to Non-Payment
CC Highly Vulnerable to Non-Payment
C Extremely Vulnerable to Non-Payment
D Default

Note Ratings
SP-1+ Very Strong
SP-1 Strong
SP-2 Satisfactory
SP-3 Speculative

Mutual Bond Fund Ratings
AAAf Extremely Strong
Aaf Very Strong
Af Strong
BBBf Adequate
BBf Uncertain Protection
Bf Vulnerable to Loss
CC Cf Extremely Vulnerable

Money Market Fund Ratings
AAAm Excellent
AAm Very Good
Am Good
BBBm Fair
G Consists of Primarily U.S. Government Securities

\(^1\) Numerical Modifiers of 1, 2 and 3 are applied to rating classifications from Aa to B, with 1 being the highest rating

\(^2\) In order to show relative standing within the major rating categories, the ratings from AA to CCC may be modified by adding a plus or minus sign

\(^3\) Ratings for state and municipal short-term obligations are designated Moody’s Investment Grade (MIG). Variable rate demand obligations have an additional rating (VMG) assigned to the demand feature