# TABLE OF CONTENTS

1. OVERVIEW OF INVESTMENT GUIDELINES ................................................................. 3  
   1.1. Purpose and Scope.................................................................................................................. 3  
   1.2. Definitions ............................................................................................................................... 3  
   1.3. Management of Investment Program .................................................................................... 3  
      1.3.1. Delegation of Authority..................................................................................................... 3  
      1.3.2. Annual Review and Approval ......................................................................................... 4  
2. INVESTMENT MANAGEMENT OBJECTIVES ............................................................ 4  
   2.1. Investment Objectives ......................................................................................................... 4  
   2.2. Types of Investments Authorized ...................................................................................... 4  
      2.2.1. U. S. Government Obligations ....................................................................................... 4  
      2.2.2. Repurchase Agreements ................................................................................................. 4  
      2.2.3. Commercial Paper ........................................................................................................ 5  
      2.2.4. Corporate Notes, Master Notes and Asset-Backed Securities (“ABS”) ......................... 5  
      2.2.5. Certificates of Deposit ................................................................................................... 5  
      2.2.6. Money Market Mutual Funds ........................................................................................ 6  
      2.2.7. Investment Contracts ..................................................................................................... 6  
      2.2.8. Municipal Obligations .................................................................................................... 6  
      2.2.9. Minimum Ratings of Financing Documents for Certain Investment Securities .......... 6  
   2.3. Variable Rate Notes .......................................................................................................... 6  
   2.4. Portfolio Diversification ...................................................................................................... 6  
   2.5. Investment Maturity ............................................................................................................ 7  
   2.6. Prohibited Investment Vehicles ........................................................................................ 7  
   2.7. Downgrades ....................................................................................................................... 8  
   2.8. Process for Obtaining Approval for Exceptions ............................................................... 8  
   2.9. Nuclear Decommissioning Trust Funds and OPEB Account ........................................... 8  
3. OPERATING PARAMETERS AND CONTROLS ......................................................... 8  
   3.1. Authorized Officers and Employees .................................................................................. 8  
   3.2. Competitive Selection ....................................................................................................... 8  
   3.3. Annual Investment Audit .................................................................................................. 9  
   3.4. Written Contracts and Confirmations .............................................................................. 9  
   3.5. Safekeeping and Custody ................................................................................................. 9  
   3.6. Internal Controls .............................................................................................................. 10  
   3.7. Notification Concerning Violations of Investment Guidelines ....................................... 10  
4. QUALIFIED FINANCIAL INSTITUTIONS .............................................................. 10  
   4.1. Qualifications for Brokers, Dealers and Agents .......................................................... 10  
   4.2. Qualifications for Investment Advisors/Managers .................................................... 11  
   4.3. Qualifications for Custodial Banks ................................................................................ 11  
   4.4. Ongoing Disclosure .......................................................................................................... 11  
   4.5. Affirmative Action ........................................................................................................... 11  
5. REPORTING .................................................................................................................... 11  
   5.1. Management Reporting ................................................................................................... 11  
   5.2. Performance Reporting ................................................................................................... 12  
6. APPLICABILITY .............................................................................................................. 12  
APPENDIX A - OPERATING CONTROLS .................................................................... 13  
APPENDIX B – NDTF INVESTMENT PROVISIONS ................................................. 16  
APPENDIX C – OPEB ACCOUNT INVESTMENT PROVISIONS ............................... 18
Investment Guidelines

1. Overview of Investment Guidelines

1.1. Purpose and Scope

These guidelines set forth the policy of the Long Island Power Authority (the “Authority”) and instructions to its officers and staff with regard to investments and the monitoring and reporting of such investments. The guidelines are intended to meet or exceed the provisions of the Public Authorities Law (“PAL”) Section 2925, the Office of the State Comptroller’s Investment Guidelines for Public Authorities contained in 2 New York Codes, Rules and Regulations (“NYCRR”) Part 201, Section 201.3, the provisions of the Authority’s enabling legislation, and the parameters established by the Authority’s Financing Documents. These guidelines have been adopted by, and can only be changed by, the Board of Trustees.

1.2. 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.

“Eligible Banking Institution” means any commercial bank or financial institution whose long-term unsecured debt securities are rated A- or better by S&P, A3 or better by Moody’s, or A- or better by Fitch, and having its principal office within the State, as authorized by the Board of Trustees by Resolution on June 26, 2014.

“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 Credit Agreement, dated as of March 1, 2013 among the Long Island Power Authority and Toronto Dominion (Texas) LLC, as Administrative Agent, related to Electric System General Revenue Notes, Series 2013A; any agreement with the issuer of any Credit Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution); and 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.

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

“State” means the State of New York.

1.3. Management of Investment Program

1.3.1. Delegation of Authority

The responsibility for implementing the investment program is delegated to the Chief Financial Officer. The Chief Financial Officer directs the Authority’s investment activities through the Managing Director of Finance and Budgeting and the Manager of Treasury Operations.

Investments shall be made in accordance with the Authority’s Investment Guidelines, including the Operating Controls, which are attached as Appendix A to these Guidelines, using 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 objectives set forth herein. All Authority staff participating in the investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Authority’s ability to effectively fulfill its responsibilities. All participants in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
**Investment Guidelines**

The Authority’s external auditor will conduct an annual audit of the investment management activity to ensure compliance with the Investment Guidelines by the Authority and its external investment managers. The findings of the audit shall be formally documented and submitted to the Chief Financial Officer and the Authority’s Board of Trustees.

1.3.2. **Annual Review and Approval**

Authority staff involved in the investment process shall review the Investment Guidelines on an annual basis, or more frequently as required, and shall submit the Investment Guidelines to the Authority’s Finance and Audit Committee and Board of Trustees no less frequently than annually for review and approval as required by the PAL.

Subsequent to any modifications to the Investment Guidelines, revised guidelines must be distributed to Authority personnel on the approved distribution list and the Financial Institutions described in Section 4.

2. **Investment Management Objectives**

2.1. **Investment Objectives**

The investment objectives of the Authority, listed in order of importance, are: to conform with all applicable legal and regulatory requirements; to adequately safeguard investment principal; to provide for portfolio liquidity; and to earn reasonable rates of return.

The investment objectives for the NDTF and OPEB Accounts (described below) are: to conform with all applicable legal and regulatory requirements; to earn reasonable rates of return; and to provide for portfolio liquidity, as necessary.

2.2. **Types of Investments Authorized**

The Authority may deposit monies with Eligible Banking Institutions, as separately authorized by the Board of Trustees by Resolution on June 26, 2014. Additionally, investments shall be limited to the following types of securities (“Investment Securities”):

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;
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 and ‘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 and ‘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 sixty (60) 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 combined capital and surplus of more than $1 billion, and (2) has a long-term debt rating of “A-” or higher by S&P and “A3” or higher by Moody’s;
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 Manager of Treasury Operations or her 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 by S&P and “P-1” or higher by Moody’s 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 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. 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 397 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 “A-1” by S&P and “P-1” by Moody’s.

2.2.4. Corporate Notes, Master Notes and Asset-Backed Securities (“ABS”)
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 three years at the time of purchase, and for ABS, the final maturity is not to exceed two years with a weighted average life not to exceed one year at the time of purchase;
2. has long term debt ratings of “A-” or higher by S&P and “A3” 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 ABS; and
4. the obligation has a “hard-bullet” or guaranteed final maturity date.

2.2.5. Certificates of Deposit
Certificates of Deposit, including Yankee Certificates of Deposit, provided:

1. the bank is a member of the Federal Reserve System and has combined capital and surplus of more than $250 million;
2. the bank has a long-term debt rating of “A-” or higher by S&P and “A3” or higher by Moody’s and short-term ratings, if applicable, of “A-1” by S&P and “P-1” by Moody’s.
**Investment Guidelines**

### 2.2.6. Money Market 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 operate in accordance with 17 C.F.R. 270.2a-7. The fund must be rated “AAAm” by S&P, or the equivalent by another rating agency. The fund must also be properly registered for sale in the State.

### 2.2.7. 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 and “AA-” or higher by S&P.

### 2.2.8. Municipal Obligations

Municipal debt obligations provided that the obligation has ratings of “A3” or higher by Moody’s or “A-” or higher by S&P and/or Fitch or 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.

### 2.2.9. Minimum Ratings of Financing Documents for Certain Investment Securities

Until such time as the Financing Documents have been amended to permit such purchase or such banks have waived any applicable restrictions in such agreements relating to such purchase, the securities listed in 2.2.4 (Corporate Notes), 2.2.5 (Certificates of Deposit), and 2.2.8 (Municipal Obligations) will have higher minimum rating requirements of “Aa3” or higher by Moody’s or “AA-” or higher by S&P. Upon the amendment or waiver of such requirements (anticipated during 2015), the Authority shall provide written notice to the Finance and Audit Committee of the Board of Trustees and the Investment Managers.

### 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 U.S. Government Obligations and corporate obligations and no greater than two years (with a weighted average life of one year) for ABS;
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 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%; and
6. The Manager of Treasury Operations or her designated Investment Manager will use pricing services, pricing matrices or "theoretical" pricing models to calculate the market value of all VRNs held in the portfolio, which will be used to value the portfolio holdings.

### 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>80% maximum</td>
</tr>
<tr>
<td>Corporate Notes, Master Notes and Asset-Backed Securities Combined</td>
<td>40% maximum</td>
</tr>
<tr>
<td>Domestic and Yankee Certificates of Deposit</td>
<td>40% maximum</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>75% maximum</td>
</tr>
</tbody>
</table>
Investment Guidelines

<table>
<thead>
<tr>
<th>Investment</th>
<th>Maximum Percentage</th>
</tr>
</thead>
<tbody>
<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</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:

- U.S. Treasury Obligations (including STRIPS) 100% maximum
- Each Federal Agency 20% maximum
- Repurchase Agreements Counterparties Lesser of 10% or $50 million
- Money Market Mutual Funds 75% maximum

2.5. Investment Maturity

The investment portfolio will be structured in a manner that ensures sufficient cash is available to meet the anticipated liquidity needs of the Authority. 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.

Generally, investments shall have maturities of two years or less from the settlement date of the securities. However, investment maturities may exceed two years provided that:

- The maturity does not exceed the expected disbursement date of the funds (as provided to the Investment Manager by the Authority, if applicable);
- 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 or the Managing Director of Finance and Budgeting.

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 variable rate notes,
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 by the Manager of Treasury Operations or her designated Investment Manager(s) to the Chief Financial Officer and the Managing Director of Finance and Budgeting.

2.6. Prohibited Investment Vehicles

The Authority is prohibited from the practices listed below:

- Auction Rate Securities (ARS);
- Home Equity ABS;
- 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 Investment Guidelines unless approved by the Chief Financial Officer.
Investment Guidelines

2.7. Downgrades

The Manager of Treasury Operations or her designated Investment Manager(s) shall report any credit watch or downgrade to the Chief Financial Officer and the Managing Director of Finance and Budgeting upon learning of the event; if however, a credit rating downgrade occurs putting the Authority in violation of the Investment Guidelines, the Chief Financial Officer or the Managing Director of Finance and Budgeting shall provide direction to the Manager of Treasury Operations or the Investment Manager(s), which will generally be to liquidate the security to maintain compliance with the Investment Guidelines and Financing Documents. Any exception to such action will be reported to the Finance and Audit Committee of the Board of Trustees.

2.8. Process for Obtaining Approval for Exceptions

Approval for new instruments shall be obtained from the Authority’s Board of Trustees. The Board hereby authorizes minor exceptions to the Investment Guidelines with the immediate approval of the Chief Financial Officer or the Managing Director of Finance and Budgeting and final approval by the Board of Trustees. Any such minor exceptions to the Investment Guidelines will be reported to the Finance and Audit Committee of 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 and OPEB Account

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 or the OPEB Account. Separate investment provisions are provided for the NDTF (Appendix B) and OPEB Account (Appendix C).

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 Managing Director of Finance and Budgets, the Manager of Treasury Operations, or the external Investment Manager(s), 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.

To the extent that the Authority invests in an SEC registered mutual fund or exchange traded fund whose investment objectives and policies are consistent with this Investment Policy, the selection of a no-load, open-end fund constitutes a competitive selection.
3.3. **Annual Investment Audit**

An annual independent audit of all investments will be performed by the external auditors. The Authority shall comply with all legal and regulatory requirements, including those mandated by the PAL, the NYCRR, the Financing Documents, and the Investment Guidelines. The Annual Investment Audit shall:

- Determine whether 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 the Investment Guidelines; and
- 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 and regulations;
- 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 Investment Guidelines.

The Annual Investment Audit Report shall be submitted by the Manager of Treasury Operations and the Managing Director of Finance and Budgeting to the Chief Financial Officer and the Authority’s Board of Trustees.

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 or by written confirmation 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 party 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.
**Investment Guidelines**

The custodian may act on oral instructions from the Chief Financial Officer, Managing Director of Finance and Budgeting, or Manager of Treasury Operations. 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 “A3” or higher by Moody’s or “A-” or higher by S&P do not require collateralization unless otherwise required by the Chief Financial Officer or the Managing Director of Finance and Budgeting. 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 Investment Guidelines, shall be approved by the Chief Financial Officer, and shall include the following:

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

### 3.7. Notification Concerning Violations of Investment Guidelines

In the event that these investment guidelines are violated, the Chief Financial Officer shall be informed immediately and advised of any corrective action that should be taken, as well as the implication of such action.

### 4. Qualified Financial Institutions

#### 4.1. Qualifications for Brokers, Dealers and Agents

The Manager 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 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.
Investment Guidelines

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.

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.
Investment Guidelines

A Quarterly Management Report on the investment management program shall be prepared by the Manager of Treasury Operations and the Managing Director of Finance and Budgeting and presented to the Chief Financial Officer and the Authority’s Board of Trustees. The Quarterly Management Report shall include:

- A portfolio inventory;
- Credit quality of each holding (or average credit quality of each fund);
- 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

Performance reporting shall be included in the Management Reports distributed by the Manager of Treasury Operations and the Managing Director of Finance and Budgeting to the Chief Financial Officer, who will track performance relative to specified benchmarks and act on any weaknesses related to the management of the assets.

6. Applicability

These Investment Guidelines shall govern all investments initiated by the Authority after March 26, 2015 and shall not apply to any investments initiated by the Authority on or prior to March 26, 2015. Nothing contained in these Investment 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 Investment Guidelines.
**Investment Guidelines**

**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 investment manager(s), the investment manager(s) 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 Executive Officer</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Managing Director of Finance</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Controller</td>
<td>As Necessary</td>
</tr>
<tr>
<td>Investment Manager(s)</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 Manager of Treasury Operations and the Managing Director of Finance and Budgeting. 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>As necessary</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>• Responsible for adherence to all Authority policies and guidelines, including investment guidelines</td>
<td>As necessary</td>
</tr>
<tr>
<td>Chief Financial Officer</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>Managing Director of Finance &amp; Budgeting</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>As necessary</td>
</tr>
<tr>
<td></td>
<td>• Distribution of guidelines and amendments</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>• Annual review of guidelines</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>• Oversight of investment activity</td>
<td>As necessary</td>
</tr>
<tr>
<td></td>
<td>• Invest funds as provided for in the guidelines</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>• Keep abreast of developments in the markets</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>• Review performance information</td>
<td>Monthly</td>
</tr>
<tr>
<td></td>
<td>• Management reporting</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Manager of Treasury Operations</td>
<td>• Collect performance information</td>
<td>Weekly</td>
</tr>
<tr>
<td></td>
<td>• Distribute performance information</td>
<td>Weekly</td>
</tr>
</tbody>
</table>
**Investment Guidelines**

<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>

**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*

**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:
Investment Guidelines

- 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, 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.
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.
   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

2. Obligations at the time of their purchase rated “BBB-” or better by S&P and “Baa3” or better by Moody’s. In the event that a corporate issuer is placed on market watch or downgraded, the Investment Manager(s) shall immediately notify the Chief Financial Officer. Securities payable in U.S. dollars shall consist 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. Domestic and Yankee Certificates of Deposits and Banker’s Acceptances of domestic banks with minimum long-term ratings of “A-” by S&P and “A3” by Moody’s and minimum short-term ratings, if applicable, of “A-1” by S&P or “P-1” by Moody’s.

6. Short-term money market mutual funds, 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 composition of benchmark market indices, such as those provided by Barclay’s, CRSP, Dow Jones, FTSE, MSCI, Russell, and S&P.

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 15% of the portfolio may be invested in notes and bonds rated “BBB” category and no more than 30% of the portfolio may be invested in notes or bonds rated in the “BBB” and “A” categories. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement. The overall rating of the fixed income assets shall be at least in the “A” category.

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

6. 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.
**PERFORMANCE OBJECTIVE**

Fixed income investments should be managed to track the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market 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 shall be invested in an S&P 500 index mutual fund. The equity target is 35% and must be rebalanced quarterly at plus or minus 5%.

To the extent that the Authority invests funds in a commingled fund or an SEC registered mutual fund or exchange traded fund whose investment objectives and policies are consistent with this Investment Policy, the Authority shall be in compliance with the investment objectives, portfolio restrictions, and performance benchmarking of the policy, and the investments shall be analyzed based on the fund viewed as a whole and not the constituent holdings of the fund.
Appendix C – OPEB Account Investment Provisions

PERMISSIBLE INVESTMENTS

The Authority may invest in the vehicles listed below provided the Financing Documents been amended to permit such purchase or such banks have waived any applicable restrictions in such agreements relating to such purchase.

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 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 “BBB-” or better by S&P or “Baa3” or better by Moody’s. In the event that a corporate issuer is placed on market watch or downgraded, the Investment Manager shall immediately notify the Chief Financial Officer. Securities payable in U.S. dollars shall consist 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. Domestic and Yankee Certificates of Deposits and Banker’s Acceptances of domestic banks with minimum long-term ratings of “A-” by S&P or “A3” by Moody’s and minimum short-term ratings, if applicable, of “A-1” by S&P or “P-1” by Moody’s.

6. Short-term money market mutual funds, 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 composition of benchmark market indices, such as those provided by Barclay’s, CRSP, Dow Jones, FTSE, MSCI, Russell, and S&P.

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 with the exception of U.S. government/agency securities.

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

4. No more than 15% of the portfolio may be invested in notes and bonds rated “BBB” category and no more than 30% of the portfolio may be invested in notes or bonds rated in the “BBB” and “A” categories. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement. The overall rating of the fixed income assets shall be at least in the “A” category.

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

PERFORMANCE OBJECTIVE

The Authority believes that to meet the OPEB Accounts’ objectives of funding future liabilities for such benefits while balancing long-term risk and return and providing reasonable diversification, the OPEB Account should allocate assets in accordance with the targets for each asset class as follows:
Investment Guidelines

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Asset Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities or Mutual Funds</td>
<td>45%</td>
</tr>
<tr>
<td>International Equities or Mutual Funds</td>
<td>20%</td>
</tr>
<tr>
<td>Fixed Income Investments</td>
<td>20%</td>
</tr>
<tr>
<td>Fixed Income Investments – Inflation Protected Securities</td>
<td>15%</td>
</tr>
</tbody>
</table>

Equity investments should replicate low cost market index strategies rather than attempting individual security selection.

Fixed income investments should be managed to track the Barclays U.S. Treasury Inflation Protected Securities Index\(^1\) or the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market Index. The fixed income’s 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 portfolio should be rebalanced on a quarterly basis when any asset class falls outside of 5% of its asset weighting.

To the extent that the Authority invests funds in a commingled fund or an SEC registered mutual fund or exchange traded fund whose investment objectives and policies are consistent with this Investment Policy, the Authority shall be in compliance with the investment objectives, portfolio restrictions, and performance benchmarking of the policy, and the investments shall be analyzed based on the fund viewed as a whole and not the constituent holdings of the fund.

The Authority recognizes that the OPEB Account is funded on a periodic lump sum basis after the payment of other expenses within the year. The Chief Financial Officer, acting through the Managing Director of Finance and Budgeting and the Manager of Treasury Operations, may dollar-cost average such lump-sum deposits into investment securities within the OPEB Account over four equal quarterly installments during the following 12 months. Amounts held as cash or short-term securities pending investment should not be considered in determining asset weightings for the purpose of rebalancing. Investment performance for the OPEB Account shall be calculated both with and without the cash position related to such dollar cost averaging. The Authority also recognizes that from time to time it may be necessary to hold cash and marketable securities for a short time pending investment or for other reasons.

---

\(^1\) Includes the inflation-indexed securities within the Barclays U.S. Treasury Bond Index, which represents U.S. Treasury obligations with maturities of more than one year.