

**BOARD AGENDA SUMMARY SHEET**

<b>Committee or Board:</b> Finance and Audit	<b>Date:</b> September 20, 2019	<b>Board Meeting Date:</b> September 25, 2019
---	------------------------------------	--

**For All Board Voting Items:**

**Title of Agenda Item:** Recommendation to Approve Amendments to the Board Policy on Investments

**Consent Agenda:** Yes No

**Accompanying Presentation:** Yes No

**LIPA Presenter:** Kenneth Kane

**PSEG Long Island Presenter:** N/A

<b>Requested Action:</b>	The Committee is requested to adopt a resolution recommending amendments to the Board Policy on Investments.
<b>Summary:</b> <b>(include proposed amendments to Board Policies, if applicable)</b>	Consistent with Section 2925 of the Public Authorities Law (“PAL”), the Policy was last reviewed and approved by the Board on March 20, 2019. Subsequent to the March 2019 approval, based on Staff review, Staff is proposing additional modifications to the Policy to: (i) replace the definition of “Authorized Persons” in Section 7 of the Policy, entitled Bank Authorization, to be defined as the Authority’s Chief Executive Officer (CEO) or authorized designees; and (ii) transfer the monetary threshold requirements to an internal Financial Policy and Procedure. These changes are intended to allow more efficient handling of internal processes related to Treasury while maintaining strong system of internal controls.

**FOR CONSIDERATION**

September 25, 2019

**TO:** The Finance and Audit Committee of the Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Recommendation to Approve Amendments to the Board Policy on Investments

---

**Requested Action**

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) of the Long Island Power Authority (the “Authority”) is requested to adopt a resolution recommending amendments to the Board Policy on Investments (the “Policy”), which resolution is attached hereto as **Exhibit “A”**.

**Discussion**

Consistent with Section 2925 of the Public Authorities Law (“PAL”), the Policy was last reviewed and approved by the Board on March 20, 2019. Subsequent to the March 2019 approval, based on Staff review, Staff is proposing additional modifications to the Policy to: (i) replace the definition of “Authorized Persons” in Section 7 of the Policy, entitled Bank Authorization, to be defined as the Authority’s Chief Executive Officer (CEO) or authorized designees; and (ii) transfer the monetary threshold requirements to an internal Financial Policy and Procedure. These changes are intended to allow more efficient handling of internal processes related to Treasury while maintaining strong system of internal controls.

The suggested changes to the Policy are more fully set forth in **Exhibit “B”**.

**Recommendation**

Based upon the foregoing, I recommend the approval of the above requested action by adoption of resolution in the form attached hereto as **Exhibit “A”**.

**Attachments**

- Exhibit “A”** Resolution
- Exhibit “B”** Board Policy on Investments (redline)
- Exhibit “C”** Board Policy on Investments (clean)

**Exhibit "A"**

**RESOLUTION RECOMMENDING APPROVAL OF AMENDMENTS TO THE  
BOARD POLICY ON INVESTMENTS**

---

**RESOLVED**, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the revised Board Policy on Investments in the form presented at this meeting to be effective immediately.

Dated: September 25, 2019

Board Policy: **INVESTMENT POLICY**  
Policy Type: **Operating**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1468, Approved March 20, 2019**  
[\[#xxx\], amended September 25, 2019](#)



---

**TABLE OF CONTENTS**

<b>1. OVERVIEW OF INVESTMENT POLICY .....</b>	<b>3</b>
<b>1.1. Purpose and Scope .....</b>	<b>3</b>
<b>1.2. Definitions .....</b>	<b>3</b>
<b>1.3. Management of Investment Program.....</b>	<b>4</b>
<b>2. INVESTMENT MANAGEMENT OBJECTIVES AND PERMITTED INVESTMENT.....</b>	<b>4</b>
<b>2.1. Investment Objectives.....</b>	<b>4</b>
<b>2.2. Permitted Investments .....</b>	<b>4</b>
<b>2.3. Diversification, Ratings and Maturity of Investments Reference Table.....</b>	<b>8</b>
<b>2.4. Prohibited Investment Vehicles.....</b>	<b>9</b>
<b>2.5. Downgrades.....</b>	<b>9</b>
<b>2.6. Process for Obtaining Approval for Exceptions .....</b>	<b>9</b>
<b>2.7. Nuclear Decommissioning Trust Funds &amp; Other Post-Employment Benefits Account ....</b>	<b>10</b>
<b>3. OPERATING PARAMETERS AND CONTROLS.....</b>	<b>10</b>
<b>3.1. Authorized Officers and Employees.....</b>	<b>10</b>
<b>3.2. Competitive Selection.....</b>	<b>10</b>
<b>3.3. Annual Investment Audit.....</b>	<b>10</b>
<b>3.4. Written Contracts and Confirmations .....</b>	<b>11</b>
<b>3.5. Safekeeping and Custody.....</b>	<b>11</b>
<b>3.6. Internal Controls .....</b>	<b>12</b>
<b>3.7. Notification Concerning Violations of Investment Policy .....</b>	<b>12</b>
<b>4. QUALIFIED FINANCIAL INSTITUTIONS .....</b>	<b>12</b>
<b>4.1. Qualifications for Brokers, Dealers and Agents .....</b>	<b>12</b>
<b>4.2. Qualifications for Investment Advisors/Managers .....</b>	<b>13</b>
<b>4.3. Qualifications for Custodial Banks.....</b>	<b>13</b>
<b>4.4. Ongoing Disclosure.....</b>	<b>13</b>
<b>4.5. Affirmative Action.....</b>	<b>13</b>
<b>5. REPORTING .....</b>	<b>14</b>
<b>5.1. Management Reporting.....</b>	<b>14</b>
<b>5.2. Performance Reporting .....</b>	<b>14</b>

<b>6. APPLICABILITY .....</b>	<b>15</b>
<b>7. BANK AUTHORIZATION.....</b>	<b>15</b>
<b>APPENDIX A - OPERATING PROCEDURES &amp; CONTROLS (MANUAL).....</b>	<b>16</b>
<b>APPENDIX B – NDTF INVESTMENT PROVISIONS .....</b>	<b>19</b>
<b>APPENDIX C – OTHER POST-EMPLOYMENT BENEFIT ACCOUNT INVESTMENT PROVISIONS .....</b>	<b>20</b>

## **1. OVERVIEW OF INVESTMENT POLICY**

### **1.1. Purpose and Scope**

This policy sets forth instructions to the officers and staff of the Long Island Power Authority (the "Authority") with regard to investments of monies of the Authority and its subsidiary and the monitoring and reporting of such investments. The Policy is intended to meet 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. This Policy has 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 May 18, 2016.

"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 expiring on March 22, 2019 related to Electric System General Revenue Notes, Series 2013A, which will be replaced by a Revolving Credit Agreement with JP Morgan; 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 the investment obligations described in Section 2.2 hereof.

"Rating Agencies" means Standard and Poor's Global Ratings (S&P), Moody's Investors 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 Investment 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 Director of Finance and Treasury Operations or the Manager of Treasury Operations.

Investments shall be made in accordance with this policy, including the Operating Procedures and Controls, which are attached as Appendix A. The governing body and management of the Authority are responsible for making investment decisions for the Authority and for doing so with the judgment, care, skill, prudence and diligence under the circumstances then prevailing that a knowledgeable and prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. 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.

#### **1.3.2. Annual Review and Approval**

Authority staff involved in the investment process shall review the Investment Policy on an annual basis, or more frequently as required, and shall submit the Investment Policy 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.

After any modifications to the Investment Policy, a revised policy must be distributed to Authority personnel on the approved distribution list and the Financial Institutions specified in Appendix A.

## **2. INVESTMENT MANAGEMENT OBJECTIVES AND PERMITTED INVESTMENT**

### **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. Permitted Investments**

The Authority, subject to the requirements of Section 3.5 of this Policy, may deposit monies with Eligible Banking Institutions, as separately authorized by the Board of Trustees by Resolution on May 18, 2016. Additionally, investments shall be limited to the following types of securities ("Permitted Investments"):

1. **U.S. Treasury & Government Guaranteed** – U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. **Federal Agency/GSE** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3. **Supranationals** – U.S. dollar denominated debt obligations of a multilateral organization of governments.
4. **Corporates and Other Debt Obligations** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a U.S. or foreign corporation, financial institution, non-profit, or other entity.
5. **Municipals** – Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.
6. **Collateralized Investment Agreements** – Investment agreements or guaranteed investment contract with any financial institution that guarantees repayment of principal and a fixed or floating interest rate for a predetermined period of time.
7. **Agency Mortgage Backed Securities** – Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
8. **Asset-Backed Securities** – Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases.
9. **Negotiable Bank Deposit Obligations** – Negotiable bank certificates of deposit, deposit notes or other deposit obligations issued by a nationally or ~~state-chartered~~[state-chartered](#) bank, credit union or savings association, or by a federally or state-licensed branch of a foreign bank or financial institution.
10. **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a U.S. or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.
11. **Bankers' Acceptances** – Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.
12. **Money Market Mutual Funds** – Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.



13. **Floating Rate Notes** – Floating rate notes (FRNs) may be purchased as part of the Authority's Portfolio if the following criteria are met:

- a. FRN rate resets no less frequently than quarterly;
- b. FRN rate resets with a frequency that produces a close tracking with money market rates;
- c. FRN is indexed to a money market rate such as Federal Funds, or the Treasury Bill or LIBOR of corresponding maturity, that correlates very highly with overall changes in money market rates even under wide swings in interest rates;
- d. Any interest rate cap is at least 10%; and
- e. Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager uses pricing services, pricing matrices or "theoretical" pricing models to calculate the market value of all FRNs held in the portfolio to value the portfolio holdings.

14. **Repurchase Agreements** – Permitted provided certain conditions are met:

- a. 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~~ obligation's principal and accrued interest;
- b. A written master repurchase agreement governs the transaction that outlines the basic rights of both buyer and seller, including:
  - events of default which would permit the purchaser to liquidate pledged collateral;
  - the relationship between parties to the agreement, which shall ordinarily be purchaser and seller;
  - method of computing margin maintenance requirements and providing for timely correction of margin deficiencies or excesses;
- c. The repurchase agreement is transacted on a delivery or book entry versus payment basis;
- d. 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 Federal Reserve Bank, or
  - a bank which is a member of the Federal Reserve Bank or maintains account with member banks to accomplish book-entry transfer of securities to the credit of the Authority 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;
- e. 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;
- f. The Investment Manager 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);
- g. Substitutions of collateral will be permitted only with advance written approval of the Chief Financial Officer;

- h. The Authority will only enter into repurchase agreements 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:
  - Broker dealers who are members of the National Association of Securities Dealers, listed on the Federal Reserve Bank of New York's list of primary government securities dealers, and have \$25 billion in assets and \$350 million in capital, or
  - Banks or trust companies authorized to do business in the State of New York and have \$5 billion in assets and \$500 million in capital;
  - No more than 10% or \$50 million, whichever is less, of the Investment Funds will be invested with any single repurchase agreement counterparty; and
- i. The repurchase agreement shall have a term not to exceed ninety days.

Permitted investments must be authorized if the moneys being invested are subject to a legal or other restriction that precludes such investment.

**2.3. Diversification, Ratings and Maturity of Investments Reference Table**

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement <sup>1</sup>	Maximum Maturity <sup>6</sup>
U.S. Treasury	100%	100%	N/A	5.5 Years (5.5 year avg. life <sup>5</sup> for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75%	40% <sup>4</sup>	N/A	10 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	10%	Highest ST or Two Highest LT Rating Categories (A-1/P-1, AA-/Aa3, or equivalent)	5.5 Years
Corporates and other Debt Obligations	40% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.5 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.5 Years
Agency Mortgage-Backed Securities	25%	40% <sup>4</sup>	N/A	5.5 Year Avg. Life <sup>5</sup>
Asset-Backed Securities	20%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.5 Year Avg. Life <sup>5</sup>
Certificates of Deposit (CD)	50% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	3 Years
Commercial Paper (CP)	50% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Collateralized Investment Agreements	50%	5%	Two Highest LT Rating Categories	5.5 Years
Bankers' Acceptances (BAs)	35% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Floating Rate Notes			Should reflect the appropriate sector requirements	
Repurchase Agreements	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	90 Days
Government Money Market Funds	100%	100%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Money Market Funds	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A

**Notes:**

<sup>1</sup> Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term.

<sup>2</sup> Maximum allocation to non-government securities is 75% combined.

<sup>3</sup> Maximum across all non-government permitted investment sectors is 5% combined per issuer.

<sup>4</sup> Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

<sup>5</sup> The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

<sup>6</sup> All investments shall mature or be redeemable no later than such times as shall be necessary to provide monies needed for payments to be made from any such fund or account. Unless otherwise noted, maturity limitation is measured from the transaction’s settlement date.

#### **2.4. Prohibited Investment Vehicles**

The Authority is prohibited from investing in the investments or engaging in the practices listed below:

- Investment in Auction Rate Securities (ARS);
- Home equity ABS and 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 this Investment Policy (see process below for minor exceptions).

#### **2.5. Downgrades**

The Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager(s) shall report any credit rating downgrade resulting in violation of the Investment Policy to the Chief Financial Officer within a reasonable period of learning of the downgrade, along with any recommended action. Upon receiving such report, the Chief Financial Officer shall provide direction to the Director of Finance and Treasury Operations, Manager of Treasury Operations or the Investment Manager(s) which would generally be to liquidate any security that does not comport with the Investment Policy and Financing Documents at the time of the downgrade. Any direction to take an action other than to liquidate such security shall be reported to the Finance and Audit Committee of the Board of Trustees.

#### **2.6. Process for Obtaining Approval for Exceptions**

Approval for new instruments not listed herein shall be obtained from the Authority’s Board of Trustees. The Board hereby authorizes minor exceptions (including ratings or diversification guidelines) to the Investment Policy with the immediate approval of the Chief Financial Officer and final approval by the Board of Trustees. Any such minor exceptions to the Investment Policy 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.

## **2.7. 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 Other Post-Employment Benefits (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 Director of Finance and Treasury Operations, 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 more than \$10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall use competitive quotations. For each transaction equal to or less than \$10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may use 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 Policy. 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 investment assets; and a system of adequate internal controls is maintained;

- Determine whether the Authority has complied with applicable laws, regulations, the State Comptroller's investment guideline requirements, such public authority accounting directives as may be issued by the State Comptroller, and the Investment Policy; 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 submitted to the Chief Financial Officer, and to the Authority's Board of Trustees (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 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, the State Comptroller's investment guideline requirements, and such public authority accounting directives as may be issued by the State Comptroller;
- A statement of positive assurance of compliance on the items tested;
- A statement on any other material deficiency or reportable condition as defined by *Governmental Auditing Standards* identified during the audit not covered above; and
- Recommendations, if any, with respect to amendment of this Investment Policy.

The Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority's fiscal year with the Office of Budget and Policy Analysis of the Office of the State Comptroller.

#### **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 if 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 and with whom the Authority has a written custodial agreement. 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. Monthly,

the custodian will also provide reports listing 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, the Director of Finance and Treasury Operations, or the Manager of Treasury Operations. Such instructions are to be confirmed in writing, within one business day, 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.

All 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 Permitted Investments as set out in Section 2. There shall be a written custodial agreement that, 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. Negotiable Bank Deposit Obligations as defined in sections 2.2 and 2.3 of this policy are exempt from these collateral requirements.

### **3.6. Internal Controls**

The Authority follows the operating procedures defined in Appendix A to control all Authority investment activity.

### **3.7. Notification Concerning Violations of Investment Policy**

If this Investment Policy is violated, the Chief Financial Officer shall be informed immediately and advised of any corrective action that should be taken, as well as the implication of such action.

## **4. QUALIFIED FINANCIAL INSTITUTIONS**

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

The Director of Finance and Treasury Operations and/or the Authority's Investment Manager shall identify broker/dealers that are approved for investment purposes ("Qualified Institutions") and maintain a list of such approved dealers. 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 (SEC) 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 SEC under the Investment Advisor Act of 1940 or exempt from registration.

The Authority shall 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 bank of the Federal Reserve System or maintain accounts with member banks of the Federal Reserve System 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, or his/her designee, must review the annual financial statements and credit ratings of the proposed custodian bank and based upon such review, affirmatively find that the proposed custodial bank is financially sound. Such determinations of creditworthiness shall be undertaken on a periodic basis as determined by the Chief Financial Officer.

#### **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 Policy. 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 use minority and women-owned financial firms in the conduct of the Authority's investment activities.

## **5. REPORTING**

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

### **5.1. Management Reporting**

To manage the Investment Funds effectively and to provide management with useful information, it is necessary for the Director of Finance and Treasury Operations 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 by the Manager of Treasury Operations under the supervision of the Director of Finance and Treasury Operations 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;
- A breakdown of the portfolio by counterparty; and
- Portfolio position against asset allocation target

An Annual Investment Report shall be prepared by the Manager of Treasury Operations and submitted by the Chief Financial Officer 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 may be a part of any other annual report that the Authority is required to make. The Annual Investment Report shall include the following:

- The Investment Policy is in compliance with Section 2925(3) of the Public Authorities Law and any amendments since last reported;
- An explanation of the Investment Policy 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 and should track performance relative to specified benchmarks and sector indices for the current period and year-to-date. The Director of Finance and Treasury Operations and Chief Financial Officer will act on any weaknesses related to the management of the assets.

## 6. APPLICABILITY

This Investment Policy shall govern all investments initiated by the Authority after March 20, 2019 and shall not apply to any investments initiated by the Authority on or prior to March 20, 2019. Nothing contained in these Investment Policy 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 this Investment Policy.

## 7. BANK AUTHORIZATION

The Chief Executive Officer or any authorized designees<sup>1</sup> ~~following persons (“Authorized Persons”)~~ are authorized to deposit any of the funds of the Authority in any commercial bank or financial institution whose long-term deposits are rated A- or better by Standard & Poor’s Corporation, A3 or better by Moody’s Investor Service, Inc. or A- or better by Fitch, Inc. (each such institution referred to herein as the “Bank”), either at its head office or at any of its branches.:

- ~~• Chief Executive Officer or any authorized designees<sup>1</sup>,~~
- ~~• Chief Financial Officer,~~
- ~~• Vice President – Controller,~~
- ~~• Director of Finance and Treasury Operations,~~
- ~~• Manager of Treasury Operations,~~
- ~~• Treasurer of the Authority’s Service Provider or any authorized designees, or Assistant Treasurer of the Authority’s Service Provider or authorized designees.~~

Any funds of the Authority deposited in the Bank may be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, wire transfers or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority in accordance with the Financial Policies and Procedures of the Authority ~~and its Service Provider~~ by two signatures for instruments or orders in a face amount in excess of \$25,000.00, and by one signature for instruments or orders in the face amount of \$25,000.00 or less by Authorized Persons. -

Authorized Persons authorized to sign for such instruments or orders are:

- ~~• Chief Executive Officer or any authorized designees,~~
- ~~• Chief Financial Officer,~~
- ~~• Vice President – Controller,~~
- ~~• Director of Finance and Treasury Operations,~~
- ~~• Manager of Treasury Operations,~~
- ~~• Treasurer of the Authority’s Service Provider or any authorized designees, or Assistant Treasurer of the Authority’s Service Provider or authorized designees.<sup>2</sup>~~

<sup>1</sup> The Chief Executive Officer’s designees under this Investment Policy shall include only persons permitted by the LIPA By-Laws, Article IV, Section 7(c) (Powers and Duties of the Chief Executive Officer) and Article VIII, Section 1 (Execution of Instruments), and any other applicable guidance or limitations provided by the LIPA Board of Trustees

## APPENDIX A – OPERATING PROCEDURES AND CONTROLS (Manual)

### A. Distribution of the Investment Policy

The policy 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 Policy and all amendments, updates, or revisions to insure compliance with the most current policy. Below is the distribution list matrix for the investment policy.

Distribution List	Frequency
Board of Trustees	As necessary
Chief Executive Officer	As necessary
Chief Financial Officer	As necessary
Director of Finance and Treasury Operations	As necessary
VP and Controller	As necessary
Investment Manager(s)	As necessary
General Counsel	As necessary
Manager of Treasury Operations	As necessary

### B. Roles and Responsibilities in Executing the Investment Policy

The roles and responsibilities for investment management at the Authority rest primarily with the Director of Finance and Treasury Operations and the Chief Financial Officer. The matrix below defines the roles and responsibilities of all parties involved in the execution of the Investment Policy.

Roles	Responsibility	Frequency
Board of Trustees	<ul style="list-style-type: none"> <li>▪ Final Approval of the policy</li> <li>▪ Approval of exceptions to the policy (e.g. new investment types)</li> <li>▪ Approval of revisions to the policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ As necessary</li> <li>▪ As necessary</li> </ul>
Chief Executive Officer	<ul style="list-style-type: none"> <li>▪ Responsible for adherence to all Authority policies</li> </ul>	<ul style="list-style-type: none"> <li>▪ As necessary</li> </ul>
Chief Financial Officer	<ul style="list-style-type: none"> <li>▪ Approval of the policy</li> <li>▪ Approval of investment strategy</li> <li>▪ Approval of performance measurements</li> <li>▪ Approval of minor exceptions to the policy (i.e. amounts, maturities)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ As necessary</li> </ul>

Director of Finance and Treasury Operations	<ul style="list-style-type: none"> <li>▪ Serve as custodian of the policy</li> <li>▪ Develop investment strategy</li> <li>▪ Review investment strategy</li> <li>▪ Establish performance measurements</li> <li>▪ Distribution of policy and amendments</li> <li>▪ Annual review of policy</li> <li>▪ Oversight of investment activity</li> <li>▪ Invest funds as provided for in the policy</li> <li>▪ Review performance information</li> <li>▪ Management reporting</li> <li>▪ Collect performance information</li> <li>▪ Distribute performance information</li> <li>▪ Keep abreast of developments and notify the Chief Financial Officer, as needed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ As necessary</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ Monthly</li> <li>▪ Quarterly</li> <li>▪ Weekly</li> <li>▪ Weekly</li> <li>▪ Ongoing</li> </ul>
Investment Manager(s)	<ul style="list-style-type: none"> <li>▪ Develop investment strategy</li> <li>▪ Review investment strategy</li> <li>▪ Invest funds as provided for in the policy</li> <li>▪ Reporting investment portfolio</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ Daily, Monthly, Quarterly</li> </ul>

**C. 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).

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

**D. Management Reporting**

Report	Contents	Audience	Frequency
Management Report	Investment portfolio, mark-to-market valuations, collateral, counterparty breakdown	Chief Financial Officer, Board of Trustees	▪ Quarterly
Annual Investment Report	Investment Policy, explanation of Investment Policy & amendments, annual investment audit, annual investment income, total fees and commissions paid	Chief Financial Officer, Board of Trustees. (File with Division of the Budget, State Comptroller, State Senate Finance Committee, Assembly Ways and Means Committee)	▪ Annually
Performance Report	Investment performance vs. benchmark, variance analysis	Chief Financial Officer, Board of Trustees	▪ Quarterly

**E. Operating Procedures**

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

- The establishment and maintenance of a system of internal controls;
- 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 documented 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;
- 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.

## APPENDIX B – NDTF INVESTMENT PROVISIONS

### NUCLEAR DECOMMISSIONING TRUST FUND INVESTMENT PROVISIONS

To meet the Authority's objectives of funding future liabilities for the nuclear decommissioning obligations of the Authority's 18% share of Nine Mile Point Unit 2, while balancing long-term risk and return and providing reasonable diversification, the NDTF Account shall allocate assets in accordance with the targets for each asset class as follows:

Asset Class	Asset Weighting
Domestic Equity Mutual Funds	35%
International Equity Mutual Funds	20%
Fixed Income Mutual Funds	25%
Fixed Income Mutual Funds – Inflation Protected Securities	20%

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be 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.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index<sup>1</sup> or the Barclay's Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.<sup>2</sup>

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or "sweep accounts" pending investment or for other reasons.

<sup>1</sup> 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.

<sup>2</sup> The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.

**APPENDIX C – OPEB ACCOUNT INVESTMENT PROVISIONS****OPEB ACCOUNT  
INVESTMENT PROVISIONS**

To meet the Authority’s objectives of funding future contractual retirement benefit obligations while balancing long-term risk and return and providing reasonable diversification, the OPEB Account shall allocate assets in accordance with the targets for each asset class as follows:

<b>Asset Class</b>	<b>Asset Weighting</b>
Domestic Equity Mutual Funds	40%
International Equity Mutual Funds	25%
Fixed Income Mutual Funds	20%
Fixed Income Mutual Funds – Inflation Protected Securities	15%

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be 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.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index<sup>3</sup> or the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.<sup>4</sup>

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or “sweep accounts” pending investment or for other reasons.

<sup>3</sup> 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.

<sup>4</sup> The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.

Board Policy: **INVESTMENT POLICY**  
Policy Type: **Operating**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1468, Approved March 20, 2019**  
**[#xxx], amended September 25, 2019**



---

**TABLE OF CONTENTS**

<b>1. OVERVIEW OF INVESTMENT POLICY .....</b>	<b>3</b>
<b>1.1. Purpose and Scope .....</b>	<b>3</b>
<b>1.2. Definitions .....</b>	<b>3</b>
<b>1.3. Management of Investment Program.....</b>	<b>4</b>
<b>2. INVESTMENT MANAGEMENT OBJECTIVES AND PERMITTED INVESTMENT.....</b>	<b>4</b>
<b>2.1. Investment Objectives.....</b>	<b>4</b>
<b>2.2. Permitted Investments .....</b>	<b>4</b>
<b>2.3. Diversification, Ratings and Maturity of Investments Reference Table.....</b>	<b>8</b>
<b>2.4. Prohibited Investment Vehicles.....</b>	<b>9</b>
<b>2.5. Downgrades.....</b>	<b>9</b>
<b>2.6. Process for Obtaining Approval for Exceptions .....</b>	<b>9</b>
<b>2.7. Nuclear Decommissioning Trust Funds &amp; Other Post-Employment Benefits Account .....</b>	<b>10</b>
<b>3. OPERATING PARAMETERS AND CONTROLS.....</b>	<b>10</b>
<b>3.1. Authorized Officers and Employees.....</b>	<b>10</b>
<b>3.2. Competitive Selection.....</b>	<b>10</b>
<b>3.3. Annual Investment Audit.....</b>	<b>10</b>
<b>3.4. Written Contracts and Confirmations .....</b>	<b>11</b>
<b>3.5. Safekeeping and Custody.....</b>	<b>11</b>
<b>3.6. Internal Controls .....</b>	<b>12</b>
<b>3.7. Notification Concerning Violations of Investment Policy .....</b>	<b>12</b>
<b>4. QUALIFIED FINANCIAL INSTITUTIONS .....</b>	<b>12</b>
<b>4.1. Qualifications for Brokers, Dealers and Agents .....</b>	<b>12</b>
<b>4.2. Qualifications for Investment Advisors/Managers .....</b>	<b>13</b>
<b>4.3. Qualifications for Custodial Banks.....</b>	<b>13</b>
<b>4.4. Ongoing Disclosure.....</b>	<b>13</b>
<b>4.5. Affirmative Action.....</b>	<b>13</b>
<b>5. REPORTING .....</b>	<b>14</b>
<b>5.1. Management Reporting.....</b>	<b>14</b>
<b>5.2. Performance Reporting .....</b>	<b>14</b>



<b>6. APPLICABILITY .....</b>	<b>15</b>
<b>7. BANK AUTHORIZATION.....</b>	<b>15</b>
<b>APPENDIX A - OPERATING PROCEDURES &amp; CONTROLS (MANUAL).....</b>	<b>16</b>
<b>APPENDIX B – NDTF INVESTMENT PROVISIONS .....</b>	<b>19</b>
<b>APPENDIX C – OTHER POST-EMPLOYMENT BENEFIT ACCOUNT INVESTMENT PROVISIONS .....</b>	<b>20</b>

## **1. OVERVIEW OF INVESTMENT POLICY**

### **1.1. Purpose and Scope**

This policy sets forth instructions to the officers and staff of the Long Island Power Authority (the “Authority”) with regard to investments of monies of the Authority and its subsidiary and the monitoring and reporting of such investments. The Policy is intended to meet 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. This Policy has 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 May 18, 2016.

“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 expiring on March 22, 2019 related to Electric System General Revenue Notes, Series 2013A, which will be replaced by a Revolving Credit Agreement with JP Morgan; 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 the investment obligations described in Section 2.2 hereof.

“Rating Agencies” means Standard and Poor’s Global Ratings (S&P), Moody’s Investors 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 Investment 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 Director of Finance and Treasury Operations or the Manager of Treasury Operations.

Investments shall be made in accordance with this policy, including the Operating Procedures and Controls, which are attached as Appendix A. The governing body and management of the Authority are responsible for making investment decisions for the Authority and for doing so with the judgment, care, skill, prudence and diligence under the circumstances then prevailing that a knowledgeable and prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. 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.

#### **1.3.2. Annual Review and Approval**

Authority staff involved in the investment process shall review the Investment Policy on an annual basis, or more frequently as required, and shall submit the Investment Policy 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.

After any modifications to the Investment Policy, a revised policy must be distributed to Authority personnel on the approved distribution list and the Financial Institutions specified in Appendix A.

## **2. INVESTMENT MANAGEMENT OBJECTIVES AND PERMITTED INVESTMENT**

### **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. Permitted Investments**

The Authority, subject to the requirements of Section 3.5 of this Policy, may deposit monies with Eligible Banking Institutions, as separately authorized by the Board of Trustees by Resolution on May 18, 2016. Additionally, investments shall be limited to the following types of securities ("Permitted Investments"):

1. **U.S. Treasury & Government Guaranteed** – U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. **Federal Agency/GSE** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3. **Supranationals** – U.S. dollar denominated debt obligations of a multilateral organization of governments.
4. **Corporates and Other Debt Obligations** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a U.S. or foreign corporation, financial institution, non-profit, or other entity.
5. **Municipals** – Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.
6. **Collateralized Investment Agreements** – Investment agreements or guaranteed investment contract with any financial institution that guarantees repayment of principal and a fixed or floating interest rate for a predetermined period of time.
7. **Agency Mortgage Backed Securities** – Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
8. **Asset-Backed Securities** – Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases.
9. **Negotiable Bank Deposit Obligations** – Negotiable bank certificates of deposit, deposit notes or other deposit obligations issued by a nationally or state-chartered bank, credit union or savings association, or by a federally or state-licensed branch of a foreign bank or financial institution.
10. **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a U.S. or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.
11. **Bankers' Acceptances** – Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.
12. **Money Market Mutual Funds** – Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.

13. **Floating Rate Notes** – Floating rate notes (FRNs) may be purchased as part of the Authority's Portfolio if the following criteria are met:
- a. FRN rate resets no less frequently than quarterly;
  - b. FRN rate resets with a frequency that produces a close tracking with money market rates;
  - c. FRN is indexed to a money market rate such as Federal Funds, or the Treasury Bill or LIBOR of corresponding maturity, that correlates very highly with overall changes in money market rates even under wide swings in interest rates;
  - d. Any interest rate cap is at least 10%; and
  - e. Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager uses pricing services, pricing matrices or "theoretical" pricing models to calculate the market value of all FRNs held in the portfolio to value the portfolio holdings.
14. **Repurchase Agreements** – Permitted provided certain conditions are met:
- a. 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 obligation's principal and accrued interest;
  - b. A written master repurchase agreement governs the transaction that outlines the basic rights of both buyer and seller, including:
    - events of default which would permit the purchaser to liquidate pledged collateral;
    - the relationship between parties to the agreement, which shall ordinarily be purchaser and seller;
    - method of computing margin maintenance requirements and providing for timely correction of margin deficiencies or excesses;
  - c. The repurchase agreement is transacted on a delivery or book entry versus payment basis;
  - d. 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 Federal Reserve Bank, or
    - a bank which is a member of the Federal Reserve Bank or maintains account with member banks to accomplish book-entry transfer of securities to the credit of the Authority 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;
  - e. 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;
  - f. The Investment Manager 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);
  - g. Substitutions of collateral will be permitted only with advance written approval of the Chief Financial Officer;

- h. The Authority will only enter into repurchase agreements 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:
  - Broker dealers who are members of the National Association of Securities Dealers, listed on the Federal Reserve Bank of New York's list of primary government securities dealers, and have \$25 billion in assets and \$350 million in capital, or
  - Banks or trust companies authorized to do business in the State of New York and have \$5 billion in assets and \$500 million in capital;
  - No more than 10% or \$50 million, whichever is less, of the Investment Funds will be invested with any single repurchase agreement counterparty; and
- i. The repurchase agreement shall have a term not to exceed ninety days.

Permitted investments must be authorized if the moneys being invested are subject to a legal or other restriction that precludes such investment.

**2.3. Diversification, Ratings and Maturity of Investments Reference Table**

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement <sup>1</sup>	Maximum Maturity <sup>6</sup>
U.S. Treasury	100%	100%	N/A	5.5 Years (5.5 year avg. life <sup>5</sup> for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75%	40% <sup>4</sup>	N/A	10 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	10%	Highest ST or Two Highest LT Rating Categories (A-1/P-1, AA-/Aa3, or equivalent)	5.5 Years
Corporates and other Debt Obligations	40% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)	5.5 Years
Municipals	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.5 Years
Agency Mortgage-Backed Securities	25%	40% <sup>4</sup>	N/A	5.5 Year Avg. Life <sup>5</sup>
Asset-Backed Securities	20%	5%	Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)	5.5 Year Avg. Life <sup>5</sup>
Certificates of Deposit (CD)	50% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	3 Years
Commercial Paper (CP)	50% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Collateralized Investment Agreements	50%	5%	Two Highest LT Rating Categories	5.5 Years
Bankers' Acceptances (BAs)	35% <sup>2</sup>	5% <sup>3</sup>	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Floating Rate Notes			Should reflect the appropriate sector requirements	
Repurchase Agreements	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required	90 Days
Government Money Market Funds	100%	100%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Money Market Funds	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A

**Notes:**

<sup>1</sup> Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term.

<sup>2</sup> Maximum allocation to non-government securities is 75% combined.

<sup>3</sup> Maximum across all non-government permitted investment sectors is 5% combined per issuer.

<sup>4</sup> Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

<sup>5</sup> The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

<sup>6</sup> All investments shall mature or be redeemable no later than such times as shall be necessary to provide monies needed for payments to be made from any such fund or account. Unless otherwise noted, maturity limitation is measured from the transaction’s settlement date.

#### **2.4. Prohibited Investment Vehicles**

The Authority is prohibited from investing in the investments or engaging in the practices listed below:

- Investment in Auction Rate Securities (ARS);
- Home equity ABS and 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 this Investment Policy (see process below for minor exceptions).

#### **2.5. Downgrades**

The Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager(s) shall report any credit rating downgrade resulting in violation of the Investment Policy to the Chief Financial Officer within a reasonable period of learning of the downgrade, along with any recommended action. Upon receiving such report, the Chief Financial Officer shall provide direction to the Director of Finance and Treasury Operations, Manager of Treasury Operations or the Investment Manager(s) which would generally be to liquidate any security that does not comport with the Investment Policy and Financing Documents at the time of the downgrade. Any direction to take an action other than to liquidate such security shall be reported to the Finance and Audit Committee of the Board of Trustees.

#### **2.6. Process for Obtaining Approval for Exceptions**

Approval for new instruments not listed herein shall be obtained from the Authority’s Board of Trustees. The Board hereby authorizes minor exceptions (including ratings or diversification guidelines) to the Investment Policy with the immediate approval of the Chief Financial Officer and final approval by the Board of Trustees. Any such minor exceptions to the Investment Policy 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.

## **2.7. 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 Other Post-Employment Benefits (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 Director of Finance and Treasury Operations, 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 more than \$10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall use competitive quotations. For each transaction equal to or less than \$10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may use 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 Policy. 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 investment assets; and a system of adequate internal controls is maintained;

- Determine whether the Authority has complied with applicable laws, regulations, the State Comptroller's investment guideline requirements, such public authority accounting directives as may be issued by the State Comptroller, and the Investment Policy; 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 submitted to the Chief Financial Officer, and to the Authority's Board of Trustees (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 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, the State Comptroller's investment guideline requirements, and such public authority accounting directives as may be issued by the State Comptroller;
- A statement of positive assurance of compliance on the items tested;
- A statement on any other material deficiency or reportable condition as defined by *Governmental Auditing Standards* identified during the audit not covered above; and
- Recommendations, if any, with respect to amendment of this Investment Policy.

The Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority's fiscal year with the Office of Budget and Policy Analysis of the Office of the State Comptroller.

#### **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 if 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 and with whom the Authority has a written custodial agreement. 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. Monthly,

the custodian will also provide reports listing 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, the Director of Finance and Treasury Operations, or the Manager of Treasury Operations. Such instructions are to be confirmed in writing, within one business day, 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.

All 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 Permitted Investments as set out in Section 2. There shall be a written custodial agreement that, 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. Negotiable Bank Deposit Obligations as defined in sections 2.2 and 2.3 of this policy are exempt from these collateral requirements.

### **3.6. Internal Controls**

The Authority follows the operating procedures defined in Appendix A to control all Authority investment activity.

### **3.7. Notification Concerning Violations of Investment Policy**

If this Investment Policy is violated, the Chief Financial Officer shall be informed immediately and advised of any corrective action that should be taken, as well as the implication of such action.

## **4. QUALIFIED FINANCIAL INSTITUTIONS**

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

The Director of Finance and Treasury Operations and/or the Authority's Investment Manager shall identify broker/dealers that are approved for investment purposes ("Qualified Institutions") and maintain a list of such approved dealers. 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 (SEC) 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 SEC under the Investment Advisor Act of 1940 or exempt from registration.

The Authority shall 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 bank of the Federal Reserve System or maintain accounts with member banks of the Federal Reserve System 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, or his/her designee, must review the annual financial statements and credit ratings of the proposed custodian bank and based upon such review, affirmatively find that the proposed custodial bank is financially sound. Such determinations of creditworthiness shall be undertaken on a periodic basis as determined by the Chief Financial Officer.

#### **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 Policy. 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 use minority and women-owned financial firms in the conduct of the Authority's investment activities.

## **5. REPORTING**

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

### **5.1. Management Reporting**

To manage the Investment Funds effectively and to provide management with useful information, it is necessary for the Director of Finance and Treasury Operations 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 by the Manager of Treasury Operations under the supervision of the Director of Finance and Treasury Operations 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;
- A breakdown of the portfolio by counterparty; and
- Portfolio position against asset allocation target

An Annual Investment Report shall be prepared by the Manager of Treasury Operations and submitted by the Chief Financial Officer 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 may be a part of any other annual report that the Authority is required to make. The Annual Investment Report shall include the following:

- The Investment Policy is in compliance with Section 2925(3) of the Public Authorities Law and any amendments since last reported;
- An explanation of the Investment Policy 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 and should track performance relative to specified benchmarks and sector indices for the current period and year-to-date. The Director of Finance and Treasury Operations and Chief Financial Officer will act on any weaknesses related to the management of the assets.

## **6. APPLICABILITY**

This Investment Policy shall govern all investments initiated by the Authority after March 20, 2019 and shall not apply to any investments initiated by the Authority on or prior to March 20, 2019. Nothing contained in these Investment Policy 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 this Investment Policy.

## **7. BANK AUTHORIZATION**

The Chief Executive Officer or any authorized designees<sup>1</sup> (“Authorized Persons”) are authorized to deposit any of the funds of the Authority in any commercial bank or financial institution whose long-term deposits are rated A- or better by Standard & Poor’s Corporation, A3 or better by Moody’s Investor Service, Inc. or A- or better by Fitch, Inc. (each such institution referred to herein as the “Bank”), either at its head office or at any of its branches.

Any funds of the Authority deposited in the Bank may be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, wire transfers or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority in accordance with the Financial Policies and Procedures of the Authority and its Service Provider by Authorized Persons.

---

<sup>1</sup> The Chief Executive Officer’s designees under this Investment Policy shall include only persons permitted by the LIPA By-Laws, Article IV, Section 7(c) (Powers and Duties of the Chief Executive Officer) and Article VIII, Section 1 (Execution of Instruments), and any other applicable guidance or limitations provided by the LIPA Board of Trustees

## APPENDIX A – OPERATING PROCEDURES AND CONTROLS (Manual)

### A. Distribution of the Investment Policy

The policy 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 Policy and all amendments, updates, or revisions to insure compliance with the most current policy. Below is the distribution list matrix for the investment policy.

Distribution List	Frequency
Board of Trustees	As necessary
Chief Executive Officer	As necessary
Chief Financial Officer	As necessary
Director of Finance and Treasury Operations	As necessary
VP and Controller	As necessary
Investment Manager(s)	As necessary
General Counsel	As necessary
Manager of Treasury Operations	As necessary

### B. Roles and Responsibilities in Executing the Investment Policy

The roles and responsibilities for investment management at the Authority rest primarily with the Director of Finance and Treasury Operations and the Chief Financial Officer. The matrix below defines the roles and responsibilities of all parties involved in the execution of the Investment Policy.

Roles	Responsibility	Frequency
Board of Trustees	<ul style="list-style-type: none"> <li>▪ Final Approval of the policy</li> <li>▪ Approval of exceptions to the policy (e.g. new investment types)</li> <li>▪ Approval of revisions to the policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ As necessary</li> <li>▪ As necessary</li> </ul>
Chief Executive Officer	<ul style="list-style-type: none"> <li>▪ Responsible for adherence to all Authority policies</li> </ul>	<ul style="list-style-type: none"> <li>▪ As necessary</li> </ul>
Chief Financial Officer	<ul style="list-style-type: none"> <li>▪ Approval of the policy</li> <li>▪ Approval of investment strategy</li> <li>▪ Approval of performance measurements</li> <li>▪ Approval of minor exceptions to the policy (i.e. amounts, maturities)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ As necessary</li> </ul>

Director of Finance and Treasury Operations	<ul style="list-style-type: none"> <li>▪ Serve as custodian of the policy</li> <li>▪ Develop investment strategy</li> <li>▪ Review investment strategy</li> <li>▪ Establish performance measurements</li> <li>▪ Distribution of policy and amendments</li> <li>▪ Annual review of policy</li> <li>▪ Oversight of investment activity</li> <li>▪ Invest funds as provided for in the policy</li> <li>▪ Review performance information</li> <li>▪ Management reporting</li> <li>▪ Collect performance information</li> <li>▪ Distribute performance information</li> <li>▪ Keep abreast of developments and notify the Chief Financial Officer, as needed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ As necessary</li> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ Monthly</li> <li>▪ Quarterly</li> <li>▪ Weekly</li> <li>▪ Weekly</li> <li>▪ Ongoing</li> </ul>
Investment Manager(s)	<ul style="list-style-type: none"> <li>▪ Develop investment strategy</li> <li>▪ Review investment strategy</li> <li>▪ Invest funds as provided for in the policy</li> <li>▪ Reporting investment portfolio</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual</li> <li>▪ Ongoing</li> <li>▪ Ongoing</li> <li>▪ Daily, Monthly, Quarterly</li> </ul>

**C. 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).

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

**D. Management Reporting**



Report	Contents	Audience	Frequency
Management Report	Investment portfolio, mark-to-market valuations, collateral, counterparty breakdown	Chief Financial Officer, Board of Trustees	▪ Quarterly
Annual Investment Report	Investment Policy, explanation of Investment Policy & amendments, annual investment audit, annual investment income, total fees and commissions paid	Chief Financial Officer, Board of Trustees. (File with Division of the Budget, State Comptroller, State Senate Finance Committee, Assembly Ways and Means Committee)	▪ Annually
Performance Report	Investment performance vs. benchmark, variance analysis	Chief Financial Officer, Board of Trustees	▪ Quarterly

**E. Operating Procedures**

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

- The establishment and maintenance of a system of internal controls;
- 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 documented 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;
- 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.

## APPENDIX B – NDTF INVESTMENT PROVISIONS

### NUCLEAR DECOMMISSIONING TRUST FUND INVESTMENT PROVISIONS

To meet the Authority's objectives of funding future liabilities for the nuclear decommissioning obligations of the Authority's 18% share of Nine Mile Point Unit 2, while balancing long-term risk and return and providing reasonable diversification, the NDTF Account shall allocate assets in accordance with the targets for each asset class as follows:

Asset Class	Asset Weighting
Domestic Equity Mutual Funds	35%
International Equity Mutual Funds	20%
Fixed Income Mutual Funds	25%
Fixed Income Mutual Funds – Inflation Protected Securities	20%

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be 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.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index<sup>1</sup> or the Barclay's Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.<sup>2</sup>

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or "sweep accounts" pending investment or for other reasons.

<sup>1</sup> 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.

<sup>2</sup> The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.

**APPENDIX C – OPEB ACCOUNT INVESTMENT PROVISIONS****OPEB ACCOUNT  
INVESTMENT PROVISIONS**

To meet the Authority’s objectives of funding future contractual retirement benefit obligations while balancing long-term risk and return and providing reasonable diversification, the OPEB Account shall allocate assets in accordance with the targets for each asset class as follows:

<b>Asset Class</b>	<b>Asset Weighting</b>
Domestic Equity Mutual Funds	40%
International Equity Mutual Funds	25%
Fixed Income Mutual Funds	20%
Fixed Income Mutual Funds – Inflation Protected Securities	15%

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be 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.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index<sup>3</sup> or the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.<sup>4</sup>

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or “sweep accounts” pending investment or for other reasons.

<sup>3</sup> 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.

<sup>4</sup> The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.