PAM FREDERICK
All right, so this is Pam Frederick. Good morning, everyone, and thanks so much for joining. This is our first meeting of the Battery Park City Authority Investment Committee. The chair, George Tsunis, is on his way, so he will be here shortly, and has asked that we go ahead and get started. Um, and then we also have Catherine McVay Hughes, who is, um, the other board member, as well as Lester Petracca, who is joining us on a listen-only basis via conference call. So, we do have the three members who are attending this meeting. We also have--

LESTER PETRACCA
Am I-- hello? Hello?

PAM FREDERICK
Hello?

LESTER PETRACCA
Am I listen-only? I thought-- yeah, this is Lester. I'm not listen-only.

WOMAN
You are listen-only.

PAM FREDERICK
Okay, um... if-- can you hear me?

LESTER PETRACCA
I can hear you. Can you hear me?

PAM FREDERICK
I can, I can. So, based on the--

LESTER PETRACCA
Okay, am I not supposed to speak at all?

WOMAN
That's correct. That's correct, Lester.

LESTER PETRACCA
Okay, well, I had said earlier, and I...

PAM FREDERICK
Yeah, so what happened is that, uh, my instructions was from legal when they were based on...

WOMAN
Oh.

PAM FREDERICK
...both the public law... (audio cuts out) as well as our bylaws. And the bylaws are fairly explicit in, if a board member is attending...

LESTER PETRACCA
No problem.
PAM FREDERICK
...to do it on a voice-only...

LESTER PETRACCA
No problem, no problem, I'll shut up.

(laughter)

PAM FREDERICK
Well, just so that you know, we--

LESTER PETRACCA
That's hard for me, but I'll do it.

PAM FREDERICK
Okay. We did go to bat, and it's actually going to be something that we'll take a look at in the bylaws to see if there's a way to better facilitate the, um, various committee meetings-- not only Investments, but the others-- Governance, Audit, et cetera. So, because I think because the authority had not had the committees for a while, a lot of this was being dusted off the shelf. So, apologize for that misunderstanding. I know you'd called someone earlier, and they said that it wasn't. But in fact, it is, just so that everyone else knows. But the line will be open, because you-- both you and Bob Cheddar, the portfolio manager, are both on the same conference line, so... Uh, one of the things, um, in talking to George-- there's two things in the agenda, and we did mail it, but I'm going to-- I brought a copy for the members, in case you didn't have a chance to print it out. Um it's very simple, but we like to be formal, so... So the two things that we-- we're just calling the meeting to order, and the two things that we're doing for discussion-only purposes is, um, providing an overview of the investment perf-- performance for the first quarter, ending January 31st, 2018. And then after that-- we're going to reverse the order that it appears on the agenda. After that, we'll do the overview of investment programs, as I'd like to have the-- the committee chair present for that, um, in particular. So, um, I'm going to hand it over, I believe, um...

STEVE FABER
Okay.

PAM FREDERICK
To Steve? Okay, so we're going to hand it over to PFM, and they will walk us through the presentation.

STEVE FABER
Okay, um... I thought we were doing it the other way, but this is okay.

PAM FREDERICK
That's okay, yeah, apologies. That just happened--

STEVE FABER
If anything, I'm light on my feet.

PAM FREDERICK
That just happened this morning, given traffic in New York, so...

STEVE FABER
So, uh, Lester, good morning. This is Steve Faber of PFM Asset Management. I'm joined by Samantha Plunkett here at the Authority offices. And then Bob Cheddar, who you've met before, who's the portfolio manager, is joining by phone. From Ramirez Asset Management, Sam Ramirez and Lou Sarno are here. Lou is the-- is one of the portfolio managers for Ramirez as well. We're going to, um-- as we've done in the past, we're going to spend most of the time with respect with discussion-- discussing the quarterly investment report, talking about the events in the market, um, for the quarter ended January 31st, 2018, and, um, kind of what-- as background-- and then what drove performance of the authority's accounts, um, during that quarter. So, what I'm going to do is-- it's not in any particular order in the slide deck that you have. But I'm going to ask Bob Cheddar to start off by giving an overview of the market activity, um, and how we, uh, view the market activity relative to the authority's accounts. And then we can get into specifics of the... (audio drops out) Bob?

BOB CHEDDAR
Thank you, Steve. So, I think we have some of what I'm going to say in bullet form in one of the presentations. But as Steve said, I won't necessarily go, uh, bullet by bullet. So, over the past quarter or so-- in fact, the past six months or so, market moves have generally been driven by the expectation, and then the actual increases to the overnight rate that the Federal Reserve had implemented as part of their monetary policy. The Federal Reserve did increase rates last week another 25 basis points. And of course, as the Federal Reserve has moved rates higher-- the overnight rate higher, most short-term rates have followed. Longer-term rates have also increased, but not to the same extent as short-term rates. So, one of the important factors of marketplace over the past six months or so has been a flattening of the yield curve as the Federal Reserve has pushed rates higher. I guess short-term rates have moved higher, but longer-term rates haven't moved higher at the same pace as shorter-term rates. The Federal Reserve seems quite comfortable that the economy will continue to grow in 2018. They expect that growth will remain solid, that the employment market, labor market is doing relatively well. So, we do expect that the Fed will continue to increase rates further this year. Based on the Federal Reserve's projections, we'd expect

another two rate hikes this year. That all depended on, ultimately, the economy, and maybe most importantly, inflation. Inflation has been the Fed's target for some time. But the Federal Reserve does believe that inflation will get closer to their 2% longer-term target. So, we do think that will pressure rates higher. So far this year, the two-year treasury has increased in yield by about 38 basis points. The ten-year treasury has increased by about 35 basis points. So, as the Federal Reserve continues to move rates higher, we expect the two-year, for example, to follow along. I would expect longer-term rates to move higher, but maybe not at the same pace as shorter-term rates. So, there could be some additional flattening of the yield curve as the Federal Reserve continues to embrace. Same thing being further ahead into 2019 and 2020, the Fed does think that they'll continue to increase rates into 2019. They're confident that growth will continue and enable them to increase rates further. Of course, when we get further into the future, it gets much harder to predict what the Fed will do with any kind of certainty. But the market I think is pretty much aligned with the Federal Reserve's expectations for this year. Moving further into the future, into 2019 and 2020, expectations aren't quite where the Federal Reserve is at. But I think most market participants do think that the Federal Reserve will continue to increase rates this year. We'll cover the portfolio attributes and characteristics. A significant amount of the authority's-- the assets were invested short-term, less than six months. So, as rates move further, move higher, that's a positive for each authority that those funds generate. So, it's good news for the authority, at least on the investment side, that interest rates are moving higher. We were a period of zero interest rates for most of the short-term funds that we've managed on behalf of the authority. So it's, I think, beneficial to have some of those short-term rates normalize. We have reacted in our portfolio positioning to the expectation of higher rates. We do manage a portion of the funds, a bit further out the yield curve. In four or five portfolios we would be managed, compared to a one-to-five year or one-to-ten year treasury benchmark. So the duration of those portfolios is typically around two and three quarters for one five-year portfolio is closer to four years for the one-to-ten portfolios. We have positioned those portfolios more defensively in anticipation that interest rates are-- are going to move higher. So our duration in those portfolios have been shorter than benchmarked. We'll sometimes express that as a percentage of the benchmark. Currently, we have those portfolios positioned at about 92 or 93% of the duration of the index. So, when interest rates do move higher, and I will see this in the performance figures, the portfolio tends to outperform in those environments with that time and positioning, because the impact of market value changes is less on the portfolio compared to-- to the benchmark. In shorter-term portfolios, we've put a lot of focus on commercial paper in some cases to help maximize the yield those types of portfolios. The thought process in respect to interest rates, is we'll be different in short-term-- in our short-term portfolios that we manage. Typically, there are well-defined liquidity needs in those portfolios. So very often we'll think about those liquidity needs. We'll think about the potential for the Fed to increased rates. And we can run a direct-even analysis on those time trays to, you know, try and determine if we should take a shorter duration position, or just immunize that knowing liquidity need, and maximize the interest earnings on-- on those funds. So, in respect to interest rates, you know, again, thought process in short-terms are a little bit different than longer-term portfolios. But generally, we've been very cautious about interest rate risk. And in our longer-duration portfolios, we've-- you know, again, maintained a shorter-duration positioning. I'd expect that positioning will continue for the next quarter or so, depending on our outlook for rates. But we do think the Federal Reserve will continue to move rates higher, and that should push most rates higher across the curve. But over the past month or so, there has been some volatility in the marketplace. We went through a period of almost two years with little volatility in most fixed-income sectors. And during that period, credit spreads, the only difference between treasury and other asset classes like treasury-- I'm sorry-- agencies, and corporate securities, had declined towards near-record lows, so investors weren't being compensated for some of the additional liquidity or credit risk in those sectors. Recently, that has reversed itself, and credit spreads have widened dramatically. That doesn't have a direct impact on the authority's portfolio, because we-- we're not permitted to invest in corporate security, except for short-term commercial paper. But it does, I think, play a role in the sentiment of the marketplace, and where investors think rates and relationships in different sectors may be going in the future. And the equity market has been much more volatile recently. Some of that's centered around discussions about towers. We don't think that any of those events is related to the underlying strength of the economy. We do think that the economy will continue to do well this year. The global economy also seems to be doing relatively well. So, we expect that global growth will be pretty stable, and that the central bank here in the United States, the Fed, central banks in Europe, and central banks in Japan will be able to loosen some of their accommodation, and will probably take similar actions to what the Federal Reserve will be doing this year. In addition to the Fed increasing rates, they're-- they're in the process of starting to wind down their balance sheet. The Federal Reserve purchased a significant amount of treasury securities, and agency mortgage securities coming out of financial crisis. So that's an additional supply in both the Treasury and NDS markets that the markets will have to absorb, that there are some concerns about the deficit this year. Auctions this week were at record levels. A significant amount of treasury securities were auctioned this week. We protect that, we continue to fund the deficit. So, with the Federal Reserve increasing rates of potentially additional supply into the marketplace, we think that adds some additional upward pressure potentially to rates, so over the next couple of quarters or so.

STEVE FABER
Hey, Bob? Bob, can I just interrupt for a second? Sorry.

BOB CHEDDAR
Absolutely.

STEVE FABER
I just wanted to kind of orient, or re-orient the members, 'cause we're talking to a bunch of different things here.

BOB CHEDDAR
Sure.

STEVE FABER
The market commentary, we typically have included the market commentary in the back of the report, because we don't normally spend this much time-- or we haven't had... haven't been afforded the ability to spend this much time on the market commentary. So, apologies for if you were kind of flipping through pages trying to find where we were. Section D of the investment report gives kind of a high level of what Bob just described. Bob did try to marry a bit of the past with a bit of the future, which I think is really important. Much of what Bob described when he started talking about our duration strategies with the portfolios, are summarized in-- on page five of the deck. So, you know, feel free to kind of page back to that. And if you have questions, we're happy to address that. But in the interest of time, I wanted to transition a bit into actual performance for the quarter. I would just highlight a couple things, and Bob mentioned one, or both. You know, the quarter ended January 31st was-- was highlighted really by a couple different things, as it pertains to the authority's accounts, was highlighted by two things. One is tax reform, which passed at the end of the year. And two was an additional rate hike, the third in 2017 by the Federal-- Federal Reserve at its December meeting, increasing the Fed funds rate to a range of-- by a quarter-point to a range of 125 to 150. The result was that the treasury curve flattened, as Bob mentioned, but kind of locked-- in locks that moved higher. The three-month out to the ten-year, which is really where the bulk of-- where all of the authority's assets are invested, move interest rates along that portion of the curve-- move higher, anywhere from 30 to 55 or 60 basis points. So we saw, you know, a significant move higher in interest rates, which has a corresponding decrease in the prices of fixed-income securities. And you're going to see that as we-- and hopefully this is a smooth transition-- transition back to the beginning of the deck. In the executive summary on page-- if I can get there...

PAM FREDERICK
Four?

STEVE FABER
Yeah, I'm trying to get there on my tablet here. On page four, which shows the performance of the Authority's, um... eight, I think it is, funds that are managed by PFM to a total return strategy. Now, again, for-- particularly for Miss Hughes, these are only eight of the authority's roughly 40 accounts. These are eight that are managed to a total return. So we're taking into account, you know, unrealized, realized capital gains, reinvestment. They're all managed to define strategies, and in this case, either a zero-to-three treasury index, a one-to-five treasury index, or a one-to-ten treasury index. And for the reasons that I just summarized, and you know, I'd invite Bob, Sam, or Lou to chime in, in terms of kind of the market impact, and the reasoning behind this that we haven't-- if we haven't explained it fully already, you can see for the quarter end of January 31st, virtually all of the long-- in fact, all of the longer-term funds, reserve fund, conservancies, operating reserve contingency, insurance fund, operating budget reserve, and the two OPEB accounts all had negative total returns. However, they all outperformed their strategy benchmarks. So, the bad news is, negative return. These are-- these are not necessarily realized losses. I just want to be clear. So, the bad

news is negative return in the short-term, but they outperformed their respective treasury benchmarks. The shorter-term funds, those funds, the pledge revenue and the project operating fund, which are really the authority's... either liquidity fund, or by nature of the-- the way the pledge revenue account works, it needs to be held short and invested short, due to the kind of the turnover in the-- in the funds during the fiscal year. Those two funds are managed to a much shorter 90-day Treasury bill index. And they were less impacted by move higher in interest rates during the quarter. I would point out, while results for the quarter were-- were negative, results for the full year ended-- or the 12 months, ended January 31st, were positive across the board. And again, as was the case for the quarter end of January 31, performance relative to the benchmark was strong. In all cases, the managed accounts outperformed their respective benchmarks. And then you can see on slide four, we also show past three years, and then since inception. And you can see the story remains the same. You know, these are, I would say conservative benchmarks. But they're appropriately so, given that the authority's investment approach is very conservative. Its investment guidelines are very conservative. Its statutory authorization is very conservative. So, the funds are managed accordingly. That being said, we are held to a standard, a performance standard, and we're happy to say that, you know, we continue to do well relative to those respective benchmarks. Bob or Sam or Lou, if there's anything we didn't touch on relative to the market-- and I know Ramirez doesn't manage those particular accounts-- but relative to the accounts you manage, which we're going to get to in a minute. If there's anything more that you wanted to add relative to market, or market positioning, or portfolio positioning, you know, please chime in.

MAN
I'll just say that I think in general, where we are in the cycle, we have rising interest rates, we have very tight credit spread. So, as a whole, the portfolios are being managed defensively on a duration standpoint, and in very high credit quality areas of the market. So, that is where you want to be. So, um... so I think overall, outperforming the benchmark is what our teams are going to continue to try to do. And when-- when the cycle changes, and we see an opportunity where rates have risen, we may change... maybe change the strategy a bit to take advantage of that. But you're in a very good position, in general.

PAM FREDERICK
And I think in the interest of time, when George arrives, we may just do a seat change to make sure we can go through the overview of the portfolio. And we really wanted all of the members to have the benefit of hearing that. So, we're a little bit out of sync of the order of what we really wanted to do, but because George is on several investment committees, he'll get through this part really quickly. But we really wanted to shift to that when he arrives.

STEVE FABER
Yeah, and I apologize. I-- I had prepared-- we had prepared thinking we were going through the overview first...

PAM FREDERICK
Yeah.

STEVE FABER
...which was going to address a lot of the-- kind of the account structure on the way the funds are managed, and before we got into performance.

PAM FREDERICK
Yeah.

STEVE FABER
So again, we landed on our feet, we're-- we're adjusting on the fly. Just continuing along though, slide five, as mentioned, is kind of a high- level summation of the performance summary, again, for the eight accounts managed to a total return. I think some of the elements of this, particularly with respect to the short-term funds, in terms of commercial paper, et cetera, do speak in some manner to those funds that mirrors as managing, and which tend to be kind of the shorter asset liability, matching funds, the escrow funds, and the debt service funds, which are all managed very, very short because of the turnover, or potential turnover in funds during the fiscal year. I don't-- and again, we can certainly answer any questions, but I don't think we need to go through that again. Slide six is actually a-- a new slide, that in working with Pam when she took over last fall, we thought made some sense as-- as a kind of, you know, periodic check. This is something-- compliance is something that both PFM Asset Management and Ramirez Asset Management take very, very seriously, because if we didn't, we wouldn't be business very long. But it speaks to the transparency, which-- which with the authority operates, and which our two firms operate. And this is, again, just a high-level check of-- that speaks to, on a per issuer and an overall sector allocation restriction within the authority's investment guidelines, are the authority's funds in compliance with the policy, with the guidelines. And what this shows you is that, yes, in all manners, in all respects, as of the quarter ending January 31st, the authority was in compliance with its investment guidelines. I think what's interesting as well, as you can see, you know, looking at the list of issuers on the left, the largest position is in U.S. Treasurers. If you had gone back, five, seven, eight, nine, ten years ago, it would have been-- the largest position would have likely been in the Federal Agency sector. You know, as Bob talked about, and as the materials in the document talk about, you know, the treasury agency sector spreads are not particularly attractive, and haven't been for some time, so that there's really-- you know, our belief is that we'd rather be in a treasury than an agency if you're only being compensated a couple basis points, because of the-- the greater liquidity, and the opportunity to move in and out of the treasury market a little bit easier. Furthermore, I would just point out that, you can see it's kind of, you know, that diversification is a significant aspect of what the two managers are doing. And there's really-- while there's a broad, um... you know, penetration, if you will, of various names, nothing has more than a 4% allocation of the entire portfolio. So, very well diversified, high quality, highly rated names, again, in compliance with-- with the investment guidelines.

CATHERINE MCVAY HUGHES
Before you switch the page.

STEVE FABER
Sure.

CATHERINE MCVAY HUGHES
Why don't you have two more columns, like what the yields are on these items, and expiration dates?

PAM FREDERICK
So that's what this page is.

CATHERINE MCVAY HUGHES
Yeah.

PAM FREDERICK
Just the compliance...

CATHERINE MCVAY HUGHES
Right, compliance.

PAM FREDERICK
...showing relative to our investment guidelines. But later in, you'll have the returns--

CATHERINE MCVAY HUGHES
Yeah, but it would be kind of nice to have it on this summary sheet too.

STEVE FABER
So you said-- you said that...

CATHERINE MCVAY HUGHES
The yield.

STEVE FABER
The yield and what else?

CATHERINE MCVAY HUGHES
And the expiration date.

STEVE FABER
Oh, and the maturity date

CATHERINE MCVAY HUGHES
The maturity date, yeah, on some of these.

STEVE FABER
We-- we can. In the case of the treasury's, there's going to be multiple maturity dates.

CATHERINE MCVAY HUGHES
Okay, but the other ones.

STEVE FABER
They're... we can certainly look at doing that. I think we were trying to avoid making this particular page a bit too much. But we can-- we can look to do something that achieves what you're looking for.

CATHERINE MCVAY HUGHES
Great.

GEORGE TSUNIS
Do you have a note that says the average maturity, uh...?

STEVE FABER
We have-- on the next slide, actually. It's slide seven of the quarterly investment report.

PAM FREDERICK
This one.

STEVE FABER
The chair has joined, by the way, for those on the phone.

GEORGE TSUNIS
Good morning, everyone.

STEVE FABER
So, on slide seven, what you can see is-- again, this is at the, what we call the strategy level. So we bifurcate this by the eight total return accounts that we described the performance of just moments ago, as well as what's, you know, cleverly named other BPCA accounts, which is everything else. And those are the debt service reserves-- the debt service accounts, the escrowed accounts, the security accounts, et cetera. To your question, Mr. Chairman, the duration, or weighted average maturity of each of those by strategy, is shown quarter versus quarter. So, in terms of the overall duration of the authority's assets, as of January 31st, the duration was just shy of the one year, which is reflective of, you know, the very, very short-term nature of many of the authority's funds, and certainly a bulk of the authority's assets in pledge revenue and project operating. I'm sorry, pledge revenue and, what's the other one? Um... I'm blanking on the name. And-- yeah, and project operating. But pledge revenue, certainly, which a very large account. We then-- we then transition into-- into two slides

that show, it's broken down a little bit more definitively by account and by strategy. So on slide eight, we have each of the total return accounts, and we talked about the performance of those accounts a few moments ago. But these-- again, Mr. Chairman, to your question, these show the duration of each of the specific accounts. So, as an example, the 2003 reserve fund, which is the bond reserve fund, you know, held in support of, and for the benefit of bond holders for the debt issue by authority, had a duration of about two and three-quarter years as of the end of January. That has typically been the range, kind of two and three-quarters to three years. It's a longer-term fund, basically there for support for bondholders, if and when the authority needs funds to pay that service, which hopefully comes to bear. And then, each of the other respective accounts. So, you can see, along those deemed longer-term strategy, which are managed to a one-five or a one-to-ten year benchmark, have durations in the two and three-quarters to three and a half year range. The shorter-term strategies are very, very short. Pledge revenue, you know, was, you know, probably less than a month at that particular point, again, given the flow of funds from the authority... within the authority's accounts. And that does-- that changes. But, Bob Cheddar, correct me if I'm wrong, the duration of the pledge revenue is probably never more than, you know, .3 years, or .35 years at any point in the year, correct?

BOB CHEDDAR
Right, that's right. As-- as the... as the portfolio is funded up over the course of the year, we advance, but typically towards the beginning of the new fiscal year and-- or the beginning of the next fiscal year, I should say. Because then, the cycle restarts itself and the funds are transferred out. So, it's never more than a few months' horizon.

STEVE FABER
So, um, moving to the next slide, slide nine, the other accounts, these are accounts that are not managed to total return strategies. And as you can see, there's thirty... 32 or 33 accounts. Very, very short in duration. I think the longest duration of any one of these accounts is just shy of .3 years. Again, reflective of... of nature of the funds, be they that service funds, or like. One of the things that Pam has asked us to take a look at, is for the security accounts. So, if you look down toward the bottom of the page... and the-- the blue highlighting represents those accounts that are managed by Ramirez Asset Management. The non-shaded accounts are managed by PFM as well. But the security fund accounts, which are funds that are deposited, you know, for particular projects, historically, the authority took the approach that they wanted those funds to mature roughly 12 to 18 months, just in case
they were called upon. Pam is taking a look at whether or not they could be invested a bit further, to take advantage of the rise in yields of late, without exposing the authority to having to sell them at a loss, should they be called upon. So, there's a possibility, to be determined...

PAM FREDERICK
Yes.

STEVE FABER
...that the duration of those accounts could be a little bit longer in the nearer-time future.

PAM FREDERICK
And then, just to give a bit of background, each of the buildings have in their lease a requirement for a reserve. Those reserves are put in place when the lease started. And literally, there's been very little movement in and out of that. So, the liquidity need, we're looking at that, and we're also looking at putting in place a policy of how that might be addressed for deficiencies, and how those funds can then be replenished by the, um, tenants. And so, that's an overall policy that we're looking at, in approach to how we manage those reserves.

STEVE FABER
Any questions about what we've covered to date? 'Cause we're going to get into the weeds a little bit for the next few minutes, and then... I'm sorry.

PAM FREDERICK
Given your time, would you like to shift and just do the quick overview in the other presentation, in case you need peel out? And I think it also helps to give the background for some of the other discussion.

GEORGE TSUNIS
My... my concern, my question-- it's not a concern. My question is, um, are we in full compliance with our investment policy?

PAM FREDERICK
Let's go back to that page.

STEVE FABER
I think we were covering that as you walked in. Slide...

PAM FREDERICK
On page six.

STEVE FABER
Slide six is designed to provide...

(overlapping chatter)

STEVE FABER
Slide six in that deck, in that report, is designed to give you that comfort. It's a check against both on an issuer name, rating, sector allocation, maturity, on perspective, the authority's investments, as of the date of the reporting compliance, and the answer is yes, in all respects.

GEORGE TSUNIS
Do we have specifics bands in terms of what we should be investing, and be within those bands?

PAM FREDERICK
The answer is yes.

STEVE FABER
The answer is yes, we are within all bands. The only restrictions by sector, if I recall, are with respect to commercial paper and municipals.

PAM FREDERICK
Yes.

STEVE FABER
I don't believe there are any restrictions. Bob Cheddar, correct me if I'm wrong, with respect to treasuries or agencies.

PAM FREDERICK
Those can be 100%, and just for-- for reference.

STEVE FABER
Oh, there's a dollar limit on agencies. I'm sorry.

MAN
I actually have the investment policy, if you want to--

PAM FREDERICK
I have it for the members. Um... here it is.

GEORGE TSUNIS
We should disseminate that.

PAM FREDERICK
It's in the investment guidelines, so I printed out a copy, so you'd have it in case...

MAN
Commercial paper is the lesser of 5% or 250 million.

STEVE FABER
So-- so the answer though, is, Mr. Chairman, yes, if I were using full compliance.

GEORGE TSUNIS

Now, is it the opinion of our advisors and our CFO that we're complying with best practices in our investment guidelines, or do they need updating?

STEVE FABER
The-- the answer from PFM is yes, the authority is operating under best practices. We review the investment policy annually, and have made suggestions, and Pam has incorporated some of them. And then some of them, I think we're going to be talking with the committee about over the course of this year. But it is something we undertake annually, at least. Keep in mind that the authority is restricted by not only its bond resolution, but state guidelines that are very, very conservative overall. So, but within that construct, yes, best practices, from a transparency, from an execution, from a compliance perspective. I can speak for PFM, and I know enough about how Ramirez does it. I think they would agree that collectively, we're doing it in the best practices ever.

GEORGE TSUNIS
I appreciate that, and the most important word you said is transparency. So, being that this is a public meeting, I wanted to get that on the record, and not only to, um, comply with the guideline in our investment practices, but to also be very transparent about it as well. Miss Frederick, are you in agreement?

PAM FREDERICK
Absolutely, absolutely. And as-- as Steve mentioned, um... as to portfolio diversification. for instance, it's something that we discussed amongst the team, looking at making sure that it was optimized. But it was something that we, rather than bringing it to the board at the first meeting in January, and to occupy this first investment committee meeting, that it was something that we wanted to have it as a more specific discussion point with everyone. So, we'll bring recommendations at the next meeting.

GEORGE TSUNIS
And our-- our next meeting is in June?
PAM FREDERICK
Is in June.

STEVE FABER
So, again, Pam, I don't-- I don't know whether we want to continue with some of the more gory details, if you will, of the...

GEORGE TSUNIS
Before you do, I have another meeting inside that I've been asked to attend. Miss Hughes, would you take over as chair?

CATHERINE MCVAY HUGHES
Sure.

GEORGE TSUNIS
Thank you. Thank you very much for your-- for your fine work here. I really appreciate it. And thank you.

PAM FREDERICK
Thank so much for doing it. So Catherine, would you like to do the overview, and then come back and go into the details, so they have a... I mean, I think they've touched on some of it, but it might be more helpful to have that, um... framework.

CATHERINE MCVAY HUGHES
That sounds great.

PAM FREDERICK
Okay. So, if we could switch to the overview, that'd be excellent.

STEVE FABER
Absolutely.

PAM FREDERICK
And I know you've touched on some of it.

STEVE FABER
Absolutely, some of this is going to be a bit of a rehash. But we're now transitioning to the other deck, the other report that was distributed to the members, entitled "Overview Of Investment Program." And again, this was-- this was, uh, material that I-- we put together shortly after Pam came on board, to orient her towards-- towards the authority's investment program, because there are a lot of moving pieces to this. And while it's a-- while it's a large overall asset base, you know, roughly half a billion dollars on average, it's not a single pot of money. It's 40 different accounts with very different characteristics, very different purposes, and managed, invested very differently. So, um... slide two, again, gives you a snapshot of the eight accounts managed to a total return, which again, we discussed earlier in the meeting. The two short-term funds, the pledge revenue and the project operating fund are managed to a 90-day treasury index. There are-- there is-- of the longer-term strategy funds, the reserve fund, which is the bond reserve fund, is managed to a one-to-five year treasury index. And the other five longer-term funds listed on slide two are managed to a longer one-to-ten year treasury index. The reserve fund had for years been managed also for a one-to-ten year. And I want to say four, five, six years ago, PFM and the authority conducted some analysis that indicated that shortening the duration and capturing much of the-- the available realized gain-- or unrealized gain at the time, which was a substantial amount of funds, made sense. And it was in keeping with kind of our conservative/defensive duration positioning, given where we were in the Fed cycle, interest-rate cycle, what have you. So again, the point is, these benchmarks, these strategies are not necessarily static. They can and may change over time, as market changes, as the purpose of the funds may or may not change, as the authority's financial position changes. Um, slide three is really just a listing of all the other

accounts. You know, we saw this in the previous report. Those managed by PFM, and those managed by-- in our MWBE partner, Ramirez Asset Management, which manages roughly 25%. Well, it depends on the time of year, but on average, about 25% of the authority's assets. Slide four is a snapshot of the aggregate portfolio at quarter end, January 31, 2018. And the market value is just north of $521 million. As I mentioned a few moments ago, the duration of the aggregate portfolio just shy of one year. And the overall yield to maturity on the portfolio, taking into account all funds, was about 1.5%. Very highly rated overall credit quality, as demonstrated in the pie chart on the bottom left. The majority of the funds in the "A" or "AA" category, representing treasuries which are, you know, in the "AA" category, and high-quality commercial paper, munies, and federal agencies, which are all in-- in either the "A," "A1," "A1-plus" or "AA" category. On the right, the portfolio composition again shows that, as of January 31, three-quarters of the portfolio was invested in U.S. Treasuries. The balance in federal agencies, commercial paper, and municipals. Um, and then—

CATHERINE MCVAY HUGHES
Since two months have almost passed since this analysis, has the situation changed much, or is it about the same?

STEVE FABER
I would say it's probably not changed all that much. Bob, did you hear Miss Hughes' question?

BOB CHEDDAR
I believe, Steve, has the portfolio characteristics changed much over the past three months or so?

STEVE FABER
Correct.

BOB CHEDDAR
Yeah, it's generally the same. The under- six-month bucket might be a little bit more because we receive
the inflows into the pledge revenue fund. So, that fund is building up, and will continue to build over the course of the next several months. But it's generally the same.

STEVE FABER
I think one of the-- one of the more telling, um, visuals is the chart shown on the bottom right. I mean, it really does...

BOB CHEDDAR
Right.

STEVE FABER

...give you a sense of how short the authority's funds have to be invested when looking at it in total. This is not-- there is not a significant amount of funds that can be, you know, kind of invested out the curve and, you know, trying to, you know, generate, you know, high earnings, et cetera. It just-- it's reflective of the various pur-- the purposes of the various funds, many of which are as we've described,
short-term in nature. Slide five, again, it gives you a historical perspective, or attempts to give you a historical perspective. The portfolio balances do change as-- as authority revenues fluctuate, you know, during the year, and/or paid out to the city, et cetera, during the course of the year. If we had taken this back to 2005, 2006, when PFM first became engaged with the authority, you would have seen these balances sharply higher. There was a point at which the authority's assets were over a billion dollars. And then there was monies paid in support of state programs, city programs, et cetera. And-- and as you can see, on average for the past five or six years, the asset level has fluctuated between 400 million and 550, $660 million.

PAM FREDERICK
In the earl-- when the earlier funds probably more related to, like, the 2010 agreement when we brought a lot of funds in and paid them out, um, 600 million, I think it was.

STEVE FABER
So, I will pause for a moment. Do you have any questions so far about any of this? Okay. Slide six is a-- is again, a high-level summary of the investment policy guidelines. We talked a bit about those a few years ago. This does incorporate the concentration guidelines, for sector maximums that the chairman referred to, or asked questions about, and Sam answered, and I answered. The permitted investments listed on the left side of the page, again, very conservative, completely in keeping with the guidelines established by-- under state finance law and the controllers' guidelines. And then the concentration guidelines on the right. No restrictions on treasuries. Federal agencies is-- there's no restriction in terms of the overall sector, but there is a per name, or per issuer restriction of no more than 250 million. So, as an example, we couldn't invest $275 million in Fannie Mae. We could invest $250 million in Fannie Mae, but no more.

PAM FREDERICK
And I would say also, the overall restrictions are under state law, so section 98 of state law, state finance law. And they actually have restrictions within it. Our separate concentration limits in the guidelines are actually below theirs, in certain cases. 'Cause theirs have moved up to 500 million in-- in a couple of instances.

STEVE FABER
So-- so that's correct. And then, the only-- not the only-- but in terms of municipals, you can see 10% per issuer. The controllers' guidelines and the state finance law is silent on per issuer and/or sector concentration. But we instituted-- we, the authority, adopted in its policy, I think a couple years ago, a sector limit of 20%, but a per issuer limit of 10%, is my recollection. That is something that we have had discussions with Pam about looking into, whether or not that-- those limits are still appropriate, given

that, as mentioned earlier, there's not a lot of spread differential between federal agencies and treasuries. So, where can-- and we're limited in the corporates that we can buy to commercial paper, and they themselves are limited to nine months or less. So, where can we get spread product? Well, it's in the municipal sector. And Ramirez-- I have to give Ramirez credit. They do a terrific job of accessing the munie market, and adding value in kind of the short and intermediate-term accounts. So, we're looking at the possibility of-- and we need to do some additional analysis-- can we increase those limits to allow the authority to take-- to benefit from what's available in the market?

PAM FREDERICK
Right. So, before we bring that to the committee, we want to do some analysis and have that ready to support a case. So, we'll do that sort of between meetings.

CATHERINE MCVAY HUGHES
So, while we're here on the investment policy guidelines, everything is also consistent with New York State Comptroller DiNapoli's ESG guidelines as well?

PAM FREDERICK
Yes.

STEVE FABER
Yes, the simple answer is yes. There was...

CATHERINE MCVAY HUGHES
'Cause there's just no mention to it in the-- in the document, so I just wanted to make sure.

STEVE FABER
Um...

PAM FREDERICK
Can I just make one point? So, the overall... our investment guidelines follow section 98...

CATHERINE MCVAY HUGHES
Right, right.

PAM FREDERICK
...which is silent at the point-- at this point on ESG. And so, after the switch, both in New York City as well as state, to focus on ESG, that's when we started looking at the, um... emissions, the Exxons, et cetera.
STEVE FABER
Fossil fuel, fossil fuel.

PAM FREDERICK

Fossil fuels. So we started looking at that, and we'd have to take a look at what specific limitations. 'Cause they don't-- they haven't divested. So we'd have to look at those for specific guidelines and we'll bring a recommendation to the committee.

STEVE FABER
To-- to add to what Pam said, and to your question, Miss Hughes, is if it is the authority's desire to add that element to the policy, we are seeing-- and I'd like Sam and Lou to comment as well. We are seeing an increasing number of our governmental public sector clients looking to add ESG components to their investment policies where they hadn't been in the policies, you know, previously. So that's certainly something we can look at. But to Pam's point, when we saw that what New York City was doing with respect to the fossil fuels-- and I think it was Exxon-Mobil.

PAM FREDERICK
Mm-hmm.

STEVE FABER
We had an Exxon-Mobil commercial paper holding, and I think Pam reported on this at the last meeting. We immediately put a hold on any future purchases until we saw where the city and where the state were going with that. To Pam's point, they have not divested. The holding was a single holding, I think it was $15 million.

PAM FREDERICK
Yeah.

STEVE FABER
And it matured-- I think it either just matured...

PAM FREDERICK
This Friday.

STEVE FABER
...or matures this week.

PAM FREDERICK
I think it's Fri-- Thursday or Friday.

STEVE FABER
So, the thought was, well, let's just hold it, we don't need to sell it. But back to your broader point, is we can certainly look to add something to the policy, if that's the will of the committee.

PAM FREDERICK
Yeah, so we'll bring it to you guys in June.

STEVE FABER
So... much of the next slide speaks to the strategy overview, with respect to buckets of funds. And for the most part, we've covered a lot of this. I would just say that the-- the total return strategies are listed on the left under short-term funds and longer-term funds. Now, granted, many of the other funds are also short-term funds, but they are not managed and reported to a particular benchmark. I think in Ramirez' case, some of the funds you manage, you guys have an internal benchmark that you're looking, which I think is, what, the 98 T-bill, the 98 T-bill, is that right?

MAN
Yeah, three-month, yeah.

STEVE FABER
And so, they kind of manage internally to that benchmark, and to make sure that, you know, the funds are performing on a competitive market-based-- generating a market-based return. But the other element captured on this slide that I think is important is-- and this speaks to the-- Chairman Tsunis' comment about transparency. We have a weekly call with authority finance staff, where the PFM team and Ramirez team, including the portfolio management teams-- Bob Cheddar, Lou Sarno, their teams are on. And we discuss activity in the market, expectations for market week, and weeks ahead, cash flows, maturities. So there's a-- there's a regular, and what I would say, fairly rigorous effort to keep the authority apprised, and for the authority to keep the two management teams apprised of all that is going on within the market and with the authority's funds. I think that's really, really important, and it speaks directly to the transparency, so that if something does happen, or is expected to happen, we have a conversation about it and connect accordingly. And I think from-- from a member's perspective, I think that's important for you all to know.

MAN
And from a transparency standpoint, I don't know if you thought about maybe just creating minutes from the Monday morning, or just a brief overview to-- you know, just to increase transparency, or to have that...

PAM FREDERICK
I think we'd have the... the material that we have available...

MAN
Okay, yeah, 'cause there's...

PAM FREDERICK
...so people-- whoever want to see it.

MAN
Every Monday morning at 9 a.m., we discuss the views for the week.

PAM FREDERICK
Yeah.

MAN
And, you know... overall. So there's a lot of work...

PAM FREDERICK
Yeah.

MAN
...in the transparency here.

STEVE FABER
Yeah, it's been very, very helpful over the years. So-- so, any questions about, you know, how the funds are managed, or why they're managed in a certain way? Okay.

CATHERINE MCVAY HUGHES
I got it.

STEVE FABER
I'm goanna-- I'm goanna-- if it's okay, I'm goanna skip over the performance overview on eight, 'cause we already covered that when we were talking about the investment report earlier in the meeting. I think that the last slide, slide nine here, is really a-- it's not-- it's not a Rorschach test. But it does-- it does give you a sense of how the portfolio composition changes over time. It's not static. You know, I mentioned earlier that if we looked at the composition of the portfolio ten years ago, you would have seen 65, 70% in federal agencies. Now, you see 77% in U.S. Treasuries. Again, that is reflective of Ramirez and PFM's views on relative value between and among sectors. So, you can see, you know, as depicted by these pretty little colors which represent, you know, government mortgage backs, or federal agency mortgage backs, munies, um... something called the TLGCP, which was, um... a short-lived opportunity, kind of post-credit crisis, that offered a substantial amount of value in a limited capacity. The commercial paper, federal agencies and treasuries-- you can see how the composition of the authority's assets, invested assets, has changed over the period shown here. And this really does go back to the point at which PFM first became engaged with the authority in late-2005. So, very quick, very high-level overview of the authority's investment assets, investment program, investment strategies. And while I'm quite certain you've got lots of questions, or will have lots of questions, you know, in the future as we dive more into this, you know, we're certainly happy to answer anything now. I would just say to Sam and Bob, who's on the phone, is there anything that-- that I didn't cover that you think should be covered?

BOB CHEDDAR
I-- I think you got the important parts, Steven.

MAN
Yeah, from where I stand, you know, the municipal area which you touched on, is an area that offers a lot of safety and some additional yield potential. So, you know, based on the fact that we're going off of an investment policy listing, municipals that aren't available in the market, or might have changed their names, and things like that, it's a little frustrating due to the dated nature. So, you know, that's something we have to live with. But if there's any potential to update that internally, um, within...

PAM FREDERICK
Yeah, section 98 is a state law that we don't...

MAN
It hasn't been updated since the '80s.

PAM FREDERICK
Um, no, it has been, but, uh, but it's not something that we as an authority change. It's at the state controller level. So we are very much tied to what those are. There's a, um, there, there is one aspect of it that we'll talk about, you know, that might offer some additional opportunity, albeit that's still fairly limited, but it is something that we can talk about. But we're strictly from a bond-- Our 2003 bond
resolution is very strict in terms of what we can do. And that's to comply with section 98, which again we don't impact. That's from DiNapoli's office. So we'll make sure that you guys prob-- I think I provided you my latest update on section 98. I just got another one, but I don't really think it's an update. But I'll give you what I have from a law research perspective. I was told it was the latest, so I'll provide that to both of you as well.

STEVE FABER
I've concluded my portion of this, so turn it back to you.

PAM FREDERICK
Yeah, so those are the two things we wanted to cover. We are scheduled to have quarterly meetings. We can always have interim meetings if, you know, if the committee requests or requires, or if there's an issue that arise that we might want to seek guidance. So we do have the flexibility to do that. Have calls with the members. If any of the members have questions in going over the more detail of the investment performance or if they want to circle back to anything that wad discussed today, we can do that on a one-on-one basis as well at any point. We can arrange those calls. And I think what we'll do is, um, the things that have come up today-- the two being ESG and then looking at some of the portfolio guidelines particularly as it relates to munie sector, we'll bring those back to the committee with an update and recommendations.

STEVE FABER
If I can, I would just also reinforce much as you made the suggestion earlier about the potential additions to the one slide in the report. If you have other thoughts about

information you'd like to see or the way you'd like to see it, this report candidly can get a bit unwieldy. It's very long. It's designed again-- I hark back on the word "transparency," but it's designed to really put it all out there. But it can get a little unwieldy 'cause there's so much there, which is why we create the executive summary initially. But if there's material that you think is more relevant or less relevant for purposes of either investment committee or the full board going forward, we certainly welcome your suggestions.

CATHERINE MCVAY HUGHES
And with the munies, you're generally buying and holding then?

STEVE FABER
Generally, but not in all cases. But generally speaking, I think that's the case.

PAM FREDERICK
Municip sells, but, um... The percentage of the munie portfolio percentage, what is that? 'Cause I think it's below 20—

MAN
It's about 10%.

PAM FREDERICK
Yeah.

MAN
In our case, overall...

PAM FREDERICK
So that was one of the...

STEVE FABER
As of January 31st, it was 5%.

PAM FREDERICK
Yeah. And our limit is 20, so you know, um... whether we increase or decrease, we're not really up to our limit even yet. So we'll want to talk. That'll be an aspect of what we talk about. If there's opportunities, then maybe we should be up to the 20... or hold at 20. But we'll take a look at that.

STEVE FABER
Part of the challenge is that-- is, is kind of the availability of munies relative to where the authority's assets are invested along the yield curve.

PAM FREDERICK
Yeah.

STEVE FABER
You know, it's harder to find, you know, one year of munies in the secondary market. Not impossible, but harder to find in size, I would suspect, Lou and Bob and Sam can correct me. But, but, you know, it's, again, it's something that they and we are always looking at. So, to Pam's point, you know, while the 5% seems low, at times it's been 12% or 13%. And again, it gets back to the relative value analysis as well as availability and market of names that fit authority's investment guidelines.

PAM FREDERICK
And particularly if we are looking at the reserves, uh, the reserves held for the buildings, if we are able to lengthen that, that gives you a bit wider window of what you can look at. So all of that would be a component of, you know, of the discussion. 'Cause I think that would be...

MAN
Are you implying there's liquidity issues in the munie market? Is that...?

CATHERINE MCVAY HUGHES
Well, I was just curious what your strategy was.

MAN
Okay, okay.

CATHERINE MCVAY HUGHES
Because, you know, some munies have, you know, municipalities around the country have some issues. And then, you know, what are the implications of the new tax law, also too.

MAN
Yeah, so the investment policy dictates that only New York issuers can be purchased A-rated, uh, A-rated or better minimum credit quality. But a majority are AA, AAA New York? And if it's a state outside, it needs to be the highest-rated AAA. So there are about 16 or 17 states, I think, that are AAA-rated, higher than the federal government. So obviously, you know, we're not invested in Illinois and New Jersey and states like that.
It's very nicely designed to focus on New York, which is complimentary to what you all do here and then the highest rated outside of New York.

CATHERINE MCVAY HUGHES
Right. And now, and now munies is looking at whether particular cities are municipalities are actually equipped to deal with climate change as well, which is really important.

MAN
Well, it is, yeah. New York City. Yeah.

STEVE FABER
I would just add to that, you mentioned munies, you know, Ramirez can speak to their credit review process. PFM's credit committee which meets regularly and is chaired by Bob Cheddar who's the portfolio manager on this account, um, we're not relying on the agencies. You know, relying on agencies is-- cost a lot of people a lot in the past. There's a pretty rigorous internal review process that we embark on regularly and consistently. And whether it's munies or federal agencies or corporates, we rely on our own evaluation. We take into account what others say and report on, certainly. But at the end of the day, we rely on our own evaluation and Ramirez does much the same.

MAN
And you combine the credit with duration. And you know, majority of the portfolio is six months in any year and then... So that's another factor.

CATHERINE MCVAY HUGHES
Do you have any more questions?
PAM FREDERICK
I do not, I do not. Appreciate you and that Madam Chair attending the meeting and hosting us today. And Lester, appreciate you joining via voice. And we know on this particular call, it was listen only. It is something that we'll look at. Both hopefully we'll get to see you at the June meeting as well and we'll make sure that if you attend remotely, we'll also have Skype available so that you can have full participation. So we were set up for that, but we weren't sure which members had that available to them. So that is an option as well and that can be full participation.

CATHERINE MCVAY HUGHES
Great, and thank you very much.

STEVE FABER
Thank you.

PAM FREDERICK
And thank you guys. Mr. Ramirez and PFM.

STEVE FABER
Thanks, Bob.

PAM FREDERICK
Thanks, Bob.

CATHERINE MCVAY HUGHES
So motion to adjourn.

PAM FREDERICK
Okay.