

ROOSEVELT ISLAND OPERATING CORPORATION
INVESTMENT GUIDELINES

Introduction

On July 2, 1985, the Roosevelt Island Operating Corporation adopted comprehensive corporate investment guidelines as required by Section 2925 of the New York Public Authorities Law (the “Investment Guidelines”). Section 2925 requires that the Investment Guidelines be annually reviewed and approved by the Directors of the Roosevelt Island Operating Corporation. The following Investment Guidelines amend and restate the guidelines previously adopted, and are adopted in consideration of the New York State Comptroller’s Investment Guidelines for Public Authorities and in accordance with Chapter 899 of the Laws of 1984 (the “RIOC Act”) and Section 2925 of the New York Public Authorities Law.

ARTICLE ONE
Definitions

As used herein the terms set forth below are defined as follows:

- 1.1_ “Chief Financial Officer” means a Treasurer, a Vice President for Fiscal or Financial Affairs or the highest financial officer in the Corporation.
- 1.2 “Chief Executive Officer” means the President of the Corporation.
- 1.3 “Comptroller” means the State Comptroller.
- 1.4 “Corporation” means the Roosevelt Island Operating Corporation (sometimes referred to as “RIOC”), a body corporate and politic constituting a public benefit corporation and a political subdivision of the State of New York, created and established pursuant to Chapter 899 of the Laws of 1984 of the State of New York (the “RIOC Act”).
- 1.5 “Investment Funds” means all monies and financial resources available for investment by the Corporation on its own behalf or on behalf of any other entity or individual, and not required for immediate use or disbursement.
- 1.6 “Repurchase Agreement” means a repurchase agreement satisfying the requirements set forth in Article 4 herein.
- 1.7 “Securities” means any or all of the investment obligations of the categories described in Section 4.1 of Article Four herein.
- 1.8 “State” means the State of New York.
- 1.10 “Depository” means a bank, savings and loan association, savings bank or credit union designated by the Corporation to hold deposits of monies required for immediate use or disbursement, other than Investment Funds. The obligation on the part of the Depository

is that it keep the deposit and, upon request, restore it to the depositor or otherwise deliver it according to the original trust.

ARTICLE TWO

Scope

These guidelines shall govern the investment and reinvestment of Investment Funds and the sale and liquidation of investments, as well as the monitoring, maintenance, accounting, reporting and internal controls by and of the Corporation with respect to such investment, sale, reinvestment and liquidation.

ARTICLE THREE

Investment Objectives

The Corporation's investment activities shall have as their first and foremost objective the safeguarding of the principal amount of the Investment Funds. Additional considerations regarding the Corporation's investment activities shall be liquidity of investments and realization of a reasonable return on investments. In furtherance of achieving these objectives, the Corporation shall provide for the diversification of investments to the extent practicable, with respect to maturities of investments, the type of investments and the firms with which the Corporation transacts business.

ARTICLE FOUR

Permissible Investments

- 4.1 The Corporation may invest its Investment Funds in any and all of the following, if and to the extent permitted by statutes and regulations applicable at the time of investment of such Investment Funds:
- 1) Any bonds and other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by the United States of America;
 - 2) Any bonds and other obligations which as to principal and interest constitute direct obligations of the State or which are unconditionally guaranteed by the State as to payment of principal and interest;
 - 3) Bonds and other obligations of governmental authorities, political subdivisions or public authorities of the State or of the United States of America, which are securities in which the Corporation lawfully may invest pursuant to applicable statutes, regulations and bond resolutions;
 - 4) Prime Commercial Paper issued by domestic banks, corporations and financial companies rated "A-1" or "P-1" by Standard & Poor's Corporation or Moody's Investors Services, Inc.

- 5) Certificates of Deposit of financial institutions authorized to do business in this State, including, but not limited to, commercial banks who participate in New York State Excelsior Linked Deposit programs and are authorized program depositories, which certificates of deposit are fully insured by a federal insurance program or by the Federal Deposit Insurance Corporation (collectively referred to herein as the “FDIC”) or fully secured as required by Section 4.3.1 below, by securities of the character described in clauses (1), (2) or (3) of this paragraph;
- 6) Subject to the requirements of Section 4.2 below, any Repurchase Agreement with any bank or trust company authorized to do business in the State of New York or with any broker-dealers included in the Federal Reserve Bank of New York’s list of primary government security dealers, which agreement is secured by securities of the character described in clauses (1), (2) or (3) of this paragraph; and
- 7) In any other obligations in which the Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law.

4.2 Specific Requirements Governing Repurchase Agreements

4.2.1 Eligible Sellers. The Corporation shall enter into Repurchase Agreements only with banks or trust companies authorized to do business in the State or from broker-dealers on the Federal Reserve Bank of New York’s list of primary government securities dealers and only after the Chief Financial Officer has reviewed such firm’s capitalization and the Chief Financial Officer and Chief Executive Officer have set a limit on the amount of monies that the Corporation may invest with such firm at any one time. The placement of Repurchase Agreements shall be distributed among several authorized firms to reduce the level of risk. The investment limit set for each such firm shall not be exceeded unless the Chief Financial Officer and the Chief Executive Officer make a written finding that sufficient Securities are not available from other eligible firms. Not less frequently than once each year, the Chief Financial Officer shall review and, if appropriate recommend adjustment of the investment limit for each eligible seller in light of such firm’s current capitalization. All investment limit adjustments shall require the approval of the Chief Financial Officer and Chief Executive Officer.

4.2.2 Eligible Custodian Banks. To be eligible to hold the Securities which are the subject of a Repurchase Agreement, a custodial bank should be a member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book-entry transfer of Securities, whether by book entry or physical delivery, should be confirmed in writing to the Corporation by the custodial bank. The custodian should not be the same party that is selling the Securities.

4.2.3 Maximum Maturity of Repurchase Agreements. There shall be no “open repurchase” agreements. Repurchase Agreements shall be limited to a maturity not to exceed ten (10) working days. Collateral shall have maturities not exceeding thirty (30) years.

4.3 Specific Requirements Regarding Certificates of Deposit.

4.3.1 Collateral Requirements. To the extent that the Corporation’s investment in a certificate of deposit is less than fully insured by the FDIC, the uninsured portion shall be fully collateralized by Securities (other than Repurchase Agreements). Collateral for a certificate of deposit must be reviewed at least monthly to determine if the market value of the Securities equals or exceeds the principal amount of the uninsured portion of the certificate of deposit plus accrued interest. If the market value of the Securities is insufficient, the issuer of the certificate of deposit must exchange or add to the amount of collateral to bring its market value to equal or exceed the uninsured portion of the principal amount of the certificate of deposit plus accrued interest.

4.3.2 Standard Terms for Certificate of Deposit Collateral Agreement. The Corporation shall negotiate and enter into a written agreement with each bank (and custodian) from which it has obtained a certificate of deposit. Such written agreement shall, at a minimum, address the following concerns:

- (A) The frequency of the valuation of the collateral to market; as set forth above (such valuation shall be done by the Corporation at least monthly);
- (B) The right and ability of the bank to substitute like Securities as collateral;
- (C) Description of events of default which would permit the Corporation or its custodian to liquidate or purchase the underlying Securities;
- (D) Description of the party who is to have title to the underlying Securities during the term of the agreement;
- (E) With respect to the custodial bank, the agreement shall also provide that the custodial bank takes possession of the Securities as agent of the Corporation and that the claims of the custodial bank are subordinate to those of the Corporation.
- (F) Notwithstanding the foregoing, with the approval of the Chief Executive Officer and the Chief Financial Officer, the Corporation shall also consider additional criteria as it deems appropriate, in accordance with these Investment Guidelines, to secure investments of the Corporation.

ARTICLE FIVE
Operating Procedures

- 5.1 Authorized Officers and Employees. Only the following persons shall be authorized to make investment decisions on behalf of the Corporation: the Chief Executive Officer and the Chief Financial Officer. The implementation of such investment decisions by placement of purchase or sale orders or otherwise shall be effected only by the foregoing officers and by such employees as may from time to time be designated in writing by the Chief Executive Officer or the Chief Financial Officer.
- 5.2 Standards for the Qualification of Brokers, Dealers and Agents. Any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer which is authorized to do business in the State may become qualified by the Corporation to transact purchases and sales of Securities (other than Repurchase Agreements) with the Corporation. Factors to be considered in determining the qualification of such firms shall include the firm's capitalization, quality, size and reliability, the Corporation's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated transaction. The determination of qualification shall be made by the Chief Financial Officer, who shall maintain a list of all such qualified firms.
- 5.3 Standards for the Qualification of Investment Advisors. For the purpose of rendering investment advice to the Corporation, the Corporation 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:
- (A) Authorized to do business in the State, and
 - (B) Registered with the Securities & Exchange Commission under the Investment Advisor Act of 1940, *and/or*
 - (C) Registered with the New York State Secretary of State as an Investment Advisor; *and/or*
 - (D) A member in good standing of the Investment Counsel Association of America.

The Corporation also shall consider the additional criteria (other than capitalization) enumerated in the preceding paragraph.

- 5.4 Standards for the Qualification of Custodial Banks. To be eligible to hold Securities as collateral for an investment made by the Corporation, a custodial bank should be a

member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book entry transfer of Securities to the credit of the Corporation. Transfer of Securities, whether by book entry or physical delivery, should be confirmed to in writing to the Corporation by the custodial bank. The custodian should not be the same party that is selling the Securities.

- 5.5 Competitive Bids; Negotiated Prices. In connection with the purchase and sales of securities, for each transaction in excess of *two and one-half million dollars* (\$2,500,000.00) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Corporation shall utilize competitive quotations. For each transaction which is equal to or less than *two and one-half million dollars* (\$2,500,000.00) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Corporation may utilize either competitive quotations or negotiated prices. The foregoing shall not apply to the purchase of government securities at initial auction. A complete and continuous record of all quotes, solicited and received, shall be maintained by the Corporation's Fiscal Department.

For each transaction (other than the purchase of governmental securities at initial auction) in excess of two and one half million dollars (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), a minimum of three separate solicitations will be made on each direct purchase or sale of a Security (including a Repurchase Agreement). The transaction shall be awarded to the dealer(s) offering the highest yield or return consistent with the Corporation's Investment Objectives as set forth herein, provided that, with respect to Repurchase Agreements, the amount of the investment with each individual firm does not exceed the investment limit referred to in Section 4.2.1 above.

- 5.6 Written Contracts and Confirmations. Unless the Directors shall by resolution determine that a written contract is not practical or that there is not a regular business practice of written contracts with respect to a specific investment or transaction, in which case the Directors, by such resolution, shall adopt procedures covering such investment or transaction, a written contract and/or a written confirmation shall be required for each investment transaction. With respect to the purchase or sale of Securities other than Repurchase Agreements, the Corporation shall not be required to enter into a formal written contract, provided that the Corporation's oral instructions to its broker, dealer, agent, investment advisor or custodian with respect to such transactions are confirmed in writing at the earliest practicable moment. A written contract shall be required for each purchase and sale of a Repurchase Agreement.

- 5.7 Payment. Payment for investments, other than certificates of deposit, shall be made only upon written confirmation of presentation of the physical Security, or in the case of book-entry form Securities, when credited for the custodian's account, which

shall be segregated for the Corporation's sole use. The custodian may act on oral instructions from an authorized officer of the Corporation, such instructions to be confirmed in writing immediately by an authorized officer of the custodian. Such collateral shall, on the date of purchase, be at least equal in market value to the amount of the investment.

- 5.8 Collateral. Except as specifically otherwise provided herein, the Corporation's financial interest in its investments shall be fully secured or collateralized at all times in an amount not less than the original amount invested plus accrued, unpaid interest thereon. Only Securities permissible for investment by the Corporation pursuant to these Guidelines (other than Repurchase Agreements) may be accepted as collateral. Pledges of proportionate interests in pooled collateral shall not constitute acceptable collateral. In the case of certificates of deposit and demand and time deposits, collateral shall be provided for amounts in excess of the applicable limit of coverage provided by the FDIC. Collateral shall be maintained in the custody of the Corporation or an approved third party custodian at all times. To assure that, at all times, the market value of said collateral is at least equal to the original amount invested plus all accrued, unpaid interest, collateral shall be marked to market at the time the investment is made and thereafter daily with respect to Repurchase Agreements and weekly with respect to certificates of deposit.
- 5.9 Operating Funds. Operating funds and other monies of the Corporation, other than Investment Funds, are to be held in insured accounts at Depositories.
- 5.10 Internal Controls. Commencing with FY 2001-2002 (i) the Chief Financial Officer shall develop a detailed operating procedures manual as more particularly set forth in Section B(4) of the Comptroller's Investment Guidelines for Public Authorities and (ii) in accordance with Section 2925(5) of the Public Authorities Law, the Chief Financial Officer shall prepare and file with the Directors, reports on a regular basis, but not more often than on a quarterly basis, regarding new investments, the inventory of existing investments and the selection of investment bankers, brokers, agents, dealers or auditors.

ARTICLE SIX Reports and Audits

The following reports and audits shall be prepared in connection with the Corporation's investment program.

- 6.1 Annual Investment Report. After the close of each fiscal year of the Corporation, the Chief Executive Officer shall submit to the Directors, and the Corporation shall file with the State Division of the Budget, with copies thereof to the Office of the Comptroller, the State Senate Finance Committee and State Assembly Ways and

Means Committee, an annual investment report, prepared with the assistance of the Chief Financial Officer, which shall include the following:

- (1) The Investment Guidelines required by Section 2925(3) of the Public Authorities Law and any amendments to such guidelines since the last investment report;
- (2) An explanation of the Investment Guidelines and amendments;
- (3) The results of the Annual Investment Audit (described below);
- (4) The investment income record of the Corporation; and
- (5) A list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Corporation since the date of the last investment report.

6.2 Annual Investment Review. As part of the of the preparation of the annual financial statements of the Corporation, the Corporation shall, each fiscal year commencing with FY 2000-2001, cause its independent auditors to conduct a review regarding the Corporation's investments as required by Section 2925(3)(f) of the Public Authorities Law. (The Corporation's financial statements with respect to investments, which are required to be prepared in conformance with generally accepted accounting principles for governments ("GAAP"), should contain all of the note disclosures on deposits with financial institutions and investments required by the Governmental Accounting Standards Board Statements No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" dated April 1986). The Annual Investment Review:

- 1) Shall determine whether: the Corporation complies with its own investment policies; investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the corporation's assets; and a system of adequate internal controls is maintained.
- 2) Shall determine whether the Corporation has complied with applicable laws, regulations and the Comptroller's Investment Guidelines; and
- 3) Should be designed to the extent practical to satisfy both the common interest of the Corporation and the public officials accountable to others.

6.3 Annual Investment Audit Report. The results of the Annual Investment Review shall be set forth in a report (the "Annual Investment Audit Report") which shall include

without limitation:

- 1) verification of collateral;
- 2) a description of the scope and objectives of the audit;
- 3) a statement that the audit was made in accordance with generally accepted government auditing standards;
- 4) a description of any material weaknesses found in the internal controls;
- 5) a description of all non-compliance with the Corporation's investment policies as well as applicable laws, regulations and the Comptroller's Investment Guidelines for Public Authorities;
- 6) a statement of positive assurance of compliance on the items tested and negative assurance on those items not tested;
- 7) a statement on any other material deficiency or finding identified during the audit not covered in (6) above; and
- 8) recommendations, if any, with respect to amendment of these Guidelines.

In accordance with Part 201 of Title 2 of the Official Compilation of Codes, Rules and Regulations of the State of New York, the Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Corporation's fiscal year with the Coordinator of Public Authority Programs, Office of the State Comptroller, A.E. Smith Office Building, Albany, N.Y. 12236.

ARTICLE SEVEN

Miscellaneous

- 7.1 In connection with the Annual Investment Audit Report, each year the Corporation shall review these Guidelines to determine whether the Corporation shall amend or otherwise update these Guidelines.

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