BPCA INVESTMENT COMMITTEE 6/19/18

CATHERINE MCVAY HUGHES
Good morning. Um, may name is Catherine McVay Hughes. Um, this is the meeting of the Investment Committee for the Battery Park City Authority. We’re waiting for George, who's stuck in traffic right now. So we're going to start with the for discussion only section first. And we're going to start with the BPCA Environmental Guideline Review.

PAMELA FREDERICK
Yes.

CATHERINE MCVAY HUGHES
If Pam... could present.

PAMELA FREDERICK
Oh.

CATHERINE MCVAY HUGHES
Beautiful.

PAMELA FREDERICK
(inaudible) Um. And you-- Do you have your packet?

CATHERINE MCVAY HUGHES
Yeah.

PAMELA FREDERICK
Okay. All right. All right, so thanks, everyone, um, for joining us. This is a-a topic that, um, you know, as a, um, committee, and also a-- for the Authority and, and the advisors, we've been sort of dealing with environmental issues since, um, last December when, um, the city of New-- New York sort of went unnoticed for the fossil fuels investment issues, and we looked at our portfolio and dealt with what was in the portfolio. And as, um, at this point have no longer been investing in fossil fuels. So, one of the items that, um, um, our committee, uh, member and today, um, acting chair, Catherine McVay Hughes, raises an important item that she really wanted a little more focus and a little more structure around, um, what we're going to do in the environmental, um, social and governance area. And so this, um, uh, discussion, uh, point, um, on the, uh, agenda is really to review a, uh, brief, um... presentation that we put together about the area. And then also, to open it up for discussions and try to get a way forward in terms of how the, uh, committee and how the Authority, um, then will, uh, deal with environmental-related matters going forward. So, um... in, um, going through the items, our discussion points are, um, just to highlight the fact that, um, the Authority-- Battery Park City Authority-- actually follows the New York State Comptroller's investment guidelines. And, um, and so I think we're going to use that a bit as a guiding post of how we move forward, because the state, um, comptroller's area, which manages, um, huge in-- uh, pension investment funds. Uh, really have a high focus on this area as well. So I think we're going to use that as, as a guiding post. Um, the other thing, fossil fuels, I made note of already. We haven't made any new investments, um, since it came up as a discussion point in December. Um,

those things that we had on the portfolio have since matured. And so to date we have zero, um, invested in, uh-- investments in the fossil fuel areas in-- in our portfolio. And we intend to, um, um, going forward, keep it that way, subject to any decisions by the investment committee. Uh, that would be then brought forward to the board. Um, and then in terms of environmentally focused investments, um, I think a real important constraint that we have as an authority and our portfolio is the fact that we're limited, um, in terms of investments to what's called, um, Section 98 of state finance law. And that section basically, uh, lists all of the, uh... all of the issuers that we're authorized to invest in. And so, effectively, what that limits us to is investing in fixed income security bonds, um, primarily government bonds where about purview. 80% of the portfolio currently, as well as commercial paper, and we use that, and very highly rated, um, com-commercial paper issuers. And that also sort of constrains us, even within that, um, purview, um... Um, so Michael, um, is joining us. Next time, we'll have him come through the other side door. Um, so the... So... because of that, um, what you usually have for investment committees and people who manage large multi-asset funds, they have a lot more breath of which they can look to for environmentally focused investments. But because we are fairly constrained, I think we're largely going to be limited to what's termed as "green bonds," and it's going to be an area that we will come back to the board with recommendations and ideas about what some of those investment-- potential investments could be for the Authority. But that's one really big area. In fact, one of our advisors who's here today, Ramirez Asset Management, actually worked on the MTA, I think.

JAMES HADDON
Green bond.

PAMELA FREDERICK
Lou was sharing with us on our investment call a green bond opportunity that they worked on. Again, even looking at green bonds, we'll still be constrained by our investment guidelines, as well as-- and that being constrained by Section 98. The other area beyond green bonds, which is a very... structured issuance, beyond that, there're going to be names of issuers who have more of an environmental leaning than others. So that will be another area of opportunity that we'll work with our investment advisors to identify other investment opportunities. We'll bring those forward to the board, and try to devise something that's a more structured... a more structured approach to investments. And, um, one of our board members has joined. We can switch George, I guess. (laughing)

LESTER PETRACCA
I apologize.

PAMELA FREDERICK
No problem, no problem. You know New York traffic, so.

LESTER PETRACCA
Yeah. Thanks. (inaudible)

PAMELA FREDERICK
Yeah. Oh, you can-- Yeah. Yeah. You can just switch over.

(laughing)

LESTER PETRACCA
Thank you.

STEVE FABER
Take a chair.

LESTER PETRACCA
Yeah. I'm sorry. I apologize.

PAMELA FREDERICK
No, so, um, so...

CATHERINE MCVAY HUGHES
We're here on Item Four, for discussion only, the BPCA Environmental Guideline Review. (inaudible) For a separate review.

PAMELA FREDERICK
Um, yeah. That was in the... (inaudible) I'm going to share-- Yeah. Unless there's notes on here. No. Okay. (laughing) Um, there you go.

LESTER PETRACCA
Thank you.

PAMELA FREDERICK
Um... Yeah, we know this by heart. Um, all right. So, so on the discussion points, we were just finishing up on that. So, on the last bullet of the discussion points, Battery Park City is really seeking to develop its own approach and, as a committee, give guidance to the board in terms of how we will pursue ESG-related matters. And so, for-- from an investment perspective, I think what we found, at least initially, is that it's really important to sort of take a stance either as an activist approach, or passive. Meaning not really focused on environmental matters, and just, you know, allowing investments to occur as they occur. Or, what we would call is a more restrictive approach. And we'll look on the next page, but-- And by "restrictive", saying that we won't invest in certain categories. Or we'll even go as far as to be-- to divest from areas that are existing in the portfolio. We're fortunate that we don't have that problem right now, but I think it sort of frames how we move forward. And on the next page, what we did is just, at a very high level, summarized the-- in contrast, the difference between the New York State Comptroller's approach, which is much more activist; it has a very large portfolio-- investment portfolio. And what they've done-- What they tend to do is they want a seat at the table. And by having a seat at the table, they want to impact how the issuers address environmental issues. And they've had quite a bit of impact over the-- over the years. But, um, we would frame them and others, like teachers and the Kelpers, are very much activist participants in this, in addressing ESG-related matters. And with the power of them as the largest investment funds in the country, they really do have fairly significant impact on some of these issuers in how they address-- And I'll say issuers and companies because, since they have multi-assets, they are equity as well. So they have a

pretty significant impact on those companies. Contrast that, and it may be, um, maybe be too far of a contrast, but the New York City approach is much more restrictive. They've started by looking at fossil fuels much as we did, much as the state does. And they have taken a step further to say that "We intend to divest from fossil fuels." And right now, they've put together a committee to assess how do they divest in a constructive way without damaging their return to the portfolio, etcetera, etcetera. And so we use those as contrasts, meaning one investor who-- meaning New York State-- who wants to have an impact on environmental issues through engagement with companies, versus the other-- meaning New York City-- who's making their statements known more so by saying "We won't invest in you unless you improve." And so, I think that those are almost guideposts. Because we are fairly restrictive in being a fixed income only investor, and being a relatively small investor, we're probably not going to have a voice. But I think, in terms of how we guide the investment advisors in terms of what we will and will not invest in, and the stance that we'll want to take in our investment guidelines, I think that's going to be a committee decision and a discussion point, and something that we'll probably... We see this as a starting point. I don't think that anything necessarily has to be decided today, or recommended to the board. I think there's still a lot of research that has to be done. And so we wanted to bring this forth at least for-- to get, you know, some guidance from the committee and, um... Or either questions from the committee that you'd like us to explore further. And our thought is that, at the September committee meeting, what we'll do is bring forth our suggestions from the investment advisors on what some of the opportunities are, where we may be limited even further. Because within fixed income, green bonds itself is still a relatively small and, you know, new sector, and one that-- I think we said on the call this week-- is one that is maybe not growing as rapidly, but we think in the future will be a pretty significant asset class. Or sub-asset class, if you will. So it really jus opens this up for discussions. Any comments from the advisors as well.

STEVE FABER
Yeah, um, thanks, Pam. I just wanted to elaborate on something that Pam said. The Authority operates within Section 98 of the state finance law and comptroller's guidelines. And yes, it is quite restrictive, as Pam mentioned. Um... As we think about those areas within the investment policy and the guidelines, uh, where the Authority could consider the potential for impact investing. Um, because the Authority's allowed to invest in municipals and because the Authority's allowed to invest in corporates in the form of commercial paper, um, there are opportunities within, um, within those areas. And specifically, there are a number of models that the investment industry has, has been pursuing for impact investing over the years, and as it's developed into a greater, more visible effort. One of those models is a theme-specific model. So, if you think about, you know, energy, um... and climate change; if you think about education; if you think about housing and community; if you think about water and sanitation; those are specific areas that, if you think about it, they all certainly touch on the municipal bond space. And then, if you translate that into corporate-- You know, obviously the issue that we ran into with Exxon/Mobil, um, in owning their commercial paper in a couple of the Authority's accounts, and the fossil fuel divestiture

issue. We still think there are ways, potentially, for the Authority to consider being an impact investor. Maybe not... certainly as Pam suggested, not an activist role like a New York State Teachers or common fund, um, etcetera, because you're not owning the equity of these companies. Nonetheless, the Authority can, you know, be a role model for others within the public sector, or adopt similar models that have been adopted by, uh, and implemented by others. So I think, um, one of the things that PFM wants to help the Authority and the... kind of the staff investment committee, over the next number of months, is how can we help the Authority identify a policy, create a policy, that will allow you to potentially to, um, to create those theme-specific avenues.

CATHERINE MCVAY HUGHES
Did you have a question?

LESTER PETRACCA
No. I'm okay.

JAMES HADDON
Yeah, I'm-- I was just going to say, Pam noted that, um, Ramirez, in our organization, has two basic companies. One is a broker/dealer, which does serve as an underwriter for tax exempt municipal bonds, as well as municipal-grade corporate bonds; and we have an asset management company. And there are very strict firewalls between the two companies. But on our public finance side, we have been a leader in urging municipalities to think about green bonds. And as Steve noted, in the municipal sector, a lot of those themes definitely hit things that public sectors issue bonds for. Housing, uh, ed-- You know, social impact type things, as well as transportation and other things that would qualify for "green". So that's a very evolving field in the municipal sector. And I think the Authority will see opportunities to invest in more green bonds, because more municipal issuers will start issuing green bonds. We're seeing a growth in that category, sub-category, of municipal bonds. So, as we think about our policies, one of them may be that we'll look to try to invest in green municipal bonds when the opportunity exists, and when they meet our qualifications with respect to investment policy and, you know, smart investment decision criteria.

STEVE FABER
And it's interesting. Just one additional thing. I was actually speaking with a partner of mine this morning, um... Bob knows, Jim knows, Laura Frankie. She actually heads up our environmental finance group on the public financial management side, the finished budget (indistinct). She was actually just yesterday at a green bonds conference in London. And her comment was that Europe, it seems to be, much further ahead of the United States on this issue. But, um, there's pressure, both on asset managers and on asset owners here in the U.S. to kind of step up their game. And I think the Authority considering this issue at this time, it's the perfect time to be doing that.

PAMELA FREDERICK
And Catherine for pushing the topic, and getting us geared up to have the discussion now.

CATHERINE MCVAY HUGHES
Thank you so much. It seems like a great analysis. And, um, with the rating agencies also now looking at climate risks at the municipal level and the corporate level, it would-- You know, even though a lot of the portfolios on the short term wouldn't want to get, you know, stranded asset either. So.

PAMELA FREDERICK
Okay, good.

CATHERINE MCVAY HUGHES
Great. Thank you very much. So now we're going to go to review of investment performance.

STEVE FABER
So, yes, we're going to turn to--

PAMELA FREDERICK
Yep.

STEVE FABER
...the presentation deck that we shared with you a couple weeks ago. And what we're going to do first is, I'm going to ask Bob Cheddar, who's our Senior Portfolio Manager and head of PFM's credit committee, to give an overview of the markets during the-- the quarter ended on April of this year. which is the quarter that we're reviewing with the committee this morning. And talk a little bit about the expectations for the balance of 2018. And with that as a foundation for what happened and what we expect to happen, we'll then kind of flip back to the front of the presentation deck, and talk about performance of the portfolio and structure of the portfolio, composition of the portfolio, etcetera. So, what Bob's going to speak to is summarized in the market commentary, which is section four of the deck. So again, we're going to start at the end and we're going to jump back to the beginning. Bob.

BOB CHEDDAR
Sure, and thank you, Steve. So I think there are three or four main themes in the first quarter, uh... quarter ending April 30th, which I-- and some of those themes have certainly carried over to the past couple of months. You know, the first, I think, during the period earlier in the year, the quarter we're talking about, volatility certainly increased in the market place. That was primarily, I think, due to several geopolitical events; discussions around North Korea. And maybe more particularly involved in the markets were discussions around trade, and certainly those discussions have heated up recently. There is some concern that tariffs imposed by the United States could escalate into a trade war between some of our major trading partners. And I think that contributed to some of the volatility during the first part of the year. Equities were impacted by those discussions, so stocks did-- didn't do as well as they had been doing. And in the fixed income market, the yield difference between treasuries and corporate bonds had widened, so there was some additional... credit was priced into markets like the corporate bond market. Aside from that, the Federal Reserve is, you know, clearly, I think, the main player right now. That did increase rates in March to

arrange a (indistinct), and again in June, taking the overnight rate to a new range of 175 to 2%. We-- We think that the Fed will continue to increase rates this year. The question now is whether they'll increase rates one more time or two more times this year. And then, markets expect that the Fed will be active next year and-- and continue, uh, to increase rates. So the short end of the yield curve has been moving higher in yield. And-- and we have a couple good charts on page 38 that reflects this. Uh, the top chart is an illustration of the yield curve. And as the Fed has been increasing rates on the short end of the curve, longer term rates haven't moved as much. So the yield curve has become very, very flat. The yield difference between the two and ten year treasury this morning was just 35 basis points, so by moving from a two year treasury to a ten year treasury, your yield pickup is about 35 basis points this morning. If we were to look at the widest point, that occurred in February of 2010 after the financial crisis. The yield difference was 2.91, or 291 basis points, almost three full percentage points. So the shape of the yield curve is really different compared to where it was a few years ago. And you can that on, you know, again, on-- on the chart, how the short end of the curve has moved higher. Well, the longer term rates haven't moved very much. This is just illustration of maturity compared to yield. And this, again, I think gives you a good indication of how the shape of the curve has changed over the course of the past couple-- couple of years. That leads into, I think, a discussion of the economy. Some folks think that a flattening yield curve and that, eventually, an inverted yield curve is a sign that maybe the economy would fall into a recession at some point in the future. Usually, it's 12, 18 months into the future. I don't think the economy data is telling us that at the moment. Growth continues to be relatively strong in the first quarter. Fourth quarter was 2.9%. First quarter was about 2.3%. And the trend for the second quarter seems to indicate that GDP growth will be about 3%. So it does appear that the economy is doing relatively well, regardless of what the yield curve might be telling us. So that leaves me to believe that there's other things in play in respect to the shape of the yield curve. For example, yields in some sovereign markets are very, very low. So our yields here in the United States are still attractive compared to German yields, for example. So I think there has been some capital flow into our marketplace that has had an influence on the long end of the curve. Inflation has been very low for a period, I think, certainly, that's been on the mind of longer term investors. That's been changing recently. Inflation has been moving towards the Fed target, and is starting to move above 2% up by some measures. So I think inflation is starting to work its way through the system. There's some indication in recent numbers that wages are starting to grow. Labor market has done very well, the unemployment rates are below 4%. So I think there's some early indication that wage pressures are starting to build on inflation. So we think the economy is doing relatively well regardless of what the shape of the curve is telling us at the moment. We do think that the Fed will increase rates two times this year depending on the outlook for growth and inflation. So that has a significant impact on the Authority's portfolios. Most of the funds that we invest are relatively short term in nature, and very much impacted by what the Federal Reserve does. Over time, certainly increased rates means additional interest earnings for the Authority. So three or four years ago, the overnight rate was about zero. The 30-day treasury bill was 25 or so basis point. The two year treasury was trading at 12 basis points. So the interest rates have increased from those levels. The earnings power of the portfolios have increased. So-- So we, again, we do think the Fed will increase rates a couple times this year, potentially. And then, into 2019, it's projected that the Fed could increase rates two or three more times. During last week's meeting, the FOMC did release their outlook for rates, and they did seem to indicate that there would be an additional two rate hikes later this year based on their own projections. And they did modestly upgrade their assessment of the economy, at least the description of how the economy is doing. So it does, I think, look like the Fed's still on plan to gradually increase rates as they've described in-- in the past. So over the short-- over the near term, we would expect that short term rates will continue to move higher. The rest of the curve should move higher in a similar fashion. There is the potential that the curve flattens further, but as the Fed increases rates, certainly short term rates move higher. And we do expect that the longer end of the curve will move higher in the yield, as well.

STEVE FABER
Uh, any questions about the market summary that Bob just gave everybody?

CATHERINE MCVAY HUGHES
Is the portfolio, um, in a position to handle the increase? The anticipated increase?

BOB CHEDDAR
Sure. Uh, so, Steve will talk specifically about portfolio performance. We have several portfolios that we manage compared to a benchmark. In one case, one five year benchmark. In other cases, a one-to-ten year treasury benchmark, which is a description of maturity range of the securities in those benchmarks. For the past two or three quarters, we've maintained a shorter duration positioning in those portfolios to protect the portfolio's value in the event that interest rates do continue to move higher. That's one of the reasons why those portfolios have outperformed the index on a relative basis. So we've positioned those portfolios accordingly, again, to help protect the value of the portfolio should interest rates move higher. We've also underweighted longer maturity ranges in those portfolios, because longer maturities are more at risk when interest rates move higher because of the duration. So we've been thoughtful about the portfolio positioning relative to the strategy in those portfolios based on our outlook for the market and what's likely to happen with rates over the next-- next couple of quarters.

STEVE FABER
I would also just point out that those, um, six accounts that are managed to longer strategies, either a one-to-five year strategy or a one-to-ten year strategy, are in fact longer term reserve funds of the Authority and, therefore, funds or dollars from those funds are not anticipated to be needed for-- other than the purpose for which they're there. Okay? Other post-employment benefits, um, to serve as a reserve for the debt of the Authority should the Authority's ability to pay debt service timely is not there. So, um, the funds are purposefully managed longer to generate, you know, higher returns over the longer periods of time for which the funds are set. For those funds that are, um, invested much

shorter, they're invested much shorter on purpose. And those two funds, the project-- or, the pledge revenue and project operating fund which are managed to a total return, they are, um, more of a-- it's a-- it's a combination of total return and asset liability matching. In other words, we're managing and investing those funds, you know, certainly in the project operating fund, to meet the liquidity-- ongoing liquidity needs of the Authority. Similarly, with the pledge revenue, you know, those funds are, you know, withdrawn on a periodic basis from the Authority's accounts, um, and so we have to manage them accordingly. So a long answer to your question, um, Miss McVay Hughes, that, yes, we believe that they are positioned properly to the extent that we see repeat quarters like the first quarter where interest rates across the curve shot up, on average, 30 to 35 basis points. We're going to see challenged performance. Um, I would-- and I would direct your attention back to slide four of the presentation deck at this point-- I would point out that the benchmarks to which each of the funds are managed, and I'm going to focus first on the long term strategy. Um, those benchmarks or indices, the one-to-five year treasury note index or the one-to-ten year treasury index, each generated negative returns for the quarter and negative returns for the 12 months ended April 30. While each of the managed accounts, um, reserve, operating reserve, insurance, et cetera, also had negative returns, they were less negative than the benchmarks. So in the twisted way we think about things, we outperformed the benchmark. So we did better than the benchmark largely because of the shorter duration positioning that Bob referenced. Shorter relative to the benchmark duration. Um, so it's that defensive, AKA "conservative posture", that added to relative outperformance versus the benchmarks during the quarter ended April 30. Again, longer term, over the past several years and then since inception, each of the funds has outperformed its benchmark. And again, those are the longer term funds, so we believe it appropriate to view... While we want to keep short term performance in mind-- A re we doing anything right, do we need to adjust-- we want to make sure that over the longer term, that those funds are consistently outperforming its targeted benchmark. Um, turning to the two short term strategy accounts, pledge revenue and project operating, unlike the longer term accounts, um, the shorter end of the curve and those funds invested on a much shorter duration, actually performed well, meaning they generated positive returns. The money market sector-- Because of the fact that rates were rising, you have shorter maturity. So monies able to be redeployed at the higher interest rates generated better returns. The project operating fund, which is a reasonably small account and is managed very, very short, um, performed right in line with its benchmark which is the three month, 90-day T-bill index. The pledge revenue account underperformed slightly, and that was largely due to the structure of the fund itself. There was, in February, so right at the onset of the quarter, there was $60 million transfer out of the account. Approximately, uh, 28 million or so came in, five million in March, and another 28 million in April, which was able to be reinvested at then higher interest rates. But, again, the impact of that 60 million coming out, um, had a-- had a kind of a negative impact, if you will, on the total return of the pledge revenue fund. Again, longer term, those funds are in line with the benchmark. There's a lot more vol-- not volatility, but, um, variability, if you will, in terms of how much is needed and when. We typically know, approximately, when funds will be drawn, but there's a question as to how much may or may not be drawn from any given time. So we accordingly have to invest in a more conservative way with those two funds.

BOB CHEDDAR
The pledge revenue's an interesting portfolio in that its market value can vary significantly. In December, there was very little in the pledge revenue because all those funds are transferred over to the residual portfolio. And over the course of the first and second quarter, it gradually builds. Then there's a transfer for debt service payments, and later on, transfers into the operating fund. Now towards the end of the year, it will build again. And then in December and November of next year, the process will start all over again. It's probably, I think for the operation of the Authority, the most important portfolio to have structured properly because all of the funds flow into the pledge revenue, then all of the funds flow out of the pledge revenue to meet the various operating needs of the Authority, whether it's debt service reserves transfers at some point to the residual fund, movement of cash over to the operating fund. So it's really important that we structure the maturities of the portfolio to match those cash flows. And sometimes, that might be against our market view. So we can't always-- we can't always execute our market views in this portfolio because it's so important-- because a cash flow is in this position is so important relative to what's happening in the marketplace.

CATHERINE MCVAY HUGHES
So on the longer term strategy funds, um, are you letting some of those shorter term investments mature? Or are you getting out of them before they're mat-- they're... and then you have to take a loss on them?

BOB CHEDDAR
From time to time, we do sell securities to rebalance the structure of the portfolio or the duration of the portfolio. Recently, we've been doing that much less frequently. So over time, a fixed income hopefully will get shorter and shorter in duration as the securities get closer to maturity. So we haven't been extending the duration or changing the duration of the benchmark as much as we would have in other interest rate environments. So if we were in a period where we thought interest rates were falling, or maybe stable, we'd like to maintain the duration closer to the benchmark. So we'd have to execute a trade almost every month to make sure the portfolio was positioned accordingly. We're not doing that as much in the current environment because we do think rates will be moving higher. Over the course of the past two or three quarters-- I'm trying to think of the exact timing of when we changed our positioning-- We've allowed the duration to shorten over that time period. So we haven't been reinvesting further out the curve to change the duration of the portfolio. Up until September or so of last year, we had maintained a more neutral duration position. That's sometimes what we refer to being "close to the benchmark." But because of the current environment, we think it makes sense to protect the portfolio's value by having a shorter duration positioning and to de-emphasize longer term or longer maturity securities in the portfolio. That's-- that's likely to be our strategy over the next several months, particularly if the Federal Reserve executes what they've communicated as their potential strategy. We think

rates will move higher, so we'll maintain a shorter duration positioning in these portfolios.

STEVE FABER
Any other questions on performance specifically? If not, I'm going to skip over five 'cause I think we pretty much covered that in our comments. Slide six is a slide that Pam asked we include, I think it was included at the last meeting, just to give the committee a sense for not only how the funds are invested, but the ratings of the particular securities and/or sector, and is the Authority in compliance with its investment policy. Um, and I think the answer to the last question is, yes, the Authority remains in compliance and has always been in compliance with its investment policy. There's a couple other things I would point out. You can see that the portfolio remains heavily invested in US Treasuries. One, because, you know, treasury, there's the value, relatively speaking, um, is there. Treasuries versus other sectors, at least during the quarter. Secondly, because, um, since the downgrade of the United States government back in 28-- 2008 or 9, S&P downgraded the treasury and, therefore, various federal agencies from AAA to AA. Plus, the language in the state guidelines, the senate finance law, the state finance law, um, basically effectively prohibits us from investing-- the Authority, excuse me, from investing in anything other than securities rated at the highest available rating. So it effectively takes Fanny and Freddy off the table. So that's why you've seen a declining allocation to federal agencies over the last number of years. That being said, there's still-- there's still diversification within the portfolio. You can see that for both corporate, in this case commercial paper, as well as municipals, credit sectors, we have individual issuer limits. 5% for commercial paper, and 10% for municipals, meaning any one given name cannot, um, comprise more than 5% or 10% of the portfolio respectively. And you can see, other than treasuries, the largest individual name in the portfolio is JP Morgan Commercial Paper at 4.25%. Um, I would point out, um, one other thing, um, or one other item. Three of the municipal securities, down toward kind of in the bottom third of the table, Syracuse, New York, ONTA, and, um, West Islip school district out on Long Island, it's showing as non-rated by S&P. Um, those securities are, in fact, rated by Moody's, and rated at a level that is in compliance with the Authority's investment policy. Our reporting system only reports S&P ratings, so I just-- I didn't want you to think that you own non-rated securities in your portfolio.

CATHERINE MCVAY HUGHES
You-- you don't want to add another column here for Moody's, then, for the non-rated? Or... or put a footnote?

STEVE FABER
We-- we-- we did add a footnote.

CATHERINE MCVAY HUGHES
Okay. Oh, okay.

STEVE FABER
We just-- what we didn't do is add the specific rating, and we can moving forward.

CATHERINE MCVAY HUGHES
Okay. I think we should. I think it should be footnoted. Yeah.

PAMELA FREDERICK
I think they've actually provided us an updated, um, slide, which we'll share with the committee...

STEVE FABER
Oh, I'm sorry, we didn't hand them out.

PAMELA FREDERICK
Which will be-- I'm sorry?

STEVE FABER
I said we didn't hand them out, Sam has it.

PAMELA FREDERICK
Oh. Oh, do you have it?

SAM
(indistinct)

STEVE FABER
The slide.

PAMELA FREDERICK
The updated slides?

SAM
It's-- I have the slides for--

STEVE FABER
Oh, not that one, sorry. Sorry, my bad.

PAMELA FREDERICK
Oh, not that one, okay. Oh, okay, it's on that one, another one. But it has the ratings for those...

CATHERINE MCVAY HUGHES
Great.

PAMELA FREDERICK
Securities. We noted it, um, earlier this week and said we'd provided and make note of it during the meeting.

STEVE FABER
Um... slide seven, um, and seven, eight, and nine, if I have it right, um, shows, um, the quarter over quarter change in market value by strategy. So rather than at the individual portfolio level, we show this at the strategy level. Longer term and shorter term, which are the total return accounts which we discussed a few moments ago when we were discussing performance. And then what we've cleverly labeled the "Other BPCA Accounts", um, which are really all the asset liability accounts.

The escrow accounts, the debt service funds, those funds that are managed to typically very short, um, periods of time, um, and are held for specific reasons. To pay debt service of the Authority for various building projects for which the Authority holds funds in escrow on behalf of those projects, et cetera.

PAMELA FREDERICK
And one category you'll see probably later is all of the-- each of the buildings has a, um, sort of a reserve fund. And that dip is something that we'll be focused on more this year. It addresses shortfalls and deficiencies and payments. But that's a-- they're relatively small, but, um, in total. But all of those are managed by Ramirez, but that's another category that falls within other BPCA.

STEVE FABER
Right, and you can see that, um, you know, at almost 58% of the aggregate Authority portfolio is, while they are, you know, there are probably three dozen accounts that are reasonably small, with the exception of debt service and maybe one or two others, they do constitute a significant percentage of the Authority assets during the-- during the year. Um, slide eight breaks it down by account within the total return accounts. So you can see, you know, the duration difference, the market value difference. There wasn't a substantial change in the market value of the longer term accounts. There was a difference-- or is a difference, excuse me-- in the duration quarter over quarter. As Bob mentioned, you know, duration has been shortened purposefully. And you can see the differences between the quarter end of January and the quarter end in April in each of the respective accounts. Pledge revenue kind of went the other way, decline in market value duration shot up just because of the holdings and the way that portfolio's structured as Bob mentioned earlier. And project operating, we talked about it's a reasonably small account, and there's kind of a, you know, there's a draw on a regular basis that the Authority takes for ongoing liquidity needs, not cash needs, of the Authority. Um, Jim or Lou, slide nine, you know, are-- are mostly-- well, I think all of the acco-- mostly, yeah, mostly the accounts that Ramirez manages, did you want to comment in any manner on those?

LOUIS SARNO
Sure. I mean, the two primary portfolios are the junior debt service and the senior debt service. We have to manage those portfolios on a very short term basis to meet the liquidity requirements. In essence, the portfolios are funded early in the year, and then around May 1st and November 1st, significant withdrawals occur. So-- so we must invest on a very short term basis. Our view on Federal Reserve policy is very similar to PFM. And in essence, we've been investing to coincide with Federal Reserve's readings to take advantage of rising rates, um, for the portfolio. The other portfolios-- and there's a couple of dozen-- are escrow reserve accounts where we can invest, essentially, out to a two year maximum. So we're investing very short term for all the portfolios at Ramirez. We are utilizing primarily US Treasury securities. However, when opportunities arise, we do invest commercial paper, um, and in municipal marketplace. The investment guidelines, as noted, are very restrictive. And the opportunities set outside of government guaranteed

securities are fairly limited. But, in essence, the portfolios are performing well, as expected, and we've been able to take advantage of rising short term rates like keeping the portfolios invested on a very short term basis.

STEVE FABER
I-I should note that I did do this before. Both Bob Cheddar for PFM and Lou Sarno for Ramirez are actually the portfolio managers, um, in buying and selling or directing the buying and selling on these securities portfolios. So we're very fortunate that they can join us at this meeting, so, um, so you don't have to listen to Jim and I try to make it up as we go. (laughter) The next-- the next two slides are really more for information purposes, they're kind of counting specific, um-- I mean, if you have questions, we can certainly chat about them, but I didn't want to spend too much time or, really, any time on those. The next several slides labeled "Change in Value" are, um, are designed to show both the change in market value as represented by the change in interest rates and the impact on the market value of individual accounts, but also kind of the money in-money out, you know? What was moved into the account, what was moved out of the account. You know, we spent a lot of time earlier talking about pledge revenue. You can see that during the quarter, there was a net transfer out during the quarter of just over $32 million. Again, that was staged. So 60 million out in February, 5 million in March, and 23 million in in April for the net impact of 32 million out. And yet, the market value of the account did increase, which-- recall that the total return of the pledge revenue for the quarter was a positive 28.28%. So despite the kind of the ins and outs and movements of funds, the portfolio did increase in market value. Similarly, with the project operating fund, albeit to a smaller extent, that contrasts with the longer term strategy shown above where, you know, there was little um, um, movement of funds and yet, those funds suffered from-- from a return perspective, suffered from the move higher, sharp move higher, in interest rates. Um, similarly, um, the slide thir-- I'm sorry, slide... Can't get to the page number here.

SAM
13.

STEVE FABER
Is there-- Besides 13. Sorry, I couldn't move the page. Slide 13 and, um, slide 14 shows similar data for the remaining accounts that are non-total return accounts. The most significant being the debt service funds that Lou described just a moment. And I cannot get this thing to... (chuckling) Electronics, they're a wonderful thing. All right, sorry. I'm going to go old school here and go back to the, uh... So-- So, um, so on the debt service, uh, the two debt service accounts, you'll notice significant increase in fund size. That was in order to, you know, the Authority is required to fund up the debt service fund accounts in anticipation of the May 1, in this case, interest payment date, correct? (indistinct)

PAMELA FREDERICK
And principle.

STEVE FABER
It is principle as well? Okay, so principle and interest date. Um, so thus, the significant infusion of funds from other accounts and/or cash receipts of the Authority during the quarter.

PAMELA FREDERICK
On page 14, I want to make, just-- Is that the one that you have the extra? (clears throat)

STEVE FABER
(inaudible)

PAMELA FREDERICK
Oh, thanks.

STEVE FABER
Sorry. (indistinct).

JAMES HADDON
Thank you.

STEVE FABER
Um, so, uh, so let me pause for a second. Any questions on anything to date? Uh, okay. Turning to the next section which is, again, a high level summary of the composition of the portfolio. Slide 16 shows the aggregate portfolio by security type, a percentage of which only the duration, et cetera, and contrast that with the quarter over quarter change. Uh, again, you can see roughly 80% of the portfolio in US Treasuries and smaller allocations to both federal agencies or instrumentalities like Supers. The Authority's investment policy and Senate finance law allows for, I think there are four names, including the World Bank... (indistinct) are permitted investments under the policy. And from time to time, (indistinct)... Super national securities in the portfolio. Commercial paper, municipals and government... (indistinct) And then you can see, um, by credit quality, as well, the Authority's investment policy being that it's, you know, required. It allows for treasuries... highly-- highly paid municipals and the highest-rated commercial paper permit a very, very high credit quality overall.(indistinct) ... on aggregate, if not higher than that, based on the preponderance of treasuries in the portfolio itself. Slides 17 and 18 take the material from-- from slide 16 and break it down by dividers. So the funds that PFMS initially was responsible for in the composition breakdown shown on 17, likewise, those funds managed by Ramirez... (indistinct) quarter of shown on 18. Happy to answer any questions about either of them. One thing that I think is-- is-- of-- of interest and, again, just to point it out to the members, you know, note in the bottom the maturity distribution tables, you know. The Authority's accounts are largely very, very short in keeping with the nature and purpose of the respective funds. Pam, how we doing on time?

PAMELA FREDERICK
I think we're pretty good. Um, probably another five minutes and then we'll spend the rest...

STEVE FABER Yeah, that's about what we have. So, um, uh, slide 19 just kind of shows what we've already shown in a slightly different way, but shows individual names within the various sectors. So under the treasury category, we actually have treasuries, Ginnie Maes, and the SBA securities that are held in account, which are relatively small allocations. And then, within the federal agencies sector, the names that are on... I would point out, you know, as mentioned, we're precluded from investing in new-- in agency securities since the rating downgrade of the US government. Some of the holdings as represented here in the federal agencies sector were invested in prior to that. So, um, and then as you can see, international bank, recon development, IADB, Asian development, African development are the Super nationals that are allowed under the policy. And you can see there are small allocations to each name within the portfolio. The commercial paper names that I mention with JP Morgan and Toyota Motor Credit being the highest concentrations, but sub the 5% limit as noted earlier. And then the various municipal bonds that the Authority owns. Largely names that are pretty well-recognized. If anyone knows where Brockton Central school district is, you know, you get a Starbucks card or something 'cause... (laughter) But, um-- I'm just joking about the Starbucks card. But, uh, you know, names that are generally well known. And liquid names, which is important for the Authority's portfolio, as well. Slide 20, um, and this is, um, this is the last slide that we'll cover. We're certainly happy to go into details about each individual account if you wish, but slide 20 shows the portfolio maturity structure just shown a slightly different-- two different ways, both on a percentage basis and on a maturity bucket basis. The maturity bucket basis, which is at the bottom half of the page, again, you know, is, you know, reemphasizes how short the portfolio is in keeping with the purpose of the multiple funds that the Authority is responsible for. The balance of the debt goes into the total return accounts individually. There's detail in there, we're happy to address any of it if you have questions. But, you know, we typically don't get into each of them in great detail because we covered a lot of the discussion items in terms of the market and the drivers of performance in our verbal presentation to the Authority. That being said, we're happy to answer any questions you have, or go back and double down on anything we said earlier.

CATHERINE MCVAY HUGHES
Do you have any questions?

LESTER PETRACCA
No, I think I'm pretty good.

CATHERINE MCVAY HUGHES
Pam?

PAMELA FREDERICK
Um, no questions for me, so...

CATHERINE MCVAY HUGHES
Great, I think we're-- we're good on this. Thank you.

STEVE FABER
Thank you.

CATHERINE MCVAY HUGHES
So we have a couple more items on the agenda right now, um, which are actually voting items. So... Which is item, approval of additional insurers for authorized investment in the mittits. So... we do need a forum.

PAMELA FREDERICK
Put two of the three...

LESTER PETRACCA
(indistinct)

CATHERINE MCVAY HUGHES
Right.

PAMELA FREDERICK
Yeah, so with-- So we have it for the committee.

CATHERINE MCVAY HUGHES
So-- Okay, great. Okay, good. So, um, the approval of the March 28 minutes.

LESTER PETRACCA
So moved.

CATHERINE MCVAY HUGHES
Second it. (laughter) Okay. And the last item for today's agenda is to approve of additional insurers for authorized investments pursuant in investment guidelines.

PAMELA FREDERICK
Okay, great. Um, I'll just do a quick overview and the, um, of this. So the-- what you'll note, um, in the item in-- (indistinct) Lester and I share.

LESTER PETRACCA
Thank you, yeah.

PAMELA FREDERICK
Thanks. Um, so this item is one that came up over the course of the year where the investment advisors have identified several investments that we needed to review further. And the reason is because they weren't as explicitly listed in Section 98. And so what they did is identified these additional issuers that are noted here from MTA down to Nassau County Interim Finance Authority, as well as one that we had in our portfolio that we needed to have further legal reviewed to confirm what form of authorized investment it could take in the portfolio. So of the list that we have here on this cover page, the investment advisors met together, both PFM and Ramirez, and identified this greater list of issuer opportunities set. And with that, we took that list and provided it to our bond council, um, Hawkins Delafield, who is here. We actually have

Kevin Murphy who's joining us, and what they did is they looked at this list to give us guidance as to whether the investment would be something that would be an authorized investment as-- to use collateral in the pledged funds. And then separately, a separate category, the project operating. Now, the pledge funds, both follow investment guidelines and both follow Section 98, but the pledged collateral funds are more restrictive in that under the bond resolution, the investment and the issuers have to be specifically listed in Section 98. And you'll see on, um, we added just for reference Section 2.2 of the investment guidelines, which themselves are reflective of what's in Section 98 because we followed that. So the, um, the pledged collateral funds which are, um, listed here. If the issuer is authorized as an authorized investment under the, uh, Section 98 and specifically listed-- And you'll see the section references in the last column-- Specifically listed in 98, then those issuers we can make investments in for the pledged funds. The pledged funds, just to-- to step back for a second, are funds like the debt service reserves... sub-subordinated debt, all the bonds that are specifically listed in the bond resolution. They primarily are the project funds, as well. Those projects are largely where all of the bond proceeds go to fund all of our capital projects. So all of those are secured collateral under the bond resolution. And so those have another layer of restriction like I noted. They have to be specifically listed. And bond council reviewed each of these new issuers to make a decision as to whether or not the investment qualified as authorized investments for pledged funds, and then the second column being the project operating funds. Now, those may be some of our corporate funds. Say, for instance, the escrow funds for the, um, buildings. Or it can be our own sort of insurance funds. Things that are specific just for, um, the Authority and not collateral under the bond. And those, actually, while they still have to follow state finance law and be subject to 98, they don't have to be specifically listed. Because they're not specifically listed, the outside council looked at each of them and look at their statutes to see whether they qualified as state investments. And so, Kevin, do you want to add anything further on that? Or is that a good summary for you?

KEVIN MURPHY
That-- (clears throat) That's a good summary.

PAMELA FREDERICK
Okay.

KEVIN MURPHY
The, um... The bond resolution, specifically, refers to Section 98, and so it's only what's specifically listed in the bond resolution as it stands now. The statutory authority to invest is a little bit broader because there's a second reference to, uh, bonds of New York State. And then there are other provisions of New York State law under each of the bond issuers statues that provide that-- Bonds we issue are deemed to be bonds of New York State for purposes of legal investment. So that's where the broader Authority comes in. And so we went through, we were requested to check certain issuers and just confirm that they-- that they have-- that you have that authority.

LESTER PETRACCA
These are agencies and authorities in which Battery Park City can invest? So that if... NIFA and the Nassau County Interim Finance Authority was to borrow on behalf of Nassau County, we as Battery Park City might buy those bonds?

KEVIN MURPHY
Uh-- Yeah-- I--

JAMES HADDON
Yes.

STEVE FABER
Yes, but only for non-private funds.

LESTER PETRACCA
Right, right.

STEVE FABER
So none of the bond funds, the funds held under the bond resolution for bond holders.

LESTER PETRACCA
So in other words, it was pledged-- somehow, revenue was pledged against those bonds? Those-- we can invest in those? Not--
STEVE FABER Revenue of...? Who?

LESTER PETRACCA
Nassau County.

JAMES HADDON
Yeah, Nassau-- so the, um...

LESTER PETRACCA
The reason why I ask it, I sit on the board at NIFA, that's why I'm interested.

STEVE FABER
Oh. (laughter)

LESTER PETRACCA
It's a good thing George is here.

PAMELA FREDERICK
So they issue bonds-- Yeah.

JAMES HADDON
So if NIFA issues bonds, which they have-- they haven't done it recently.

LESTER PETRACCA
Well, they just voted us down. But that's...

JAMES HADDON
Right, right. But they have done it in the past. Those bonds are out there. Those meet our investment criteria, but they're not specifically listed in Section 98. So we can put them in the project operating funds, we can't put 'em in the pledge funds.

LESTER PETRACCA
Pledge fund. Got it, okay.

(overlapping chatter)

PAMELA FREDERICK
So the two columns in the middle, um, the first column is for the pledge funds. And that's why you'll see some of them say yes, some say no. The ones that say no are those that are not specifically listed. And you'll also note that in the third column, where we have the section reference, there is none for those. So all of that's consistent. And so what we wanted to get guidance from that Hawkins provided was, what could invest in the pledge funds, and what could we invest on the other operating funds? And so that's what that memo summarizes, and that's what we're seeking, um, the investment committee's approval to bring before the board. And the reason is because this is sort of an "other" category in that it's not specifically already addressed in the investment guidelines. And so what we'll ultimately want to do is amend the investment guidelines to be much clearer. And we'll probably have a section just for additional insurers and capture this in whatever way both the advisors as well as outside council and internal council agree with. We'll bring that form back to you and at the same time, we'll want to be able to bring that to the board so that the board, the full board, can vote on it.

CATHERINE MCVAY HUGHES
Do you have any questions?

LESTER PETRACCA
Do I need to recuse myself on the fact that I sit on NIFA's board?

GEORGE TSUNIS
I don't believe so.

LESTER PETRACCA
Okay.

GEORGE TSUNIS
Your disclosure is... (indistinct).

LESTER PETRACCA
Cool.

CATHERINE MCVAY HUGHES
Great. So, um, do you have any questions?

GEORGE TSUNIS
No.

CATHERINE MCVAY HUGHES
Great. So I think we should vote on this.

PAMELA FREDERICK
Yeah.

CATHERINE MCVAY HUGHES
Do I have a motion?

LESTER PETRACCA
So moved.

GEORGE TSUNIS
Second.

CATHERINE MCVAY HUGHES
Second? Great. And so all in favor? Aye.

GEORGE TSUNIS
Aye.

CATHERINE MCVAY HUGHES
So it has passed.

PAMELA FREDERICK
Great, great.

CATHERINE MCVAY HUGHES
Thank you very much.

PAMELA FREDERICK
Thank you. What we'll do is bring this item to the full board at the next board meeting, and we'll send it to you guys, I guess, for review in advance. I don't know-- well, since this is a-- we haven't had the investment committee in forum for a while, we're just kind of trying to get used to what information you may want or not want, or if you want to see it before we bring that memo to the board. But basically, it'll be a similar format, brought to the board, said that it's approved and recommended by the investment committee to authorize as investments.

CATHERINE MCVAY HUGHES
Correct. Pending that they maintain their ratings.

PAMELA FREDERICK
Yes, well, they always have to be subject to our investment guidelines.

CATHERINE MCVAY HUGHES
Exactly. Great, thank you. So do we have a motion to adjourn this committee?

LESTER PETRACCA
So moved.

GEORGE TSUNIS
Second.

CATHERINE MCVAY HUGHES
Great. The committee's meeting has officially ended.

(overlapping chatter)