

**NEW YORK STATE URBAN DEVELOPMENT CORPORATION  
d/b/a EMPIRE STATE DEVELOPMENT CORPORATION  
INVESTMENT GUIDELINES, AS AMENDED**

**Introduction**

On January 19, 1984, the New York State Urban Development Corporation adopted comprehensive corporate investment guidelines as required by Section 2925 of the New York Public Authorities Law. The following comprehensive corporate investment guidelines amend and restate the guidelines previously adopted in compliance with the requirement for periodic review and updating of investment guidelines set forth in Section 2925 and in the Investment Guidelines for Public Authorities adopted by the Comptroller of the State of New York in July 1987.

**ARTICLE ONE**

Definitions

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

- 1.1 "Comptroller" means the State Comptroller.
- 1.2 "Corporation" means the New York State Urban Development Corporation d/b/a/ Empire State Development Corporation, as corporate governmental agency of the State of New York, constituting a public benefit corporation and a political subdivision, established pursuant to Chapter 174 of the Laws of 1968 of the State of New York.
- 1.3 "Investment Funds" means all monies and financial resources available for investment by the Corporation, other than proceeds of bonds issued by the Corporation.
- 1.4 "Repurchase Agreement" means a repurchase agreement satisfying the requirements set forth in Article Four herein.
- 1.5 "Securities" means any or all of the investment obligations of the categories described in Section 4.1 of Article Four herein.
- 1.6 "State" means the State of New York.

## **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, realization of a reasonable return on investments and diversification of investments.

## **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, regulations and bond resolutions 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 the Corporation 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, Federal Agencies, Government Sponsored Enterprises (GSE's) 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 including but not limited to Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Home

Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC-“Freddie Mac”), and Student Loan Marketing Association (SLMA-“Sallie Mae”);

- 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 Service, Inc.;
- 5) Certificates of Deposit of banks or trust companies authorized to do business in this State, including commercial banks who participates in New York State Excelsior Linked Deposit programs and are authorized program depositories, which certificates of deposit are fully insured by the Federal Deposit Insurance Corporation 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;
- 7) Real property;
- 8) Units, shares or interest in a mutual fund or money market fund of regulated investment companies which seek to maintain a constant net asset value per share of \$1.00 and have been rated in one of the two highest categories by at least one nationally recognized ratings organization and invests in instruments described in clauses (1), (2) or (3) of this paragraph.

4.1.1 The Corporation may invest its Small Business Technology Investment Fund, or any successor entity, in all types of equity investments, including but not limited to stock, convertible debt and debts with warrants in addition to the other permitted investments referenced above.

#### 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 Corporation's Chief Financial Officer or Treasurer has reviewed such firm's capitalization and the Corporation's 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, the Chief Executive Officer or the Controller of the Corporation makes a written finding that sufficient Securities are not available from other eligible firms. Not less frequently than once each year, the Corporation's Chief Financial Officer or Treasurer 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 to the credit of the Corporation. 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. The Corporation's Directors must affirmatively find that a proposed custodial bank is financially sound before such bank may be eligible to perform custodial services for the Corporation.

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.

4.2.4 Standard Terms for Repurchase Agreements. The Corporation shall execute a master Repurchase Agreement with each broker-dealer which outlines the basic rights of both buyer and seller including:

- (a) The events of default which would permit the Corporation to liquidate or purchase the underlying Securities;
- (b) The relationship between parties to the agreement, which should ordinarily be purchaser and seller;
- (c) A requirement that there be a written contract with the custodial bank outlining the responsibilities of the bank and the parties to the agreement. Such an agreement must provide, among other things, that the custodial bank will not make payment for the Securities until the bank actually receives them and that the custodial bank takes possession of the Securities exclusively for the Corporation and that any claims of the custodial bank are subordinate to those of the Corporation;

- (d) Procedures which ensure that the Corporation obtains a perfected security interest in the underlying Securities. The Corporation or its custodian must take possession of the Securities being purchased by physical delivery or book entry. Furthermore, the written agreement shall contain a provision that, in the event a court of final jurisdiction construes the specific Repurchase Agreement to be a loan, the seller shall be deemed to have granted the Corporation a perfected security interest in the purchased Securities;
- (e) The market value of the Securities purchased under a repurchase transaction must be at least equal to the purchase price. The value of the Securities must be monitored and marked to market on a daily basis. Additional Securities shall be required if market fluctuations cause the market value of the purchased Securities to become less than the purchase price. The Corporation's Chief Financial Officer or Treasurer shall establish the method of computing margin maintenance requirements and providing for timely correction of margin deficiencies or excesses, taking into consideration:
  - (i) the size and terms of the transaction;
  - (ii) the type of underlying Security;
  - (iii) the maturity of the underlying Security;
  - (iv) the capitalization, financial status and type of purchaser and/or seller; and
  - (v) the method by which additional margin will be maintained; and
- (f) Circumstances, if any, under which substitution of Securities subject to the agreement shall be permitted.

#### 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 Federal Deposit Insurance Corporation, the uninsured portion shall be fully collateralized by Securities (other than Repurchase Agreements). Collateral for a certificate of deposit must be reviewed at least weekly 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 weekly);
- (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.

## **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 Chairman of the Corporation's Directors; the President and Chief Executive Officer; the Chief Financial Officer; the Treasurer; the Controller, and the Executive Vice President-Legal. The implementation of such investment decisions by placement of purchase or sale orders or otherwise shall be effected only by the foregoing officers and employees and by such employees as may from time to time be designated in writing by the Chief Financial Officer and Treasurer.

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 and the Treasurer, 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;
  - (b) Registered with the Securities & Exchange Commission under the Investment Advisor Act of 1940;
  - (c) Registered with the New York State Secretary of State as an Investment Advisor; and
  - (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. To be eligible to perform custodial services, the Corporation's Directors must affirmatively find that the proposed custodial bank is financially sound.

- 5.5 Competitive Bids; Negotiated Prices. In connection with the purchase and sale 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 referred to in section 4.1 (1) at initial auction or to the purchase of investments referred to in section 4.1 (3) which are

new securities priced directly by the respective issuer. A complete and continuous record of all quotes, solicited and received, shall be maintained by the Treasury Department.

For each transaction (other than the purchase of governmental securities at initial auction or new securities priced directly by the respective issuer) 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, 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. A written contract and/or a written confirmation shall be a 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 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 UDC's sole use. The custodian may act on oral instructions from an authorized officer of the Corporation or their designee, 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. Contracts of financial guaranty, surety or other similar bonds or instruments purchased from an insurance company holding the highest rating afforded by any nationally recognized rating organization may be acceptable 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 Federal Deposit

Insurance Corporation. 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 weekly.

5.9 Operating Procedure Manual. The Corporation's Treasurer shall prepare a Standard Operating Manual for placing, controlling and reporting of all investment activity which shall be consistent with these guidelines, be approved by the Corporation's Controller or Chief Financial Officer and shall be consistent with the following:

- (a) Each disbursement of funds (and corresponding receipt of Securities) or delivery of Securities (and corresponding receipt of funds) should be based upon proper written authorization. If the authorization is initially given orally, there should be written confirmation from the Corporation's authorized officer to the custodian;
- (b) The process of initiating, reviewing and approving requests to buy and sell Securities should be documented and retained for audit purposes;
- (c) Custodians must have prior authorization from the Corporation to deliver obligations and collateral. All transactions must be confirmed in writing to the authority. Delivery of obligations sold should only be made upon receipt of funds;
- (d) Custodial banks should be required to report whenever activity has occurred in the Corporation's custodial account;
- (e) There should be at least monthly verifications of both the principal amount and the market values of all investments and collateral. Appropriate listings should be obtained from the custodian and compared against the Corporation's records;
- (f) A record of investments shall be maintained by the Corporation's Treasurer. The records should identify the Security, the fund for which held, the place where kept, date of disposition and amount realized and the market value and custodian of collateral;
- (g) The establishment and maintenance of a system of internal controls;
- (h) Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;

- (i) A data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and
- (j) Requirements for periodic reporting and a satisfactory level of accountability.

## **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. As required by Section 2925(6) of the Public Authority Law, annually the Chairman shall submit to the Directors and the Corporation shall file with the State Division of the Budget, Comptroller, State Senate Finance Committee and Assembly Ways and Means Committee an annual investment report, prepared with the assistance of the Chief Financial Officer and Controller, 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 Audit. Each year, the Corporation shall cause its independent auditors to conduct an audit (the "Annual Investment Audit") regarding the

Corporation's investments. (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 Audit:

- 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 State 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 Audit 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 State Comptroller's Investment Guidelines;
- 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.

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, NY 12236.

## **ARTICLE SEVEN**

### Affirmative Action

A program of Affirmative Action shall apply with respect to UDC's corporate investment activities. UDC shall seek to encourage participation by minority and women-owned financial services firms in the conduct of UDC's corporate investment activities.

## **ARTICLE EIGHT**

### Miscellaneous

- 8.1 In connection with the Annual Investment Audit, each year the Corporation shall review these Guidelines to determine whether the Corporation shall amend or otherwise update these Guidelines.
- 8.2 The Corporation's policy regarding conflicts of interest shall be followed regarding the investment of funds.