

TOBACCO SETTLEMENT FINANCING CORPORATION  
GUIDELINES AND POLICIES FOR INVESTING, SECURING, MONITORING  
AND REPORTING ON CORPORATION FUNDS AVAILABLE FOR INVESTMENT  
ADOPTED BY THE BOARD OF DIRECTORS OF THE  
TOBACCO SETTLEMENT FINANCING CORPORATION ON  
MAY 21, 2003, ON JUNE 10, 2010, AND ON DECEMBER 13, 2012

**ARTICLE I**

**STATEMENT OF PURPOSE: TITLE**

**Section 101. Statement of Purpose.** These Guidelines and Policies are adopted pursuant to the provisions of the Act and Section 2925 of the Public Authorities Law of the State. These Guidelines and Policies shall cover all funds of the Tobacco Settlement Financing Corporation. These Guidelines are within the legal investment parameters established by the Act and Section 2925 of the Public Authorities Law of the State.

**Section 102. Title.** Outside of this document, these Guidelines and Policies may be referred to as the "Investment Guidelines and Policies".

**ARTICLE II**

**DEFINITION OF TERMS**

**Section 201. Definitions.** For all purposes of these Guidelines and Policies, the terms listed below shall have the following meanings:

“Act” shall mean the Tobacco Settlement Financing Corporation Act.

“Bank” shall mean any bank or its holding company which in either case is (i) a member of the Federal Reserve, (ii) has a capital of at least \$50,000,000, (iii) is rated at least within the second highest rating category without regard to gradations within such category by Moody's Investors Service or Standard & Poor's, and (iv) has been approved by the Chairman or Executive Director of the Corporation. Wholly owned subsidiaries of such banks or holding companies shall be included within this definition, provided that the obligations of said wholly owned subsidiaries are guaranteed by such banks or holding companies. "Bank" shall also mean any foreign bank which is a member of the Federal Reserve Board or is required to report to the Comptroller of the Currency or the Banking Commissioner of the state where the branch of the foreign bank is located.

“Bonds” shall mean any bonds, notes and other evidence of indebtedness issued by the Corporation pursuant to the Act.

“Bond Proceeds” shall mean the Bond proceeds of the Corporation available for

investment, and not sold to the State pursuant to a Sale Agreement, and shall not include the Residual Interests.

"Bond Resolution" shall mean a resolution of the Corporation authorizing the issuance of Bonds.

"Broker/Dealer" shall mean any Broker/Dealer approved by the Chief Financial Officer upon consideration of any or all of the following criteria: creditworthiness and financial position of the firm, (ii) general reputation of the firm and the individuals providing service, (iii) compliance with the SEC's net capital and other regulatory requirements, (iv) experience with permitted investments, (v) efficiency of trade execution and settlement process, (vi) research capabilities of the firm, (vii) diversity practices, (viii) such other factors as may be deemed relevant.

"Certificate of Deposit" shall mean a deposit of account by the Corporation at a Bank with a defined dollar amount, term, rate and place of payment, which shall be collateralized as set forth herein.

"Comptroller" shall mean the Comptroller of the State of New York.

"Counsel" shall mean the Corporation's Counsel, Deputy Counsel or any Associate Counsel.

"Custodian" shall mean a Bank designated or approved by the Corporation to hold collateral pertaining to investments by or securities purchased by the Corporation. With respect to the holding of securities purchased pursuant to a Repurchase Agreement, or securing a deposit of funds of the Corporation, such Custodian may not be the party, or an agent of the party, with whom the Corporation has entered into such Repurchase Agreement or deposit arrangement.

"Depository" shall mean a Bank designated by the Corporation to hold deposits of the funds of the Corporation.

"Director of the Budget" shall mean the Director of the Budget of the State.

"Financial Advisor" shall mean any investment banker, broker, agent, dealer or other financial advisor or agent engaged in rendering advice to the Corporation regarding its Bonds and/or the investment of funds of the Corporation.

"Guidelines and Policies" shall mean these guidelines and policies, as they may be amended from time to time.

"Indenture" shall mean any indenture with respect to Bonds, authorized by the Members, between the Corporation and the trustee thereunder, as amended and supplemented, and in effect from time to time.

“Investment Advisor” shall mean any investment banker, broker, agent, dealer or other investment advisor or agent engaged in rendering advice pursuant to a personal services contract to the Corporation regarding the investment of the Corporation’s monies.

"Members" shall mean the members of the Board of Directors of the Corporation.

“Other Assets” shall have the meaning assigned to such term in the Act.

"Pledged Revenues" shall have the meaning assigned to such term in the Indenture.

"Primary Dealer" shall mean any governmental bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and included in the most current "List of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York".

"Recording Agent" shall mean the Federal Reserve Bank, the Depository Trust Company or any other nationally recognized firm authorized to hold securities in book entry form.

"Repurchase Agreement" shall mean two simultaneous transactions, one the purchase of securities by the Corporation from a Bank or a Primary Dealer, the other the commitment on the Bank's or Primary Dealer's part to repurchase the securities at an agreed price at some mutually agreed upon future date.

“Residual Interest” shall have the meaning assigned to such term in the Act.

“Sale Agreement” shall mean any agreement authorized pursuant to the Act in which the State provides for the sale of all or a portion of the State’s Share (as such term is defined in the Act).

"Securities" shall mean, subject to, or as otherwise provided in, the provisions of any contract with bondholders of the Corporation, (i) general obligations of, or obligations guaranteed by, any state of the United States of America or political subdivision thereof, or the District of Columbia or any agency or instrumentality of any of them, receiving one of the three highest long-term unsecured debt rating categories available for such securities of at least one independent rating agency, or (ii) Certificates of Deposits, savings accounts, Time Deposits or other obligations or accounts of banks or trust companies in the State, secured, if the Corporation shall so require, in such manner as the Corporation may determine, or (iii) obligations in which the Comptroller is authorized to invest, pursuant to either Section 98 or 98-a of the State Finance Law, or (iv) Defeasance Collateral, as defined in the Indenture, or (v) Eligible Investments, as defined in the Indenture or (vi) Repurchase Agreements or (vii) a Non-AMT Tax-Exempt Obligation (as defined in the Indenture) in connection with the investment of moneys in the Supplemental Account (as defined in the Indenture).

"State" shall mean the State of New York.

"State Representative" shall mean the Governor of the State acting through the Director of the Budget.

"Time Deposits" shall mean any funds invested by the Corporation with a Bank for a specified period of time other than in a Certificate of Deposit.

"Trustee" shall mean a bank designated as the custodian of funds pursuant to a Bond Resolution of any of the Agencies, which bank is the official representative of the applicable bondholders to enforce their respective contract with said Agency. Each Trustee shall be (i) a banking organization authorized to do business in the State of New York having a minimum capital of at least \$250,000,000, (ii) be a member of the Federal Reserve Bank, and (iii) is rated at least within the third highest rating category without regard to gradations within such category by Moody's Investor Service or Standard & Poor's.

**Section 202. Construction of Language.** Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa.

### **ARTICLE III**

#### **INVESTMENT OBJECTIVES**

The primary objectives set forth herein, in priority order, of investment activities shall be safety, liquidity, and yield.

**Section 301. Safety.** Safety of principal is the foremost objective of the Agencies as they invest funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This will be accomplished through security selection, portfolio diversification and maturity limitations, as more fully described below.

a. **Credit Risk**

The Agencies will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Article VI hereof;
- Pre-qualifying the financial institutions, broker/dealers, and investment managers with which the Agency will do business in accordance with the Section 902 of these Guidelines and Policies, and particularly as set forth in Section 402 hereof; and
- Diversifying the investment portfolio, as set forth in Section 901 of these Guidelines and Policies, so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Agencies will minimize market risk in the portfolio. The Agencies will:

- Structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
- Invest funds, limiting the average maturity of a particular portfolio, in accordance with the attached Appendices.

**Section 302. Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

**Section 303. Yield.** The investment portfolio shall be designed with the object of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Liquidity needs of the portfolio require that the security be sold; and
- Funds of the Mortgage Insurance Fund Program may be managed by an outside Investment Manager and may be sold prior to maturity.

## ARTICLE IV

### ROLES AND RESPONSIBILITIES

**Section 401. Investment Committee.** An Investment Committee, as hereby established, shall report periodically to each respective Board of Directors (the “Boards”). The Investment Committee will be chaired by the President and Chief Executive Officer and be comprised of the Senior Vice President and Chief Financial Officer, the Senior Vice President and Treasurer, the Senior Vice President for the Mortgage Insurance Fund, the Senior Vice President and Counsel and the Vice President and Deputy Counsel as voting members. The President and Chief Executive Officer shall have the authority to appoint others to the Committee.

The Committee will meet at least quarterly and will be charged with the following responsibilities:

- (a) Reviewing and recommending to the Boards changes to the Guidelines and Policies at least annually;

- (b) Establishing short- and long-term investment strategies;
- (c) Establishing target benchmarks for certain funds within the policies and strategies and giving consideration to the changing market circumstances;
- (d) Reviewing the investment reports prepared by the Senior Vice President and Treasurer;
- (e) Recommending to the Boards when appropriate, qualified investment professionals to provide services as an Investment Manager; and
- (f) Regularly evaluating the performance of the Investment Manager(s), and the Investment Manager(s) compliance with these Guidelines and Polices and contractual obligations.

**Section 402. Agency Approval of Investments.** All investments shall be reviewed by and are subject to the approval of the Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, or the Senior Vice President/Treasurer. Investments in Securities shall be approved on a daily basis by the Senior Vice President/Treasurer and the Deputy Treasurer. Investments in Time Deposits, Repurchase Agreements, and Certificate of Deposit, made in connection with the issuance of Bonds, shall be subject to the prior approval of the Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, or the Senior Vice President/Treasurer. In addition, the Chairman, President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, or the Senior Vice President/Treasurer shall approve all investments of Bond Proceeds. Investment decisions may be made by the Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, and the Senior Vice President/Treasurer. The Senior Vice President and Chief Financial Officer and the Senior Vice President and the Deputy Chief Financial Officer shall designate in writing individuals who shall not exceed four in number authorized to place orders. The Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, and the Senior Vice President/Treasurer shall be responsible for the development and maintenance of a detailed operating procedures manual. The President and Chief Executive Officer, with the approval of the Chairman, may authorize the exercise of powers granted by this paragraph by another officer or employee of the Agencies.

## **ARTICLE V**

### **STANDARDS OF CARE**

**Section 501. Prudent Person Standards.** The “prudent person” standard shall be applied in the management of the portfolio, and the “prudent person” standard is herewith understood to mean the following:

Investments shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Competent monitoring and reporting to superiors of material deviations from expected investment performance or risk is expected.

Officers and employees of the Treasury Department who are involved in the investment process shall refrain from personal business activity that could conflict with the proper management of the portfolio or which could impair their ability to make impartial investment decisions. Investment officials and employees shall disclose any material financial interest in any investment firms, or financial institutions that conduct business with the Agencies and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Agencies. Officers and employees of the Treasury Department must comply with Section 73 and 74 of the Public Officers Law with respect to ethical conduct of New York State employees and other applicable laws governing the Agencies' treasury functions.

## **ARTICLE VI**

### **PERMITTED INVESTMENTS - SPECIFIC FUNDS**

**Section 501. Corporation Funds.** All available Bond Proceeds, Pledged Revenues, and Other Assets shall be invested only in Securities.

## **ARTICLE VI**

### **INVESTMENT AND COLLATERAL REQUIREMENTS**

**Section 601. Securities.** Securities which are purchased directly by the Corporation must be delivered to the Corporation, its Custodian or Trustee and payment shall only be made upon delivery of the Securities. If the Securities are in book-entry form, the Corporation shall require that the record books of the Recording Agent be adjusted to record the interests of the Custodian or Trustee and the record books of the Custodian or Trustee be adjusted to record the interest of the Corporation.

**Section 602. Certificates of Deposit; Time Deposits; Repurchase Agreements.**

- (a) Bond Proceeds and Pledged Revenues may be invested in:
  - (i) Securities, which may include Certificates of Deposits or Time Deposits fully secured as to principal by Securities in accordance with (b) below and Repurchase

Agreement that satisfy the requirement of (a) (ii) below and

(ii) Repurchase Agreements, with Banks or Primary Dealers, for a period no longer than 90 days, substantially in the form of the Bond Market Association Public Securities Association Master Repurchase Agreement (the "PSA Agreement"); provided that the total amount of Repurchase Agreements with a single institution shall not exceed the lesser of \$100,000,000 or 20% of the institution's capital.

(b) Certificates of Deposit and Time Deposits shall be collateralized in accordance with the following provisions:

(i) Securities which serve as collateral for any Certificate of Deposit or Time Deposit shall be delivered to either a Trustee or a Custodian selected and approved in writing by the Corporation, except as otherwise authorized in Section 403(c).

(ii) The Corporation shall enter into a written agreement with each Bank from which it purchases a Certificate of Deposit or with which it establishes a Time Deposit specifying the type and nature of the collateral to be provided by each Bank. Such written agreement shall at a minimum include the following:

(aa) The type of collateral, which may include cash or securities, to be provided.

(bb) The frequency of the collateral's valuation to market, such valuation to be provided at least monthly.

(cc) The right and ability of the Bank to substitute like securities as collateral.

(dd) Description of events of default which would permit the Corporation or its Custodians or Trustees to liquidate or purchase the underlying securities.

(ee) Description of the party who is to have title to the underlying securities during the terms of the agreement.

(ff) Margin maintenance.

(gg) Certificates of Deposit for amounts in excess of FDIC insurance limits shall be collateralized by an amount equal to 103% of the total outstanding amount of the Certificate of Deposit.

(hh) Time Deposits shall be collateralized by an amount equal to at least 103% of the outstanding principal balance.

(c) The Members may change or waive the collateral requirements at any time.



(d) Any investments entered into by the Corporation pursuant to this subparagraph shall not exceed the terms authorized by law.

**Section 603. Custodians; Valuation of Collateral or Security.**

(a) Custodians and Trustees whose function is to hold collateral shall receive authorization from the Corporation prior to delivering or transferring obligations held as collateral out of the Corporation's account. Delivery or transfer of collateral shall be made only upon receipt of funds or substitute collateral. Such Custodians and Trustees shall confirm to the Corporation whenever activity has occurred in the Corporation's custodial accounts.

(b) A Custodian or Trustee holding collateral for the Corporation shall be a member of the Federal Reserve Bank or shall 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, shall be confirmed in writing to the Corporation by such Custodian or Trustee.

(c) For any investment required to be collateralized, the collateral must be delivered to the Trustee or Custodian. This requirement may be waived by the Members for all such investments, except Repurchase Agreements. All collateral must be valued to market at least monthly, unless otherwise provided. Valuation of securities included in Repurchase Agreements shall be made in accordance with the provisions of the PSA Agreement.

**ARTICLE VII**

**CERTAIN REQUIREMENTS FOR BANKS ACTING  
AS CUSTODIANS AND/OR TRUSTEES**

**Section 701. Required Reports.**

(a) The Corporation shall require that each Bank with which the Corporation has Time Deposits or Certificates of Deposit shall deliver to the Corporation at least annually, (i) a copy of the Bank's FDIC annual report and, if applicable, the Federal Reserve Bank annual report and (ii) an audit report prepared by such Bank's external auditor in accordance with generally accepted auditing standards.

**Section 702. Access for Corporation Auditors.** The Corporation shall require that any Custodian which is holding securities for the account of or in trust for the Corporation, or pledged to the Corporation or the Trustees, permit the Corporation or its agents to access such Custodian's books and records to conduct an audit of such securities.

**Section 703. Record of Investments.** A record of each of the Corporation's investments shall be maintained by the Senior Vice President/Treasurer. Such records shall identify the security,

the fund for which the investment is held, the place where the investment is maintained, the date of disposition and amount realized, and the market value of collateral and the custodian of collateral.

## **ARTICLE VIII**

### **DIVERSIFICATION OF INVESTMENTS; APPROVAL OF INVESTMENTS; SELECTION OF INVESTMENT FIRMS**

**Section 801. Diversification Standard.** No more than 35% of the Corporation's total invested funds, other than Defeasance Collateral (as defined in the Indenture), may be invested with any single institution. This standard may be waived only by the Chairman or the Executive Director.

**Section 801. Selection of Investment Firms.** The Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, and the Senior Vice President/Treasurer are authorized to and shall maintain a list of firms to be selected from for each type of investment made by the Corporation. Such list shall be revised from time to time, as required.

## **ARTICLE IX**

### **REQUIREMENT OF INVESTMENTS BY WRITTEN CONTRACTS**

**Section 901. Written Contracts.** With the exception of open market purchases of Securities, investments shall be made pursuant to written contracts unless the Members by resolution waive such requirement for the Corporation with respect to a specific investment or transaction because it is not practical or not a regular business practice. In the event that such written contract requirement is waived, the resolution authorizing the waiver shall detail the procedures covering such investment or transaction.

**Section 902. Contract Provisions.** Each written contract shall provide for sufficient security of the Corporation's financial interest as required by the provisions of these Guidelines and Policies. Each such contract shall describe (a) the use, type and amount of collateral or insurance for each investment, (b) the method for valuation of any required collateral and procedure for regular monitoring of that valuation, and (c) the monitoring, control, deposit and retention of investments and any required collateral, including, in the case of a Repurchase Agreement, physical or book entry delivery of the purchased obligations to the Corporation or its Custodian (which shall not be the party, or an agent of the party, with whom the Corporation enters into such Repurchase Agreement) or other action necessary to obtain title to such obligations.

**Section 903. Form of Contracts.** The form of all written contracts shall be approved by the Counsel.

**Section 904. Execution of Contracts.** All investment contracts shall be approved and executed by the Senior Vice President and Chief Financial Officer or his or her designee or in their absence, by the Chairman or his or her designees.

## **ARTICLE X**

### **AUDIT AND REPORTS**

**Section 1001. Annual Independent Audit.** The Corporation shall secure annual independent audits of all investments.

**Section 1002. Quarterly Reports.** Within forty-five days after the conclusion of each quarter of the Corporation's fiscal year, the Chief Financial Officer of the Corporation shall prepare and deliver to the Members a report on the Corporation's investments. Such reports shall include a description of new investments and the Primary Dealer(s), firms, or Bank(s) with whom the investment was transacted, the inventory of existing investments and when applicable the selection of Investment Advisors, auditors, brokers, agents, firms for purposes of Section 603 and Primary Dealers.

**Section 1003. Annual Investment Report.**

(a) Within one hundred eighty (180) days after the close of each fiscal year, the Members shall approve an annual investment report. Such report will include these Guidelines and Policies and any amendments to these Guidelines and Policies since the last investment report, an explanation of these Guidelines and Policies and any amendments to these Guidelines and Policies since the last investment report, the results of the annual independent audit of the investments, an evaluation of the portfolio of the Corporation by an independent auditor, the annual investment income record of the Corporation and a list of the total fees, commissions or other compensations, by payee, paid to each Investment Advisor since the last annual investment report, and an annual consolidation of any other material contained in the quarterly reports.

(b) This annual investment report, after being approved by the Members, shall be submitted to the Division of the Budget with copies to the Department of Audit and Control, the Senate Finance Committee and the Assembly Ways and Means Committee.

(c) Copies of the Annual Investment Report shall be available to the public upon reasonable request at the Corporation's main office.

## **ARTICLE XI**

## **MISCELLANEOUS PROVISIONS**

**Section 1101. Operating Procedures Manual.** The Corporation shall develop and maintain a detailed operating procedures manual which shall include:

- (a) The establishment and maintenance of a system of internal controls;
- (b) 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;
- (c) 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
- (d) Requirements for periodic reporting and accountability.

**Section 1102. Amendments.** Any modification or amendment to these Guidelines and Policies may be made by a Resolution adopted by the Corporation at any duly constituted Members' meeting; provided, however, that no such modification or amendment to these Guidelines and Policies shall abrogate the rights and duties of then existing Corporation contracts with third parties; and further provided that the Chairman or the Executive Director may make non-material changes in these Guidelines and Policies.

**Section 1103. No Recourse under these Guidelines and Policies.** No provision in these Guidelines and Policies shall be the basis of any claim against any Member, officer or employee of the Corporation in his individual or official capacity or against the Corporation itself.

**Section 1104. Effect upon Existing Contract.** These Guidelines and Policies shall not abrogate the rights and duties of the Corporation's contracts with third parties executed prior to the effective date of these Guidelines and Policies.

**Section 1105. Effect of Failure to Comply.** Failure to comply with these Guidelines and Policies shall not invalidate any investment or affect the validity of the authorization of the Chairman, or their designee to make such investments.