SUSQUEHANNA RIVER BASIN COMMISSION
STATEMENT OF INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES

SCOPE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy reflects the investment policy, objectives, and constraints for the Susquehanna River Basin Commission (Commission). The allocation of funds into the allowable asset classes shall be determined by the Short-Term Liquidity and Long-Term Liquidity addendums attached to this policy. The Director of Administration and Finance and the Executive Director will determine the amount of funds directed towards each addendum based on their view of short-term liquidity needs (five years or less) versus long-term liquidity needs (longer than five years).

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy regarding the investment of Commission assets is set forth by the Commissioners to:

1. Define and assign the responsibilities of all involved parties.

2. Ensure that all relevant parties possess a comprehensive understanding of the investment goals and objectives pertaining to the management of Commission assets.

3. Offer guidance and limitations to all Investment Managers regarding the investment of Commission assets.

4. Establish a basis for evaluating investment results.

5. Manage Commission assets according to prudent standards established under the Uniform Prudent Investors Act.

6. Establish the relevant investment horizon for which the Short-Term and Long-Term assets will be managed.

In general, the purpose of this statement is to outline a philosophy to guide the investment management of Commission assets toward desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Commissioners have fiduciary responsibility and are responsible for directing and monitoring the investment management of Commission assets. The Commissioners are authorized to delegate certain responsibilities to Commission staff and professional experts in various fields. These professionals include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Commission in establishing investment policy, objectives, and guidelines; establishing asset allocation ranges and targets; selecting investment managers; reviewing managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities used to meet the Commission's investment objectives.

3. Custodian. The custodian will physically (or with agreement with a sub-custodian) maintain possession of securities owned by the Commission, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of Commission accounts.

4. Additional specialists such as attorneys, auditors, and others may be employed by the Commissioners to assist in meeting their responsibilities and obligations to administer Commission assets prudently.

The Commissioners will not reserve control over day-to-day investment decisions, except for specific limitations described in this statement. Managers will be held responsible and accountable by the Executive Director and the Director of Administration and Finance to achieve the objectives herein stated. While it is believed that the limitations will not hamper investment managers, each manager should request modifications that they deem appropriate.

DEFINITIONS

1. "Fund" shall mean the Commission's financial assets.

2. "Commissioners" shall refer to the governing board of the Commission.

3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over Fund management or any authority or control over management, disposition, or administration of Fund assets.

4. "Investment Manager" shall mean any individual or group of individuals employed to manage the investments of all or part of Fund assets.

5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment policy, investment objectives, asset allocation, manager search, and performance monitoring.

6. "Securities" shall refer to the marketable investment securities that are defined as acceptable in this statement.

7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be achieved.

8. "Expected Return" represents the 10- to 15-year return expectations provided by the Investment Management Consultant. Expected Returns are calculated using a combination of historical return information, factors related to the current valuation of the asset class, and future expectations.

9. "Downside Risk" is based on a loss that is unlikely to be exceeded in 19 out of 20 years on average. However, there is a 5 percent probability that the loss over a one-year period could be greater than the downside risk calculation.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Commission

The Commission shall discharge its duties solely in the interest of the Commission, with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Commission relating to the investment management of Commission Funds include:

1. Ensuring that projections of the Commission's financial needs are prepared and communicating such needs to the Investment Consultant on a timely basis.

2. Establishing the Fund's risk tolerance and the investment horizon and communicating these to the appropriate parties.

3. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).

4. Determining the Commission's specific investment objectives and guidelines and communicating them in writing to the appropriate parties.

5. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitoring progress of the investment objective(s).

6. Developing and enacting proper control procedures: for example, replacing Investment Manager(s) due to fundamental change in the investment management process, or failure to meet investment goals or comply with established guidelines.

Responsibility of the Investment Consultant

The Investment Consultant's role is that of an advisor to the Commission. Investment advice concerning the investment management of Commission assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines, and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.

2. Conducting investment manager searches when requested by the Commission.

3. Monitoring the performance of the Investment Manager(s) to provide the Commission with the ability to determine the progress toward the investment objectives.

4. Communicating matters of policy, manager research, and manager performance to the Commission.

Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management includes decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.

2. Reporting, on a timely basis, quarterly investment performance results. Compliance with mandatory Manager Performance Presentation Standards as set forth by the Association for Investment Management and Research (AIMR).

3. Communicating, in writing on a timely basis, any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the progress toward achieving the Commission's investment objectives.

4. Informing the Commission regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies, on behalf of investments, and communicating such voting records to the Commission on an annual basis.

6. The Investment Manager(s) retain the management responsibility of determining the appropriate mix and timing of movement between various securities and cash/equivalents within the individual portfolios they manage.

7. It is understood that in the case of mutual funds or exchange traded funds that these assets are governed by the fund's board and therefore do not adhere to individual client mandates. Therefore, there is no expectation that these funds will provide the information required above in numbers 3, 4, and 5.

8. The Investment Manager(s) shall notify the Director of Administration and Finance of any planned directed change of asset class weighting of 5% or more for review and approval. This does not apply to market movement that shifts weightings without any manager action.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the Commission.
2. Assets shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in like capacity and familiar with such matters, would use in the investment of funds of like character and with like aims.
3. The portfolio shall maintain prudent diversification by asset class, sector, and issuer to limit exposure to undue losses, recognizing that temporary concentration may be warranted when consistent with the Fund's objectives and risk parameters.
4. The Commission may employ one or more Investment Managers of varying styles and philosophies to attain the investment objectives.
5. Cash balances shall be managed prudently to maintain safety and liquidity while seeking a competitive return through investment in high-quality, short-term instruments.

INVESTMENT PHILOSOPHY

1. Preservation of Capital – Investment Managers are expected to prioritize the protection of principal, balancing capital preservation with the prudent pursuit of returns appropriate to the Fund's risk tolerance and investment horizon.

2. Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Commission recognizes that some risk is necessary to produce investment results that are sufficient to meet the Fund's objectives. However, the Investment Managers are expected to make reasonable effort to budget and control risk and will be evaluated regularly to ensure that the investment risk assumed is commensurate with the expected investment risk budget and objectives.

3. Adherence to Investment Discipline – Investment Managers are expected to adhere to

the investment management style for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

The investment strategy of the Fund is designed to achieve a **total return** objective—defined as the combination of capital appreciation, dividend income, and interest income—consistent with prudent risk management.

The **primary objective** is to maintain adequate liquidity to meet all anticipated and unanticipated cash-flow requirements. Investments shall therefore emphasize marketable securities that can be efficiently converted to cash without material loss of value.

The **secondary objective** is to preserve the long-term **purchasing power** of Fund assets by generating returns that exceed the rate of inflation over the investment horizon. Effective risk control and diversification shall be integral to achieving these objectives while safeguarding the Fund's capital base.

SPECIFIC INVESTMENT GOALS

Specific investment goals for the Short-Term and Long-Term Liquidity Funds are set forth in the Addendums to this statement of investment policy.

DEFINITION OF RISK

The Commission acknowledges that risk can be defined in various ways. It is the Commission's objective for the Long-Term Liquidity Fund to maintain annual downside risk within a range of 10 percent to 13 percent, while the Short-Term Liquidity Fund should target an annual downside risk between 1 percent and 2 percent. This measure of downside risk reflects the potential loss that may occur during a significant market downturn. Each year, there is approximately a 5 percent probability that the portfolio will sustain a loss of this magnitude or greater.

There is, of course, no guarantee that the Funds will not sustain greater losses than those stated herein.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Commission will notify the Investment Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves, if there are unanticipated changes to the planned cash flow pattern.

MARKETABILITY OF ASSETS

In general, no assets shall be invested in illiquid securities.

INVESTMENT GUIDELINES

Allowable Assets

1. Cash Equivalents
    - Treasury Bills
    - Money Market Funds
    - U.S. Government agency securities
    - Commercial Paper rated S&P (A-1) or Moody's (P-1)
    - Variable Rate Demand Notes
    - Certificates of Deposit or savings/checking accounts with institutions ensured by the FDIC or the NCUA to the extent that such accounts are so insured; and, for any amounts above the insured maximum, such monies shall be collateralized by a pledge of assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property.

2. Fixed Income Securities
    - U.S. Government and Agency Securities
    - Yankee Bonds
    - Corporate Notes and Bonds
    - Obligations of any of the member states or any of its agencies or instrumentalities backed by the full faith and credit of the member states, or of any political subdivision of the member states or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision
    - Investment Grade Municipal Obligations
    - Mortgage Backed Bonds
    - Fixed Income Securities of Foreign Governments and Corporations
    - Collateralized Mortgage Obligations
    - Preferred Stocks

3. Equity Securities
    - Common Stocks
    - Convertible Notes and Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADR) of Non-US Companies
    - Stocks of Non-US Companies (Ordinary Shares)
    - Real Estate Investment Trusts

4. Commodities
    - Commodity Funds
    - Commodity ETFs

The Investment Consultant is empowered to use Mutual Funds, ETFs, and separate account managers to invest in any of the forementioned allowable assets.

Derivative Investments

The Fund/Portfolio may use derivative instruments to manage asset and risk exposures, achieve specific return objectives, and manage transaction or currency exchange risk. The use of derivatives shall be consistent with this Policy and all other approved Investment Policies and portfolio guidelines. Derivatives are not to be used for a purpose that is in the nature of speculation, unless specifically permitted within the mandate of an approved strategy.

Options Trading Policy

The Portfolio may utilize options strictly for risk mitigation and income-enhancing purposes, and not for speculation or to materially increase portfolio leverage. All approved option strategies must be executed in a manner consistent with the Portfolio's overall risk profile and investment objectives.

Approved option strategies include:

1. Protective Puts – Purchasing put options to hedge downside risk on existing equity positions.
2. Covered Calls – Writing call options against fully owned securities to generate income or reduce effective cost basis.
3. Cash-Secured Puts – Selling put options only when the Portfolio holds sufficient cash to fully purchase the underlying securities if assigned.
4. Collars – Implementing a combination of covered calls and protective puts to limit both upside and downside price exposure.

Prohibited Assets

Prohibited investments include, but are not limited to the following:

1. Private Placements
2. Investments without daily liquidity during normal market hours
3. Venture-Capital Investments
4. Leveraged ETFs

Prohibited Transactions

The following transactions are prohibited unless explicitly approved by the Commission:

1. Short Selling
2. Margin Transactions and Economic Leverage, unless used for risk mitigation

Asset Allocation Guidelines

The Commission may employ Investment Managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such Investment Managers will receive written direction from the Commission regarding specific objectives and guidelines. It is understood that in the case of mutual funds or exchange traded funds that these assets are governed by the fund's board and therefore do not adhere to individual client mandates.

Guidelines for Equity Managers

The Commission does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 3 percent of the Fund, and no more than 20 percent of the entire portfolio should be invested in any one industry sector.

SELECTION OF INVESTMENT MANAGERS

The Commission's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, a bank or insurance company.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Commission for review. The investment performance of total portfolios, as well as asset class components, will be measured by the Director of Administration and Finance against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Commission intends to evaluate the portfolio(s) over a reasonable period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment management organization.

4. For any other reason at the discretion of the Commission.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status, and capital markets expectations as established in this statement of investment policy, the Commission plans to review the investment policy periodically.

This statement of investment policy is adopted on (TBD) by the Susquehanna River Basin Commission.