

# SUFFOLK COUNTY LEGISLATURE



Gail Vizzini

## **BUDGET REVIEW OFFICE**

Director

February 23, 2011

To: William J. Lindsay, Presiding Officer  
and All Suffolk County Legislators

From: Gail Vizzini, Director  
Budget Review Office

**Subject: Vanderbilt Museum Endowment Trust Fund Annual Report**

Please find attached the Budget Review Office annual report to the Legislature on the status of the Vanderbilt Museum Endowment Trust Fund for the period January 1, 2010 through December 31, 2010.

My staff and I are available should you have any questions regarding this report.

\* \* \*

### Attachment

cc: Angie Carpenter, Suffolk County Treasurer  
Joseph Sawicki, Suffolk County Comptroller  
Connie Corso, Deputy County Executive, Financial Affairs  
Eric Naughton, Budget Director  
Christine Malafi, Suffolk County Attorney  
Terrence Pearsall, Legislature Chief of Staff  
Lance Reinheimer, Interim Director, Vanderbilt Museum  
Noel Gish, President, Vanderbilt Board of Trustees  
John S. Spagnola, Managing Director, PFM Asset Management LLC  
Tyler Braun, PFM Advisor, PFM Asset Management LLC  
Bradford J. Stephan, Senior Managing Consultant, PFM Asset Management LLC  
Mary Ann Baumann, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND  
ANNUAL REPORT  
JANUARY 1, 2010 THROUGH DECEMBER 31, 2010**



**February 23, 2011**

**Gail Vizzini, Director  
Budget Review Office  
Suffolk County Legislature  
Hauppauge, New York**

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## Executive Summary

The Budget Review Office is required to report annually to the Legislature on the status of the Suffolk County Vanderbilt Museum Endowment Trust Fund (Fund). This report is for the period January 1, 2010 through December 31, 2010. The following highlights the major findings in this report.

- During 2010, the Fund underwent a change in investment management. On March 23, 2010, Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC to serve as the investment advisor for the Suffolk County Vanderbilt Museum's Maintenance Fund and U.S. Bank National Association as the custodian of the Maintenance Fund.
- In the first three quarters of the year on average the Fund had approximately \$6.8 million or 78% of its total market value invested in bonds and \$1.8 million or 21% invested in cash and cash equivalents. In the last quarter of the year the Fund was managed by PFM and its year-ending allocation was \$4.9 million or 50% in equity mutual funds, \$4.8 million or 49% in bond mutual funds and \$98,335 or 1% in cash and cash equivalents.
- The Fund's year-ending asset allocation is in compliance with Resolution No. 1477-2006, which modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.
- During 2010, the market value of the Fund increased by \$1,209,716 from \$8,526,291 to \$9,736,007, which is net partial payment of investment management fees and a \$110,000 distribution to the Museum.
- The Fund's gross income, dividends and interest, for 2010 was \$378,738.
- The Fund's projected annual income during 2011 is \$264,458, based upon its investments as of the end of 2010.
- The Fund's total return, net of fees, with PFM from September 1, 2010 through December 31, 2010 was 10.04%. This compares favorably to the composite index of 50% S&P 500 / 50% Barclays Capital U.S. Aggregate Bond total return of 9.37%, since inception. The Fund's total annual return while managed by Bank of America in 2009 was a gain of 4.42%, in 2008 a loss of 24.88% and in 2007 a gain of 7.12%. Bank of America managed the fund from January through August 2010, during which time the fund's total return was 5.58%.
- The Fund has not included individual stocks since October 2008, when the Fund's individual stocks were sold in response to the market downturn.

The Fund's new investment manager, PFM, does not invest in individual company's' stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure in any one company. The year-ending market value of the portfolio's equity mutual funds was \$4,859,684, or 49.9% of the Fund's total market value.

- While under the investment management of PFM in 2010, the Fund's domestic equity mutual funds were comparable to but did not outperform their benchmarks, international equity mutual funds all outperformed their benchmarks and the real estate component of this part of the portfolio outperformed its benchmark.
- On average, from January through July, \$6.8 million or 78.4% of the Fund's market value was invested in bonds. In August 2010, PFM invested \$4,928,537 in bond mutual funds or 55.7% of the Fund's total market value. The year-ending market value of the portfolio's bond mutual funds was \$4,777,988, or 49.1% of the Fund's total market value.
- While under the investment management of PFM in 2010, three out of six of the Fund's bond mutual funds outperformed their benchmarks and one bond mutual fund had the same performance as its benchmark.
- The December 31, 2010 market value for the cash equivalents portion of the Fund was \$98,335, which represented 1.0% of the Fund's year-ending market value.
- While under the investment management of PFM from September through December 2010, the total return for the cash and cash equivalents component of the Fund's portfolio was 0.02%.
- The Fund's 2010 year-ending market value included \$568,269 in unrealized capital gains, the difference between the market value of the Fund, \$9,736,007, and its book value, \$9,167,738.
- During 2010, \$110,000 was disbursed to the Museum from the Endowment Fund to assist the Museum in meeting its cash flow needs until the Museum began receiving revenue from the Hotel Motel Tax in May 2010.
- The Museum received 10% or \$692,498 of the revenue collected in 2010 from the Hotel Motel Tax (County Fund 192) to reduce the Museum's reliance on the Endowment and to afford the Fund the opportunity to grow and provide for the Museum's future needs after the Hotel Motel revenue sunsets in 2015.

- In 2010, a total of \$34,578 was incurred in advisory fees to Bank of America (\$20,259), PFM Asset Management LLC (PFM) (\$13,026) and U.S. Bank National Association (US Bank) (\$1,293).

## Performance and Asset Allocation

During 2010, the Fund underwent a change in investment management. In the first three quarters of the year on average the Fund had approximately \$6.8 million or 78% of its total market value invested in bonds and \$1.8 million or 21% invested in cash and cash equivalents. In the last quarter of the year the Fund was managed by PFM and its year-ending allocation was \$4.9 million or 50% in equity mutual funds, \$4.8 million or 49% in bond mutual funds and \$98,335 or 1% in cash and cash equivalents.

The 2010 year-ending market value of the Suffolk County Vanderbilt Museum Endowment Trust Fund (Fund) was \$9,736,007, which includes a total distribution of \$110,000 to the Museum and \$21,359 in fees<sup>1</sup>. The Fund's projected annual income<sup>2</sup> for 2011 is \$264,458 based upon its investments as of the end of 2010. The following table summarizes the Fund's \$1,209,716 net increase in market value.

| <b>Net Change in the Fund's 2010 Market Value</b> |             |             |             |
|---|-------------|-------------|-------------|
| <b>Beginning Market Value</b>                     |             |             |             |
| Market Value December 31, 2009                    |             | \$8,526,291 |             |
| <b>Income</b>                                     |             |             |             |
| Dividends   | \$146,205   |             |             |
| Interest  | \$232,533   | \$378,738   |             |
| <b>Distributions</b>                              |             |             |             |
| Income Remitted to the Museum                     | (\$105,000) |             |             |
| Realized Capital Gains Remitted to the Museum     | (\$5,000)   |             |             |
| Fees  | (\$21,359)  | (\$131,359) |             |
| <b>Capital</b>                                    |             |             |             |
| Capital Appreciation                              |             | \$962,337   |             |
| <b>Ending Market Value</b>                        |             |             |             |
| Market Value December 31, 2010                    |             | \$9,736,007 |             |
| 2010 Net Change in Market Value                   |             |             | \$1,209,716 |

The following table details the 2010 month-ending market values for the Fund.

### Month-ending Market Values for the Fund in 2010

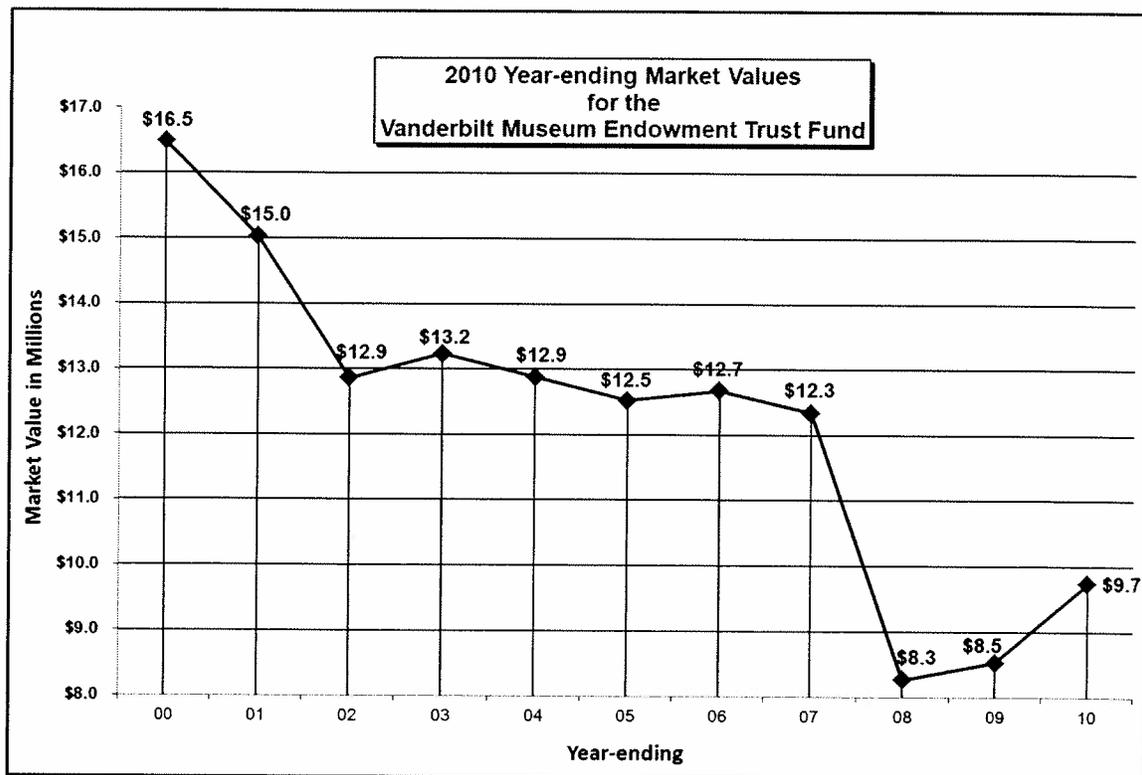
| Month    | Total Account Market Value |
|----------|----------------------------|
| January  | \$8,642,606                |
| February | \$8,635,922                |
| March    | \$8,581,741                |
| April    | \$8,650,022                |

<sup>1</sup> The fees incurred in 2010, \$34,578, have not all been paid; \$13,219 is outstanding.

<sup>2</sup> Income is the interest and dividends on the Fund's investments.

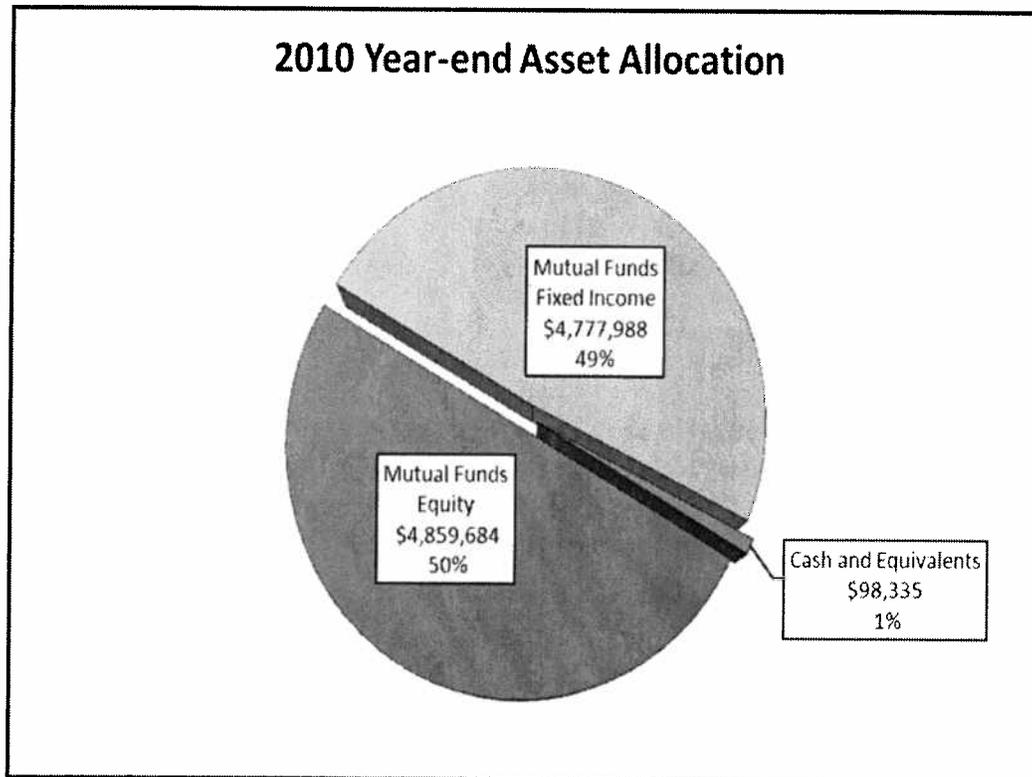
| Month     | Total Account Market Value |
|-----------|----------------------------|
| May       | \$8,659,214                |
| June      | \$8,714,516                |
| July      | \$8,801,415                |
| August    | \$8,846,032                |
| September | \$9,270,894                |
| October   | \$9,488,575                |
| November  | \$9,408,819                |
| December  | \$9,736,007                |

In August 2010, the Suffolk County Legislature entered into a 3 year contract with PFM to manage the Fund's assets. From August to the end of 2010 the market value of the Fund grew by \$891,776. The following graph plots the Fund's year-end market values during the period 2000-2010.



The Fund's 2010 year-ending asset allocation is indicated in the pie chart that follows.

## 2010 Year-end Asset Allocation



The Fund's year-end asset allocation; 49% bond mutual funds, 50% equity mutual funds and 1% cash and cash equivalents. This allocation is in compliance with Resolution No. 1477-2006, which modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.

The following two tables provided by PFM summarize the Fund's asset allocation and performance since inception, September 1, 2010. The Fund's total return, net of fees, from its inception date with PFM through December 31, 2010 was 10.04%. This return on investment compares favorably to the composite index of 50% S&P 500 / 50% Barclays Capital U.S. Aggregate Bond total return of 9.37%, since inception, September 1, 2010. The Fund's total annual return while managed by Bank of America in 2009 was a gain of 4.42%, in 2008 a loss of 24.88% and in 2007 a gain of 7.12%. Bank of America managed the fund from January through August 2010, during which time the fund's total return was 5.58%.

**Asset Allocation And Performance**  
**Vanderbilt Museum Endowment**  
 As of December 31, 2010

| Market Values (\$)                      | Allocation |           | Performance % |        |         |         |         | Since Inception Date |
|---|------------|-----------|---------------|--------|---------|---------|---------|----------------------|
|   | %          | 1 Quarter | 2010          | 1 Year | 2 Years | 3 Years | 5 Years |                      |
| <b>TOTAL FUND</b>                       |            |           |               |        |         |         |         |                      |
| 50 S&P500 / 50 BC Agg                   | 9,736,007  | 100.00    | N/A           | N/A    | N/A     | N/A     | N/A     | 10.04                |
| Blended Benchmark                       |            |           | 11.29         | 11.29  | 13.79   | 2.04    | 4.44    | 9.37                 |
|   |            |           | N/A           | N/A    | N/A     | N/A     | N/A     | 9.11                 |
| <b>Domestic Equity</b>                  |            |           |               |        |         |         |         |                      |
| Vanguard Total Stock Market Index       | 2,259,449  | 23.21     | 17.26         | 17.26  | 22.90   | -1.63   | 3.05    | 22.29                |
| Dow Jones U.S. Total Stock Market Index |            |           | 17.49         | 17.49  | 22.91   | -1.75   | 3.01    | 22.17                |
| Columbia Acorn                          | 363,862    | 3.74      | 26.00         | 26.00  | 32.65   | 2.64    | 5.91    | 28.93                |
| Russell 2500 Index                      |            |           | 26.71         | 26.71  | 30.49   | 2.48    | 4.86    | 27.99                |
| FII Common Stock                        | 348,886    | 3.58      | 22.17         | 22.17  | 27.89   | 9.19    | 8.37    | 24.27                |
| Russell 2000 Index                      |            |           | 26.85         | 26.85  | 27.01   | 2.22    | 4.47    | 30.74                |
| <b>International Equity</b>             |            |           |               |        |         |         |         |                      |
| Vanguard Total International Stock      | 305,006    | 3.13      | 11.12         | 11.12  | 23.26   | -5.30   | 4.44    | 18.26                |
| Dodge & Cox International Stock         | 528,053    | 5.42      | 13.69         | 13.69  | 29.48   | -3.67   | 5.03    | 19.70                |
| American Funds EuroPac Growth           | 523,043    | 5.37      | 9.72          | 9.72   | 23.74   | -2.99   | 5.86    | 16.67                |
| MSCI EAFE (net)                         |            |           | 7.75          | 7.75   | 19.16   | -7.02   | 2.46    | 17.06                |
| Oppenheimer Developing Markets          | 281,471    | 2.89      | 26.98         | 26.98  | 51.91   | 6.25    | 14.98   | 5.34                 |
| MSCI EM (net)                           |            |           | 18.88         | 18.88  | 45.67   | -0.32   | 12.78   | 4.31                 |
| <b>Real Estate</b>                      |            |           |               |        |         |         |         |                      |
| Vanguard REIT Index                     | 249,914    | 2.57      | 28.49         | 28.49  | 29.12   | 1.66    | 3.49    | 12.18                |
| FTSE NAREIT Equity REIT Index           |            |           | 27.94         | 27.94  | 27.97   | 0.65    | 3.03    | 12.24                |
| <b>Inflation Hedged</b>                 |            |           |               |        |         |         |         |                      |
| PIMCO Commodity Real Return             | 271,530    | 2.79      | 24.13         | 24.13  | 31.79   | -0.53   | 3.39    | 25.34                |
| DJ-UBS Commodity TR Index               |            |           | 16.83         | 16.83  | 17.86   | -3.67   | 1.18    | 24.20                |

Returns are net of fees.  
 Returns are expressed as percentages.



Asset Allocation And Performance  
 Vanderbilt Museum Endowment  
 As of December 31, 2010

|   | Allocation         |       | Performance % |       |        |         |         | Inception Date |         |
|---|--------------------|-------|---------------|-------|--------|---------|---------|----------------|---------|
|   | Market Values (\$) | %     | 1 Quarter     | 2010  | 1 Year | 2 Years | 3 Years |                | 5 Years |
| <b>Fixed Income</b>                                     |                    |       |               |       |        |         |         |                |         |
| Vanguard Total Bond Market Index                        | 437,755            | 4.50  | -1.33         | 6.54  | 6.54   | 6.29    | 5.91    | 5.82           | -1.33   |
| PIMCO Total Return                                      | 1,547,684          | 15.90 | -0.92         | 8.86  | 8.86   | 11.34   | 9.12    | 8.07           | -0.15   |
| Metropolitan West Total Return                          | 1,224,842          | 12.58 | -0.12         | 11.66 | 11.66  | 14.45   | 8.95    | 8.10           | 0.55    |
| <i>Barclays Capital Aggregate</i>                       |                    |       | -1.30         | 6.54  | 6.54   | 6.24    | 5.90    | 5.80           | -1.19   |
| Aristo Global High Income                               | 346,654            | 3.56  | 2.86          | 12.55 | 12.55  | 32.03   | 9.84    | 9.05           | 6.00    |
| <i>BofA Merrill Lynch Global High Yield Constrained</i> |                    |       | 2.68          | 15.42 | 15.42  | 36.24   | 10.79   | 8.90           | 5.75    |
| Vanguard Short Term Bond Index                          | 949,524            | 9.75  | -0.59         | 4.03  | 4.03   | 4.21    | 4.64    | 5.07           | -0.32   |
| <i>Barclays CapitalGC 1-5 Yr Bond Index</i>             |                    |       | -0.60         | 4.08  | 4.08   | 4.35    | 4.61    | 5.05           | -0.22   |
| First American Government Obligation                    | 98,335             | 1.01  | 0.00          | 0.02  | 0.02   | 0.15    | 0.87    | 2.50           | 0.01    |
|   |                    |       |               |       |        |         |         |                |         |

Returns are net of fees.  
 Returns are expressed as percentages.



## ***Equities (Stocks)***

The Fund has not included individual stocks since October 2008. In response to the financial market conditions, the Legislature exercised its fiduciary responsibility by directing the Fund's investment manager to convert (sell) volatile securities to cash, cash equivalents or other secure investments that were less volatile in order to preserve the Fund's \$8.2 million corpus.

PFM does not invest in individual company's' stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure in any one company. The December 2010 month-ending market value of the Fund's equity mutual funds totaled \$4,859,684 or 49.9% of the Fund's total market value. As detailed in the tables from PFM, the portfolio's equity mutual funds include \$2,972,197 in domestic equities, \$1,637,573 in international equities and \$249,914 in real estate. The Fund's domestic equity mutual funds were comparable to but did not outperform their benchmarks, international equity mutual funds all outperformed their benchmarks and the real estate<sup>3</sup> component of this part of the portfolio outperformed its benchmark, as detailed in the tables provided by PFM.

## ***Bonds (Fixed Income<sup>4</sup>)***

Fixed income investments allow for diversification of the Fund's assets in a type of asset that provides income but minimal capital appreciation. Resolution No. 215-1987 restricts bond investments to investment grade<sup>5</sup>, Baa<sup>6</sup> or above, per Moody's Investors Service.<sup>7</sup> This legislation structures the Fund's bond portfolio to provide income that is consistent with a reasonable level of risk. The market value for bonds fluctuates with interest rates. The market value of bonds decreases during times of rising interest rates. Consequently, it is possible to experience a loss of principal when selling a bond prior to its maturity. Bond prices rise during times of declining interest rates.

During 2010, the Fund was invested mainly in bonds until the Fund's assets were transferred to US Bank in August 2010 for investment by PFM. On average, from January through July, \$6.8 million or 78.4% of the Fund's market value was invested in bonds. In August 2010, PFM invested \$4,928,537 in bond mutual funds or 55.73% of the Fund's total market value. The year-ending market value

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<sup>3</sup> As per the US Bank website, real estate includes undeveloped property, rental property, grantor's or descendant's residence, working farms or timberland.

<sup>4</sup> Fixed income is bonds or long-term debt instruments that include corporate bonds, government or agency instruments (including bonds, notes and bills), municipal bonds or other types of debt instruments.

<sup>5</sup> An investment grade bond is generally considered suitable for purchase by prudent investors. Moody's Investors Service designate bonds in their top four categories (AAA/Aaa, A/Aa, A and BBB/Baa) as investment grade.

<sup>6</sup> Obligations rated Baa are subject to moderate credit risk.

<sup>7</sup> Moody's Investors Service provides investment grade opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more that address the possibility that a financial obligation will not be honored as promised.

of the portfolio's bond mutual funds was \$4,777,988, which was 49.08% of the Fund's total market value.

In 2009, the Fund's fixed income assets, posted a total return of 7.53% after losing -5.37% in 2008. While under the investment management of PFM in 2010, three out of six of the Fund's bond mutual funds outperformed their benchmarks and one bond mutual fund had the same performance as its benchmark, as detailed in the tables provided by PFM.

The fixed income portion of the portfolio includes a component referred to as "inflation hedged". Inflation hedge is an investment option with intrinsic value such as oil, natural gas, gold, farmland, and commercial real estate. The inflation hedged component of the portfolio had \$271,530 invested in PIMCO Commodity Real Return as of December 31, 2010. The total return for this investment in 2010 compared favorably to the industry benchmark, 24.13% compared to the DJ-UBS Commodity TR Index of 16.83%, as detailed in the tables from PFM.

### ***Cash & Cash Equivalents***

Cash equivalents are short-term investments and money market<sup>8</sup> fund investments that are readily converted to cash (liquid) and provide additional income. The Fund is invested in First American Government Obligation, which has an investment strategy that seeks to provide maximum current income and daily liquidity by purchasing high-quality U.S. government securities and repurchase agreements collateralized at more than 100%. The December 31, 2010 market value for the cash equivalents portion of the Fund was \$98,335, which represented 1.01% of the Fund's year-ending asset allocation. While under the investment management of PFM in 2010, the total return for the cash and cash equivalents component of the Fund's portfolio was 0.02%. First American Government Obligation has an S&P rating of AAAm<sup>9</sup> and a Moody's rating of Aaa. These are the highest ratings assigned by S&P and Moody's.

### ***Capital Gains***

The Fund's 2010 year-ending market value included \$568,269 in unrealized<sup>10</sup> capital gains, the difference between the market value of the Fund, \$9,736,007, and its book value, \$9,167,738.

In 1993, the Legislature first authorized the use of capital gains to pay for one half of the investment management fees (Resolution No. 682-1993). Since the

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<sup>8</sup> Money market is a mutual fund of short-term investments that are valued at par or face value and thus have no principal value fluctuations.

<sup>9</sup> Standard & Poor's money market fund ratings are designated with a subscript letter 'm'.

<sup>10</sup> Unrealized gains and losses have not occurred but would be realized if the investor sold the security or asset currently held.

inception of this policy through 2010 a total of \$386,989 in realized capital gains has been used to pay investment fees<sup>11</sup>.

In 1994, the Legislature first authorized using realized capital gains to augment distributions to the Museum and to provide a guaranteed annual income with the adoption of Resolution No. 933-1994. From 1995 through 2010 a total of \$8,575,109 in realized capital gains has been remitted to the Museum.

## Remittances to the Museum

During 2010, \$110,000 was disbursed to the Museum from the Fund to assist the Museum in meeting its cash flow needs until the Museum began receiving revenue from the Hotel Motel Tax in May 2010.

The Museum received 10%<sup>12</sup> or \$692,498<sup>13</sup> of the revenue collected in 2010 from the Hotel Motel Tax (County Fund 192) to reduce the Museum's reliance on the Endowment and to afford the Fund the opportunity to grow and provide for the Museum's future needs after the Hotel Motel revenue sunsets in 2015.

The following table details the remittances to the Museum in 2010 from the Fund and from 10% of the revenue collected from the Hotel Motel Tax.

**Transfers to the Vanderbilt Museum in 2010**

| Month           | Hotel/Motel<br>(Fund 192) | Endowment<br>Trust Fund | Combined Total   |
|-----------------|---------------------------|-------------------------|------------------|
| January         | \$0                       | \$0                     | \$0              |
| February        | \$0                       | \$20,000                | \$20,000         |
| March           | \$0                       | \$55,000                | \$55,000         |
| April           | \$0                       | \$0                     | \$0              |
| May             | \$115,416                 | \$35,000                | \$150,416        |
| June            | \$192,361                 | \$0                     | \$192,361        |
| July            | \$48,090                  | \$0                     | \$48,090         |
| August          | \$0                       | \$0                     | \$0              |
| September       | \$48,090                  | \$0                     | \$48,090         |
| October         | \$144,271                 | \$0                     | \$144,271        |
| November        | \$0                       | \$0                     | \$0              |
| December        | \$48,090                  | \$0                     | \$48,090         |
| <b>Subtotal</b> | <b>\$596,318</b>          | <b>\$110,000</b>        | <b>\$706,318</b> |
| January 2011*   | \$96,180                  | \$0                     | \$96,180         |
| <b>Total</b>    | <b>\$692,498</b>          | <b>\$110,000</b>        | <b>\$802,498</b> |

\*Note: The Museum received the remainder of its 10% of the Hotel Motel Tax revenue or \$96,180 in January 2011.

<sup>11</sup> All of the investment fees incurred in 2010 have not been paid.

<sup>12</sup> The Legislature has the option of decreasing the 10% allocation for the Vanderbilt Museum by one percent each fiscal year beginning in 2011 with a corresponding one percent increase in the allocation to cultural programs. For 2011, the Legislature did not exercise this option. The Adopted 2011 Operating Budget includes \$705,097 from the Hotel Motel Tax for the Museum.

<sup>13</sup> This figure is subject to being adjusted once the Fund is reconciled upon being audited.

## **Investment Management**

### ***Investment Objectives***

The Fund's investment objectives are to preserve the principal corpus of the Fund, maintain a high level of income that is steady and predictable and provide for future growth of income through long-term capital growth.

### ***Investment Policies***

The Fund's investment policies are as indicated by the resolutions that follow.

- Resolution No. 215-1987 restricts bond investments to investment grade, Baa or above, per Moody's Investors Service.
- Resolution No. 1477-2006 modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.

The Fund's investment policy was further set forth in Resolution No. 1266-2007; however this resolution expired December 31, 2008. It had authorized the Vanderbilt Museum Trust Fund's Investment Advisor at the time, Bank of America, to:

- ✓ Utilize a total return concept, meaning investing for a comprehensive return, including interest and dividends<sup>14</sup> earned on stocks and bonds, plus realized and unrealized gains and losses.
- ✓ Provide a fixed annual income of \$1.2 million, as requested by the Suffolk County Vanderbilt Museum, to be paid to the Suffolk County Vanderbilt Museum at \$100,000 per month.
- ✓ Use realized capital gains to augment the monthly income distribution to the Museum, as long as the corpus of the Fund does not go below the value of the original bequest (\$8.2 million).

For the majority of 2010, the Legislature maintained its conservative investment policy to preserve the Fund's corpus by investing primarily in bonds and cash equivalents until the Fund's new investment manager commenced investing the Fund's assets in August 2010.

### ***Investment Management Contract***

When the contract agreement with Bank of America expired at the end of 2008 a Request for Expressions of Interest (RFEI) for Investment Management Services for the Suffolk County Vanderbilt Museum Endowment Trust was issued. The

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<sup>14</sup> Dividends are a portion of a corporation's earnings periodically paid to the owners of the corporation (stockholders) as a return on their investment.

Legislature then issued a Request for Proposal (RFP) to the seven companies that were chosen to participate in the next phase of the selection process. The RFP evaluation committee chose PFM Asset Management LLC. Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC to serve as the investment advisor and U.S. Bank National Association as the custodian of the Maintenance Fund independent of the Fund's investment manager.

The Agreement with PFM is for a term of three years, with the option to renew the Agreement for two additional one-year periods. The Agreement with PFM was duly executed on April 21, 2010.

The Custody Agreement with U.S. Bank was executed in July 2010 and remains in effect until terminated by either U.S. Bank or the Legislature giving written notice thirty days in advance of the termination date.

### **Advisory Fees**

Resolution No. 682-1993 authorizes the use of capital gains to pay 50% of the investment management fees; therefore 50% of the fees are paid from the principal account and 50% are paid from the income account. In 2010, a total of \$34,578 was incurred in advisory fees to Bank of America, PFM Asset Management LLC (PFM) and U.S. Bank National Association (US Bank), as detailed in the table that follows.

**Fund Advisory Fees**

| <b>2010</b>        | <b>Bank of America</b> | <b>US Bank</b> | <b>PFM</b>      |
|--------------------|------------------------|----------------|-----------------|
| January            | \$7,399                | \$0            | \$0             |
| February           | (\$304)                | \$0            | \$0             |
| March              | (\$284)                | \$0            | \$0             |
| April              | \$7,444                | \$0            | \$0             |
| May                | (\$357)                | \$0            | \$0             |
| June               | (\$405)                | \$0            | \$0             |
| July               | \$7,344                | \$0            | \$0             |
| August             | (\$177)                | \$197          | \$1,100         |
| September          | (\$403)                | \$283          | \$2,872         |
| October            | \$0                    | \$265          | \$3,034         |
| November           | \$0                    | \$233          | \$2,913         |
| December           | \$0                    | \$315          | \$3,106         |
| <b>Total</b>       | <b>\$20,259</b>        | <b>\$1,293</b> | <b>\$13,026</b> |
| <b>Grand Total</b> |                        |                | <b>\$34,578</b> |

The Bank of America's annual fee was 40 basis points<sup>15</sup> (.40%), calculated on both principal value and accrued income quarterly. In 2010, a total of \$20,259 was paid to the Bank of America; \$9,928 from the income account and \$10,331 from the principal account. To reconcile the fees to be split 50/50 from the principal and income accounts or \$10,129 from each account, US Bank has been directed to transfer \$201 from the income account to the principal account.

For all services provided by the Fund's investment advisor, PFM Asset Management LLC, the Fund incurred an annual fee based on net assets under the management of the Fund determined on a monthly basis as defined in the investment advisory fee schedule set forth below:

**PFM Asset Management LLC Investment Advisory Fee Schedule**

|                                 |       |
|---------------------------------|-------|
| First \$5 million in net assets | 0.40% |
| Next \$5 million in net assets  | 0.35% |
| Next \$10 million in net assets | 0.30% |
| Thereafter                      | 0.20% |

The Maintenance Fund also incurred fees for services rendered by U.S. Bank, the custodian of the Maintenance Fund, in accordance with the fee schedule that follows.

**U.S. Bank Custody Fee Schedule  
for PFM Asset Management LLC Managed and Advised Accounts Program**

| <b>Domestic Administrative Fee</b>  |                           |
|---|---------------------------|
| First \$100MM Market Value  | 2.5 basis points annually |
| Remaining Market Value  | 1.5 basis points annually |
| <b>Portfolio Transaction Fees</b>   |                           |
| Book Entry Transactions - DTC or Fed  | \$7.50                    |
| Physical Transactions   | \$7.50                    |
| Wire Transactions   | \$7.50                    |
| <b>Benefit Payment Transaction Fees (if applicable)</b>   |                           |
| Checks - Recurring Distributions  | \$2.50                    |
| Wires   | \$10.00                   |
| ACH (with advice)   | \$2.00                    |
| ACH (without advice)  | \$1.50                    |
| Lump Sum Distributions  | \$15.00                   |
| <b>Other</b>  |                           |
| TrustNow or TrustNow Essentials (on-line)   | \$0.00                    |
| TrustNow Customized (separately bid)  | \$0.00                    |
| Performance Measurement (optional)  | \$250.00                  |
| <b>Out-of-Pocket Expenses</b>   |                           |
| The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees. |                           |

<sup>15</sup> A basis point is a unit that is equal to 1/100<sup>th</sup> of a percentage point (the unit for the arithmetic difference of two percentages).

## Appendix A

### *Historical Information*

William Kissam Vanderbilt II (1878-1944) referred to his 43-acre summer estate in Centerport, which overlooks the Northport Harbor and the Long Island Sound, as the "Eagle's Nest". Mr. Vanderbilt traveled extensively throughout the world collecting artifacts to develop his own personal museum at Eagle's Nest. In Mr. Vanderbilt's last will and testament, he recognized the potential for his vast estate to become a museum "for the use, education and enjoyment of the general public". Mr. Vanderbilt died in 1944 of a heart attack and his wife whom he married in Paris in September of 1927, Rosamund, died three years later in 1947 at "Eagle's Nest". She was the last Vanderbilt to live there.

In his last will and testament, Mr. Vanderbilt bequeathed his estate in Centerport, together with its real property, furnishings, exhibits, and works of art, artifacts, memorabilia and certain moneys either to the State of New York, County of Suffolk or Town of Huntington. Suffolk County accepted the generous bequest in accordance with the terms of the agreement dated August 3, 1949.

The estate was opened as a public museum in 1950. The Museum includes a Spanish revival style mansion with a Memorial Wing constructed in 1936 to commemorate Mr. Vanderbilt's only son who died in 1933 from an automobile accident in South Carolina, a planetarium, outbuildings as well as landscaped grounds.

The Vanderbilt planetarium was erected in 1971 for less than one million dollars on the site of the former Vanderbilt family tennis courts and was paid for from the Endowment Trust Fund. The planetarium is a 238-seat 60-foot diameter domed sky theatre with a central GOTO projector supplemented by dozens of perimeter slide projectors and a video projector.

In November of 1986, Local Law No. 35-1986, designated and renamed the museum "Suffolk County Vanderbilt Museum". The Suffolk County Vanderbilt Museum Commission evolved from the former Suffolk County Park Commission, which was established by resolution of the Board of Supervisors on June 27, 1949, and enlarged by resolution of the Board of Supervisors on December 28, 1959. The Commission is responsible for the management and control of the Suffolk County Vanderbilt Museum, pursuant to Local Law No. 1-1966. The Board of Trustees of the Suffolk County Vanderbilt Museum Commission has the sole power and control over the development, maintenance and operation of the Suffolk County Vanderbilt Museum and Planetarium and to conduct its programs and activities, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. The Board of Trustees is the appointing body with respect to all personnel engaged in the maintenance and operation of the

programs and activities of the museum and planetarium, including the Director. The employees of the Museum are not employees of Suffolk County, but are employees of a privately endowed institution. The Suffolk County Legislature appoints fifteen members to the Commission for four-year terms of office to govern the Vanderbilt Museum.

The Legislature has the sole power and control over Museum property and the distribution of Trust Funds for its operation, care and perpetuation, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. Mr. Vanderbilt's bequest included \$2 million to establish an endowment fund for the maintenance and care of the estate. In 1973, the Fund had an additional bequest of \$6.2 million from the estate of Muriel Vanderbilt Adams, William K. Vanderbilt's daughter, raising the corpus of the Fund to \$8.2 million. Distributions from the Fund partially defray the Museum's maintenance and operating expenses.

Resolution No. 933-1994 was adopted for the purpose of permitting the Vanderbilt Museum Trust Fund's Investment Advisor to utilize a total return concept<sup>16</sup>, to provide a fixed annual income of \$1,000,000, as requested by the Suffolk County Vanderbilt Museum, and authorized the use of realized capital gains in the Trust Fund for cash flow purposes only, with any unused funds from said realized gains to be returned to the Trust Fund for reinvestment. The authorization was increased to \$1.2 million by the adoption of Resolution No. 656-2000, and subsequently extended by Resolution Nos. 196-2002, 1251-2002, 1177-2003, 1372-2004, 1306-2005, 1477-2006, and 1266-2007. The Legislature did not extend this authorization for 2009, as the market value of the Fund could not support a \$1.2 million distribution. During 2009, Procedural Motion No. 3-2009 authorized the remittance of \$45,500 to the Museum from the Endowment Fund. To support the Museum in meeting its 2009 operating budget expenses and to enable the Museum to continue to operate as an educational resource for the residents of Suffolk County as well as a tourist attraction for visitors, Resolution No. 870-2008 authorized the transfer of up to \$800,000 from the General Fund during 2009 not to exceed \$100,000 per month based upon monthly cash flow needs analysis prepared by the Vanderbilt Museum no later than the 15th of the previous month. Historically, the Museum's operating budget has not received funds from County real property taxes, with the exception of the Museum's 2009 operating budget. On December 31, 2009, the one-year commitment to provide the Museum revenue from the General Fund sunset. The Museum received \$705,094 or \$94,906 less than authorized from the County's General Fund during 2009. The County's General Fund has assumed all debt service for the Museum's capital projects.

Resolution No. 805-2009, adopted Local Law 34-2009, A Local Law to reauthorize the Hotel Motel Tax. The Hotel Motel Tax was reauthorized and

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<sup>16</sup> Total Return Concept meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.

extended to December 31, 2015 and the tax on the per-diem rental rate (exclusive of sales tax) imposed for each hotel or motel room was increased from 0.75% to 3%. Additionally, the allocation formula was amended. The amended allocation formula commenced on December 1, 2009 and included a new 10% allocation for the Vanderbilt Museum, which the Legislature has the option of decreasing by one percent each fiscal year beginning in 2011 with a corresponding one percent increase in the allocation to cultural programs. During 2010, the Museum received \$692,498 from the Hotel Motel Tax; however this figure is subject to adjustment once the Fund is reconciled upon being audited. For 2011, the Legislature did not reduce the Museum's allocation; it remains at 10% of the revenue collected from the Hotel Motel Tax. The Adopted 2011 Operating Budget included \$705,097 in Fund 192 for the Museum.

Subsequent to Bessemer Trust, Fleet Investment Services (Fleet) entered into a contractual agreement in 1996 with the Suffolk County Legislature to provide investment management services for the Vanderbilt Museum Endowment Trust Fund. The two year agreement included two options to renew for a period of two years for each renewal. In 2004, Fleet Investment Services was selected through an RFP. In September of 2004, Fleet merged with Bank of America. The contract agreement with Bank of America expired at the end of 2008. Subsequently, a Request for Expressions of Interest (RFEI) for Investment Management Services for the Suffolk County Vanderbilt Museum Endowment Trust was issued. The RFEI proposals were reviewed and the County then issued a Request for Proposal (RFP) to the seven companies that were chosen to participate in the next phase of the selection process. The RFP evaluation committee chose PFM Advisors and an award letter was sent on January 12, 2010. On March 23, 2010, Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC to serve as the investment advisor for the Suffolk County Vanderbilt Museum's Maintenance Fund and U.S. Bank National Association as the custodian of the Maintenance Fund.

Resolution No. 1036-2008 created a Vanderbilt Museum Oversight Committee to work with, and act as a liaison to, the Vanderbilt Museum Board of Trustees and the Museum's administrators to analyze new ideas to increase revenues and cut costs and to ensure that new policies are implemented in a timely fashion so the County of Suffolk may avoid an unenviable choice between closing the Museum or making another large cash transfer to the Museum in 2010.

In March of 2009 a Memorandum of Understanding (MOU) was signed between the County of Suffolk and the Trustees of the Vanderbilt Museum, which expired on December 31, 2009. Amongst other stipulations included in the MOU, the Museum agreed to and in June 2009 submitted a formal written business plan demonstrating how the Museum would replace the County's 2009 distribution in fiscal year 2010.

During 2009, the following additional notable Procedural Motions and Resolutions were adopted.

- Procedural Motion No. 2-2009 was adopted to retain outside counsel in matters relating to the Suffolk County Vanderbilt Museum.
- Procedural Motion No. 3-2009 was adopted to authorize the remittance of monies from the maintenance Fund to the Vanderbilt Museum. The Vanderbilt Museum's Maintenance Fund Investment Advisor, in consultation with the Presiding Officer of the Suffolk County Legislature and the Legislature's Budget Review Office, was authorized to remit monthly disbursements to the Vanderbilt Museum from January 1, 2009 to December 31, 2009, as long as the corpus of the fund did not go below the value of the original bequest (\$8.2 million).
- Procedural Motion No.16-2009 authorized the retention of counsel in relation to the Suffolk County Vanderbilt Museum.
- Resolution No. 122-2009 established a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.
- Resolution No. 371-2009 authorized a cell tower at the Vanderbilt Museum.
- Resolution No. 804-2009 extended the deadline for a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.

During 2010, the following pertinent Procedural Motions and Resolutions were adopted.

- Procedural Motion 2-2010 was adopted to authorize the remittance of monies (\$20,000) from the maintenance fund to the Vanderbilt Museum.
- Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC and U.S. Bank.
- Resolution No. 1196-2010 extended the deadline for the Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum to no later than December 31, 2011.