

SUFFOLK COUNTY LEGISLATURE



Gail Vizzini

BUDGET REVIEW OFFICE

Director

March 1, 2012

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's annual report to the Legislature on the status of the Vanderbilt Museum Endowment Trust Fund for the period January 1, 2011 through December 31, 2011.

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
Fred Pollert, Deputy County Executive, Financial Affairs
Connie Corso, Budget Director
Dennis M. Cohen, Suffolk County Attorney
Terrence Pearsall, Legislature Chief of Staff
Lance Reinheimer, Interim Director, Vanderbilt Museum
Stephen Faber, Managing Director, PFM Asset Management LLC
John S. Spagnola, Managing Director, PFM Asset Management LLC
Tyler Braun, PFM Advisor, PFM Asset Management LLC
Mary Ann Baumann, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND
ANNUAL REPORT
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**



March 1, 2012

**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, 2011 through December 31, 2011. The following highlights the major findings in this report.

- The 2011 year-ending market value of the Fund was \$9,310,582, which includes a total distribution of \$344,939 to the Suffolk County Vanderbilt Museum and \$40,344 in fees.
- During 2011, the market value of the Fund decreased by \$425,425 from \$9,736,007 to \$9,310,582, which is net payment of \$40,344 in investment management fees and a \$344,939 distribution to the Museum.
- Based upon its investments as of the end of 2011, the Fund's estimated annual income for 2012 is \$346,968.
- The Fund's gross income, dividends and interest, for 2011 was \$350,640.
- The Fund's year-ending asset allocation is in compliance with Resolution No. 1266-2007, 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 Fund's 2011 total annual return, net of fees and distributions, was (0.41%), which did not compare favorably to the comparable industry blended benchmark of 1.89%.
- 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 \$4,339,706, or 46.61% of the Fund's total market value. The Fund's domestic equity mutual funds almost all outperformed their benchmarks, international equity mutual funds were comparable to their benchmarks and the real estate component of this part of the portfolio was comparable to its benchmark.
- The year-ending market value of the portfolio's bond mutual funds was \$4,735,835, which was 50.87% of the Fund's total market value. During 2011, the Fund's fixed income investments underperformed in comparison to industry benchmarks. PFM indicated that the Fund's total annual return is a reflection of the general underperformance (relative to the Barclays Aggregate fixed income benchmark) of the Fund's fixed income managers and that the 4th quarter indicated a reversal in performance.

- The December 31, 2011 market value for the cash equivalents portion of the Fund was \$235,040, which represented 2.52% of the Fund's year-ending asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.00%.
- The Fund's 2011 year-ending market value included \$400,758 in unrealized capital losses, the difference between the market value of the Fund, \$9,310,582 and its book value, \$9,711,340.
- During 2011, \$344,939 was disbursed to the Museum from the Fund. The disbursements included a \$144,939 distribution to the Museum in March 2011 for operating expenses associated with contractual agreements concerning a former staff member and an insurance deductible concerning the collapse of the Butler Building under the weight of snow, which damaged dinosaur models and an open-air tram. The remaining \$200,000 was disbursed to assist the Museum in meeting its operating cash flow needs.
- During 2011, the Museum received 10% or \$705,096 of the revenue collected from the Hotel Motel Tax (County Fund 192). The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Endowment and afford it the opportunity to grow and provide for the Museum's future needs. It should be noted that the Hotel Motel Tax was reauthorized and extended per Resolution No. 805-2009 to December 31, 2015. Once the Hotel Motel Tax revenue sunsets, it is unknown if the allocation formula for the distribution of Hotel Motel tax revenue will continue to include the Vanderbilt Museum.
- In 2011, the Fund incurred a total of \$40,344 in advisory fees; \$36,342 to PFM Asset Management LLC (PFM) and \$4,002 to U.S. Bank National Association (U. S. Bank).

Performance and Asset Allocation

The Suffolk County Vanderbilt Museum Endowment Trust Fund's¹ (Fund) estimated annual income² for 2012 is \$346,968 based upon its investments as of the end of 2011. The 2011 year-ending market value of the Fund was \$9,310,582, which includes a total distribution of \$344,939 to the Suffolk County Vanderbilt Museum and \$40,344 in fees. The following table summarizes the Fund's \$425,425 net decrease in market value.

Net Change in the Fund's 2011 Market Value			
Beginning Market Value			
Market Value December 31, 2010		\$9,736,007	
Income			
Interest	\$2		
Dividends	\$350,637	\$350,640	
Distributions			
Income Remitted to the Museum	(\$344,939)		
Realized Capital Gains Remitted to the Museum	\$0		
Fees	(\$40,344)	(\$385,283)	
Capital			
Capital Gains/Losses		(\$390,782)	
Ending Market Value			
Market Value December 31, 2011		\$9,310,582	
2011 Net Change in Market Value			(\$425,425)

The following table details the 2011 month-ending market values for the Fund.

Month-ending Market Values for the Fund in 2011

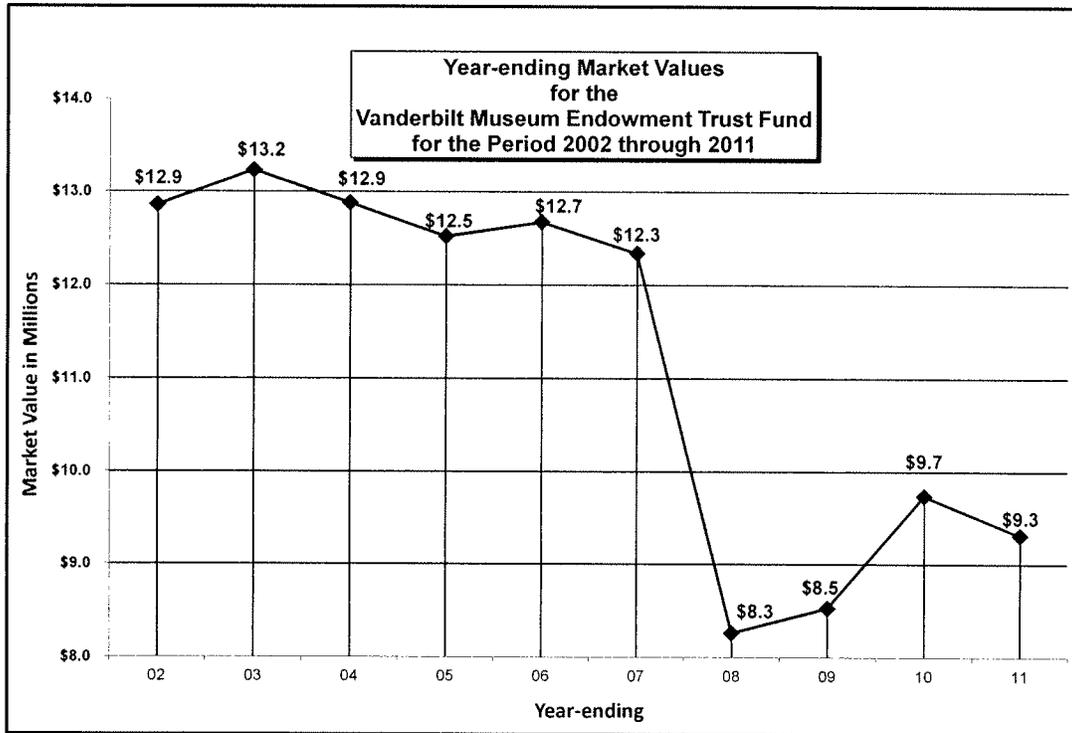
Month	Total Account Market Value
January	\$9,817,661
February	\$9,996,932
March	\$9,864,990
April	\$10,088,569
May	\$10,029,067
June	\$9,908,160
July	\$9,874,583
August	\$9,547,502

¹ As per the County's Comprehensive Annual Financial Reports, the Fund is a private-purpose trust fund that is used to account for resources legally held in trust for use by a not-for-profit organization responsible for operating a museum on the grounds of the former Vanderbilt estate in Centerport, N.Y. In accordance with the last will and testament of William K. Vanderbilt II, all assets of the trust are permanently restricted. The operations of the museum are allowed to be funded from all but the principal as determined by historic dollar value of the endowment bequest.

² Income is the interest and dividends on the Fund's investments.

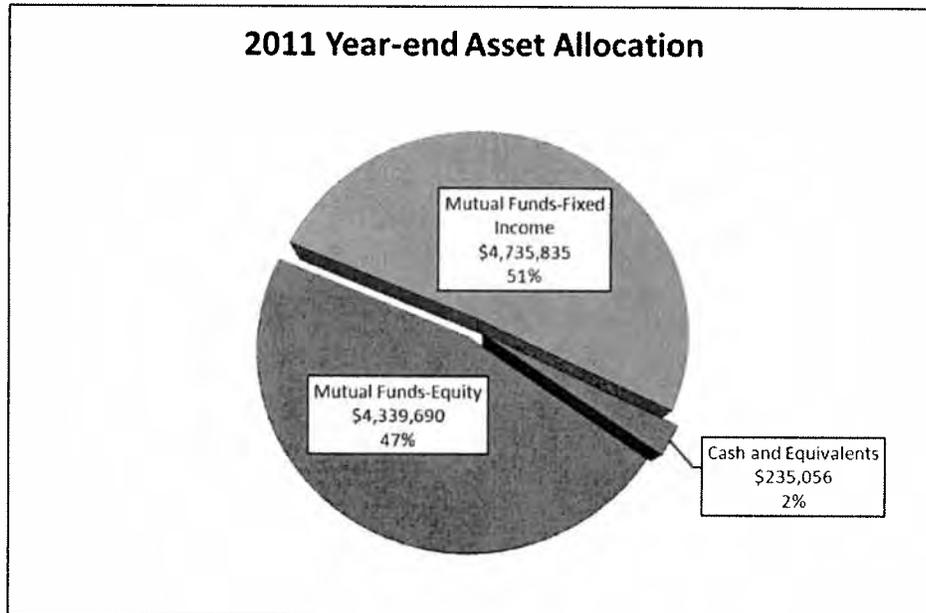
September	\$8,913,396
October	\$9,446,837
November	\$9,357,111
December	\$9,310,582

The following graph plots the Fund's year-end market values during the period 2002-2011.



While the Fund has grown since the 2008-2009 financial market crisis, its 2011 year-end market value was \$425,425 less than its year-end market value in 2010. This is partially attributable to the Fund distributing \$234,939 more to the Museum in 2011 than in 2010 (\$344,939 in 2011 compared to \$110,000 in 2010) and paying \$5,766 more in investment management fees in 2011 than in 2010 (\$40,344 in 2011 compared to \$34,578 in 2010). This, coupled with the Funds 2011 total annual return of -0.41% and it struggling to recover from the 2008-2009 financial crisis, has adversely impacted its ability to grow and return to its pre-crisis level. Given the Museum's continued dependence on the Fund for its operations, strengthening the Fund's ability for steady growth is essential.

The Fund's 2011 year-ending asset allocation is indicated in the pie chart that follows.



The Fund's year-end asset allocation of 50.87% bond mutual funds, 46.61% equity mutual funds and 2.52% cash and cash equivalents is in compliance with Resolution No. 1266-2007, 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 Asset Management LLC (PFM), the Fund's investment advisor, summarize the Fund's asset allocation and performance as of December 31, 2011. The Fund's 2011 total annual return, net of fees and distributions, was -0.41%. This total annual return on investment does not compare favorably to the comparable industry blended benchmark of 1.89%. PFM has responded that the Fund's total annual return is a reflection of the general underperformance (relative to the Barclays Aggregate fixed income benchmark) of the Fund's fixed income managers and that the 4th quarter indicated a reversal in performance. According to PFM, based on available data through the 3rd quarter, the Barclays Aggregate was in the top 10% of all broad market core bond funds so it was common to see underperformance from a large universe of fixed income managers, including the Fund's.

Last year, the Fund's total annual return, net of fees and distributions, from its inception date (September 1, 2010³) with PFM through December 31, 2010 was 10.04% and it compared favorably to the composite index of 50% S&P 500 / 50% Barclays Capital U.S. Aggregate Bond total return of 9.37%. While managed by Bank of America in 2009 it was a gain of 4.42%, in 2008 it was a loss of 24.88% and in 2007 it was a gain of 7.12%.

³ The "inception date" on the Asset Allocation & Performance report coincides with the opening of the Income Account, or Feb 1, 2011, rather than the September 1, 2010 inception date of the Principal Account, as was shown last year.

Asset Allocation & Performance
Vanderbilt Museum Endowment - Combined Assets
As of December 31, 2011

	Allocation %	Market Value (\$)	2011		Performance (%)					Since Inception	Inception Date	
			Quarter	Year	1 Year	2 Years	3 Years	5 Years				
TOTAL FUND												
<i>Biased Benchmark</i>	100.00	9,310,582	5.30	-0.41	-0.41	N/A	N/A	N/A	N/A	-1.28		02/01/2011
			5.03	1.89	1.89	N/A	N/A	N/A	N/A	0.94		02/01/2011
Domestic Equity												
Vanguard S&P 500 Index	16.65	1,550,459	11.78	1.97	1.97	8.25	14.01	-0.33	-3.76			07/01/2011
S&P 500			11.82	2.11	2.11	8.39	14.11	-0.25	-3.69			07/01/2011
Vanguard Dividend Growth	7.26	676,397	11.91	9.43	9.43	10.42	14.07	3.40	N/A			01/01/2012
S&P 500			11.82	2.11	2.11	8.39	14.11	-0.25	N/A			01/01/2012
Neuberger Berman Genesis	1.74	162,281	12.81	4.88	4.88	12.99	17.34	5.84	-4.11			07/01/2011
Russell 2500 Index			14.52	-2.51	-2.51	11.14	18.41	1.24	-9.78			07/01/2011
Janus Titron	1.87	173,667	13.42	2.72	2.72	16.21	26.53	7.77	-6.76			07/01/2011
Russell 2500 Growth Index			13.51	-1.57	-1.57	12.62	21.57	2.89	-10.72			07/01/2011
FMI Common Stock	1.79	166,721	15.84	4.52	4.52	13.00	19.57	5.93	21.67			09/01/2010
Russell 2000 Index			15.47	-4.18	-4.18	10.25	15.63	0.15	18.42			09/01/2010
International Equity												
Vanguard Developed Markets Index	2.79	259,697	4.01	-12.53	-12.53	-2.57	6.76	-4.64	-15.15			04/01/2011
MSCI EAFE (net)			3.33	-12.14	-12.14	-2.70	7.65	-4.72	-15.00			04/01/2011
Dodge & Cox International Stock	4.18	388,734	4.23	-15.97	-15.97	-2.26	12.10	-3.45	0.44			09/01/2010
American Funds EuroPac Growth	4.63	430,760	4.59	-13.33	-13.33	-2.49	9.89	-1.16	0.83			09/01/2010
MSCI AC World ex USA (Net)			3.72	-13.71	-13.71	-2.06	10.70	-2.92	1.28			09/01/2010
Oppenheimer Developing Markets	2.78	258,872	3.93	-18.10	-18.10	1.98	23.64	5.63	-11.89			11/01/2010
MSCI EM (net)			4.42	-18.42	-18.42	-1.52	20.07	2.40	-12.92			11/01/2010
Real Estate												
ING Global Real Estate	2.92	272,118	7.15	-5.64	-5.64	4.08	13.05	-4.69	-5.87			09/01/2011
FTSE EPRA/NAREIT Global Index			7.36	-5.82	-5.82	6.49	16.17	-5.28	-5.95			09/01/2011

Asset Allocation & Performance
Vanderbilt Museum Endowment - Combined Assets
As of December 31, 2011

	Allocation Market Value (\$)	%	Performance (%)					Since Inception	Inception Date	
			1 Quarter	2011	1 Year	2 Years	3 Years			5 Years
Inflation Hedge										
PIMCO Commodity Real Return	250,551	2.69	2.24	-7.56	-7.56	7.12	17.09	2.41	11.68	09/01/2010
DJ-UBS Commodity TR Index			0.35	-13.32	-13.32	0.63	6.39	-2.07	5.69	09/01/2010
Vanguard Inflation Protected	360,032	3.87	2.56	13.24	13.24	9.64	10.03	7.63	2.63	09/01/2011
Barclays Capital U.S. Treasury: U.S. TIPS			2.69	13.56	13.56	9.88	10.38	7.95	2.44	09/01/2011
Fixed Income										
PIMCO Total Return	1,233,642	13.25	2.22	4.17	4.17	6.48	8.89	8.10	2.98	09/01/2010
Mutualism West Total Return	1,241,935	13.34	0.97	5.52	5.52	8.54	11.39	7.76	4.54	09/01/2010
Barclays Capital Aggregate			1.12	7.84	7.84	7.19	6.77	6.50	4.88	09/01/2010
Templeton Global Bond	506,430	5.44	1.23	-2.21	-2.21	5.12	9.62	9.31	-6.83	09/01/2011
Chirgroup World Government Bond			-0.13	6.35	6.35	5.76	4.68	7.13	-2.07	09/01/2011
Artio Global High Income	317,681	3.41	4.83	0.09	0.09	6.13	20.39	6.72	4.54	09/01/2010
BoFA Merrill Lynch Global HT Constrained			5.34	2.61	2.61	8.04	23.71	7.26	6.57	09/01/2010
Vanguard Short Term Bond Index	825,564	8.87	0.43	3.08	3.08	3.55	3.83	4.85	2.05	09/01/2010
Barclays Capital GC 1-3 Yr Bond Index			0.43	3.14	3.14	3.61	3.94	4.84	2.17	09/01/2010
First American Government Obligation	235,040	2.52	0.00	0.00	0.00	0.01	0.10	1.52	0.01	09/01/2010

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



Equities (Stocks)

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 2011 month-ending market value of the Fund's equity mutual funds totaled \$4,339,706 or 46.61% of the Fund's total market value. As detailed in the tables from PFM, the portfolio's equity mutual funds include \$2,729,525 in domestic equities, \$1,338,063 in international equities and \$272,118 in real estate. The Fund's domestic equity mutual funds almost all outperformed their benchmarks, international equity mutual funds were comparable to their benchmarks and the real estate⁴ component of this part of the portfolio was comparable to its benchmark.

Bonds (Fixed Income⁵)

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. 387-2011 restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies. 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.

The year-ending market value of the portfolio's bond mutual funds was \$4,735,835, which was 50.87% of the Fund's total market value. During 2011, the Fund's fixed income investments underperformed in comparison to industry benchmarks. As noted previously, PFM indicated that the Fund's total annual return is a reflection of the general underperformance (relative to the Barclays Aggregate fixed income benchmark) of the Fund's fixed income managers and that the 4th quarter indicated a reversal in performance. According to PFM, based on available data through the 3rd quarter, the Barclays Aggregate was in the top 10% of all broad market core bond funds so it was common to see underperformance from a large universe of fixed income managers, including the Fund's. 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.

⁴ As per the U. S. Bank website, real estate includes undeveloped property, rental property, grantors or descendant's residence, working farms or timberland.

⁵ 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.

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. As of December 31, 2011, the inflation hedged component of the portfolio had \$250,551 or 2.69% of the Fund’s year-ending asset allocation invested in PIMCO Commodity Real Return, which compared favorably to the DJ-UBS Commodity TR Index and \$360,032 or 3.87% of the Fund’s year-ending asset allocation in Vanguard Inflation Protected, which was comparable to Barclays Capital U.S. Treasury: U.S. TIPS, as detailed in the tables from PFM.

Cash & Cash Equivalents

Cash equivalents are short-term investments and money market⁶ 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, 2011 market value for the cash equivalents portion of the Fund was \$235,040, which represented 2.52% of the Fund’s year-ending asset allocation. The total return for the cash and cash equivalents component of the Fund’s portfolio was 0.00%. First American Government Obligation has an S&P rating of AAAm⁷ and a Moody’s rating of Aaa-mf⁸. These are the highest ratings assigned by S&P and Moody’s.

Capital Gains/Losses

The Fund’s 2011 year-ending market value included \$400,758 in unrealized⁹ capital losses, the difference between the market value of the Fund, \$9,310,582 and its book value¹⁰, \$9,711,340.

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 inception of this policy through 2011 a total of \$407,161 in realized capital gains has been used to pay investment fees.

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

⁶ 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.

⁷ Standard & Poor’s money market fund ratings are designated with a subscript letter ‘m’. An AAA S&P rating is considered to have an extremely strong capacity to meet financial commitments.

⁸ A Moody rating of Aaa-mf has a very strong ability to meet the dual objectives of providing liquidity and preserving capital.

⁹ Unrealized gains and losses have not occurred but would be realized if the investor sold the security or asset currently held.

¹⁰ An assets book value is the price at which the asset was purchased less depreciation or outstanding liabilities.

adoption of Resolution No. 933-1994. From 1995 through 2011 a total of \$8,547,933 in realized capital gains has been remitted to the Museum.

Remittances to the Museum

During 2011, \$344,939 was disbursed to the Museum from the Fund. The disbursements included a \$144,939 distribution to the Museum in March 2011 for operating expenses associated with contractual agreements concerning a former staff member and an insurance deductible regarding the collapse of the Butler Building under the weight of snow, which damaged dinosaur models and an open-air tram. The remaining \$200,000 was disbursed to assist the Museum in meeting its operating cash flow needs.

The Museum began receiving revenue from the Hotel Motel Tax in May 2010. During 2011, the Museum received 10%¹¹ or \$705,096¹² of the revenue collected from the Hotel Motel Tax (County Fund 192). The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Endowment and afford it the opportunity to grow and provide for the Museum's future needs. It should be noted that the Hotel Motel Tax was reauthorized and extended per Resolution No. 805-2009 to December 31, 2015. Once the Hotel Motel Tax revenue sunsets, it is unknown if the allocation formula for the distribution of Hotel Motel tax revenue will continue to include the Vanderbilt Museum.

The following table details the remittances to the Museum in 2011 from the Endowment Trust Fund and from 10% of the revenue collected from the Hotel Motel Tax.

Transfers to the Vanderbilt Museum in 2011

Month	Hotel Motel Tax (Fund 192)	Endowment Trust Fund	Combined Total
January	\$0	\$0	\$0
February	\$0	\$0	\$0
March	\$0	*\$144,939	\$144,939
April	\$0	\$50,000	\$50,000
May	\$117,516	\$0	\$117,516
June	\$146,895	\$0	\$146,895
July	\$0	\$0	\$0
August	\$97,930	\$0	\$97,930
September	\$48,965	\$90,000	\$138,965
October	\$97,930	\$0	\$97,930

¹¹ 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 included \$705,097 from the Hotel Motel Tax for the Museum.

¹² This figure is subject to being adjusted once the Fund is reconciled upon being audited.

November	\$48,965	\$0	\$48,965
December	\$97,930	\$60,000	\$157,930
Subtotal	\$656,131	\$344,939	\$1,001,070
January 2012*	\$48,965	\$0	\$48,965
Total	\$705,096	\$344,939	\$1,050,035
<p>Note: *The \$144,939 March 2011 distribution from the Endowment Fund to the Museum was for operating expenses associated with contractual agreements concerning a former staff member and an insurance deductible concerning the collapse of the Butler Building under the weight of snow, which damaged dinosaur models and an open-air tram. **The Museum expects to receive the remainder of its 10% of the Hotel Motel Tax revenue or \$48,965 in January 2012.</p>			

Investment Management

Investment Objectives

The Fund's investment objectives are to preserve the principal corpus of the Fund (\$8.2 million), 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. 1266-2007 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. This investment policy is to remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.
- Resolution No. 387-2011
 - Adopted an investment management policy¹³ that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies.

¹³ The investment management policy that had been adopted in Resolution No. 215-1987, was amended by Resolution No. 387-2011 to reflect a change in the investment manager's methodology of investment from restricting bond investments to investment grade, Baa or above, per Moody's Investors Service to the allowance of bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above.

- Given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Fund's investment management policy and the objectives of the Fund's pooled vehicles. Further, a pooled fund or mutual fund will not be included in the Fund's portfolio unless it complies with the Investment Company Act of 1940, as amended through P.L. 111-257, diversification requirement.
- Authorized the Vanderbilt Museum Trust Fund's investment manager to utilize a 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.
- The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

Investment Management Contract

As per Procedural Motion 5-2010, PFM Asset Management LLC was retained to serve as the Fund's investment advisor and U.S. Bank National Association as the custodian of the 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 2011, a total of \$40,344 was incurred in advisory fees to PFM Asset Management LLC (PFM) and U.S. Bank National Association (U. S. Bank), as detailed in the table that follows.

2011 Fund Advisory Fees			
Month	US Bank	PFM	Total
January	\$214	\$3,100	\$3,314
February	\$246	\$2,876	\$3,121
March	\$423	\$3,145	\$3,568
April	\$240	\$3,104	\$3,344
May	\$231	\$3,193	\$3,424
June	\$499	\$3,056	\$3,554
July	\$333	\$3,148	\$3,481
August	\$596	\$3,050	\$3,647
September	\$238	\$2,770	\$3,008
October	\$234	\$3,024	\$3,258
November	\$247	\$2,897	\$3,144
December	\$501	\$2,980	\$3,481
Total	\$4,002	\$36,342	\$40,344

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 Fund also incurred fees for services rendered by U.S. Bank, the custodian of the 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**

Domestic Administrative Fee	
First \$100MM Market Value	2.5 basis points annually
Remaining Market Value	1.5 basis points annually
Portfolio Transaction Fees	
Book Entry Transactions - DTC or Fed	\$7.50
Physical Transactions	\$7.50
Wire Transactions	\$7.50
Benefit Payment Transaction Fees (if applicable)	
Checks - Recurring Distributions	\$2.50
Wires	\$10.00
ACH (with advice)	\$2.00
ACH (without advice)	\$1.50
Lump Sum Distributions	\$15.00

Other	
TrustNow or TrustNow Essentials (on-line)	\$0.00
TrustNow Customized (separately bid)	\$0.00
Performance Measurement (optional)	\$250.00
Out-of-Pocket Expenses	
The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees.	

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 January 8, 1944 of a heart attack and his wife whom he married in Paris in September of 1927, Rosamund Lancaster Vanderbilt, died three years later on August, 28th, 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. By resolution duly adopted on the 30th day of August, 1948, the Board of Supervisors acting for Suffolk County accepted the offer. Suffolk County accepted the generous bequest in accordance with the terms of the agreement (deed) dated August 3, 1949. Mr. Vanderbilt's desire, as indicated in his last will and testament, was for his estate to become a public park and museum and as such be devoted in perpetuity to the use, education and enjoyment of the public subject only to such reasonable regulations and restrictions, and such requirements with a view to maintenance and upkeep, including a reasonable charge for admittance if deemed advisable, as shall conserve the property and enhance its usefulness as a park and museum.

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. The Planetarium and its observatory have been closed since August 2011 for extensive renovations and a complete technological update that will make it one of the finest and best-equipped planetariums in the United States. Improvements are expected to include not only the installation of a state-of-the-art, Konica Minolta Infinium star projector with full-dome, 3-D video, laser-show and surround-sound systems, but also new seats, carpeting, and a ticketing and information kiosk in the lobby.

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 Trustees¹⁴ 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. One of the Fund's investment objectives is to preserve the principal corpus of the Fund (\$8.2 million). Thus far, the Fund has met this investment objective and has not been considered an "underwater endowment" or a fund whose current market value has declined below its historical dollar value¹⁵.

Resolution No. 933-1994 was adopted for the purpose of permitting the Vanderbilt Museum Trust Fund's Investment Advisor to utilize a total return concept¹⁶, 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

¹⁴ On July 15, 1949, the Board of Regents of The University of the State of New York granted a charter pursuant to Section 216 of the Education Law of the State of New York to the Vanderbilt Museum. Therefore, the Board of Trustees of the Vanderbilt Museum is an institution incorporated by the Board of Regents of The University of the State of New York.

¹⁵ "Historic dollar value" means the aggregate fair value in dollars of an endowment fund at the time it became an endowment fund. It also includes each subsequent donation to the fund at the time it is made.

¹⁶ 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.

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 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. In 2011, the Museum received \$705,096 from the Hotel Motel Tax; however this figure is subject to adjustment once the Fund is reconciled upon being audited. For 2012, the Legislature did not reduce the Museum's allocation; it remains at 10% of the revenue collected from the Hotel Motel Tax. The Adopted 2012 Operating Budget included \$726,499 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. Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability. The Oversight Committee is to study the Museum's fiscal management and procurement practices and make recommendations to improve these processes, assist the Museum in bringing to fruition longstanding proposals to generate new revenues, report on the physical condition of the Museum and recommend safety improvement priorities to the Legislature, send a representative to each meeting of the Vanderbilt Museum's Board of Trustees, and send a representative to the County Legislature's Parks and Recreation Committee on a regular basis to report on its activities and will further report to the full Legislature on a regular basis.

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.

During 2011, the following pertinent Procedural Motions and Resolutions were adopted.

- Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability. The Oversight Committee is to study the Museum's fiscal management and procurement practices and make recommendations to improve these processes, assist the Museum in bringing to fruition longstanding proposals to generate new revenues, report on the physical condition of the Museum and recommend safety improvement priorities to the Legislature, send a representative to each meeting of the Vanderbilt Museum's Board of Trustees, and send a representative to the County Legislature's Parks and Recreation

Committee on a regular basis to report on its activities and is to further report to the full Legislature on a regular basis.

- Resolution No. 311-2011 authorized the transfer of ownership of the GOTO star projector to the Museum's Board of Trustees for its sale or disposal with the proceeds to be used for Vanderbilt Museum and Planetarium operations.
- Resolution No. 387-2011 authorized the following changes in the investment management policy for the Suffolk County Vanderbilt Museum Endowment Trust Fund.
 - Adopted an investment management policy¹⁷ that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies.
 - Given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Fund's investment management policy and the objectives of the Fund's pooled vehicles. Further, a pooled fund or mutual fund will not be included in the Fund's portfolio unless it complies with the Investment Company Act of 1940, as amended through P.L. 111-257, diversification requirement.
 - Authorized the Vanderbilt Museum Trust Fund's investment manager to utilize a 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.
 - The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.
- Resolution No. 1010-2011 authorized the Museum to purchase gasoline from the County's fueling facilities for its traveling exhibit, "Discovering the

¹⁷ The investment management policy that had been adopted in Resolution No. 215-1987, was amended by Resolution No. 387-2011 to reflect a change in the investment manager's methodology of investment from restricting bond investments to investment grade, Baa or above, per Moody's Investors Service to the allowance of bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above.

Universe". On October 19, 2011, the Museum's Board of Trustees accepted the gift of the 37-foot Recreational Vehicle ("RV") from the American Museum of Natural History.

- Resolution No. 1016-2011 approved a two-year license agreement with Z. Richard Mecik and Marina Mecik to reside at Normandy Manor, commencing March 1, 2012 and continuing through February 28, 2014. The license agreement is for \$5,500 per month to be remitted to the Suffolk County Vanderbilt Museum no less than once a month due on the first of each month. The Suffolk County Vanderbilt Museum is to use the license revenue to support the general operations of the Museum.