PARKS & RECREATION COMMITTEE

OF THE

SUFFOLK COUNTY LEGISLATURE

MINUTES

A meeting of the Parks & Recreation Committee of the Suffolk County Legislature was held in the Rose Y. Caracappa Legislature Auditorium of the William H. Rogers Legislature Building, 725 Veterans Memorial Highway, Smithtown, New York on April 23, 2014.

MEMBERS PRESENT:
Presiding Officer DuWayne Gregory
Leg. Jay H. Schneiderman, Chairman
Leg. Kara Hahn, Vice Chair
Leg. Thomas Cilmi
Leg. William J. Lindsay III
Leg. Kevin J. McCaffrey

ALSO IN ATTENDANCE:
George M. Nolan, Counsel to the Legislature
Sarah Simpson, Assistant Counsel to the Legislature
Renee Ortiz, Chief Deputy Clerk of the Legislature
Benny Pernice, Budget Review Office
Greg Dawson, Commissioner/Parks Department
Terry Maccarrone, Parks Department
Lance Reinheimer, Director/Vanderbilt Museum
Steve Faber, PFM Asset Management LLC
And all other interested parties

MINUTES TAKEN BY:
Kevin Gruebel, Court Reporter
Diana Flesher, Court Reporter

THE MEETING WAS CALLED TO ORDER AT 12:38 PM

CHAIRMAN SCHNEIDERMAN:
Good afternoon. I'd like to call to order this meeting of the Parks and Recreation Committee on this 23rd of April, 2014. Please rise and join us for the Pledge of Allegiance led by Legislator Cilmi.

SALUTATION

Please be seated. I'll start with Public Portion. I have no yellow cards. Is there anyone who wishes to be heard in Public Portion who has not filled out a yellow card?

PRESENTATIONS

Seeing none, we will move onto presentations. I have one presentation today by Steve Faber from PFM Asset Management LLC on the investment policies of the Suffolk County Vanderbilt Museum Endowment Trust. Mr. Faber?

MR. FABER:
Good afternoon. Thank you. What we're -- what I'm here to discuss today is in direct follow-up to a conversation that was held with Budget and Finance in March, the middle of March, at which I presented annual returns and portfolio update for the Vanderbilt Museum Trust. And as part of that presentation and subsequent discussion led by Legislator D'Amaro, we were asked -- PFM was asked to help the Legislature evaluate potential changes in the investment guidelines which -- by which we manage assets for the Trust Fund at the Vanderbilt Museum. And specifically we were asked to conduct an Asset Allocation Analysis that looks into potential -- or various scenarios and potential changes in the way the fund is managed. And when we talk about asset allocation, quite simply we're talking about the distribution of the portfolio assets among different asset classes.
So simply put, you know, what percentage is in bonds broadly speaking, what percentage is in equities or equity mutual funds.

The current policy of the Legislature is that the Trust Fund be managed to a 50/50 split; so equally weighted between stocks and bonds or equities and fixed income instruments, with some ability to weight, you know, up to a 55 or a 45 or something around, in that general vicinity. And there's some concern, and I think appropriately so, that given where we are in the market cycle and given the nature of the Trust Fund, that 50/50 might be conservative or overly so; and what are the potential ramifications of remaining at a 50/50 allocation; and what are the alternatives, you know, taking into account perspective market conditions, movement and interest rates, appreciation or depreciation, increases, decreases in stock market, you know, prices, et cetera, et cetera.

So what we've prepared, and I'm going to try to keep this as high level as I possibly can, because it can get into the weeds and I don't want to go there honestly, is to report to this Committee some of the possibilities which should be -- or could be considered in how that might influence changes to the overall investment policy.

Lastly, we've had conversations -- we had conversations with Budget and Finance, we've had conversations with staff about the possibility of putting into place a specific and Formal Investment Policy. Currently the guidelines under which we operate and the assets -- the portfolio is managed are based on a series of resolutions from the Committee and ultimately from the Legislature. We would like, and we would propose that it be formalized into a standalone Formal Investment Policy. We provided or -- I think copy of a draft or a template of that investment policy, it's been provided to the Committee. It's certainly subject to Counsel's review and this Committee's input and ultimately the decisions that come out of this particular discussion.

Before I get into the Asset Allocation Analysis, because I don't know that any of the members of this Committee were present at Budget & Finance, I just want to report to you that for 2013 the Trust Fund portfolio performed quite well generating a return gross, a return of 10.61%, which was approximately 130 basis points or 1.3% ahead of or better than the policy benchmark. So, in other words, it returned 130 basis points higher than, kind of the measurement vehicle for which we are monitored and held accountable to. So 10.6% for a blended 50/50 portfolio generally speaking in a pretty strong equity market last year but a weak bond market, we were very pleased with those results. And, again, measured against the performance benchmark, you know, showed significant outperformance.

So that's -- I just wanted to give this Committee kind of a sense for where that is. But, again, 10.6% -- and this is what led to the conversation at Budget and Finance, is, you know, how realistic is it to believe that, you know, we will continue to see those types of returns? And it's not realistic quite frankly. You know, we saw enormous -- enormously strong equity markets, both domestically and internationally in 2012 and 2013. And with a portfolio that has a 50% weighting to fixed income at a time when fixed income generally is incredibly expensive -- and by expensive I mean rates are at or still near historic lows led by the Fed's monetary stimulus, it's more realistic to think that rates at some point over the next couple of years will begin to move higher, which means that prices will decline, which means that you will see losses realized or unrealized, losses in the Trust Fund portfolio. So is this the time to consider reducing the allocation to the fixed income component of the portfolio and move certain of those assets into, you know, into the equity side of the ledger?

So, if you -- what we did is, I'm going to walk you through certain of PFM Asset Managements own capital markets assumption. By that I mean, you know, where do we think various asset classes are going to -- what returns do we expect out of these various asset classes over the next 5 years, 10 years, 30 years? Those form the fundamental assumptions for running the asset allocation model and the simulated projections that we're going to talk about.

From those assumptions, we ran two different analyses: One is that there are no cash flows taken from the portfolio. If you recall, that, you know, up until I think it was year-and-a-half ago or so and consistent with the original charge that approximately $100,000 a month or $100,000 a month was withdrawn from the Trust Fund to support the museum that was suspended some period of time ago, which I can't recall the date, for a number of reasons. One, is that the Museum, you know, began to, you know, show, you know, stronger operating results as well as the support of the Hotel/Motel Tax.

So we ran the analysis assuming no cash flows are withdrawn. And the portfolio performs on its own; it either increases or decreases depending on the market assumptions. We also ran an analysis that shows the impact of the, I guess, the cessation of the Hotel/Motel Tax on December 31st, 2015. And $1.2 million, or $100,000 a month being withdrawn from the portfolio over the ensuing years three through ten of the analysis, so kind of two, you know, a base case; and then, you know, the cash flow scenario.

So, let's go to -- so fundamentally what drives our analysis is our own research teams' and investment committees' evaluation of the projected returns on various asset classes. And what you can see here on the slide on the screen and slide 4 on the handouts that you have is our intermediate and long-term assumptions. Intermediate is really the next five years; long-term is kind of 10-plus years. It's labeled here 30, but it's really 10 years out to 30 years. Who knows what's going to happen 10 plus 30 years from now, but this is kind of our most-educated guess from our research team and our investment committee.

I think for purposes of today's discussion, the focus should really be on the next 5 years because it's a little bit easier to kind of get our hands around that. It's also the period at which point the Hotel/Motel Tax will either go away or be renewed in terms of its support of the Museum and kind of the most immediate impact of that -- those deliberations.

Not surprisingly as you look at the intermediate term return assumptions for these 10 or so asset classes, you know, equities are going to generate the highest projected return led by domestic equity, US equity at 7.5%, you know, followed by international equity, emerging markets equity, real estate investment trusts or real estate at 5.5%. And then we get into the fixed income side of the discussion. And you can see kind of consistent with the concerns that came out of the Budget and Finance Committee are the very real concerns that the fixed income sector is going to lag the market over the course of the next 5 years or so. You know, core fixed income, which is a big component of the Trust's current fixed income portfolio is projected by PFM to return 1% over the next 5 years. Well, where's inflation? Where's inflation going to be? So we're losing money right there, just on the fixed income assets, on a net after, you know, kind of after inflation assessment. So, these really drive the math behind all the numbers that we're going to see momentarily.

Down at the bottom are an awful lot of numbers that may mean something to some of you; may not mean anything to many of you. But simply put, standard deviation is a measurement of risk. The higher the standard deviation, the greater the amount of risk in an asset class. Correlation refers to how correlated our asset class is to one another. You know, historically core bonds and equities are not particularly correlated. You know, when one moves higher, the other moves lower; and vice versa. So what we're trying to do is build -- on behalf of our clients -- is build a portfolio that is -- that shows kind of a good solid mixture, a diversified asset class base that suggests that if one asset class, or a series of asset classes underperform, it's countered to some extent either in whole or in part by another set of assets that aren't highly correlated to that particular set of underperforming assets.

So I'll stop there for a moment just to see if everybody's still with me. Because then we're going to dive into the numbers.

So what we did is we looked at effectively 4 different asset allocations. Your current -- the Trust Fund's current weighting of 50/50, and you can see the target weightings of the current 50/50 model, you know, is reflected on slide 5. So in the 50/50 model, 50% of the assets are in the equity sector; of that, 29.5% is targeted to domestic equity. Again, you know, it's within -- within the constraints of the current investment guidelines, a resolution of the Legislature. And we have the ability to underweight or overweight to a certain degree, depending on our feelings on the market and the strength and the value in asset classes. But you can see, again, within equity, you know, the overwhelming percentages in domestic equity, there's 12% allocation in international equities, 6% to emerging markets and 2.5% to the real estate sector. And then in the fixed income side of the portfolio, you know, a 37% or two-thirds weighting to core fixed income. Remember, our capital markets assumptions for projecting the core bonds, core fixed income, is going to return 1% over the next, you know, number of years. Do we want 37%, or roughly $3.5 million dollars, $3.75 million of the Trust Fund earning 1% over the next five years? Likely not, but that's your decision.

So from that base case, the current portfolio, we looked at three different scenarios: A 60/40 weighting. So 60% equities, 40% fixed; 65/35 and 70/30. So 70 equity, 30 fixed. And you can see the target weightings for each of those.

And here's where we start to get a little interesting. For those of you that are really into portfolio management, this'll thrill you. The takeaway from these next two slides, and we've shown it for both the intermediates or the five-year in the longer term is, is kind of where on what we call the efficient frontier curve various asset classes fall within the risk verses return parameter. You know, it makes sense that the higher degree of risk you take, the greater return over a period of time you should get. But there's that risk return balance, you know. I kind of label it the sleep-at-night, you know. At what point do I know I'm going to sleep at night and what point do I know maybe I'm not going to sleep so well at night. And each of these asset classes is represented along the efficient frontier. The most conservative and the least high performing, if you will, from a return perspective is core fixed income, core bonds.

The riskiest and the potentially most rewarding is emerging markets equity shown all the way up to the right, almost off the charts. And kind of, you know, along that curve is equity, real estate; and then as we get down, the curve back in the fixed income. Your current portfolio is shown here labeled "current", you know, kind of right in the middle of the range as you might expect it to be for a 50/50 portfolio. And then the 3 other analyses that we've -- scenarios that we've taken a look at are shown along that curve. And as you might expect, as you increase the allocation to equity, you increase -- you step out the curve both in terms of return -- potential return and potential risk. So, again, just kind of something to keep, you know, in the back of your mind as you're -- as you're evaluating the data that you'll hear today.

The next slide shows it for the long-term capital markets assumptions. I'm not going to go through that in detail, but happy to answer any questions.

So base case analysis, we assume no cash is withdrawn from the portfolio for the analytic period in support of the museum. It assumes the beginning market value of $11 million which is approximately what the market value of the portfolio is. No cash flows through the 10-year analysis period. And, again, based on our capital markets assumptions.

So what's shown here -- the next several slides show this data in several ways. This shows as just the numbers. The next -- the ensuing slide show is kind of, you know, graphically what it looks like. I'm going to focus on this slide right now. And, again, this is the intermediate capital market assumptions. What do we think the market's going to do over the next 5 years? If you start -- if we start, as appropriately we should, with the current portfolio model, 50/50, it shows of the four scenarios, the projected standard deviation or projected risk inherent in this model is the lower, or the lowest, of the four, at about 9%. And the way to think about this is, one easy way to think about this is, if I invest a dollar in the risk-free investment, which is basically the Treasury Bill, the 98 Treasury Bill, how far off of that skewed -- off of that kind of median will another portfolio invested in different asset classes be? So what this is saying is kind of 9% off of that risk free return is what represents the risk component of this current trust portfolio.

And over this period, the median return is projected to be just below 5%. 2013, portfolio return 10.6%. Over the next 5-plus years, you know, if you kind of stay the course, and our capital market assumptions are kind of near -- close to being correct, you can expect to see a 5% return from this portfolio. If that's satisfactory, then there's no reason to continue to deliberate. In the interest of, you know, curiosity, we'll continue along, though.

So moving down that column under the current 50/50, what you see for the next year, based on all these assumptions, that the minimum return, or the 10 percentile, you could lose -- and this is on an unrealized basis, you know, five points, 7%. So negative 5.7% return. On the other hand, if kind of everything goes according -- you know, swimmingly and everything -- and all of these assumptions, you know, prove to be -- to be true and you get the maximum return out of every single asset class, you could earn 17% return. I think it's unlikely. That's why it's in the 90th percentile. Remember, the median return is projected to be about 5%.
So what's the impact on the portfolio? Well, if you have an unrealized loss -- or a return, excuse me, of 5.7%, the market value of the portfolio will go from $11 million to $10.37 million. If you hit the cover off the ball and generate a return of 17%, the market value will go up by 1.8, almost $1.9

million. And if you just kind of, you know, hit the median, or the 50th percentile, the portfolio will increase in value, market value, by about half a million dollars. And then similarly those same analytics have shown us the same numbers are shown for the next five years and the next ten years based on these assumptions.

So, again, I think for purposes of this discussion, let's focus on the five-year horizon. So looking at the five-year horizon, and we've tried to make this user-friendly by showing that -- showing best and worst versus, you know, comparing all four of the scenarios. So best is in blue; worst is in red. For the five years the current portfolio is projected, you know -- at the median level is projected to increase from 11 million to $14 million in value. If we hit the cover off the ball, it's going to go to almost 18 million. And if we don't do so well and return in the 10th percentile, it'll increase slightly, but it'll be basically flat over 11 years.

So if we -- if we then look at decreasing the fixed income weighting and increasing the equity weighting by roughly 10% equally, we go to a 60/40. And you can see what happens from a return perspective and a risk perspective in the 60/40 allocation. In the five-year horizon, we actually are a little bit worse off. The median return -- I'm sorry -- we're a little bit better off. We go from a 14% market value to a $14.4 million market value.

Let's step all the way out to kind of the most aggressive of the four and look at the 70/30. This is -- 70% of the portfolio would be in the equity sector; 30% in the bond sector. So it's kind of limiting, you know, 20% of the current exposure in fixed income and reallocating it into the equity markets. You can see that there's lot of blue here in terms of kind of the highest maximum return potential. It's also got the worst minimum return potential. Because, again, you're putting more assets and more weighting into riskier assets. If you will remember the efficient frontier curve. But it also -- if you look at the 50th percentile, the median return from the market value perspective, it also shows the best potential upside, if you will, and an increase perspectively from a $11 million market value to 14.8 -- $14.8 million market value.

And -- but, again, if you -- you know, just kind of being real here, you know, on a median return perspective, median market value perspective, the current 50/50 would generate a market value of $14 million in five years. The most aggressive scenario would generate a market value of $14.8 million. So $800,000 difference. So the question is we get back to the risk return and the sleep at night, is that $800,000 potential kind of worth it to the Legislature to take a -- you know, what we think would probably be the most aggressive stance and that would be a 70/30; or do you want to kind of scale that back and, you know, maybe do a 60/40 or a 65/35? We think the 65/35 is kind of the -- probably the place to be.

Just as an aside, our current 60/40 composite, which is one of the portfolios that we track on behalf of a lot of clients in that strategy, our current weightings have that portfolio more toward 65/35; anyways based on our belief that the equity sectors is where the value is and the fixed income sectors, there's not a lot of value going forward. So, you know, we think if the Committee and the Legislature is kind of concerned about the fixed income market, as are we, that 65/35-ish target range is the place to be. So this -- this is -- I'm going to pause in a moment, but remember this assumes no cash flow; that either the Hotel/Motel Tax stays and it continues to support the Museum; or, you know, something else materializes, the museum continues to support itself. It doesn't require any financial support from outside of the portfolio. So I'm going to pause for a second and see if there are any questions before moving on.

CHAIRMAN SCHNEIDERMAN:
Questions? Legislator McCaffrey.

LEG. McCAFFREY:
Thank you. I do find this interesting. I've been a Taft-Hartley Pension Fund Trustee for the last 20 years so I sat through a lot of these presentations. I just had a couple of questions. You -- it looks like -- according to, I think, the investment guidelines or somewhere else along, you're looking for a 20% variance in what the allocations could be once approved.

MR. FABER:
Yeah, that's exactly correct. Part of what led this discussion to the point where we are today was the fact that we were somewhat hamstrung -- that's a technical description -- by the current guidelines, which I think allow for a plus or minus five variance. We asked for -- and, in fact, Budget and Finance talked about, you know, if we had the ability to, you know, to move off of that 50/50 target by a greater than plus or minus five, you know, would we currently? And the answer was yes. So that led to this -- well, rather than do it kind of -- not blindly, but, you know, without more analysis, let's complete an Asset Allocation Analysis first. But, yes, that is the premise.

LEG. McCAFFREY:
You think that's -- I mean, you need a variance. And I've got it on our funds. But I just thought 20% was kind of on the high side considering the fact that you can completely change the dynamic of this portfolio with a 20% leeway on it. You can go from 60/40 to 40/60 basically and change the --

MR. FABER:
Well, right now -- we asked for the plus or minus 20 because currently it's 50/50. I think what we're -- what we're hoping that comes out of this discussion is that -- that the target allocation is changed, is modified to a 60/40 or a 65/35, at which point we would probably say "okay, we could go to a plus or minus ten or plus or minus five, kind of consistent with what we're doing." Ideally in a perfect world, we'd love a plus or minus 20 on any of it, but that -- you know, that's up to you. It's not up to us.

LEG. McCAFFREY:
So are my investing consultants, too. But I think -- so you're asking for us -- and I'm not even sure of what -- are we approving the asset allocation in here? Is that what we're doing? I mean, what are we -- are we making recommendations to them? What are we doing?

CHAIRMAN SCHNEIDERMAN:
I have questions myself about exactly what our role is and how this was, you know, created and how much ability we have to direct the financial advisors here. But, you know, it really has to do with the endowment and how it was created and what function it serves at Vanderbilt in relationship to the County. So if you could hold off on that, because that's where I'm going --

LEG. McCAFFREY:
I'm going to defer to you and then maybe I might have follow-up after you've kind of flushed it out a little bit, so.

CHAIRMAN SCHNEIDERMAN:
Let me start with a different question. And I typically will ask this question of any financial advisor. So your -- your firm is paid how? Are you paid at a fixed percent or do you actually -- is your compensation based upon the transfers that you do? How is it that you guys are compensated so I know -- I can co, whatever, advice -- you know, whether County employee, you know, which have -- may have no other interest other than to make sure that the County's -- the taxpayer's protected, there might be some other factors here. So if I could start there.

MR. FABER:
We're paid -- we're paid a percentage of the market value of the portfolio. So if the market portfolio goes down, we make less. If it goes up, we make more.

CHAIRMAN SCHNEIDERMAN:
You're not getting -- there's no compensation on actual transactions?

MR. FABER:
Oh, no, no, no, no, sir. No, sir.

CHAIRMAN SCHNEIDERMAN:
Okay.

MR. FABER:
It's just purely a percentage of assets.

CHAIRMAN SCHNEIDERMAN:
Okay. And, again, so this Vanderbilt portfolio, which I think the original money was placed there probably by the Vanderbilts when they gave the property. There was probably an endowment set up. Do you know the history on it or --

MR. FABER:
No.

CHAIRMAN SCHNEIDERMAN:
Somebody may.

MR. FABER:
About an inch.

CHAIRMAN SCHNEIDERMAN:
Okay. But at one point it got up to, I think, $18 million, something in that range. And Lance probably has more accurate numbers on it; then the recession hit. This 50/50 composition, I guess, as the stock piece of this went down, to get back to 50/50 you were forced to sell stocks, which turns out retrospectively to be a really bad decision because the stock market has rebounded fully and beyond. So had you not done anything, we would have been -- not that you had the choice, but if everything was left exactly as it was, plus there was pressure, I think, to pull out money from the endowment to run the Vanderbilt, we were required to, so we lost some of the, you know, the base capital that was in it. But is that basically what happened? When the market went down, to get back to 50/50 you were forced to sell stock?

MR. FABER:
I can't -- we've only been engaged by the Legislature since 2009 --

CHAIRMAN SCHNEIDERMAN:
Oh, so you weren't the old advisors?

MR. FABER:
We were not. We were not involved. And I, you know, I pulled the annual report prepared by Budget Review Office. And you're correct, from 2004 to 2008 -- I take it back. From 2007 to 2008, there was a significant decline in market value caused by probably a combination of factors, but I don't know the history of that.

CHAIRMAN SCHNEIDERMAN:
Right.

MR. FABER:
And I believe when we were engaged, the 50/50 allocation guideline was in place.

CHAIRMAN SCHNEIDERMAN:
Now, are there rules beyond this 50/50 in terms of the type of equities that you purchase? You know, like the State Comptroller has very strict guidelines in terms of the ratings of the various investments. Are you bound by the same requirements? You know, can you take more risky stock investments or no?

MR. FABER:
We are bound by what's in the resolutions, the current guidelines established by the resolutions. And there are -- there is a -- an overall minimal rating in the aggregate guideline for the fixed income portfolio within the equity side of the portfolio. I think it's more of a prudent person rule so -- but just so this Committee is aware, you know, we're not purchasing individual stocks on behalf of the Trust Fund. They're all mutual funds, equity mutual funds, you know, high quality, high grade managers.

CHAIRMAN SCHNEIDERMAN:
No derivatives.

MR. FABER:
No derivatives, no, sir. There are the possibility for alternatives. In the Trust Fund's case it's -- at the moment it's only real estate investment trusts.

CHAIRMAN SCHNEIDERMAN:
But on the stock portfolio side, you're not bound by that? You're just -- that's just the sound decisions that you're making.

MR. FABER:
That is correct. And that is honestly one of the reasons why we would like to see a more Formal Investment Policy that kind of delineates that a little bit more than that the current kind of state of multiple resolutions. This gentleman is not nodding his head. (Referring to Legislator McCaffrey) I think given your Taft-Hartley plan background, you understand, yeah.

CHAIRMAN SCHNEIDERMAN:
All right. So maybe -- maybe somebody -- maybe Lance can explain a little bit about where the County Legislature fits in to all of this. We didn't initially fund this endowment. Vanderbilt, certainly something that we own. Are there additional requirements that the benefactors of the museum established in terms of the handling of the endowment and how decisions get made?

MR. REINHEIMER:
The endowment was -- the endowment was first established through the will of William K. Vanderbilt, II. In that will he left $2 million for the maintenance of the Museum. Included in the will was also the real estate. So the property and the endowment is the property of Suffolk County.

How things went -- my understanding is that the Legislature has fiduciary responsibility for the endowment. The museum has no control over the decisions that are made for the endowment. So it's your asset, your fiduciary responsibility. The 50 -- if I recall correctly the 50/50 investment objective was established several years before PFM took over the endowment so --

CHAIRMAN SCHNEIDERMAN:
And that was established by this body?

MR. REINHEIMER:
Yes. It's also established by -- through resolution with this body.

CHAIRMAN SCHNEIDERMAN:
Do we have a copy of the original resolution or --

MR. REINHEIMER:
There is.

MR. DOERING:
So resolution 1266 of 2007 had modified the investment guidelines to allow a 50/50 split between the fixed securities and equities ranging between five and ten percent.

CHAIRMAN SCHNEIDERMAN:
And prior to that, that was it?

MR. DOERING:
I'd have to look into that. That's the -- I'm looking at the annual report that we write on the endowment. This is in the Investment Policy Section. So there is an Investment Policy Section that dictates the resolutions that guide what the investment policy is currently.

CHAIRMAN SCHNEIDERMAN:
And is that what set off the selling of all those stocks, is that they had to get back to the value of the portfolio side?

MR. DOERING:
Well, I believe what occurred was the value was dropping and they were looking to protect the corpus of the endowment. So in order to prevent it from dropping below the corpus, they needed to liquidate to prevent that from falling below the corpus.

CHAIRMAN SCHNEIDERMAN:
So in retrospect, a really bad decision. But at the time who knew. But they weren't forced to? Is that what you're saying? They didn't have to make that decision?

MR. DOERING:
Well, they were -- they were -- they had to protect the corpus, the $8.2 million. So as it was dropping and dropping, at some point they had to cash out and go into a cash position so that it wouldn't fall below the corpus.

CHAIRMAN SCHNEIDERMAN:
What happens if they fall the below the corpus?

MR. DOERING:
I'd have look into that. I'm not sure exactly what the ramifications are.

MR. REINHEIMER:
Technically we're not supposed to. Period. You know, we're supposed to protect the original corpus of the fund. And in 2008 as the market was crashing, investments were pulled out of stocks and put strictly into a cash position to protect it from falling any farther so it wouldn't invade the corpus of the fund. But technically you're supposed to do everything you can to protect that corpus

and not go there. So the results of going into the corpus, that's an open question.

CHAIRMAN SCHNEIDERMAN:
And we didn't really take -- we didn't buy back those positions in stocks at that point when the market started to stabilize?

MR. REINHEIMER:
No, we didn't. At that point we decided to go out to an RFP to get a new -- to see if we wanted to change to a new investment advisor. During that period of time the previous advisor just stayed in a cash position and was just holding funds and was really not looking to invest at that point in time. So we did miss the uptake in the stock market in 2009. And I think at the beginning of 2010 it started to go up and we missed that because we were pretty much in a cash position, plus we did have bonds.

CHAIRMAN SCHNEIDERMAN:
Lance, while I have you, the current allocation of Hotel Tax to the Vanderbilt Museum, it's gotta be close to a million. What's it like 900,000 or something?

MR. REINHEIMER:
Yes, it's 10% of the anticipated Hotel/Motel revenue so it's right around a million dollars per year -- for this year. This coming year.

CHAIRMAN SCHNEIDERMAN:
Right. And the Hotel Tax expires at the end of next year, I believe. And there is a provision -- when that original Hotel Tax was put in place, nobody ever thought it was going to be this permanent funding for Vanderbilt. It was kind of a -- to deal with a shortfall at the time. In fact, there was provisions in that Hotel Tax Law that allowed for, I think, over a five-year period phasing out that allocation. It was like the one thing in the Hotel Tax that could be changed by the Legislature, the allocation of, I think -- I want to say 20% per year reduction over five years, but that never occurred. So you're still getting the full 10%.

MR. REINHEIMER:
Correct. It was not phasing out. It was reducing it 1% a year, which is a 10% reduction over five years. So if you -- and no more than 1% per year so --

CHAIRMAN SCHNEIDERMAN:
Oh, so it would have gone to potentially half of what it is today.

MR. REINHEIMER:
Correct.

CHAIRMAN SCHNEIDERMAN:
Okay. So instead of 900,000, it would be 450,000, something in that -- or a little bit higher. Half a million.

MR. REINHEIMER:
(Nodding in the affirmative)

CHAIRMAN SCHNEIDERMAN:
And are you at the point yet where half a million would be enough to operate in terms of County subsidy? You know, you have to also take this into -- look at it more broadly. We've done a lot of other things for Vanderbilt, too. I think four million into the planetarium, etcetera, which is a revenue producer, you know, we carry the capital cost of the debt service, but not -- we don't see

any of the revenues from it. We've done other things for the Vanderbilt as well in terms of maintaining it. I haven't looked at the full County allocation between debt service and operation, but it's obviously over a million dollars a year. So is -- are we getting to the point through the various things that you've been doing to enhance revenues, more private events and things like that, better structuring of finances, are we seeing a point where -- I think you did -- actually ran a $100,000 surplus last year, didn't you; something in that range.

MR. REINHEIMER:
Yeah, we haven't completed our audit but somewhere around a hundred thousand in excess cash over expenses. That helps us get through the lean times in the Spring -- or in the Winter, I should say. But we did put that through management and postponing expenses.

CHAIRMAN SCHNEIDERMAN:
Right. So that seems to indicate that we could begin to perhaps phase out that or bring down some of that subsidy.

MR. REINHEIMER:
Well, we're still operating with less than sufficient staff. I have no full-time --

CHAIRMAN SCHNEIDERMAN:
I know, but there's no other museums in the County that get anything near the allocation that the Vanderbilt gets.

MR. REINHEIMER:
Through the County, that's correct.

CHAIRMAN SCHNEIDERMAN:
All right. So, I'm sorry. And Kevin, you --

LEG. McCAFFREY:
Yeah, I just want --

CHAIRMAN SCHNEIDERMAN:
I wanted to try to get at where this ability to manage this portfolio comes from. So I think that was explained.

LEG. McCAFFREY:
If we're the named fiduciaries, the Legislature, then it obviously rests with us. And it would be important -- the first step is to have that investment policy statement. Because if we don't have that in writing, a written document, and we're the fiduciaries, then it comes back to us if something were to go awry. And we can't control the capital markets or the global markets but we can control the asset allocation. And we have a responsibility to do that as fiduciaries. I had a question about fees. I know your fee is fixed based on the amount of the assets, but in in terms of the mutual funds that you invest in, what's kind of the average basis points we're paying on those?

MR. FABER:
Right now the -- I think all but one of the funds are passive managers. So the fees -- mutual fund fees are probably, I would say, I'd have to guess, probably 18 or 19 basis points. If we were to -- if that shifted -- you know, right now we don't think --

LEG. McCAFFREY:
That's more than reasonable. And the other question I had is it goes back to that variance. I just think 20%, if we're going to be in trust with saying -- coming up with a number of 60/40 or

whatever that number may be, I'd have to recommend that 20% is on the high end based on that. And I would recommend no more than 10% variance. It gives the investment consultant the ability to be able to move things around within a reasonable range and --

CHAIRMAN SCHNEIDERMAN:
70/30.

LEG. McCAFFREY:
Yeah, it could end up if you have -- if you had 50/50 right now and he's got 20% variance, he could be at 70/30 unbeknownst to us, you know, and still be within the guidelines and under his contract. So I would recommend if we agreed to something, it should be no more than a 10% variance and what he's permitted to do. It needs to be put in an investment policy statement. It's good that you brought -- is that basically what you -- a template for non-profits and --

MR. FABER:
It is.

LEG. McCAFFREY:
Okay.

MR. FABER:
It is.

LEG. McCAFFREY:
That's probably a good way. We should start with that. And then -- in terms of -- last time I thought I had seen a -- some sort of asset allocation that you are recommending. Is that -- did we see that? Did we get that at the last meeting, I thought?

MR. FABER:
In 2013?

LEG. McCAFFREY:
Yeah, for 2013, what your recommendation was.

MR. FABER:
We did not do an Asset Allocation Analysis like this, but we did have -- included in that report we talk about the target allocation based on the portfolio and the weightings and kind of where we felt so -- so that would have been in that report, yes.

LEG. McCAFFREY:
It looked like a pretty well diversified portfolio. I mean even within your holdings in there. So, I looked at that and I thought that was -- that was pretty good.

MR. FABER:
Yes.

LEG. McCAFFREY:
Would you if you were given a 60/40, would you buy into that slowly over time? Would you -- what would you take away from? The fixed income or the -- I mean some could argue that domestic equity is kind of overweighted, overvalued right now. I mean, would you move slowly with this stuff or --

MR. FABER:
Yeah, it would be implemented over some period of time. And I think the best way to answer your question is if we go backwards. You can see -- again, this is relatively speaking. You can see how the allocation to a 60/40 would change just from a target weighting perspective. You know, the domestic equity would increase somewhat, but, you know, certainly not so much as a 65/35 or a 70/30. But we would look to get there over a -- probably a quarter or so, I'm guessing. You know, that would be our Investment Committee's decision. But, you know, as I said earlier, you know, our 60/40 composite right now the weightings are closer to a 65/35 so we're still constructive on the equity sectors.

LEG. McCAFFREY:
And you'd be comfortable with, say, a 60/40 allocation with a 10% spread?

MR. FABER:
Sure. Absolutely.

LEG. McCAFFREY:
That's all I have, Mr. Chairman.

CHAIRMAN SCHNEIDERMAN:
So I just want to flush that out a little bit because a 60/40 allocation with a 10% spread versus a 50/50 allocation with a 20% spread, which is what they're asking for, 60/40 with a 10 -- still ends up with 70/30 potentially.

LEG. McCAFFREY:
Yes.

CHAIRMAN SCHNEIDERMAN:
All right. So what is the difference? It probably, you know, having a smaller variation maybe gives them more direction to say, "okay, 60/40 is what you're shooting for. Try to stay at 60/40." Whereas 50/50 with a 20% has a large deviation, which is probably nonstandard in the industry so -- the bill we have in front of us is the 50/50 with the 10 to 20% variation. I don't know if there's a hurry on it; probably not. It might be cleaner at 60/40 with a 10%. You don't care one way or another, right?

MR. FABER:
Well, ultimately it's your decision. I think if -- if we were to -- in a perfect world we would be more -- we would prefer to see a 60/40-ish target with some, you know, range on top of that. And you're right, you know, 50/50 with a plus or minus 20, 60/40 with a plus or minus 10 could get us there. But, you know, I think we -- we are -- the way we manage portfolios, you know, if we get to a plus or minus 20, that's pretty rare. I don't see us doing that. So I think -- because we have internal targets and triggers and kind of watch mechanisms that if we get to a -- kind of a plus 7, minus 7, you know, all of a sudden we're getting alerts. If we get to a plus 10, then we have to do something. So I think to answer your question 60/40 --

CHAIRMAN SCHNEIDERMAN:
It seems to me it would be cleaner.

MR. FABER:
I agree.

CHAIRMAN SCHNEIDERMAN:
So when we look at the portfolio, if that is what we're shooting for, a 60/40 mix, you should be

around that. With the market fluctuations you may end up going 70 or going back to 50/50. That's possible, but at least as a target. Whereas a 50/50 with a 20% margin, if you end up at 70 it really looks like you're way outside.

MR. FABER:
Right. I completely concur. And the other thing, just to keep in mind, this is -- this is something that, you know, should probably be discussed even at a high level, you know, annually. You know, and not that there needs to be a change, but is everybody still comfortable with this, what's the market doing, what's the market projected to do, where is PFM's thinking on this?

CHAIRMAN SCHNEIDERMAN:
So let me -- I mean you're indirectly our advisors because you're the Vanderbilt's advisors and --

MR. FABER:
No. Technically we work for the County Legislature.

CHAIRMAN SCHNEIDERMAN:
For the County right; the Legislature, too. BRO also works directly -- do you have an opinion on this? Does BRO have a position on changing --

MR. DOERING:
As was mentioned, when they did the annual presentation this year -- it was in the Budget and Finance Committee; typically it would be here in Parks, but there was some scheduling problems. But, like you said, it seems like either way you get to the 50/50 with a 20% variation, or a 60/40, initially the target, though -- I mean by saying that your initial target is a 60/40, you're telling them that you want to be more towards equities as opposed to giving them the discretion to, you know, decide.

CHAIRMAN SCHNEIDERMAN:
All right. So as a Committee, what do we want -- I mean we'd have to -- if we want to get to the -- change the bill to 60/40 with a 10% variation, we'd have to table this bill and amend it; or if we wanted to pass it, we'd have to do it by CN I would say, right?

MR. NOLAN:
Yes.

CHAIRMAN SCHNEIDERMAN:
Legislator Cilmi.

LEG. CILMI:
Maybe what makes sense is to -- if we're comfortable with a 70/30 split and if we're indicating that we would go with a 60/40 with a 10% flexibility level, then we're clearly -- we're comfortable with a 70/30 split. If we're comfortable with that, I would suggest that we pass this bill today. And then we adopt an investment policy at some later -- at some later date. And that investment policy will then kind of supersede what we do today. But at least it would give PFM the ability to take advantage of the market conditions as they currently exist now.

CHAIRMAN SCHNEIDERMAN:
We meet again shortly. So -- and I don't think anything's going to happen overnight. They're going to be phasing us in. So I think if we wait a cycle, it's not that big of a deal. I understand, though, whether we do 50/50 with 20 or 60/40, it still lets them get up as far as 70/30. It's just in terms of where we're telling them we want you to be, "do we want you to be around 60/40? Or do

we want you to be about 50/50 but we'll accept the variation?" I think it's better -- I think the 60/40, you know, a little more risk but a little, you know, better chances of gain, I think it'd be a better place for us to be. I don't disagree with that. I think that's probably wise.

But, you know, I would prefer the bill say that. We could discharge this without recommendation. We could go up, see if we can get a CN to fix it. That's a possibility. And pass the CN or we could at least have the conversation since it's not being had by the Budget Finance Committee. We could have it with the full Legislature. And we could express that we felt the bill would have been better off being 60/40 with 10%, which would conform more to industry standards than this large variation ability. It's kind of a weak direction -- it's almost like saying, "go ahead, do what you've always been doing 50/50, but we don't care if you vary." I'd rather tell them where we want you to be.

LEG. CILMI:
I look at it a different way. Let's say that in six months from now something happens in the markets. And all of a sudden it looks as if being in more conservative investments is a better decision. If we -- if we leave it with the 50/50 but give the investment advisors the flexibility to vary, they can take advantage of that. If we bring it up to -- if we bring the base up to 60/40, then it doesn't give them as much flexibility. And I would argue that the flexibility is -- if we're engaging an investment advisor because we believe in their ability to manage funds, then I think it's reasonable to extend the 20% privilege in one direction or another, understanding that, you know, he's getting paid based on the performance of the fund. Obviously they're not going to make decisions that are in any way -- you know, that they don't believe to be in the best interest of that fund.

CHAIRMAN SCHNEIDERMAN:
Legislator Lindsay.

LEG. LINDSAY:
Mr. Faber, how -- with other non-profits that you manage money -- funds for, what's the typical -- is it 10% variance, is it 20% variance?

MR. FABER:
It ranges. I mean that's the honest answer. It ranges. Our ideal, and the reason the template is -- that you see before you is written the way it is, is because that would be kind of the perfect scenario for us. But, again, it depends. Everybody has a different, you know, appetite for risk and/or prognostication on returns. So at the end of the day, you know, I can relay our thoughts and our guidance, but it's your decision. We can live with whatever ultimately you decide, whether it is the 50/50 with the broader latitude or the 60/40. I think to my way of thinking, and somebody may have said this, is I think it's up to the Committee and the Legislature to be comfortable setting direction that gives a direction to the manager; in this case, you know, is it that we -- we want to kind of be middle of the road, you know, with some flexibility? Or, you know, because of the nature of this fund and the prospects for future returns, we think being more in equities is prudent and that is X: 60%, 55%, whatever it might be.

We have -- so that's a long answer to your question. The simple answer is it kind of varies. But I would say that for most of our non-profits, take Taft-Hartley out of this, take pensions out of this, but for non-profits endowment like, they're, you know, it's kind of -- 60/40 to 70/30 is the general target range for asset allocations.

CHAIRMAN SCHNEIDERMAN:
60/40 with what size variation? A 10%?

MR. FABER:
Again that depends on the, you know, the governing body, you know, the committee, the trust, the fund.

CHAIRMAN SCHNEIDERMAN:
Typically is it -- typically 10% or typically larger?

MR. FABER:
I would say probably 10%.

LEG. LINDSAY:
I'm more inclined to let the bill stand as it is just for the mere fact in retrospect, if you're given this proposal in 2006, before the market meltdown, as the market is drawing down, we would want you to have the most variance in there as possible to get out of those toxic equities that are burning down at that time.

MR. FABER:
Keep in mind, I don't mean to sound like a professor, but keep in mind that 2008 was a black swan event. Everything went down. Everything. Bonds were down 25%. Equities were down 40% so --

LEG. LINDSAY:
All right. But there was -- you've lost less if you were in the bonds as opposed to being in --

MR. FABER:
That's true, yes.

LEG. LINDSAY:
So to me you hire a money manager to manage the money for us to try and micromanage it with the limited expertise that we have in that area, I think, is -- you know, we're doing you a disservice by not allowing you to do what we're hiring you to do. So, you know, I'm inclined to leave the legislation as it is and give you the latitude to make those adjustments if they're needed.

CHAIRMAN SCHNEIDERMAN:
Either way he would have the same flexibility. It's just the underlying guidance. Are we telling him to learn a little bit more to, you know, the riskier side of the, you know, stock market or more on the, you know, the bonds and mutual funds side and be a little more conservative. Either way the end result is he would still have the same -- up to 70%. Doesn't change.

LEG. CILMI:
He'd have the same -- he'd have the same upside latitude on the equity side but he wouldn't have the same downside latitude on the other side.

MR. FABER:
Right, that's what we were just saying here. With a 60/40 and a plus or minus 10, we could go down to 50% equities. With a 50/50 plus or minus 20 we could go down 30% equities.

LEG. McCAFFREY:
I just need to jump in. So how do you view this portfolio as -- in terms of long term strategic investor or as a short term in and out kind of investement?

MR. FABER:
Long term strategic investor. You know, the elephant in the room, though, is the financial

wherewithal of the museum and the support, you know, existing or non-existent and the threat to that $8.2 million corpus. Right now there's a margin; there's a comfortable margin. That's why we ran -- we didn't talk about the analysis with the cash flows coming out, but, you know, within a short period of time, depending on what the market returns are, that corpus is threatened. But the simple answer is, you know, long term investor. And this is an endowment fund. That's how -- that's how we approach it.

LEG. McCAFFREY:
All right. So the need for a 20% variance jumping in and out of the market is not something that generally you would need as a long term --

MR. FABER:
That's a very safe statement, yes.

CHAIRMAN SCHNEIDERMAN:
Legislator Lindsay.

LEG. LINDSAY:
My question would be to Lance: How often are you briefed on the performance of the endowment and how -- because my understanding is we only get this briefing on an annual basis, I'm assuming? So how often are you briefed on it? And I'm sure you closely monitor it yourself.

MR. REINHEIMER:
No, I'm not briefed at all. I have no contact with the investment advisor. It's your response -- it's your asset. The Vanderbilt does not get involved in contacting the asset manager, talking to the asset manager, being briefed by the asset manager. So the only time that I get briefed is when you get briefed. I do call Budget Review once in a while to see what the value is, but I don't even get copies of the statements. So the Vanderbilt and the Trustees are not involved in the operations or the management, nor have they discussed it and have had any input on these decisions. This is strictly Suffolk County's asset and we leave it in your hands.

LEG. LINDSAY:
So then I'm not suggesting that you would do this, Mr. Faber, a year from now you come to us and say "oh, it's down to two million, sorry," is there a mechanism in place whether it's BRO or through the Legislature itself that we are regularly updated?

MR. FABER:
I'll certainly let Mr. Doering respond, but the Budget Review Office receives monthly statements and quarterly portfolio reports. So that if there is any -- as well as updates on the portfolio changes to managers, changes to the portfolio, you know, weightings. There is ongoing communication. We don't meet with the committees at the Legislative level but once a year; certainly happy to do it more often if that's the will of the Legislature. But right now monthly and quarterly reports to Budget Review.

LEG. LINDSAY:
Internally, this is to BRO, do we have a mechanism in place that triggers where you would come back to the Committee and maybe to the full Legislature and say "hey, we have a problem here. Market conditions have changed and the endowment is now burning down."

MR. DOERING:
No, there's nothing formal. I do get, like he mentioned, monthly statements and we do track it, you know, via spreadsheet and whatnot. And if I saw anything that was paramount, then I would certainly bring it to the PO's attention. Aside from that, no.

MR. NOLAN:
Back in 2008 when the meltdown was happening, that's exactly what happened. I guess the advisor contacted Budget Review. Budget Review went to the Presiding Officer to say, you know, "this is going south and the corpus is under stress." And decisions were made at that time to protect the corpus and recalculate. So that's the way it happened back then.

MR. REINHEIMER:
If I can just -- because I was the person that was involved with Budget Review at that point in time. We were in daily contact with the Asset Manager at that point in time and the Presiding Officer. And the -- I think the Majority and Minority Leaders of the Legislature. Decisions were made on a daily basis with the leaders of the Legislature involved. And the history has been, when I took it over 15 years ago, when Bobby took it over, we monitor it. And if we see anything that is out of the ordinary, we do report that. So the mechanism is there. Budget Review reviews this every month. And I'm sure if Bobby sees something that's unusual, he's going to bring it to the Presiding Officer and the Legislature and notify you. So that mechanism -- he's your watchdog and he is watching. I want to say that's why the Vanderbilt does not get involved at all, any of it.

CHAIRMAN SCHNEIDERMAN:
What is the current value of the portfolio? Twelve million, something in that range?

MR. DOERING:
About 11.1 million.

CHAIRMAN SCHNEIDERMAN:
Eleven point one. And Mr. Faber, you guys are a percentage of that, is that what you get yearly?

MR. FABER:
Right, it's a percentage.

CHAIRMAN SCHNEIDERMAN:
So what's the percentage?

MR. FABER:
On a blended basis, I'm not sure. I think we were paid about 40 or $50,000 last year. So I think it's about 20 basis points.

CHAIRMAN SCHNEIDERMAN:
One percent? I'm sorry?

MR. FABER:
It's probably 25 to 30 basis points, 40 basis points, somewhere in that range.

CHAIRMAN SCHNEIDERMAN:
Does anybody know? Do you know? Sounds more like 40; 40 or 50.

MR. DOERING:
So the PFM Asset Management Investment Advisory fee schedule is 40 basis points on the first five million in net assets; 35 basis points on the next five million in assets; 30 basis points on the next ten million in assets; and then 20 basis points thereafter. And it's calculated on a monthly basis.

CHAIRMAN SCHNEIDERMAN:
What does that come out to on an $11 million portfolio? What does --

MR. DOERING:
I think last year we paid them about 35, $36,000.

CHAIRMAN SCHNEIDERMAN:
So less than half of 1% of the value.

MR. FABER:
Yes.

CHAIRMAN SCHNEIDERMAN:
Okay. Okay. Is that pretty much industry standard in there for portfolio management? Probably on the low side, right?

LEG. McCAFFREY:
Well,that's a small portfolio. I mean it would be less if it was more money, like a pension fund or a larger endowment. So the amount of work that he does for an $11 million portfolio is probably equivalent to what he would be doing if it was a hundred million dollar portfolio. So it's fair based on the size of the portfolio, I believe.

CHAIRMAN SCHNEIDERMAN:
And if we're directing him to do a little bit more in terms of, you know -- less in terms of fixed income and more in terms of equity, it's actually going to be more work for them, I would think.

LEG. McCAFFREY:
No. He's just directing the mutual funds that he's contracting with -- they do the trades and all that stuff. He just steers them.

CHAIRMAN SCHNEIDERMAN:
Oh, okay.

LEG. McCAFFREY:
He's independent from the mutual funds.

MR. FABER:
Right.

LEG. McCAFFREY:
He just directs them.

CHAIRMAN SCHNEIDERMAN:
Okay.

MR. FABER:
Our research team interviews and monitors dozens and dozens -- well, thousands of mutual fund managers and other managers, you know, on an annual --

CHAIRMAN SCHNEIDERMAN:
But you're not doing any trading on a daily basis?

MR. FABER:
We are -- we trade for the portfolio regularly. But on a daily basis, no. It -- trades emanate from the Investment Committee, which meets formally once a month to the extent that there's a rebalancing action, there's a change in manager; then those actions are then implemented by

portfolio managers. But there's not a daily trade activity, no.

CHAIRMAN SCHNEIDERMAN:
So coming in and out of market positions is really more going to be on the mutual fund side than on your side.

MR. FABER:
That's correct. Correct.

CHAIRMAN SCHNEIDERMAN:
Okay. Any other questions? So the bill's actually not in front of us yet. It was just a presentation, but when we debate it, it's all right to me if -- probably either way is all right. So if you want to move it out at 50/50 with a 20% variance, it's probably okay, too.

LEG. McCAFFREY:
Is there any -- just one other thing. Is there any provision in there for the investment policy? That's probably the most important piece that we're really talking about here, having that -- adopting the investment policy statement, is that going to be in the bill?

MR. NOLAN:
(Nodding head yes)

LEG. McCAFFREY:
It is. But not the one we have in front of us, though; right?

MR. NOLAN:
1299, you know, is the 50/50 bill with the 10 to 20% variance. You know, it gives them that authority.

LEG. McCAFFREY:
No, what I'm talking about is the draft that was circulated which goes into detail about the responsibilities for the investment manager, the types of investments he can get into outside of this -- not just the allocation percentage-wise..

MR. NOLAN:
No. Just the allocation.

LEG. McCAFFREY:
This is probably more important than the allocation. Would you agree with that.

CHAIRMAN SCHNEIDERMAN:
George, how do we make that part of the bill?

MR. FABER:
Yes, it's very important to answer your question. I don't want to leave it hanging.

LEG. McCAFFREY:
So that should really be -- this is a draft we have in front of us. We really should have something that spells out what the investment consultant can and can't do. You know, it talks about hedge funds. Just in the draft it talks about hedge funds in here. It doesn't prohibit him from getting in derivatives or anything else that he feels may be appropriate for the fund that we may not feel. So probably the most important thing is the Investment Policy Statement as opposed to percentage of the allocation.

MR. NOLAN:
Well, I'm sure we have an agreement with them. Bob Doering from BRO, maybe you can speak to that, what's in the agreement.

MR. DOERING:
So currently the investment policy is dictated by, for lack of a better term, a hodgepodge of resolutions, which have certain criteria that they need to meet. In the past I believe when the last manager was Bank of America, there was a Formal Investment Policy similar to the one that Steve has distributed. And per his recommendation, and I think for everyone, you know, he was stating that we should probably also put one into place. We did discuss it at the Budget and Finance Committee. And initially Legislator D'Amaro came forward with that change to the allocation just to allow him the flexibility because he thought it was important that he have that almost immediately. But we did also discuss, you know, a Formal Investment Policy should go into place.

CHAIRMAN SCHNEIDERMAN:
We could do an amendment or a separate bill adopting a Formal Investment Policy. It's not in the current bill.

LEG. McCAFFREY:
Whatever. I'm just telling you it's more important --

CHAIRMAN SCHNEIDERMAN:
Whatever you want, too.

LEG. McCAFFREY:
I mean because it could be -- I would recommend tabling it until -- I don't think two weeks is going to make a difference in terms of his asset allocation, but it will -- us being -- it will make a difference as to whether we did this right or we did this wrong.

CHAIRMAN SCHNEIDERMAN:
I mean if we are going to table it, I think we should have a serious conversation, too, about whether we should be saying 60/40 with a 10% split or 50/50 with a 20. It's just some basic, baseline kind of guidance as to where we want you to target for, how risk {inaudible} we want the fund. All right. Well, it's not in front of us as I said. I think we can get to the agenda then we'll finish up this conversation in a few minutes. I'd ask you to stick around. But any other questions at this point for Mr. Faber? All right, thank you, sir. Okay, so that's the only presentation that we have.

TABLED RESOLUTIONS

So we'll go to Tabled Resolutions beginning with **IR 1002, Authorizing an agreement to revitalize Cedar Island Lighthouse (Schneiderman)**. And I'll make a motion to table.

LEG. CILMI:
Second.

CHAIRMAN SCHNEIDERMAN:
Second. Commissioner, we haven't heard anything more, have we, since our meeting? Okay, so there's a motion to table. All in favor? Opposed? Abstentions? So tabled. **(VOTE: 5-0-0-0)**

IR 1094, To waive fee for use of the County Showmobile for the Amagansett Fire Department's parade (Schneiderman)

LEG. LINDSAY:
I make a motion to table that as well.

CHAIRMAN SCHNEIDERMAN:
Motion to table by Legislator Lindsay.

LEG. CILMI:
Second.

CHAIRMAN SCHNEIDERMAN:
Second by Legislator Cilmi. All in favor? Opposed? Abstentions? I'm opposed. So tabled. **(VOTE: 4-1-0-0)**

INTRODUCTORY PRIME

IR 1277-14, Authorizing use of Indian Island County Park by Birthright of Peconic Inc. For a fundraising walkathon (Krupski)

LEG. CILMI:
Motion to approve.

CHAIRMAN SCHNEIDERMAN:
Who's that? Motion by Legislator Cilmi; second by Legislator Lindsay. Any discussion? All in favor? Opposed? Abstentions? Approved.

LEG. HAHN:
Abstained.

CHAIRMAN SCHNEIDERMAN:
One abstention, Legislator Hahn. **(VOTE: 4-0-1-0)**

IR 1299, Authorizing changes in investment management policy for the Suffolk County Vanderbilt Museum Endowment Trust Fund (D'Amaro). All right, here we are. What do we want to do?

LEG. LINDSAY:
Motion to table.

CHAIRMAN SCHNEIDERMAN:
There's a motion to table by Legislator Lindsay. Any other motions?

LEG. CILMI:
Yeah, I think it's -- I'm not sure whether or not -- maybe Mr. Faber can answer this question, by passing the resolution that's before us, which deals exclusively with the percentage of allocation in your flexibility to reallocate, are we -- are we making a halfhearted attempt at setting an investment policy? Is it -- would we be better off adopting a more comprehensive investment policy as opposed to passing this piece of legislation today? Maybe you shouldn't answer that question.

MR. FABER:
I'm going to step back in time and draw from the Ronald Reagan school of answering questions. I believe -- PFM believes that it would be prudent for the Legislature to adopt a Formal Investment Policy. The asset allocation guidelines are but a small part of an investment policy. Can you -- can you address both at different -- each at different times? Certainly. Would passing the resolution authorizing us a greater latitude currently but perhaps with added guidance that your preference is a 60/40? I don't know how -- I don't know procedurally how you can modify things. Maybe that's something that could be accomplished. And the committee with staff could review the policy -- the

Investment Policy and the template and we could modify it to incorporate the particulars of the existing framework and whatever other, you know, no derivatives, etcetera.

LEG. CILMI:
Is there a benefit to passing this resolution today as opposed to waiting and adopting the tenets of it or some variation of it as part of a greater investment policy?

MR. FABER:
Your question is --

LEG. CILMI:
The question is, is there a benefit to adopting this today as opposed to waiting, let's say, a month or so and incorporating it into some larger investment policy?

MR. FABER:
I think there is. We would begin to implement some changes within the portfolio consistent with, you know, changes we're making across other client portfolios. So, yes.

CHAIRMAN SCHNEIDERMAN:
However, let's say we were today to adopt the 20% variation. And you could go do what you needed to do, what you believe is the right thing to do with the portfolio. If then we're able to arrive at an overall investment policy that includes -- that shifts from a 50/50 with a 20% spread to a 60/40 with a 10% spread, you'd still likely be within that based on that 50/50.

MR. FABER:
Yes.

CHAIRMAN SCHNEIDERMAN:
And so then it would then supersede the 50/50 with a 20; plus we'd have the other guidance in it. So we could probably move forward with it as it is. And then we could work on a broader bill that isn't inconsistent with where they're going to end up. Okay.

LEG. CILMI:
So I'll offer a motion to approve, then. I don't know what --

CHAIRMAN SCHNEIDERMAN:
Okay, so Legislator Lindsay is withdrawing his tabling motion. We have a motion to approve by Legislator Cilmi; second by Legislator Lindsay. Any further discussion? Okay. All in favor? Opposed? Abstentions? Approved. All right. That is the end of our agenda. We are adjourned.

THE MEETING CONCLUDED AT 1:52 PM
{ } DENOTES SPELLED PHONETICALLY