

SUFFOLK COUNTY LEGISLATURE



Lance Reinheimer
Director

BUDGET REVIEW OFFICE

March 30, 2022

To: Kevin McCaffrey, Presiding Officer
and All Suffolk County Legislators

From: Lance Reinheimer, 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, 2021 through December 31, 2021.

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

* * *

Attachment

cc:

John M. Kennedy, Suffolk County Comptroller
Patricia Saunders, Budget Director
Kimberly Pettit, Senior Budget Analyst
Nick LaLota, Legislature Chief of Staff
Frank Tassone, Clerk of the Legislature
Elizabeth Wayland-Morgan, Executive Director, Vanderbilt Museum
Bikram Chadha, Senior Managing Consultant, PFM Asset Management LLC
Brian Greavu, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND
ANNUAL REPORT
JANUARY 1, 2021 THROUGH DECEMBER 31, 2021**



March 30, 2022

**Lance Reinheimer,
Director
Budget Review Office
Suffolk County Legislature
Hauppauge, New York**

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Executive Summary

This is the required annual report on the status of the Suffolk County Vanderbilt Museum Endowment Trust Fund (Fund), for the period January 1, 2021 through December 31, 2021. The following table summarizes the change in account market value over the year, after distributions to the Vanderbilt Museum, investment advisory fees to PFM Asset Management LLC (PFMAM), and custodial fees to U.S. Bank National Association (U.S. Bank) that were paid in 2021. It also presents the effective performance of the fund without including those distributions. Market values exclude minor amounts of accrued income. Accrued income is income that has been earned in 2021 but not received by December 31, 2021.

Vanderbilt Trust Fund Performance Summary 2021	
Market Value	
Market Value, Dec 31, 2020	\$ 16,303,104
Market Value, Dec 31, 2021	\$ 17,454,189
Change in Account Value After Distributions	\$ 1,151,085
Estimated Percent Increase Including Distributions	7.06%
2021 Distributions	
Fees Paid to PFMAM	\$ (68,245)
Fees Paid to US Bank	\$ (4,409)
Distributions to Vanderbilt Museum	\$ (464,000)
Total Distributions	\$ (536,654)
Performance	
Estimated Change in Account Value without Distributions	\$ 1,687,739
Estimated Percent Increase without Distributions	10.35%
Percent Increase as Calculated by PFMAM, Using Modified Dietz	10.60%

Major findings include:

- The 2021 year-end market value of the Fund was \$17,454,189, an increase of \$1,151,085 from the 2020 year-end market value of \$16,303,104. This increase is net of \$464,000 in remittances to the Vanderbilt Museum, \$68,245 in advisory fees paid to PFMAM, and \$4,409 in custodial fees paid to U.S. Bank.
- The Fund's 2021 total annual return was 10.60% as calculated by PFMAM, the investment advisor, outperforming the blended benchmark by 2.03%.
- The \$464,000 disbursement to the Vanderbilt Museum was comprised of \$164,000, for repairs or upgrades to the property-wide security system, and \$300,000 for operating expenses as the Museum faced pandemic-related closures and capacity restrictions at its revenue-producing planetarium.
- A Request for Proposals (RFP) was issued after the expiration of the previous contract with the investment advisor. On December 14, 2021, a signed contract with PFMAM was executed, with a new, reduced fee schedule, and a term retroactive from July 30,

2021 through July 29, 2024. The lower fees will be adjusted retroactively in 2022.

- The Suffolk County 2021 Adopted Operating Budget included \$899,370 in Hotel Motel Tax revenue for the Vanderbilt Museum. However, Resolution No. 204-2021 allocated \$326,632 of American Rescue Plan (ARP) funding to the Hotel Motel Tax Fund for the Vanderbilt Museum. Therefore, the 2021 revenue from the Hotel Motel Tax Fund was increased to \$1,226,002, to reflect the additional ARP funding.
- Local Law No. 4-2021 (Resolution No. 976-2020) established the Vanderbilt Museum Enterprise Fund to provide a dedicated funding source for capital improvements at the Museum or to reimburse the County for debt service attributed to the Museum's capital projects after the effective date of the law. Beginning January 1, 2022, and continuing each year thereafter, the Fund will receive an annual disbursement equal to 2% of the market value of the Museum's endowment, provided the disbursement does not pierce the \$8.2 million corpus of the endowment. The new Vanderbilt Enterprise Fund (757) is included in the 2022 Adopted Operating Budget.
- PFMAM continues to recommend that the County adopt a more formal Investment Policy Statement (IPS) for governance of the Fund. The IPS would guide management and administration of the portfolio across varying market and economic environments and would outline standards of accountability in areas such as investment objectives, selection of investment managers, and control procedures.

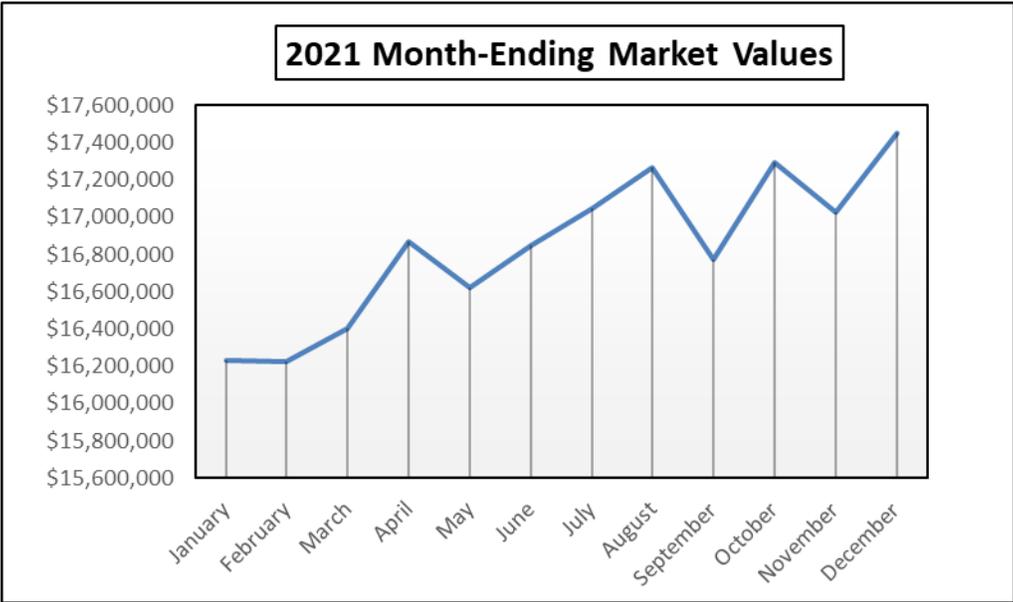
Performance and Asset Allocation

The Fund's total annual return for 2021, as calculated by PFMAM, was 10.60%, outperforming the blended benchmark of 8.57% by 2.03%. PFMAM uses a Modified Dietz methodology to calculate performance, which factors in the timing of cash flows. The returns are net of mutual fund fees but gross of (prior to deducting) PFM advisory fees, U.S. Bank custodial fees, and any distributions to the Vanderbilt Museum. U.S. Bank maintains the Fund in two accounts: dividends and interest are transferred monthly to a sub-account for income, while capital gains are re-invested.

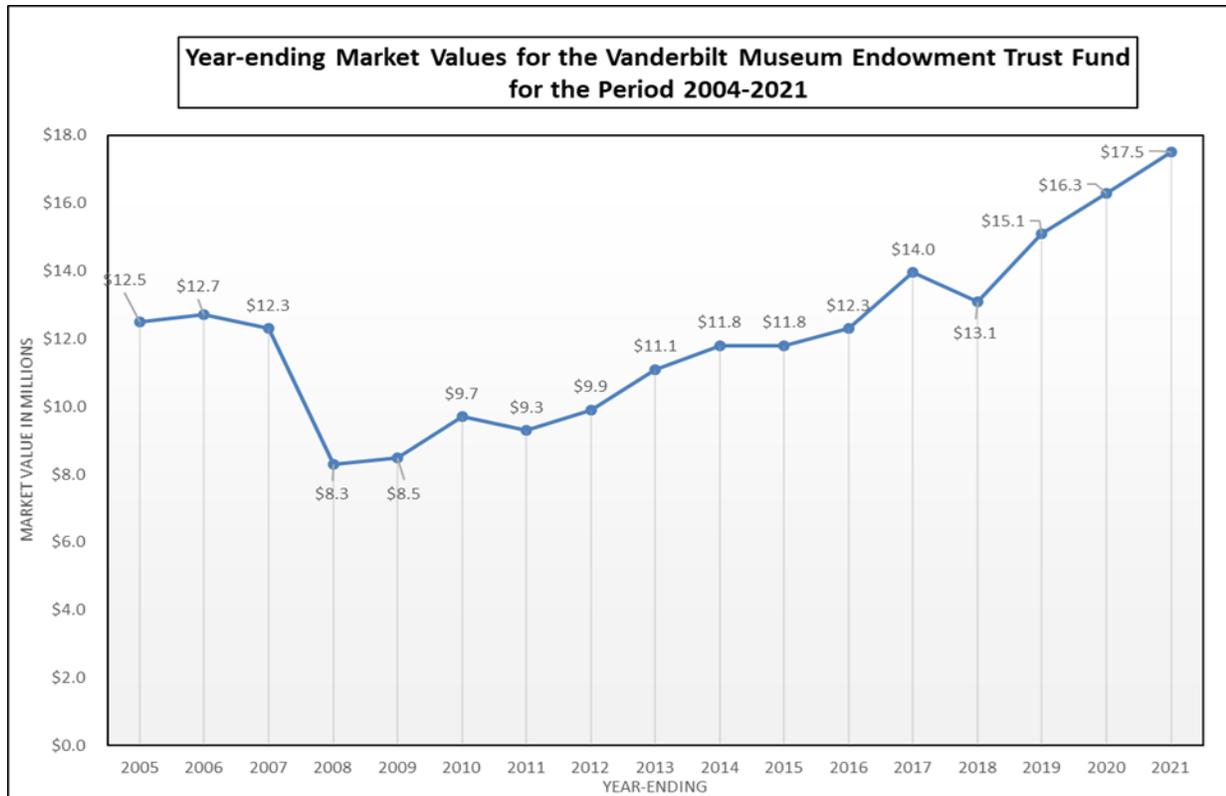
The 2021 year-end market value of the Fund was \$17,454,189 (comprised of \$17,103,001 in the main account and \$351,188 in the income sub-account). This year-end market value represents a net increase of \$1,151,085, or 7.06%, from the \$16,303,104 market value at the start of the year. The year-end market value is net of \$464,000 in disbursements to the Museum during the course of the year and \$72,654 in bank and management fees.

The following graph details the Fund's month-ending market values during 2021. The market value increased to nearly \$17.5 million by December 31, 2021, a \$1.2 million increase from January 31, 2021. The largest decrease occurred during the month of September, when the market value decreased by nearly \$500,000, or 2.9%, compared to the end of August; however, this decrease was more than offset by a \$522,611 increase in October. The distributions to the Museum in February (\$96,000) and May (\$368,000)

contributed to declines in market value during those months.



As demonstrated by the following graph, the fund has had a generally positive growth trend since the 2008 financial market crisis. The market value of the fund approached the \$8.2 million corpus of the endowment after a 33% decrease that year. Exceptions to the trend after 2008 include 2011 (an approximate 4% decrease from the prior year) and 2018 (an approximate 6% decrease from the prior year). The most significant growth in this period (15.1% increase) occurred during 2019.

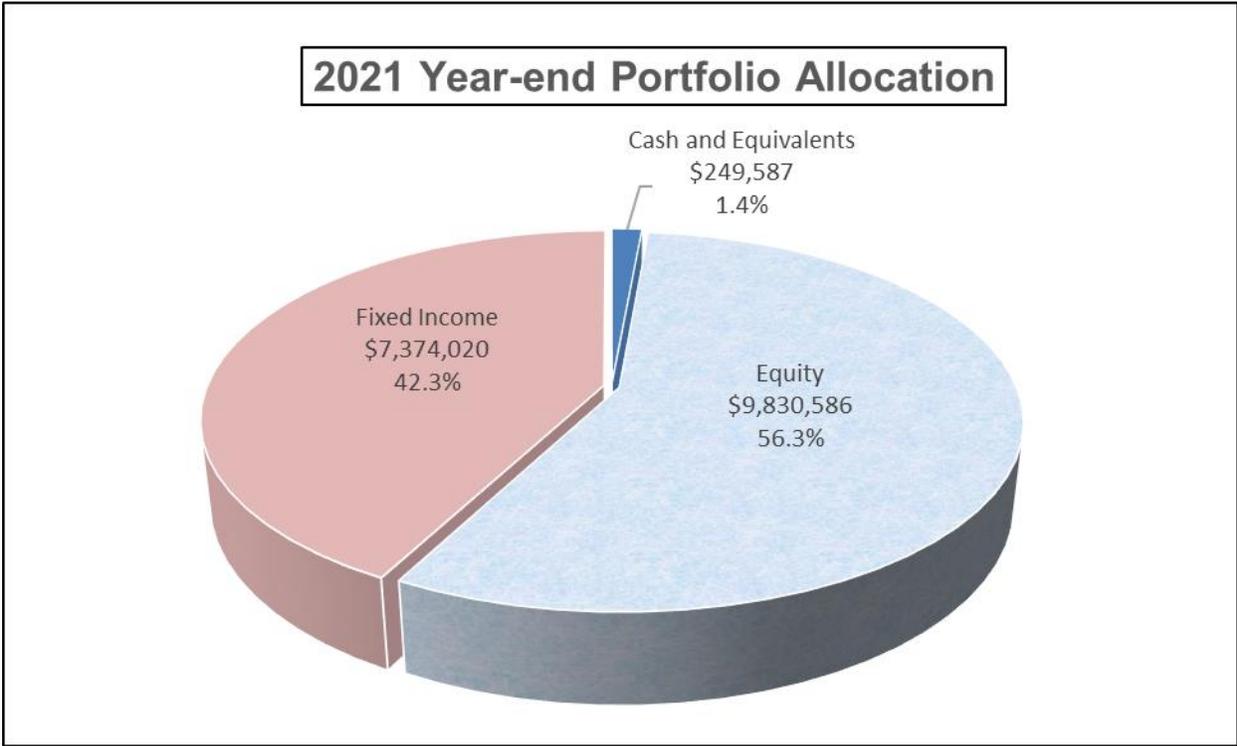


The following table includes information provided by PFMAM and summarizes the Fund's asset allocation and performance as of December 31, 2021. The Fund's 2021 total annual return was 10.60%, which outperformed the comparative blended benchmark of 8.57% by 2.03%. Since PFM started to actively manage the Fund on September 1, 2010, the annualized total return is 8.80% or 0.83% more than the blended benchmark of 7.97%. Further detail on asset allocation and performance of the listed investments is summarized on pages subsequent to the table.

Vanderbilt Museum Combined Assets										
Asset Allocation & Performance As of December 31, 2021										
	Allocation		Performance (%)							
	Market Value (\$)	%	1 Quarte	2021	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
Total Fund - Combined Assets	17,454,193	100.00	4.17	10.60	10.60	12.70	14.63	10.39	8.80	09/01/2010
<i>Blended Benchmark</i>			3.38	8.57	8.57	10.88	13.26	9.53	7.97	09/01/2010
Domestic Equity	6,012,404	34.45								
Vanguard Total Stock Index ETF	5,090,521	29.17	9.15	25.72	25.72	23.31	25.76	17.98	45.26	04/01/2020
<i>Russell 3000 Index</i>			9.28	25.66	25.66	23.25	25.79	17.97	45.19	04/01/2020
Jensen Quality Growth Fund	634,556	3.64	15.05	30.33	30.33	24.34	25.98	20.41	22.49	04/01/2019
<i>S&P 500</i>			11.03	28.71	28.71	23.44	26.07	18.47	22.90	04/01/2019
iShares Core S&P Mid-Cap ETF	287,326	1.65	7.98	24.68	24.68	19.01	21.34	13.03	7.98	10/01/2021
<i>S&P MidCap 400</i>			8.00	24.76	24.76	19.08	21.41	13.09	8.00	10/01/2021
International Equity	2,977,894	17.06								
Vanguard Total International Stock ETF	1,003,516	5.75	2.13	8.69	8.69	10.00	13.73	9.93	30.73	04/01/2020
<i>MSCI AC World ex USA (Net)</i>			1.82	7.82	7.82	9.23	13.18	9.61	28.77	04/01/2020
J. O. Hambro International Select	691,896	3.96	6.33	9.21	9.21	19.02	19.03	13.71	12.24	01/01/2016
<i>MSCI AC World ex USA (Net)</i>			1.82	7.82	7.82	9.23	13.18	9.61	8.74	01/01/2016
Harding Loewner International Equity	780,711	4.47	4.58	8.51	8.51	14.27	17.81	12.82	23.29	07/01/2020
<i>MSCI AC World ex USA (Net)</i>			1.82	7.82	7.82	9.23	13.18	9.61	21.58	07/01/2020
Artisan International Small-Mid	131,954	0.76	-0.54	3.97	3.97	17.73	23.73	16.07	3.97	01/01/2021
Virtus KAR International Small-Mid Cap	204,357	1.17	-0.47	5.82	5.82	14.76	18.91	15.09	5.82	01/01/2021
<i>MSCI AC World ex USA Smid Cap Index (Net)</i>			0.62	10.16	10.16	11.08	14.72	10.30	10.16	01/01/2021
Hartford Schroders Emerging Markets Equity	165,460	0.95	-2.95	-5.10	-5.10	8.29	12.71	11.24	4.27	03/01/2018
<i>MSCI EM (net)</i>			-1.31	-2.54	-2.54	7.38	10.94	9.87	3.21	03/01/2018
Other Equity	840,288	4.81								
Cohen & Steers Inst Realty Shares	283,241	1.62	15.96	42.47	42.47	17.82	22.68	13.75	31.24	04/01/2021
Principal RE Securities Inst Fund	286,266	1.64	14.71	39.64	39.64	16.25	21.01	13.08	30.53	04/01/2021
<i>MSCI US REIT Index</i>			16.32	43.06	43.06	14.99	18.50	10.78	31.54	04/01/2021
SPDR Bloomberg Convertible Securities ETF	270,781	1.55	-1.78	2.26	2.26	25.23	24.28	16.86	-1.78	10/01/2021
<i>Bloomberg Liquid US Convertibles Index</i>			-1.65	3.07	3.07	26.17	25.03	17.63	-1.65	10/01/2021
Fixed Income	7,374,020	42.25								
Baird Core Plus	1,669,331	9.56	-0.12	-1.02	-1.02	3.77	5.85	4.30	3.86	05/01/2014
<i>Blmbg. U.S. Aggregate</i>			0.01	-1.55	-1.55	2.88	4.79	3.57	3.16	05/01/2014
DoubleLine Core Fixed Income	794,919	4.55	-0.23	-0.34	-0.34	2.59	4.36	3.53	3.02	09/01/2017
PGIM Total Return Bond	2,109,987	12.09	0.30	-1.15	-1.15	3.37	5.90	4.72	4.08	09/01/2017
<i>Blmbg. U.S. Aggregate</i>			0.01	-1.55	-1.55	2.88	4.79	3.57	3.27	09/01/2017
Voya Intermediate Bond	1,094,384	6.27	-0.10	-1.03	-1.03	3.42	5.58	4.23	3.42	01/01/2020
<i>Blmbg. U.S. Aggregate</i>			0.01	-1.55	-1.55	2.88	4.79	3.57	2.88	01/01/2020
iShares Intermediate-Term Corporate Bond ETF	407,896	2.34	-0.58	-1.65	-1.65	3.83	7.23	4.89	3.99	10/01/2019
<i>ICE BofAML U.S. Corporate 5-10 Year Index</i>			-0.43	-1.41	-1.41	4.11	7.41	5.23	4.24	10/01/2019
MFS Emerging Markets Debt	186,617	1.07	-0.93	-2.30	-2.30	2.78	6.44	4.68	N/A	01/01/2022
<i>JPM EMBI Global Diversified</i>			-0.44	-1.80	-1.80	1.67	5.94	4.65	N/A	01/01/2022
MainStay MacKay High Yield Corp Bond Fund	153,832	0.88	0.29	5.35	5.35	5.31	7.82	5.72	2.46	06/01/2021
<i>ICE BofAML High Yield Master II</i>			0.64	5.35	5.35	5.76	8.57	6.09	2.97	06/01/2021
Vanguard Total Bond Market Index-Adm	98,457	0.56	-0.09	-1.67	-1.67	2.92	4.82	3.58	2.81	05/01/2012
<i>Blmbg. U.S. Aggregate</i>			0.01	-1.55	-1.55	2.88	4.79	3.57	2.85	05/01/2012
iShares Preferred and Income Securities ETF	443,075	2.54	2.64	7.09	7.09	7.51	10.15	6.63	1.88	09/01/2021
<i>ICE Exchange-Listed Preferred & Hybrid Securities</i>			2.73	7.75	7.75	8.16	11.49	N/A	1.99	09/01/2021
PIMCO Commodity Real Return Strategy	415,522	2.38	-0.27	33.48	33.48	16.00	14.74	5.99	8.66	06/01/2021
<i>Bloomberg Commodity Index Total Return</i>			-1.56	27.11	27.11	10.97	9.86	3.66	6.86	06/01/2021
Cash Equivalent	249,587	1.43								
First American Government Obligation	249,587	1.43	0.01	0.02	0.02	0.19	0.82	0.98	0.46	09/01/2010
Returns are net of mutual fund fees.										
Returns are expressed as percentages.										

The pie chart that follows is based on data from PFMAM and demonstrates the Fund’s year-end asset allocation: 56.3% equity, 42.3% fixed income, and 1.4% cash and equivalents. The year-end statement from US Bank categorized some of the investments differently than PFMAM (including the “other equity”, preferred equity, and commodities allocations), and therefore found a slightly different asset allocation: 57.2% equity, 41.4% fixed income, and 1.4% cash and equivalents.

The asset allocation, as calculated by either entity, complied with the allocation directive of Resolution No. 286-2014. That resolution allowed a 50/50 split between fixed securities and equities, with a range of 10%-20%, as determined by market conditions.



Equities (Stocks)

PFMAM typically invests in equity mutual funds, rather than individual stocks, in order to provide a diverse equity portfolio and minimize risk exposure in any one company. Investments in Exchange Traded Funds (ETFs) are also based on a pool of investments, and provide more liquidity and flexibility. PFMAM has invested in other equity investments since last year, which provide real estate exposure.

Based on the preceding table from PFMAM, the market value of the Fund's equity investments totaled \$9,830,586 as of December 31, 2021, representing 56.32% of the Fund's total market value. This amount is comprised of \$6,012,404 (34.45%) in domestic equities, \$2,977,894 (17.06%) in international equities, and \$840,288 (4.81%) in other equities. The performance of the Fund's equity investments ranged between -5.1% (emerging markets) and 42.47% (realty shares) in 2021. Two of the Fund's three domestic equity investments and three of the Fund's six international equity investments exceeded industry benchmarks. The three "other equity" investments underperformed industry benchmarks.

Fixed Income (Bonds)

Fixed income investments allow for diversification of the Fund's assets, providing income but minimal capital appreciation. Investments in bond funds, as opposed to individual bonds, should decrease some of the risk inherent in fixed income investments. The year-end market value of the portfolio's bond mutual funds was \$7,374,020 representing 42.25% of the Fund's total market value. The performance of the Fund's bond investments ranged between -2.30% (MFS Emerging Markets Debt) and 33.48% (PIMCO Commodity Real Return Strategy) in 2021. Five of the ten fixed income investments exceeded industry benchmarks; one performed at the benchmark, and four underperformed.

Resolution No. 387-2011 restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for bond investments of AA or above. It directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled (or pooled) 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.

Cash & Cash Equivalents

Cash equivalents are short-term investments and money market fund investments that can be readily converted to cash and provide additional income. The Fund is invested in the First American Government Obligation Fund, which has an investment strategy that seeks to provide maximum current income consistent with the preservation of capital and maintenance of liquidity. The fund primarily invests in short-term U.S. government securities and repurchase agreements secured by U.S. government securities. The 2021 year-end market value of cash equivalents was \$249,587 and represents 1.43% of the Fund's total market value.

Capital Gains/Losses

The Fund's 2021 year-end market value included \$826,583 in realized capital gains.

Additionally, it included \$3,652,519 in unrealized capital gains, which is the difference between the year-end market value of the Fund, \$17,454,189, and its year-end book value, \$13,801,670. The change in unrealized gains compared to year-end 2020 was \$482,016.

2021 Endowment Trust Fund Summary	
Beginning Market Value, as of December 31, 2020	\$16,303,104
Investment Activity	
Interest	\$62
Dividends	\$379,078
Realized Gain/Loss	\$826,583
Change in Unrealized Gain/Loss	\$482,016
Plan Expenses (Investment Advisory and Admin. Fees)	
Paid to PFM	(\$68,245)
Paid to US Bank	(\$4,409)
Disbursed to Vanderbilt	(\$464,000)
Ending Market Value, as of December 31, 2021	\$17,454,189
2021 Net Increase in Market Value	\$1,151,085

In 1993, the Legislature authorized the use of capital gains to pay for one-half of the investment management fees (Resolution No. 682-1993). A representative from U.S. Bank indicated that they follow a standing letter of direction to transfer dividends and interest to the income account, while capital gains are re-invested. Dividends and interest totaled \$379,140 in 2021, \$375,895 from the main account and \$3,245 from the income account). The PFMAM account representative notes that funds in the income account are also invested and can have their own capital gains (or losses). Typically, half of the account fees (PFMAM advisory fees and U.S. Bank custodial fees) are paid out of the main account and half are paid out of the income sub-account.

Remittances to the Museum

The Museum began receiving an allocation of Suffolk County Hotel Motel Tax revenue in May 2010, per Local Law 34-2009, which reduced its reliance on distributions of capital gains from the endowment. During the past eleven years, the Museum has not received guaranteed annual payments from the endowment. Instead, funds have been requested by the Museum and approved by the Legislature’s Presiding Officer on a case-by-case basis. The Museum received a disbursement of \$464,000 from the endowment in 2021. It included \$164,000 (in two installments of \$96,000 and \$68,000) for repairs and upgrades to the property-wide security system, and \$300,000 for operating expenses as the Museum faced pandemic-related closures, cancellations, and capacity restrictions at its revenue-producing planetarium.

Although Museum revenue was adversely impacted by the COVID-19 pandemic, higher than anticipated revenue from donations and gifts, special events, and funds distributed through Suffolk County resulted in the receipt of \$244,095 more 2021 revenue than the Museum had budgeted, and less need to rely on funds from the endowment. Expenditures were also higher than budgeted, but total revenues still surpassed total expenses in 2021.

The 2021 unaudited Treasurer's Report provided by the Vanderbilt Museum includes 2021 year-end revenues of \$3.1 million, which exceeded year-end operating expenses (\$2.9 million) by \$0.2 million. Funds from Suffolk County accounted for more than \$1.2 million (39.1%) of 2021 Museum revenue, and were \$300,000 more than had been included in the Museum's business plan. The unplanned increase was due to the County's receipt of American Rescue Plan (ARP) funding for the Museum. The increase in County revenue allowed the Museum to decrease the amount of revenue it required from the endowment by nearly \$300,000 (from \$763,851 budgeted to \$464,000 actual). The \$464,000 disbursement from the endowment accounted for approximately 14.8% of the Museum's 2021 income, and admissions revenue accounted for 14.7%.

Suffolk County funding to support the Museum's operating budget has typically been derived solely from a portion of the County's Hotel Motel Tax receipts. The Suffolk County 2021 Adopted Operating Budget included \$899,370 in Hotel Motel Tax funding, based on a 9.4% allocation of the tax. However, Resolution No. 204-2021 accepted American Rescue Plan funding and allocated \$326,632 of it to the Hotel Motel Tax Fund for the Vanderbilt Museum. This resulted in revenue of \$1,226,002 from the Hotel Motel Tax Fund in 2021. See Appendix A at the end of this report for more detail on County support for the Vanderbilt Museum through the Hotel Motel Tax.

The County's 2022 Adopted Operating Budget created the new Vanderbilt Enterprise Fund (757), which was established by Resolution No. 976-2020. The intent was to provide a dedicated funding source for capital improvements at the Museum or to reimburse the County for debt service attributed to the Museum's capital projects after the effective date of the law. Beginning January 1, 2022, and continuing each year thereafter, the Vanderbilt Enterprise Fund will receive an annual disbursement of 2% of the market value of the Museum's endowment, provided the disbursement does not pierce the \$8.2 million corpus of the endowment. This resolution was not effective in 2021; the first distribution of 2% from the endowment will be in 2022. The Museum will still be able to request additional annual withdrawals based on its operational needs.

Procedurally, the market value of the endowment on June 30th will be used to determine the amount of the transfer to Fund 757 in the subsequent year, so that it can be included in the County's Adopted Operating Budget for the following year. Once the funds have been transferred from the endowment to Fund 757, Audit and Control will effectuate the budgeted amount of the transfer from Fund 757 to the General Fund for debt service related to capital improvements at the Museum. The 2% transfer to the Vanderbilt Enterprise Fund and other disbursements from the endowment are typically made upon request by the Museum and approval by the Presiding Officer. The use of monies in the Fund are contingent upon approval of the Museum's Board of Trustees and an approved Legislative appropriating resolution for either capital improvements at the Museum or to reduce debt incurred by the Museum.

PFMAM Market Analysis

On March 25, 2022, PFMAM used 2022 capital market assumptions (CMAs) to perform a market analysis. The analysis assumed beginning assets of \$16 million, the approximate

value of the account after market downturns in early 2022 and the 2022 disbursement of \$336,919 to the Vanderbilt Enterprise Fund per Resolution No. 976-2020.

Assuming a 50% equity/50% fixed income allocation, the expected annualized return was 4.1% using intermediate-term (5-year) CMAs and 6.2% using long-term (30-year) CMAs, but results will vary depending on actual financial market conditions. These annualized returns are slightly less than the 4.3% intermediate and 6.9% long-term median returns that had been projected in the October 2020 PFMAM memo. At that time, PFMAM stated that an annual spending rate of 3%-4% would be conservative.

Continuing the 2022 analysis, PFMAM then compared the effects of 2% and 4% annual withdrawals on projected account values over 5-year and 30-year terms. The account value was projected at \$17.7 million after five years with a 2% annual withdrawal and at \$16 million after five years with a 4% annual withdrawal (negligible change from starting value). The account value was projected at \$53 million after 30 years with a 2% annual withdrawal and at \$28.5 million after 30 years with a 4% annual withdrawal.

Those projected returns are mid-points, and there can be considerable volatility in market conditions in any one year. Considering the Fund's investment objective of income and capital growth, we caution the Museum that it would be prudent at this time to limit total annual withdrawals to 3% (2% for the Vanderbilt Enterprise Fund plus 1% for other Museum needs).

Investment Management

Investment Objectives and Policies

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. The Fund's investment policies are guided by the following two resolutions:

- Resolution No. 286-2014
 - Modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 10-20% of the 50/50 split, as determined by market conditions. This provides the investment advisor the flexibility needed to preserve principal, produce a reasonable level of current income, and provide for future growth of income through capital growth, depending on current market conditions.
- Resolution No. 387-2011
 - Adopted an investment management policy that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above. It directed the Fund's investment manager to make every effort 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.

PFMAM continues to recommend that the County adopt a more formal Investment Policy Statement (IPS) for governance of the Fund. The IPS would guide management and administration of the portfolio across varying market and economic environments and would outline standards of accountability in areas such as investment objectives, selection of investment managers, and control procedures.

Investment Management Contract and Advisory Fees

PFM Asset Management LLC (PFMAM) is the Fund's investment advisor and U.S. Bank National Association is the custodian of the Fund's assets, independent of the Fund's investment manager.

The annual fee for PFMAM's services is based on net assets under its management and is determined on a monthly basis, as defined in the investment advisory fee schedule. The next two tables show the fees for both the 2016 contract, which will apply through July 29, 2021, and the December 2021 contract, which will apply the new, lower rates retroactively from July 30, 2021, through July 29, 2024.

PFMAM Investment Advisory Fee Schedule as of Contract Executed January 29, 2016	
First \$10 million in net assets	0.45%
Next \$10 million in net assets	0.35%
Next \$30 million in net assets	0.25%
Next \$50 million in net assets	0.20%

PFMAM Investment Advisory Fee Schedule as of Contract executed December 14, 2021 (retroactive from July 30, 2021 through July 29, 2024).	
First \$25 million in net assets	0.30%
Over \$25 million in net assets	0.15%
Minimum annual fee, to be applied in equal monthly installments.	\$25,000

PFMAM has been the fund’s investment advisor since April 21, 2010, after being selected through a Request for Proposals (RFP) process. After various renewals, extensions, and subsequent RFPs in 2016 and 2021, PFMAM was again selected as the investment advisor. On December 14, 2021, the County executed a signed contract with PFMAM, with a new fee schedule, and a term retroactive from July 30, 2021 through July 29, 2024. Fees for the latter half of 2021 will be retroactively adjusted to the new terms and the resulting credit of approximately \$7,740 will be applied on 2022 invoices. For additional detail on the PFMAM contract history, see Appendix A, at the end of this report.

U.S. Bank still operates under the Custody Agreement that was executed in July 2010 and which remains in effect until terminated by either U.S. Bank or the Legislature, providing that a written notice thirty days in advance of the termination date is received. Fees are charged according to the 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.	
Note: * A basis point is a unit that is equal to 1/100th of a percentage point (the unit for the arithmetic difference of two percentages).	

In 2021, a total of \$72,654 was paid in advisory fees to PFMAM (\$68,245) and custodial fees to U.S. Bank (\$4,409). Resolution No. 682-1993 authorized 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.

Appendix A

Historical Information Summary

In his last will and testament, William Kissam Vanderbilt II (1878-1944), bequeathed his estate in Centerport, together with its real property, furnishings, exhibits, and works of art, artifacts, memorabilia and certain moneys to either the State of New York, County of Suffolk, or Town of Huntington. His desire was for his estate to become a public park and museum, devoted in perpetuity to the use, education and enjoyment of the public.

By resolution duly adopted on the 30th day of August 1948, the Board of Supervisors, acting for Suffolk County, accepted the offer. The terms of the deed were signed August 3, 1949, and the estate was opened as a public museum in July 1950. The Vanderbilt Planetarium was erected in 1971, for less than one million dollars, and was paid for from the Endowment Trust Fund. 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 Commission's Board of Trustees¹ has sole control over the development, maintenance and operation of the Suffolk County Vanderbilt Museum and Planetarium and related programs and activities, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. The employees of the Museum are not employees of Suffolk County; they 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, 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 have paid a portion of 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 its current market value has not declined below its historical dollar value².

¹ 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.

² "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.

Resolution No. 682-1993 authorized the use of capital gains to pay for one-half of the investment management fees.

Resolution No. 933-1994 permitted the Fund's Investment Advisor to utilize a total return concept to provide a fixed annual income of \$1,000,000, as requested by the Museum. A total return concept involves investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses. The resolution also authorized the use of realized capital gains in the Trust Fund for cash flow purposes only, with any unused funds from said realized gains to be returned to the Trust Fund for reinvestment.

The authorization was increased to \$1.2 million by the adoption of Resolution No. 656-2000, and subsequently extended by Resolution Nos. 196-2002, 1251-2002, 1177-2003, 1372-2004, 1306-2005, 1477-2006, and 1266-2007. Resolution No. 1266-2007 extended the authorization to December 31, 2008, subject to the condition that distribution from realized capital gains be limited to a maximum of the realized capital gains less trust management fees paid from capital gains. 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.

Historically, the Museum has not received funds from the County's General Fund operating budget, with the exception of 2009, when a transfer of up to \$800,000 was authorized by Resolution No. 870-2008, dependent on the Museum's cash flow needs. The Museum received \$705,094 from the General Fund in 2009, or \$94,906 less than had been authorized. The County's General Fund also assumed all debt service for the Museum's capital projects in the past.

Resolution No. 805-2009 adopted Local Law 34-2009, which reauthorized the Hotel Motel Tax, increased the rate from 0.75% to 3%, and included a new allocation for Accredited Museums, intended for the Vanderbilt Museum. The legislation provided a 10% allocation to the Museum, with the option of decreasing the Museum's allocation by one percent each fiscal year, beginning in 2011, to an amount not less than 5% of all revenues collected. The Legislature first exercised its option to modify the Museum's allocation in the 2015 Operating Budget.

The Hotel Motel tax legislation was subsequently extended and reauthorized by Local Law Nos. 39-2015, 25-2017, and 51-2020, and was updated by Local Law No. 5-2016. The 3% tax rate and the statutory distribution of revenue from the tax remained unchanged through December 31, 2023.

The Suffolk County 2021 Adopted Operating Budget included \$899,370 in Hotel Motel Tax revenue for the Vanderbilt Museum. However, the 2021 Estimate for revenue from the Hotel Motel Tax Fund is \$1,226,002 due to the receipt of American Rescue Plan (ARP) funding. Resolution No. 204-2021 allocated a \$326,632 portion of the ARP funding to the Hotel Motel Tax Fund for the Vanderbilt Museum. ARP funding is not included in the calculation of percent of Hotel Motel Tax allocated to the Museum.

The following table demonstrates Hotel Motel Tax funding for the Vanderbilt Museum as included in the 2010-2022 Operating Budgets.

Hotel Motel Tax to Vanderbilt		
Year	Amount	% of Hotel Motel Tax
2010	\$692,498	10%
2011	\$705,097	10%
2012	\$726,499	10%
2013	\$930,140	10%
2014	\$1,028,370	10%
2015	\$878,544	9.5%
2016	\$873,954	9%
2017	\$1,049,530	9.5%
2018	\$1,158,127	9.0%
2019	\$1,143,087	9.3%
2020	\$892,204	9.4%
2021*	\$899,370 Adopted (Plus \$326,632 in ARP funding equals the 2021 Estimate of \$1,226,002)	9.4%
2022 Adopted	\$1,209,909	9.6%
*Resolution No. 204-2021 accepted American Rescue Plan funding and allocated \$326,632 to the Hotel Motel Tax Fund for the Vanderbilt Museum, resulting in a 2021 Estimate of \$1,226,002 from the Hotel Motel Tax Fund. However, the ARP funding is not included in the calculation of the percent Hotel Motel Tax allocated to the Museum.		

Resolution No. 976-2020, approved December 28, 2020, established the Vanderbilt Museum Enterprise Fund (“the Fund”). This legislation provided a dedicated funding source for capital improvements at the Museum, or for the payment of debt attributed to the Museum’s capital projects after the effective date of the law. Beginning January 1, 2022, and continuing each year thereafter, the Fund will receive an annual disbursement of 2% of the market value of the Museum’s endowment, provided the disbursement does not pierce the \$8.2 million corpus of the endowment. The use of monies in the Fund will be contingent upon approval of the Museum’s Board of Trustees and an approved Legislative appropriating resolution for either capital improvements at the Museum or to reduce debt incurred by the Museum after the formation of the Enterprise Fund. The Museum is still able to request additional funding from the endowment to meet its other needs.

The current investment advisor, PFMAM (previously known as PFM), was first selected in 2010 through a Request for Expressions of Interest (RFEI) and Request for Proposals (RFP) process. Procedural Resolution No. 5-2010 retained PFM Asset Management LLC as the investment advisor and U.S. Bank National Association as the custodian of the Suffolk County Vanderbilt Museum’s Maintenance Fund. The original 2010 agreement with PFM would have expired, after extensions, on April 21, 2015; however, additional short-term extensions were approved by the RFP waiver committee to allow for the completion of a new RFP process. Ultimately, PFM was again selected, from nine respondents, and Procedural Motion No. 26-2015 authorized the retention of PFM as the investment advisor and a new fee schedule. A new contract agreement with PFM was executed on January 29, 2016.

The 2016 contract was for a three-year term with an option to renew for two additional one-year periods. January 29, 2021 concluded the second of the two one-year options to renew the 2016 contract. An approved waiver permitted a six-month extension of the contract, while a Request for Proposals (RFP) process commenced to select the investment manager for the period beyond this term.

A new Request for Proposals (RFP) was issued March 25, 2021. On August 31, 2021, PFM was notified that it was the apparent successful proposer. On July 8, 2021, U.S. Bank National Association (U.S. Bank) issued a press release announcing an agreement to purchase PFM Asset Management LLC under its subsidiary, U.S. Bancorp Asset Management, Inc (USBAM), but PFM Asset Management was to continue to operate as a separate entity. On September 22, 2021, a document consented to the assignment of Investment Advisory Agreements between the investor and PFM Asset Management LLC (now known as "PFMAM") upon the change in control of the holding company of PFMAM. Effective December 7, 2021, PFMAM became a wholly owned subsidiary of USBAM. PFMAM will continue to operate as a separate registered investment advisor. On December 14, 2021, the County executed a signed contract with PFMAM, with a new fee schedule, and a term retroactive from July 30, 2021 through July 29, 2024.

Resolution No. 1036-2008 created a Vanderbilt Museum Oversight Committee, which was reconstituted by Resolution No. 110-2011. The Committee's purpose was to work with, and act as a liaison to, the Vanderbilt Museum Board of Trustees and the Museum's administrators to ensure the Museum's long-term financial viability. The Committee meets periodically on an as-needed basis.

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