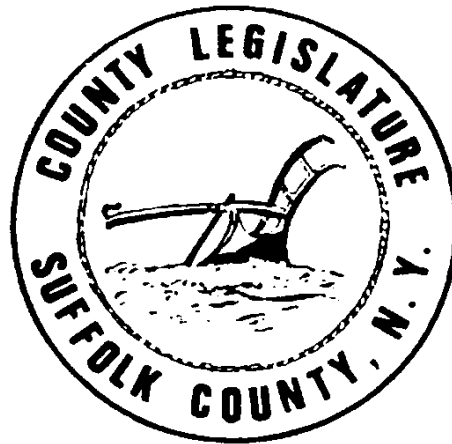


# VANDERBILT MUSEUM ENDOWMENT TRUST FUND ANNUAL REPORT

JANUARY 1, 2022 THROUGH DECEMBER 31, 2022



February 16, 2023

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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, 2022 through December 31, 2022. The following table summarizes the change in account market value over the year after accounting for distributions to the Vanderbilt Museum and Vanderbilt Enterprise Fund, 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 2022. 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 2022 but not received by December 31, 2022.

<b>Vanderbilt Trust Fund Performance Summary 2022</b>	
<b>Market Value</b>	
Market Value, Dec 31, 2021	\$17,454,189
Market Value, Dec 31, 2022	\$13,873,731
Change in Account Market Value After Distributions	(\$3,580,458)
Estimated Percent Decrease Including Distributions	(20.51%)
<b>2022 Distributions</b>	
Fees Paid to PFMAM	(\$43,155)
Fees Paid to US Bank	(\$4,175)
Disbursed to Vanderbilt Museum	(\$450,000)
Disbursed to Vanderbilt Enterprise Fund	(\$336,919)
Total Distributions	(\$834,249)
<b>Performance</b>	
Estimated Change in Account Value without Distributions	(\$2,746,210)
Estimated Percent Decrease without Distributions	(15.73%)
Percent Decrease as Calculated by PFM, Using Modified Dietz	(16.08%)

Major findings include:

- The 2022 year-end market value of the Fund was \$13,873,731, a decrease of \$3,580,458 from the 2021 year-end market value of \$17,454,189. The decrease is net of \$450,000 in remittances to the Vanderbilt Museum for operating expenses, \$336,919 in remittances to the Vanderbilt Enterprise Fund for capital expenses, \$43,155 in advisory fees paid to PFMAM, and \$4,175 in custodial fees paid to U.S. Bank.
- The Fund's 2022 total annual return was a negative 16.08% as calculated by PFMAM, the investment advisor, underperforming the blended benchmark by 0.80%.
- The Vanderbilt Museum received \$450,000 in disbursements from the Endowment for operating expenses in 2022.
- Starting in 2022, the Endowment is the funding source for the Vanderbilt Enterprise Fund, which was established by Local Law No. 4-2021 (Resolution No. 976-2020) to provide funding for capital improvements at the Museum, and/or to reimburse the

County for debt service attributed to the Museum's capital projects. In 2022, the Museum remitted \$336,919 from the Endowment to the Vanderbilt Enterprise Fund (757). In 2023, the County's Adopted Operating Budget includes a remittance of \$278,012 from the Endowment to Fund 757.

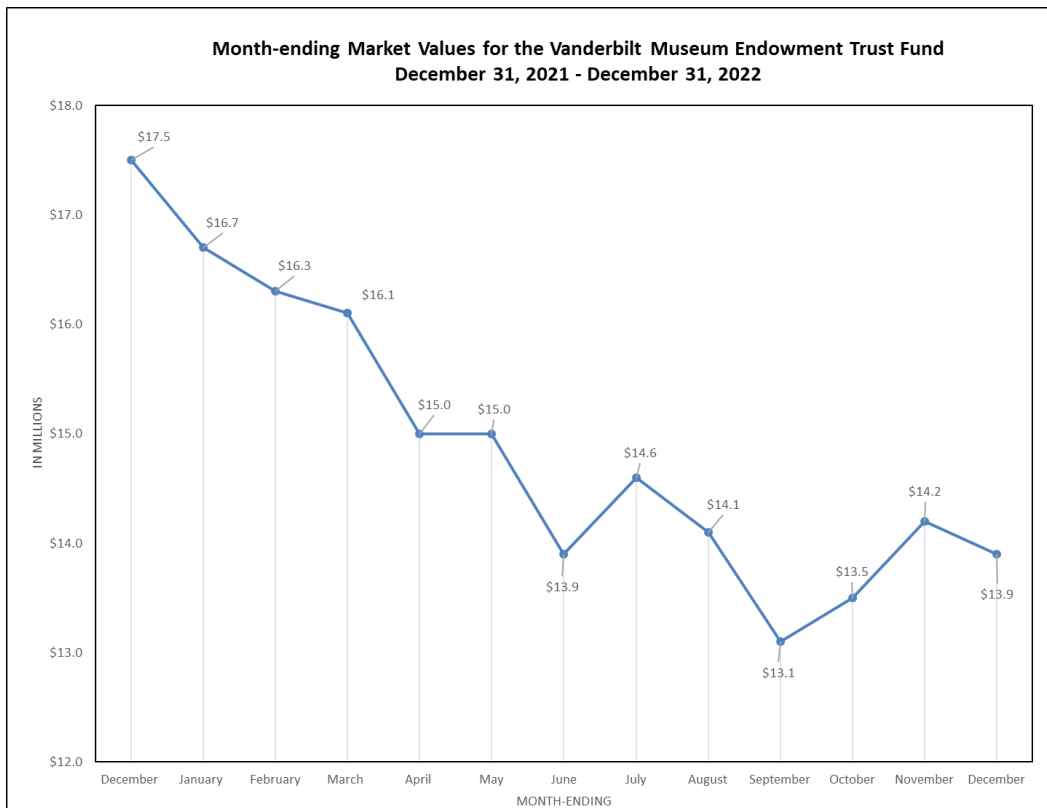
- The Suffolk County 2022 Adopted Operating Budget included \$1,209,909 in Hotel Motel Tax revenue for the Vanderbilt Museum; the 2022 estimate is \$1,214,857.
- PFMAM continues to recommend that the County adopt a more formal Investment Policy Statement (IPS) for governance of the Endowment. The IPS 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 2022, as calculated by PFMAM, was negative 16.08%, underperforming the blended benchmark of negative 15.28% by 0.80%. PFMAM uses a Modified Dietz methodology to calculate performance, which factors in the timing of cash flows. The calculated 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's assets in two accounts: dividends and interest are transferred monthly to a sub-account for income, while capital gains are re-invested.

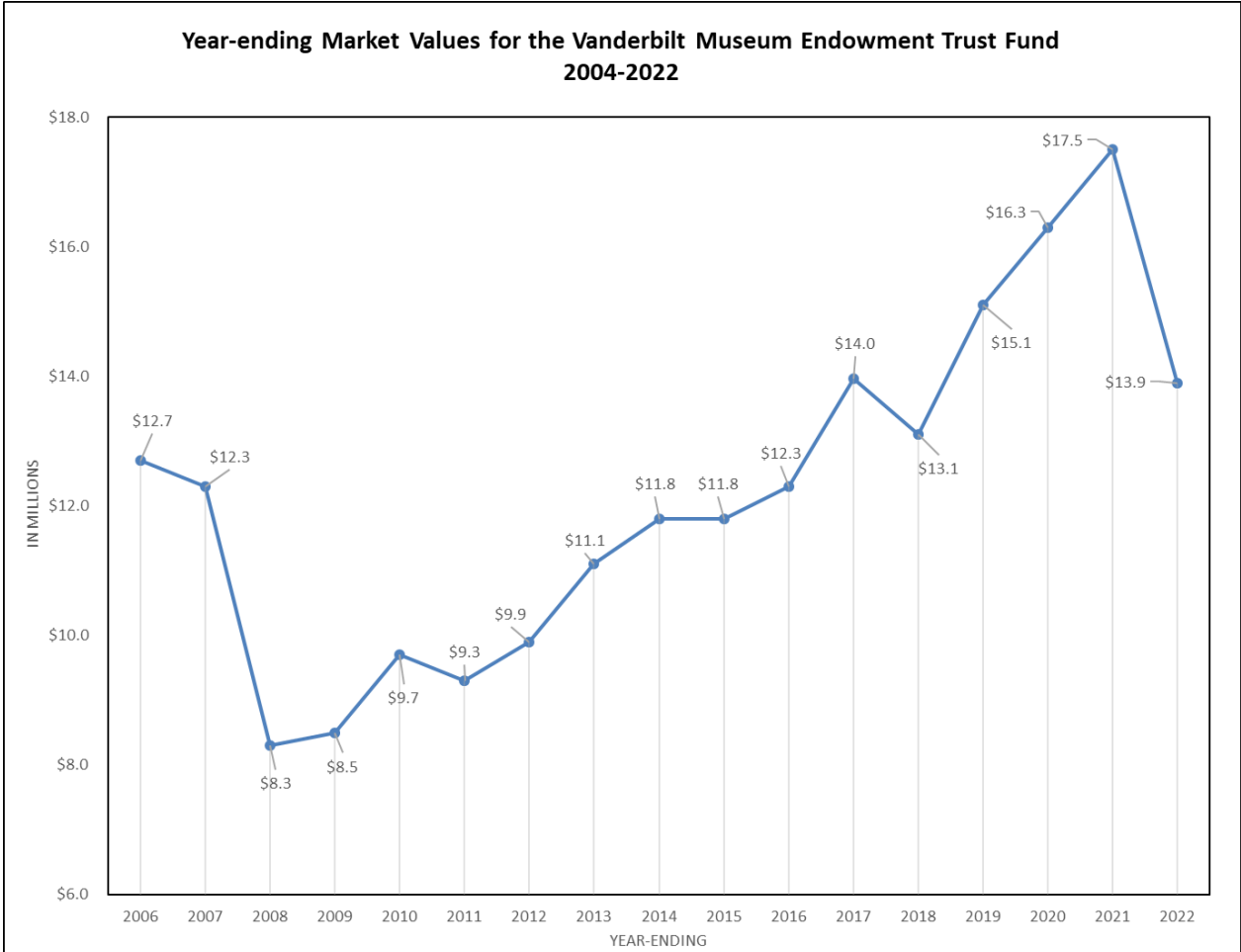
Based on data from U.S. Bank, the 2022 year-end market value of the Fund was \$13,873,731 (comprised of \$13,592,568 in the main account and \$281,163 in the income sub-account), excluding \$22,924 in accrued income. This year-end market value represents a net decrease of \$3,580,458, or 20.5%, from the \$17,454,189 market value at the start of the year. The year-end market value is net of \$450,000 in remittances to the Vanderbilt Museum for operating expenses, \$336,919 in remittances to the Vanderbilt Enterprise Fund for capital expenses, and \$47,330 in bank and management fees.

The following graph details the Fund's month-ending market values from December 31, 2021 through December 31, 2022. Distributions to the Vanderbilt Enterprise Fund in March (\$336,919) and to the Museum in April (\$150,000) and June (\$300,000) contributed to declines in market value during those months.

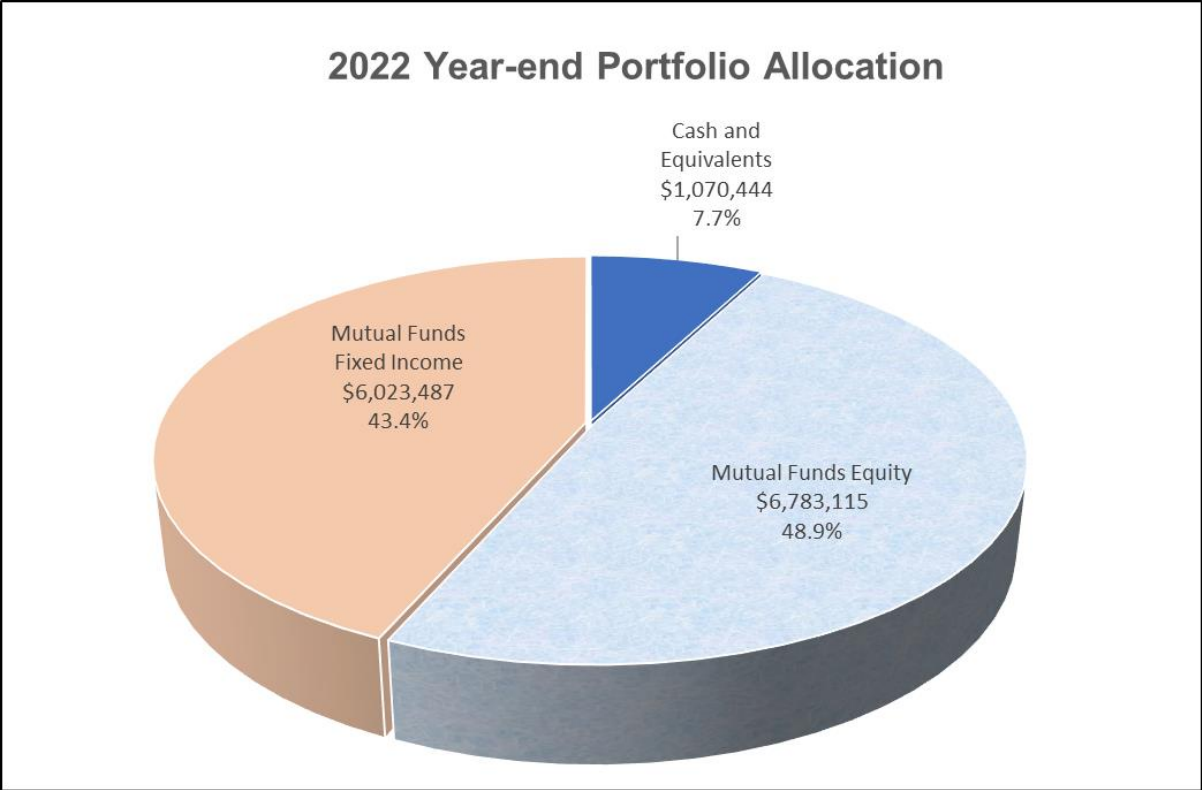


The preceding graph shows the Fund’s month-ending market values in 2022, however; as of January 31, 2023, the market value of the Fund had increased to \$14.6 million. This market value would be reduced by \$278,012 once the transfer to the Vanderbilt Enterprise Fund (757) has been effectuated, as included in the County’s 2023 Adopted Operating Budget.

As demonstrated by the following graph, the Fund has had a generally positive growth trend since the 2008 financial market crisis, when the market value of the fund approached the \$8.2 million corpus of the Endowment, but a significant decline occurred again in 2022.



The pie chart that follows is based on data from PFMAM and demonstrates the Fund's year-end asset allocation: 48.9% equity, 43.4% fixed income, and 7.7% cash and equivalents. The asset allocation complied with the allocation directive of Resolution No. 286-2014, which allows a 50/50 split between fixed securities and equities, with a variance of 10%-20%, as determined by market conditions.



The following table includes information provided by PFMAM and summarizes the Fund's asset allocation and performance as of December 31, 2022. The Fund's 2022 total annual return was negative 16.08%, which underperformed the comparative blended benchmark of negative 15.28% by 0.80%. Since PFMAM started to actively manage the Fund on September 1, 2010, the annualized total return is 6.54%, outperforming the blended benchmark of 5.86% by 0.68%.

Both the annual returns and the comparative benchmarks for all equity and fixed income investments were negative in 2022; with the only positive return in cash equivalents. Further details on asset allocation and performance of the listed investments are summarized on pages subsequent to the table.

Vanderbilt Museum Endowment Combined Assets										
Asset Allocation & Performance as of December 31, 2022										
	Allocation		Performance (%)							Inception Date
	Market Value (\$)	%	1 Quarter	2022	1 Year	2 Years	3 Years	5 Years	Since Inception	
<b>Total Fund - Combined Assets</b>	<b>13,877,046</b>	<b>100.00</b>	<b>5.85</b>	<b>-16.08</b>	<b>-16.08</b>	<b>-3.66</b>	<b>2.15</b>	<b>3.89</b>	<b>6.54</b>	<b>09/01/2010</b>
<i>Blended Benchmark</i>			5.80	-15.28	-15.28	-4.09	1.37	3.40	5.86	09/01/2010
<b>Domestic Equity</b>	<b>4,492,205</b>	<b>32.37</b>								
Vanguard Total Stock Index ETF	2,453,159	17.68	7.16	-19.50	-19.50	0.60	6.97	8.72	17.20	04/01/2020
<i>Russell 3000 Index</i>			7.18	-19.21	-19.21	0.76	7.07	8.79	17.32	04/01/2020
Invesco S&P 500 Equal Weight ETF	658,931	4.75	11.58	-11.60	-11.60	6.93	8.83	8.92	-6.76	03/01/2022
<i>S&amp;P 500 Equal Weighted</i>			11.64	-11.45	-11.45	7.14	9.01	9.11	-6.62	03/01/2022
Jensen Quality Growth Fund	673,034	4.85	9.11	-16.34	-16.34	4.42	8.95	11.37	10.65	04/01/2019
<i>S&amp;P 500</i>			7.56	-18.11	-18.11	2.66	7.66	9.42	10.29	04/01/2019
iShares Core S&P Mid-Cap ETF	353,885	2.55	10.78	-13.08	-13.08	4.10	7.18	6.65	-4.95	10/01/2021
<i>S&amp;P MidCap 400</i>			10.78	-13.06	-13.06	4.15	7.23	6.71	-4.92	10/01/2021
iShares Core S&P Small-Cap ETF	353,196	2.55	9.15	-16.20	-16.20	3.04	5.70	5.84	-9.62	02/01/2022
<i>S&amp;P SmallCap 600</i>			9.19	-16.10	-16.10	3.15	5.80	5.88	-9.53	02/01/2022
<b>International Equity</b>	<b>2,290,910</b>	<b>16.51</b>								
Vanguard Total International Stock ETF	1,154,494	8.32	14.71	-15.99	-15.99	-4.44	0.55	1.13	11.31	04/01/2020
<i>MSCI AC World ex USA (Net)</i>			14.28	-16.00	-16.00	-4.83	0.07	0.88	10.24	04/01/2020
J. O. Hambro International Select	109,192	0.79	14.62	-32.38	-32.38	-14.07	-1.42	0.90	4.40	01/01/2016
<i>MSCI AC World ex USA (Net)</i>			14.28	-16.00	-16.00	-4.83	0.07	0.88	4.80	01/01/2016
Harding Loevner International Equity	226,387	1.63	14.71	-20.23	-20.23	-6.96	1.37	2.33	3.58	07/01/2020
<i>MSCI AC World ex USA (Net)</i>			14.28	-16.00	-16.00	-4.83	0.07	0.88	4.86	07/01/2020
Vanguard FTSE Developed Markets ETF	689,693	4.97	17.11	-15.35	-15.35	-2.85	1.35	1.68	-9.60	03/01/2022
<i>MSCI EAFE (net)</i>			17.34	-14.45	-14.45	-2.44	0.87	1.54	-8.49	03/01/2022
Hartford Schroders Emerging Markets Equity	111,144	0.80	10.43	-22.28	-22.28	-14.12	-3.05	-1.24	-1.88	03/01/2018
<i>MSCI EM (net)</i>			9.70	-20.09	-20.09	-11.75	-2.69	-1.40	-2.11	03/01/2018
<b>Fixed Income</b>	<b>6,023,487</b>	<b>43.41</b>								
Baird Core Plus	1,779,582	12.82	2.51	-12.87	-12.87	-7.13	-2.10	0.55	1.77	05/01/2014
<i>Blmbg. U.S. Aggregate</i>			1.87	-13.01	-13.01	-7.45	-2.71	0.02	1.15	05/01/2014
DoubleLine Core Fixed Income	899,426	6.48	1.17	-12.76	-12.76	-6.75	-2.80	-0.17	-0.15	09/01/2017
PGIM Total Return Bond	1,416,673	10.21	2.31	-14.86	-14.86	-8.26	-3.10	0.09	0.23	09/01/2017
<i>Blmbg. U.S. Aggregate</i>			1.87	-13.01	-13.01	-7.45	-2.71	0.02	0.00	09/01/2017
Voya Intermediate Bond	904,159	6.52	1.64	-14.21	-14.21	-7.86	-2.83	0.14	-2.83	01/01/2020
<i>Blmbg. U.S. Aggregate</i>			1.87	-13.01	-13.01	-7.45	-2.71	0.02	-2.71	01/01/2020
iShares Intermediate-Term Corporate Bond ETF	338,896	2.44	3.57	-14.06	-14.06	-8.06	-2.51	1.06	-1.93	10/01/2019
<i>ICE BofAML U.S. Corporate 5-10 Year Index</i>			3.82	-14.12	-14.12	-7.98	-2.36	0.91	-1.79	10/01/2019
Pacific Funds Floating Rate Income	457,436	3.30	2.72	-0.83	-0.83	1.86	1.77	2.77	-1.24	02/01/2022
<i>Credit Suisse Leveraged Loan Index</i>			2.33	-1.06	-1.06	2.12	2.34	3.24	-1.41	02/01/2022
MainStay MacKay High Yield Corp Bond Fund	141,817	1.02	3.95	-7.81	-7.81	-1.45	0.74	2.66	-3.54	06/01/2021
<i>ICE BofAML High Yield Master II</i>			3.98	-11.25	-11.25	-3.31	-0.25	2.11	-5.53	06/01/2021
Vanguard Total Bond Market Index-Adm	85,499	0.62	1.67	-13.16	-13.16	-7.59	-2.75	-0.01	1.19	05/01/2012
<i>Blmbg. U.S. Aggregate</i>			1.87	-13.01	-13.01	-7.45	-2.71	0.02	1.25	05/01/2012
<b>Cash Equivalent</b>	<b>1,070,444</b>	<b>7.71</b>								
First American Government Obligation	1,070,444	7.71	0.86	1.48	1.48	0.75	0.62	1.13	0.54	09/01/2010

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



### ***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.

Based on the preceding table from PFMAM, the market value of the Fund's equity investments totaled \$6,783,115 as of December 31, 2022, representing 48.9% of the Fund's total market value. This amount is comprised of \$4,492,205 (66.2%) in domestic equities and \$2,290,910 (33.8%) in international equities. The performance of the Fund's equity investments ranged between negative 32.38% (J.O. Hambro International Select) and negative 11.60% (Invesco S&P 500 Equal Weight ETF) in 2022. One of the Fund's five domestic equity investments (Jensen Quality Growth Fund) and one of the Fund's five international equity investments (Vanguard Total International Stock ETF) exceeded industry benchmarks, while other equity investments underperformed industry benchmarks to varying degrees.

### ***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 funds was \$6,023,487 representing 43.4% of the Fund's total market value. The performance of the Fund's bond investments ranged between negative 14.86% (PGIM Total Return Bond) and negative 0.83% (Pacific Funds Floating Rate Income) in 2022. Five of the eight fixed income investments exceeded industry benchmarks; while the others underperformed to varying degrees.

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 U.S. government securities and repurchase agreements secured by U.S. government securities. Cash Equivalents are the only investment that saw a positive return (1.48%) in 2022. The 2022 year-end market value of cash equivalents was \$1,070,444, representing 7.7% of the Fund's total market value.

## **Capital Gains/Losses**

The Fund's 2022 year-end market value included \$464,293 in realized capital gains. Additionally, it included a negative \$30,243 in unrealized capital gains, which is the difference between the year-end market value of the Fund, \$13,873,731, and its year-end book value, \$13,903,974. The change in unrealized gains/loss compared to year-end 2021 was a negative \$3,682,762.

<b>2022 Endowment Trust Fund Summary</b>	
<b>Beginning Market Value, as of December 31, 2021</b>	<b>\$17,454,189</b>
<b>Investment Activity</b>	
Interest	\$7,617
Dividends	\$464,639
Realized Gain/Loss	\$464,293
Change in Unrealized Gain/Loss	(\$3,682,762)
<b>Plan Expenses (Investment Advisory and Admin. Fees)</b>	
Paid to PFMAM	(\$43,155)
Paid to US Bank	(\$4,175)
<b>Disbursed to Vanderbilt Museum</b>	(\$450,000)
<b>Disbursed to Vanderbilt Enterprise Fund</b>	(\$336,919)
<b>Ending Market Value, as of December 31, 2022</b>	<b>\$13,873,731</b>
<b>2022 Net Decrease in Market Value</b>	<b>(\$3,580,458)</b>

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 \$472,255 in 2022 (\$467,743 from the main account and \$4,512 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**

### **Hotel Motel Tax**

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. Since then, Hotel Motel Tax has been the primary source of County support for the Museum. The Museum no longer receives guaranteed annual payments from the Endowment. Instead, the use of funds from the Endowment are by request from the Museum and approval by the Legislature's Presiding Officer, on a case-by-case basis.

The Suffolk County 2022 Adopted Operating Budget included \$1,209,909 in Hotel Motel Tax funding, based on a 9.6% allocation of the tax, and the 2023 Adopted Operating Budget includes \$1,359,653, based on an 8.6% allocation of the tax. See Appendix A at the end of

this report for more detail on historical County support for the Vanderbilt Museum through the Hotel Motel Tax. The authorization for the current Hotel-Motel Tax legislation is set to expire on December 31, 2023.

The Suffolk County Legislature approved Home Rule Message No. 7-2022, which requested that the New York State Legislature amend the Hotel and Motel Tax. The state legislation has been approved (Chapter 813 of the Laws of New York State). The adopted state legislation authorizes the County to increase the Hotel and Motel Tax rate from 3% to 5.5% and sets the allocation to the Vanderbilt Museum at \$1,250,000 per fiscal year, which is \$109,653 less than the amount included in the 2023 Adopted Operating Budget for the Vanderbilt Museum. The state enabling legislation includes a 1% annual escalation for the Museum's allocation. Further action by the Suffolk County Legislature is required to enact the legislation in the County. Introductory Resolution No. 1096-2023, laid on the table February 1, 2023, would adopt a Local Law to amend the Hotel and Motel Tax Law, if approved.

### ***Disbursements from the Endowment***

The Museum continued to be affected by lingering pandemic-related economic effects and reduced attendance in 2022, compared to pre-pandemic levels; therefore, the Museum requested and received \$450,000 in disbursements from the Endowment in 2022 for operating expenses (\$150,000 for the installation of the celebration tent and building maintenance and \$300,000 for Museum operations).

Although the Museum's 2022 year-end Treasurer's report was not yet available, the Museum's revenues were projected to exceed expenses, based on actual November totals. The year-end revenue projection includes the \$450,000 disbursement from the Endowment; without it, there would be a projected deficiency of \$94,953. As discussed in the next section, starting in 2022, funds from the Endowment have also been dedicated for Museum capital projects.

### **Vanderbilt Enterprise Fund**

This County fund was established by Local Law No. 4-2021 (Resolution No. 976-2020) and was first included in the County's 2022 Adopted Operating Budget. It was designed to provide a dedicated funding source for capital improvements at the Museum and/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 its \$8.2 million corpus. The Museum is still able to request additional annual withdrawals from the Endowment based on its operational needs.

The 2022 Adopted Operating Budget included the transfer of \$336,919 from the Endowment to the new Vanderbilt Enterprise Fund (757). The 2023 Adopted Operating Budget includes an Endowment transfer of \$278,012 to Fund 757. The 2023 adopted funding had not yet

been transferred out of the Endowment as of early 2023 when this report was written.

Procedurally, the market value of the Endowment on June 30th is 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, as well as other disbursements from the Endowment, would typically occur upon request by the Museum and approval by the Presiding Officer. The use of monies in the Enterprise Fund are contingent upon approval of the Museum’s Board of Trustees and an approved Legislative appropriating resolution.

## PFMAM Market Analysis

Periodically over the past few years, PFMAM has used capital market assumptions (CMAs) to perform a market analysis in an effort to determine a sustainable annual spending rate that would still allow for account growth. The expected annualized return varies with the starting account value, known expenditures, and with whether intermediate-term (5-year) or long-term (30-year) CMAs are used in the analysis. Actual results may differ depending on actual financial market conditions.

The most recent PFMAM asset allocation model, provided on February 8th, 2023, assumed beginning assets of \$13.9 million, the approximate value of the account on December 31, 2022. PFMAM then compared the effects of 2% and 4% annual withdrawals on projected account values over various terms. The following table summarizes the projected market values after 5 years for 2% and 4% annual withdrawals, based on a 50% equity/50% fixed income allocation.

The 50<sup>th</sup> percentile is the mean, or middle value. The 5<sup>th</sup> and 95<sup>th</sup> percentiles are included to demonstrate the range in projected outcomes. Projected values would be lower than the 5<sup>th</sup> percentile 5% of the time, and higher than the 95<sup>th</sup> percentile 5% of the time. Although the 50<sup>th</sup> percentiles show a projected increase in market value after five years with either a 2% or 4% annual withdrawal, the 5<sup>th</sup> percentiles show a projected decrease from the \$13.9 million starting value, for both 2% and 4% annual withdrawal scenarios.

<b>5-Year Market Value Projections, Based on a 50/50 Portfolio</b>		
	<b>2% Annual Draw</b>	<b>4% Annual Draw</b>
<b>Percentile</b>	<b>Market Value in Millions</b>	<b>Market Value in Millions</b>
95th	\$24.7	\$22.3
<b>50th</b>	<b>\$17.7</b>	<b>\$16.0</b>
5th	\$12.9	\$11.7

The 30-year projected market values at the 50<sup>th</sup> percentiles were \$49.7 million with a 2% annual withdrawal and \$26.8 million with a 4% annual withdrawal. However, at the corresponding 5<sup>th</sup> percentiles, the projected market values were \$23.4 million for a 2% annual withdrawal and \$12.6 million for a 4% annual withdrawal, the latter of which is \$1.3

million less than the \$13.9 million starting account value.

As there can be considerable volatility in market conditions in any one year, and considering the Fund's investment objective of income and capital growth, we have cautioned that it would be prudent for the Museum to limit total annual withdrawals to 3% (2% for the Vanderbilt Enterprise Fund plus 1% for other Museum needs). Should the Museum choose to follow that recommendation, approximately \$139,000 would be available for other needs in 2023, based on one percent of the June 30, 2022 market value.

## **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 Endowment 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 table show the fees under the December 2021 contract, which applied new, lower rates retroactively from July 30, 2021, and continuing through July 29, 2024.

<b>PFMAM Investment Advisory Fee Schedule as of Contract executed December 14, 2021 (retroactive from July 30, 2021 through July 29, 2024).</b>	
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

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.

<b>U.S. Bank Custody Fee Schedule for PFM Asset Management LLC Managed and Advised Accounts Program</b>	
<b>Domestic Administrative Fee</b>	
First \$100MM Market Value	2.5 basis points* annually
Remaining Market Value	1.5 basis points annually
<b>Portfolio Transaction Fees</b>	
Book Entry Transactions - DTC or Fed	\$7.50
Physical Transactions	\$7.50
Wire Transactions	\$7.50
<b>Benefit Payment Transaction Fees (if applicable)</b>	
Checks - Recurring Distributions	\$2.50
Wires	\$10.00
ACH (with advice)	\$2.00
ACH (without advice)	\$1.50
Lump Sum Distributions	\$15.00
<b>Other</b>	
TrustNow or TrustNow Essentials (on-line)	\$0.00
TrustNow Customized (separately bid)	\$0.00
Performance Measurement (optional)	\$250.00
<b>Out-of-Pocket Expenses</b>	
The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees.	
<b>Note:</b> * 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 2022, a total of \$47,330 was paid in advisory fees to PFMAM (\$43,155) and custodial fees to U.S. Bank (\$4,175). 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 Trustees<sup>1</sup> 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 value<sup>2</sup>.

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<sup>1</sup> 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.

<sup>2</sup> "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 changing 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, but the 3% tax rate and the statutory distribution of revenue from the tax remained unchanged through December 31, 2023.

The Suffolk County Legislature approved Home Rule Message No. 7-2022, which requested that the New York State Legislature amend the Hotel and Motel Tax. The state legislation has been approved (Chapter 813 of the Law of New York State). It authorizes the County to increase the Hotel and Motel Tax rate from 3% to 5.5%. The legislation includes a first-year allocation to the Vanderbilt Museum of \$1,250,000 with a 1% annual escalation, assuming sufficient tax revenue. Further action by the Suffolk County

Legislature is required to enact the legislation in the County. Introductory Resolution No. 1096-2023, laid on the table February 1, 2023, would adopt a Local Law to amend the Hotel and Motel Tax Law, if approved.

The following table demonstrates Hotel Motel Tax funding for the Vanderbilt Museum as included in the 2010-2023 Operating Budgets.

<b>Hotel Motel Tax to Vanderbilt</b>		
<b>Year</b>	<b>Amount</b>	<b>% of Hotel Motel Tax</b>
<b>2010</b>	\$692,498	10%
<b>2011</b>	\$705,097	10%
<b>2012</b>	\$726,499	10%
<b>2013</b>	\$930,140	10%
<b>2014</b>	\$1,028,370	10%
<b>2015</b>	\$878,544	9.5%
<b>2016</b>	\$873,954	9%
<b>2017</b>	\$1,049,530	9.5%
<b>2018</b>	\$1,158,127	9.0%
<b>2019</b>	\$1,143,087	9.3%
<b>2020</b>	\$892,204	9.4%
<b>2021*</b>	\$1,226,002	9.4%
<b>2022 Estimate</b>	\$1,214,857	9.6%
<b>2023 Adopted</b>	\$1,359,653	8.6%

\*The 2021 Actual revenue includes \$326,632 in American Rescue Plan funding allocated to the Hotel Motel Tax Fund for the Vanderbilt Museum by Resolution No. 204-2021. 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 and/or for the payment of 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 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 and/or to reimburse the county cost for the Museum’s capital project debt service on bonds issued in 2021 and thereafter. 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. The resulting credit from the retroactive fee adjustment for the latter half of 2021 was to be applied on 2022 invoices.

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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