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December 11, 2018

TO: Board of Directors, F.M. Kirby Foundation, Inc.

FROM: S. Dillard Kirby, President *s. d. K.*

SUBJECT: Strategic Planning – A look back (2016-2018) and ahead (2019-2021)

Following our December 7, 2018 Board meeting in which the Board accepted the 2nd draft as welcome adjustments based on Board member feedback, I have now prepared a 3rd and final draft to reflect further commentary (primarily on page 7) discussed during our December 7 meeting.

2016-2018

Our current strategic plan has focused on drilling into the two final dockets we had yet to tackle within the canon: 1) Education in 2016, for which we had a Board meeting at The Hill Center that spring and Alice led the discussion at our September 2016 meeting; and 2) Human Services in 2017, for which we visited Emily K in the spring and Wilson guided us into a broader discussion that concluded with our meeting at Daytop in December 2017. Now in 2018, we have circled back to the Environmental docket after several years to focus on land preservation, conservation, and stewardship in NC, NJ, and the Adirondacks. Laura, Sandie, and Alice have helped with this analysis/discussion.

Additionally, over the past three years, we developed the Kirby Alliance into a self-sustaining initiative, having completed the spin-off grant distributions and organized numerous meetings both in Morristown and off-site at locations of mutual interest. During all of this, we had more personnel changes than normal. On the Board side, WDK passed away after serving on the Board for over 40 years, Leigh joined us, Ward resigned, and Ashley rotated in. Regarding the Board Development "guests" Program, Lizzie, Morgan, and Walker have all been invited to attend Board meetings, having reached the age of 25. On the staff team side, Frank resigned, Diana was hired to fill the role of Treasurer and Secretary, and Erin was initially brought on as the Foundation's first intern; shortly thereafter, she was hired full time to support our communications effort and supplement our grant evaluation work. Overall, a net increase of one staff member.

Below I have restated key takeaways from our **2015** Strategic Plan discussion and then, in bold, attempted to evaluate progress over these three years:

Regarding Risk:

1) Directors liked the conversation about grants portfolio risk, and the general consensus was that, on a broad basis, we are taking on appropriate risk levels. The degree of risk varies by docket and we should look for specific opportunities to "stretch," but no big shake up here. Also, since so much of our support is general operating, we do not always hear about the "program" failures and perhaps we should press to understand "successes" and "failures."
    - **<u>Grade: B</u> │ There probably has not been a notable shift toward riskier investments, although let's face it, the entire KA initiative has had its degree of risk and uncertainty which has probably put a lid on other riskier grant commitments. Our medical research support continues to emphasize the more speculative work. High profile successes at Leukemia & Lymphoma and Scheie Eye Institute particularly come to mind. We have added several new grantees within our Human Services docket and in some cases we are supporting novel outreach programs, e.g., The Hill Center. The Human Services docket has several grantees that are on shaky ground, which is not unusual, but as a percentage of the Foundation's total giving, these cases are minimal. JoAnn dedicates much of her efforts within this docket and provides timely analysis, encouraging efforts to "connect" agencies where appropriate. An area in which the Foundation could perhaps explore taking on more risk is in the Education and the Public Policy arenas. The bulk of the investments in the former are with long-standing institutions with direct family engagement.**

Our Giving Circles:

2) We shall continue to think in the context of the three circles: a) grantees touching people's lives in the short term; b) grantees touching people's lives in the long term; and c) our institutional "family" grantees.
    - **<u>Grade: NA</u> │ There has been little change between a) and b). What has grown is c), caused by an expanding family and many Board members' direct involvement with grantees. This is a natural progression as more Board members and "guests" have become more directly engaged. This is not an item for which we had a metric to grade ourselves, but is, rather, a part of our DNA.**

The Core Grants Budget:

3) Doing our best to maintain a $15+ million grants budget while in the midst of the KA plan seems reasonable, as does the $275 million endowment level as the bottom (versus $400 million now). This assumes a moderate annual growth rate during the next few years of 5% - 7% on a time-weighted basis. We do not want to close up

"shop" as we literally could have in 2017 and 2018 given the large KA distributions we've made. We recognize that discipline will be required to adhere to a 25% - 30% reduction in our annual grants level over the next couple of years versus our 2014 actual. This does not mean no new grantees will be developed, just very selectively.

- **Grade: A- │ I think a fairly high mark here is appropriate as discussed in our 2017 Grants Summary Book. Naturally, the equity markets helped us, but so did our core grants budget discipline. As of the final KA distribution this past January, the endowment settled in the $325 million range, and subject to portfolio performance ahead, we seem reasonably positioned for a $15 million-type annual grants budget going forward, hopefully adjusted for inflation. We also need to remind ourselves from time to time that based on the KA spin-off of $112.5 million, we can hopefully take some satisfaction that an additional $5+ million (assuming an annual, average draw of 5% in aggregate) is being distributed annually in the form of grants toward worthy causes, such as the Kirby Episcopal House most recently and others.**

Capacity Building Investments:

4) All seemed pleased with some increased efforts toward capacity building and using some modest expenses to accomplish such.
    - **Grade: A- │ Clearly, hiring an intern that developed quickly into an additional, full-time member of our team is the most dramatic example of our efforts to build capacity. Erin, with support from JoAnn, has helped expand our website capabilities and tracking and, with Bill's support, has added "bench" strength to our evaluation work. We have invested a bit more in "enhanced technology," participated in more workshops and conferences, held our Board meetings off-site to better highlight some grantees, included more grantee presentations into the Board meeting agendas, and convened robust Kirby Alliance meetings. At the same time, we have not done much to increase our public profile; perhaps that is a "balancing act" we need to discuss.**

Mission Statement Revisions:

5) General thought was that the mission statement could use some updating and was perhaps a bit stale; it was last updated about 15 years ago and then about 15 years before that.
    - **Grade: A │ We did so three years ago (see below). We do receive positive feedback from both our grantees and some colleagues within the field. (I don't advise that we go through this process again too soon).**
        i. "The F. M. Kirby Foundation aims effectively to manage and utilize that which has been entrusted to it over multiple generations of the Kirby family. It strives to make thoughtful and prudent philanthropic commitments to highly selective grantee partners. The goal is to invest in opportunities that foster self-reliance or otherwise create strong,

> healthy communities. The Board of Directors recognizes that achieving its philanthropic aspirations takes time, effort and perseverance that often result in sustained funding relationships."

In summary, since we began strategic planning six years ago, our core grants budget dropped from a high of $20 million to an average of $13 million (exclusive of the $112.5 million KA qualified distributions). We phased out 90 grantees but added 40 new grantees for a net reduction of $2 million to the core grants budget.

2019-2021

"There are no gains, without pains." – Benjamin Franklin.

And then in 1982, my hero, (cough, cough) Jane Fonda, shortened it to:

"No pain, no gain."

The Kirby Alliance (KA) funding transition is complete, although the overall KA process will take ongoing energy and relationship building to continue on a successful path as defined in the original "Guiding Principles." The KA initiative has resulted in some pain in terms of a lower core grants budget but also some sizable gains which we have discussed at various Board meetings. Therefore, it now seems fully appropriate to embark on a new plan taking us through 2021, a plan that sets us on a positive trajectory both independent of and interdependent on the Kirby Alliance. We also recognize that there are potential equity and fixed market headwinds that could negatively impact our endowment and cause us to adjust our direction; therefore, we must also play adequate defense. Jeff is leading us as far as the endowment is concerned, and Bill leads us on the grants side. My role will be to meld the two with the support of all of you and our team here. In that vein, our staff team has some suggestions that we hope will resonate with you but also challenge us to add or delete as you see fit.

1) <u>Programmatic focus using the Board survey:</u> We tackled land conservation/preservation/stewardship in 2018 as it was the one survey topic the entire Board had as a top selection. Other very high ranking topics were Immigration Reform, Drug Addiction in America, Higher Education Reform, and Research Funding: Type 1 Diabetes (Cancer and Neuroscience also remain high priorities and possible topics). We might address all of these over the next -3-year period, and instead of just having our grantees present, perhaps in the first three cases (Immigration, Drug Addiction, and Higher Education) hear about both "sides" of the topics (i.e. hear from non-grantee organizations, as well). This approach might generate a broader perspective and provide more insight with respect to "riskier" grantmaking investments going forward.

2) Grants budget and controlled expenses: Target an annual grants budget of $13 million as a bottom and $17 million as a reasonable top to shoot for by 2021. As for average grant amount and total number, we have moved from 250 grantees to approx. 225 (10% decrease) since 2016, and the average grant amount has decreased approximately 20%. What shall be the trend going forward? Hopefully our budget expands, but it is more likely that, as the next generation is more fully engaged, the number of new grantees is likely to increase, which is fine, but may be balanced to a degree by further reduction/elimination of similarly-sized grants that best reflect family interests under FMK's II leadership (recognizing that there are long-term grantee partners, especially within the education docket, that have been important to past generations and important for the "next" generation to understand the relationships). There are probably a dozen or so, especially in the Public Policy dockets, that appear to have become less important to the Board. So perhaps we remain in the current range of 225 that we think serves us well and continue the discipline of deepening relationships with fewer grantees versus superficial transactions with many more.

   Maintain an annual administrative expense budget within the current $1 million range, adjusted for inflation that will hover between $1 million and $1.1 million over the next three years.

3) Endowment monitoring – employment of "best practices": Adhere to the Investment Policy Statement (risk profile, etc.) as designed by the Investment Committee. Maintain 5%+ CPI type returns; control management fee expenses through a use of both passive and reasonably priced active management options. Perhaps modestly expand the Investment Committee group.

   Endowment Monitoring – Best Practices:

   i. Quarterly Assessment of Allocations vs. IPS
   ii. Quarterly Assessment of Portfolio Actual Returns vs. Target
   iii. Annual Review of Total Portfolio Return Target
   iv. Peer Manager Performance Comparisons
   v. Peer Sharing via Foundation Financial Officers Group (FFOG) – Diana should consistently attend quarterly meetings so as to develop other "best practices" learned from our peers.

4) Kirby Alliance – Next Steps: Continue efforts with the Kirby Alliance that reflect the philosophical intent of the "Guiding Principles" and encourage more direct leadership from the other branches.

   i. Monitor Kirby Episcopal House project. Tentative KA meeting there is scheduled for June 2019. Discuss and consider seeking a representative on that Board or not.

ii. Discuss next “big” investment focus based on KA Survey results. Private Enterprise and Democratic Capitalism, Higher Education Reform, and Basic Medical Research appear to be of highest interest. It would seem that some KA presentations should include broader family/Board participation as there is an overlap in priority interests. For example, the planned January 2019 KA presentation by Arthur Brooks of the American Enterprise Institute.

iii. Identify other KA members to “lead” KA meetings in 2019-2021 on a volunteer, rotating basis. Adhere to two meetings a year, perhaps one of them annually, at a non-profit site of mutual interest to KA members. Seek to nudge other KA members to educate themselves so as to stimulate more proactive grant making, but remain mindful of our KA policy of no “arm twisting.” Suggest that KA attend one or more of the Family Philanthropy meetings that CNJG hosts monthly via teleconference.

5) <u>Communications:</u> Continue to improve and tweak our website, for both public and “Board Only” access.

6) <u>Succession planning – staff and Board:</u> Regarding staff, recruit and develop new VP – Grants or Executive Director role by December 2021 (Bill’s planned retirement unless we can convince him otherwise) and further develop current staffs’ talents as the “natural” transition continues. This gives us basically three years to fill Bill’s large shoes. Under the Executive Session at the December 7, 2018 meeting we discussed an updated draft that I had prepared and was distributed to Board members and Guests ahead of the meeting. The plan was embraced by the Board with the understanding that we would review again in no later than three years.

More broadly, the office is a well-oiled machine, which is a blessing, but if not for regular “service checks,” could be a curse. The staff knowledge and cohesiveness is impressive. The processes are in place, but a concerted effort to properly and sufficiently document processes and a more formal “cross-training” regimen is needed to assure ongoing high-quality operations.

Regarding the Board, cultivate and expand the “guests” program as we develop future family Board members. This shall include a more enhanced and formalized Board orientation process; perhaps engage “guests” in some committee member capacity (e.g., Investment Committee seems like an opportunity). Leigh and Erin led us in this initiative and distributed a second draft at the December 7, 2018 meeting. Such document was embraced by the Board and it was agreed to take the steps to begin implementation in the new year. Also, continue to maintain at least two "outside" directors and provide ample opportunities for their engagement and planned tenure as current Board members (Sandie and Wilson) feel most comfortable and engaged.

Some concluding comments and questions: As we look toward the next three years, we thought it would be an interesting exercise to look back from a grant dollar amount perspective at our most significant philanthropic investments in aggregate over the past 50 years (See Appendix A). We chose 50 years because it is an appropriate anniversary and it closely ties into a period when the Foundation emerged as a more professionally organized grantmaker under FMK II's leadership in 1967 (actually, there was a transition year between mid-1966 and end of 1967). This also occurred at the time the mandatory IRS 5% grant distribution requirement took effect.
When one looks at the figures, one needs to keep in mind that there are only a handful of top dollar grantees with relationships of 50 or more years. It is so much easier for those in that category to have accumulated large dollar amounts versus others on the list with less than 15 years tenure. Dollar amounts only indicate the size of investments made, not the resultant impact.

In evaluating impact, we should consider an appropriate period of time to do so. This would vary among grant dockets and beneficiaries. For example, a soup kitchen might be best evaluated by daily meals served, while, within the medical research docket, grantees are probably best evaluated over a 5-10 year period. We often think of this within the context of grantees that "touch people's lives daily" and those that "touch lives in the long term." A big-picture perspective covering the period of the current strategic plan is laid out in Appendix B. The Venn diagram takes a look at this dynamic within the context of our grants portfolio.

It appears that the current board has deemed the degree of risk within our grants portfolio as worthy of consideration. While we have a fair degree of speculative-type support within our medical research docket, a significant percentage of overall grantees are very well-established organizations providing important work; however, some might characterize these as "plain vanilla," even if very sweet, choices. Many of these fall within the human services docket and are providing the safety net in communities important to the Foundation Board. That being said, there are exceptions and we may look to expand upon those. This theme also carries into a second consideration that we may want to choose a significant, riskier philanthropic investment that simultaneously allows us to increase our public profile in a very positive light. We realize our ability to do so is dependent on our budget and perhaps our willingness to dilute, to some degree, the high number of grantees to whom we provide regular, consistent, general operating support. The latter has long been a part of our DNA and has been somewhat unique among our peers.

Finally, some interesting facts…We have given away approximately $700 million over the past 50 years, well over two times our current endowment! Approximately $250 million of that has been distributed during the period of the last two strategic plans, including $112.5 million through KA distributions. So while we have always been about continuing in perpetuity (versus "sun-setting"), I think it is important to reflect what the mandatory 5% annual distributions have equated to and the level which active philanthropy requires. This is particularly relevant when we hear from time to time the desire from "watchdogs" to increase the 5% figure. You will note that, of the approximate $700 million distributed, $80 million or 11.5% has been invested in

Lafayette College ($50+ million) and Lawrenceville (just over $31 million) during this 50-year period, which does not reflect any personal family giving beyond that of the FMKF.

I really admire Stephen Covey and his book, *The 7 Habits of Highly Effective People* (1989). In closing then, I share…"Habit 6: Synergize: Combine the strengths of people through positive teamwork, so as to achieve goals that no one could have done alone."

Facta non verba; faciamus illud!
(Deeds not words; let's do it!)

Grants Budget

Appendix A
FMKF Funding: 50 Year History

1) **Education**
15 organizations, cutoff at $1.3M

	Relationship (*in years*)	Funding (*in millions*)
Lafayette College	50+	50.8
The Lawrenceville School	50+	31.3
Wake Forest University	25	11.8
The Fuqua School of Business	30	8.7
Wyoming Seminary	55	7.9
Rutgers University (Neuroscience: $2.4M; Nursing: $1.6M; Cancer: $1M; Sex Ed: $400K)	42	5.4
Marian Sutherland Kirby Library	36	3.5
The Hill Center	15	2.8
The National Football Foundation	50+	2.6
Drew University	47	2.4
The Peck School	50+	2.3
Durham Academy	32	1.9
Greensboro Day School	27	1.5
Gill St. Bernard’s School	33	1.3
Newark Academy	43	1.3

Total: 135.5

2) **Health**
10 organizations, cutoff at $5.2M

	Relationship (*in years*)	Funding (*in millions*)
The Scheie Eye Institute	37	14.3
Kennedy Krieger Institute	20	13.4
Children's Hospital Corporation	20	12.1
The Rockefeller University	24	11.1
American Cancer Society (National: $6.2M; Eastern: $3.9M)	42	10.1
Foundation for Morristown Medical Center	50+	8.6
Albert Einstein College of Medicine of Yeshiva University	15	7.9
Alzheimer's Association	33	7.8
Memorial Sloan-Kettering Cancer Center	39	7.5
United Network for Organ Sharing	20	5.2

Total: 98.0

3) **Human Services**
11 organizations, cutoff at $1.4M

	Relationship (*in years*)	Funding (*in millions*)
United Way (NJ: $10.1M; NC: $2.7M; PA: $2.4M)	50+	15.2
American Red Cross (National: $10.4M; other chapters: $2.6M)	43	13.0
Planned Parenthood (National: $3.8M; other chapters: $4.3M)	43	8.1
Cornerstone Family Programs ($3.2M)/Morristown Neighborhood House ($1.3M) – merged in 2013	50+	4.5
Madison Area YMCA	48	4.3
The Seeing Eye	41	3.5
Fred M. & Jessie A. Kirby Episcopal House	46	3.4
Summit Speech School	30	3.1
Jersey Battered Women's Service	39	2.3
P.G. Chambers School	27	1.7
Homeless Solutions	33	1.4

Total: 60.5

4) **Arts, Culture, and Humanities**
12 organizations, cutoff at $1.6M

	Relationship (*in years*)	Funding (*in millions*)	
F.M. Kirby Center for the Performing Arts	32	6.3	
The Shakespeare Theatre of New Jersey	45	4.5	
National Constitution Center	17	3.9	
Mayo Performing Art Center	22	3.0	
Mount Vernon Ladies' Association of the Union	38	2.9	
State Theatre Center for the Arts	31	2.8	
The Sarah P. Duke Gardens	26	2.4	
The Franklin Institute*	26	2.1	*phased out
Paper Mill Playhouse	36	2.1	
The Morris Museum	50+	1.8	
Museum of Early Trades and Crafts*	39	1.7	*phased out
The Newark Museum Association	41	1.6	

Total: 35.1

5) Public Policy
9 organizations, cutoff at $1.0M

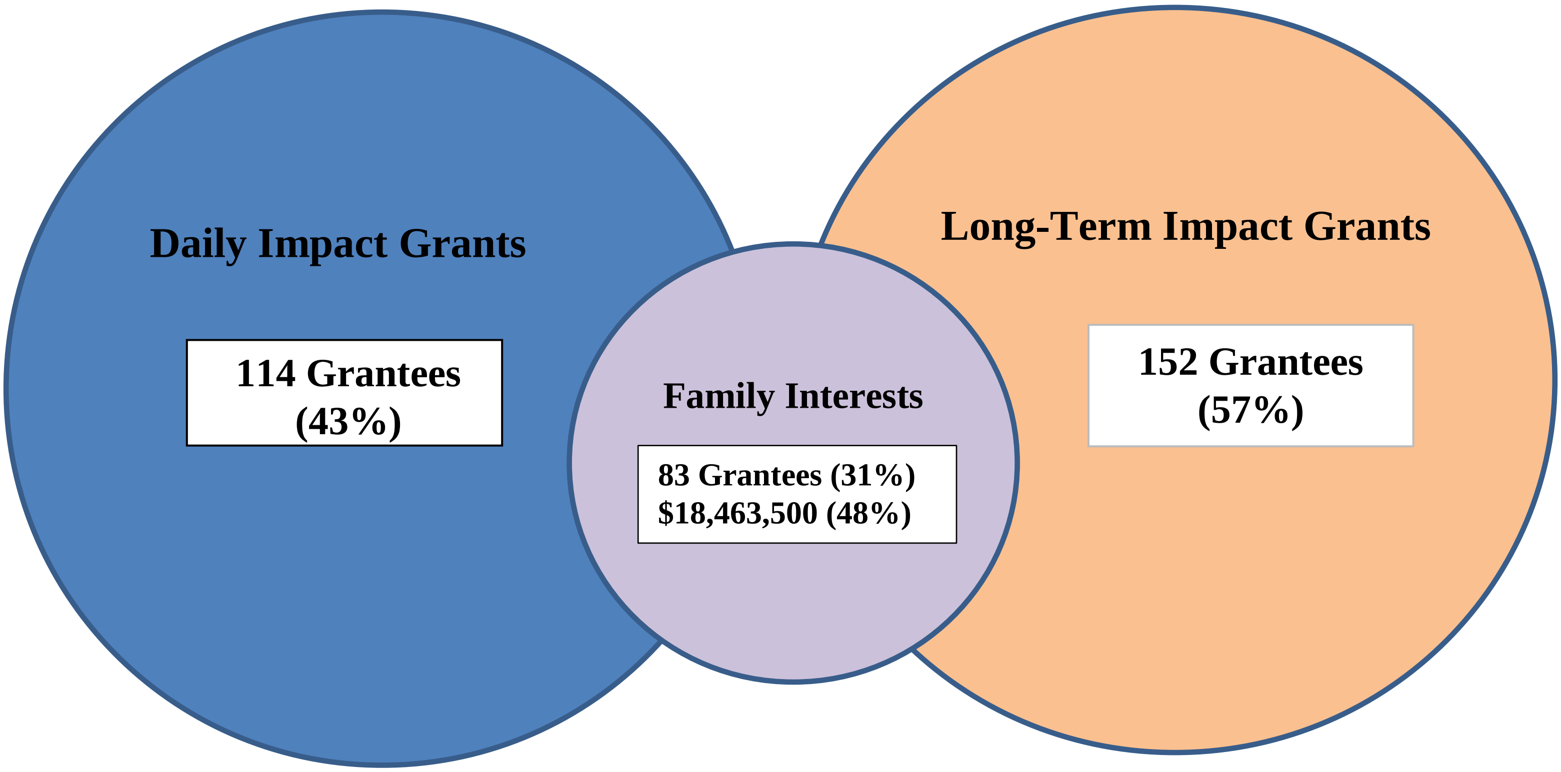
	Relationship (*in years*)	Funding (*in millions*)	
Intercollegiate Studies Institute	40	5.2	
Young America's Foundation	42	3.4	
EngenderHealth	26	2.5	
Center For Individual Rights	25	2.5	
National Right To Work Legal Defense Foundation	42	2.3	
The Heritage Foundation*	38	2.1	*phased out
Federation for American Immigration Reform*	32	1.7	*approx. 50% cutback
Manhattan Institute for Policy Research	33	1.4	
Institute for Justice	23	1.3	
		Total: 22.4	

6) **Environment and Animals**
5 organizations, cutoff at $1.0M

	Relationship (*in years*)	Funding (*in millions*)
The Nature Conservancy (NJ: $2.8M; Adirondacks: $3.3M)	44	6.1
New Jersey Conservation Foundation	43	2.2
Environmental Defense Fund	36	1.8
The Trust for Public Land	26	1.7
The Bald Head Island Conservancy	16	1.2
		Total: 13.0

APPENDIX B

GRANT SUPPORT BY MAJOR CATEGORY
2016 THRU 2018
(INCLUDES JULY – DEC 2018 FCAST)



TOTAL GRANTS PAID: $38,131,500
TOTAL GRANTEES: 266