F.M. Kirby Foundation, Inc.

Annual Report of the President to the

Members of the F.M. Kirby Foundation, Inc.

April 20, 2018

Please review the following information in conjunction with the enclosed 2017 F.M. Kirby Foundation, Inc. audit and Governance Letter as prepared by EisnerAmper, LLC and dated March 1, 2018. Consistent with the last few years, management decided, in concert with EisnerAmper, to continue the use of estimates, mainly for the Foundation's investments in limited partnerships. Throughout the audit and this report, certain figures may reference estimates made by management.

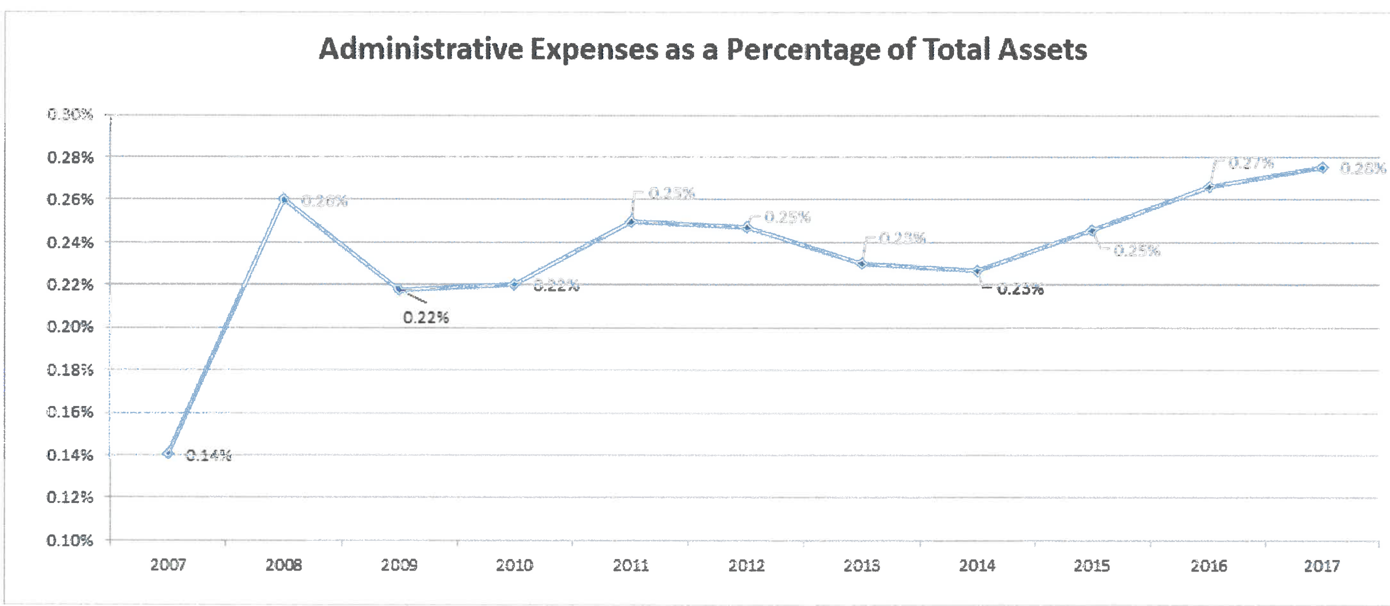
Executive Summary

- Administrative expenses increased from 2016 to $1.04 M. See details on next page.
- Investment management fees decreased in 2017 due to the termination of the investments with Oaktree Capital Management and Lazard Global Equity Solutions and lower asset values as a result of the Kirby Alliance.
- Federal excise tax increased due to realized gains resulting from the portfolio rebalancing and sale of aforementioned investments.
- Paid grants decreased $3.02M due to a decreased payment of the Kirby Alliance grant commitments ($2.25M). Paid core grants decreased by $771K to $12.25M.
- Outstanding pledges increased $27.2M due to the accrual of the final installment of the larger Kirby Alliance grant commitments.
- The investments of the Foundation (including the $35M pending PIMCO purchase) decreased $13.7M or 4.1% during the year to $321.8M on an absolute basis. This does not include the $54M of cash reserved for the Kirby Alliance distribution in January 2018. On a time-weighted basis, the portfolio was up 16.9%.

Administrative Expenses

Administrative expenses increased modestly from $974K to $1.04M. The main drivers of the increase in expenses were an increase in salaries of $46.7K, or 7.6% due to the addition of Erin Clifford to the staff and the employment transition from Frank Barra to Diana Kostas, increased office expenses of $12.1K relating to increased eVestment fees, website design and hosting fees and consulting fees, and software maintenance and support of $8K due to the MicroEdge Online agreement. This increase in expenses was partially offset by a $8.6K decrease in insurance expenses.

A longer-term view of the Foundation's administrative expenses as a percentage of total assets is shown below. The jump in 2008 is mostly a reflection of a significant drop in the Foundation's total asset value. As in 2017, it is expected that this percentage will continue to moderately increase as the asset value decreases because of the Kirby Alliance and expenses continue to increase modestly.



Investment Management Fees

Investment management fees decreased $314K in 2017 due to the termination of the investments with Oaktree Capital Management and Lazard Global Equity Solutions effective October 31, 2017 and lower asset values as a result of the Kirby Alliance. The proceeds from the termination of Oaktree and Lazard Global Equity Solutions were invested in Vanguard Mutual Funds, which deduct fees from its net asset value, rather than billing the Foundation separately. Investment management fees paid to Oaktree and Lazard in 2017 were down $138K and $72.4K, respectively. The remaining decrease was due to lower asset values for Walter Scott because of a $11M drawdown relating to the portfolio rebalancing and Kirby Alliance grants. Due to the broader restructuring of the portfolio, it is anticipated that investment management fees will decrease meaningfully in the future.

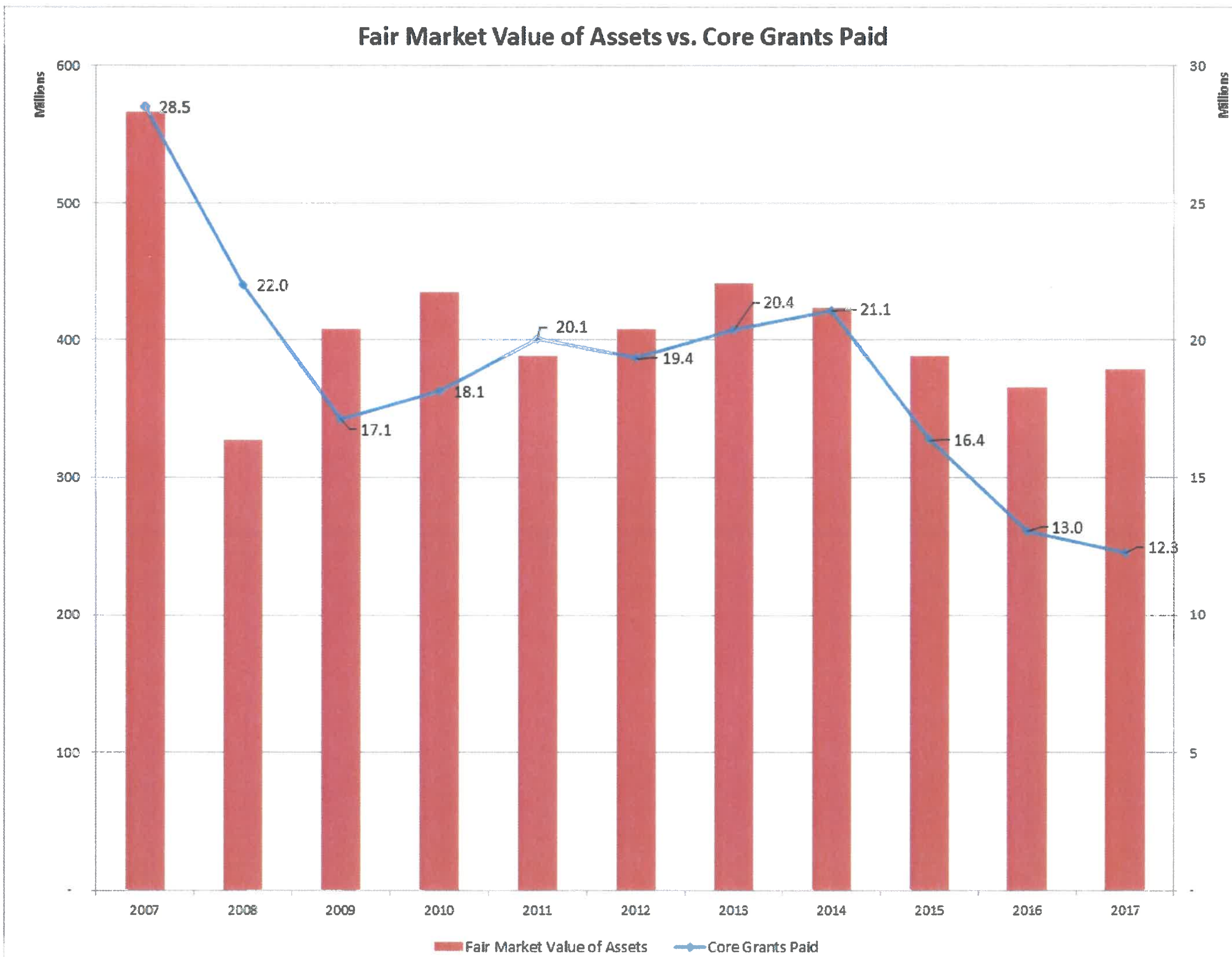
Federal Excise Taxes

Federal excise tax increased due to realized gains resulting from the portfolio rebalancing and related liquidation of several investments. The Foundation had net realized gains of $43M. The liquidation of $207M of investments ($152M reinvested in November 2017 and $35M reinvested in January 2018) from the portfolio resulted in significant incremental realized gains. The Foundation qualified for the 1% tax rate in 2017 and is projected to qualify for this rate in 2018 due to the aforementioned Kirby Alliance grants in 2017 and 2018.

Grants Paid and Promises to Give

On an accrual basis, the Foundation's grants expense increased $129K, or .2%, however, paid grants decreased $3M, or 7.0%. When the Kirby Alliance grants are excluded, the paid core grants level decreased by $771K, or 5.9%. The accrued grant expense level, when compared to paid grants, is higher due to an increase in the Foundation's promises to give. The Foundation increased promises to give by $27.19M, or 97.4%, to $55.1M as of December 31, 2017. The increase is due to new pledges of $55.09M (Kirby Alliance – $54.0M; Fred M. and Jessie A. Kirby Episcopal House - $750K; Greens Farms Academy – $70K; Madison Area YMCA - $270K) that were partially offset by payments on pledges of $27.83M (Kirby Alliance – $27.0M; Scheie Eye Institute – $100K; Sarah P. Duke Gardens - $333K; Fuqua School of Business – $330K; Greens Farms Academy – $70K).

A longer-term view of the Foundation's annual core grants paid is shown in the graph below.

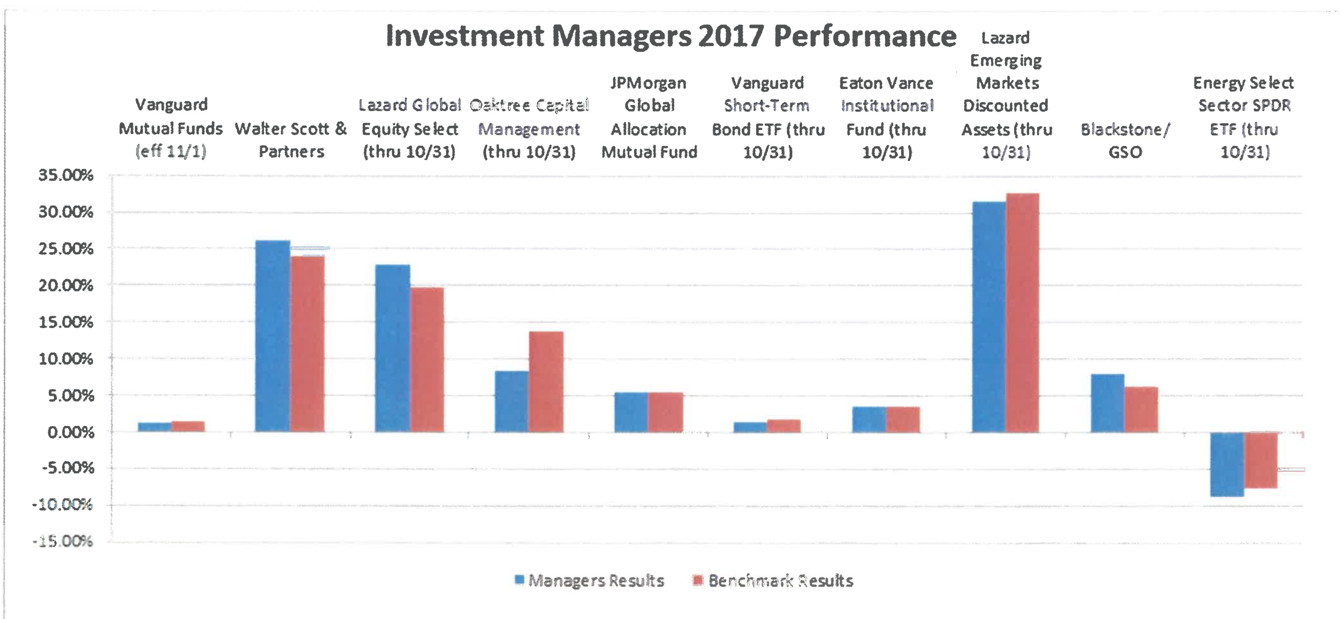


Net Realized and Unrealized Gains/Losses on Investments

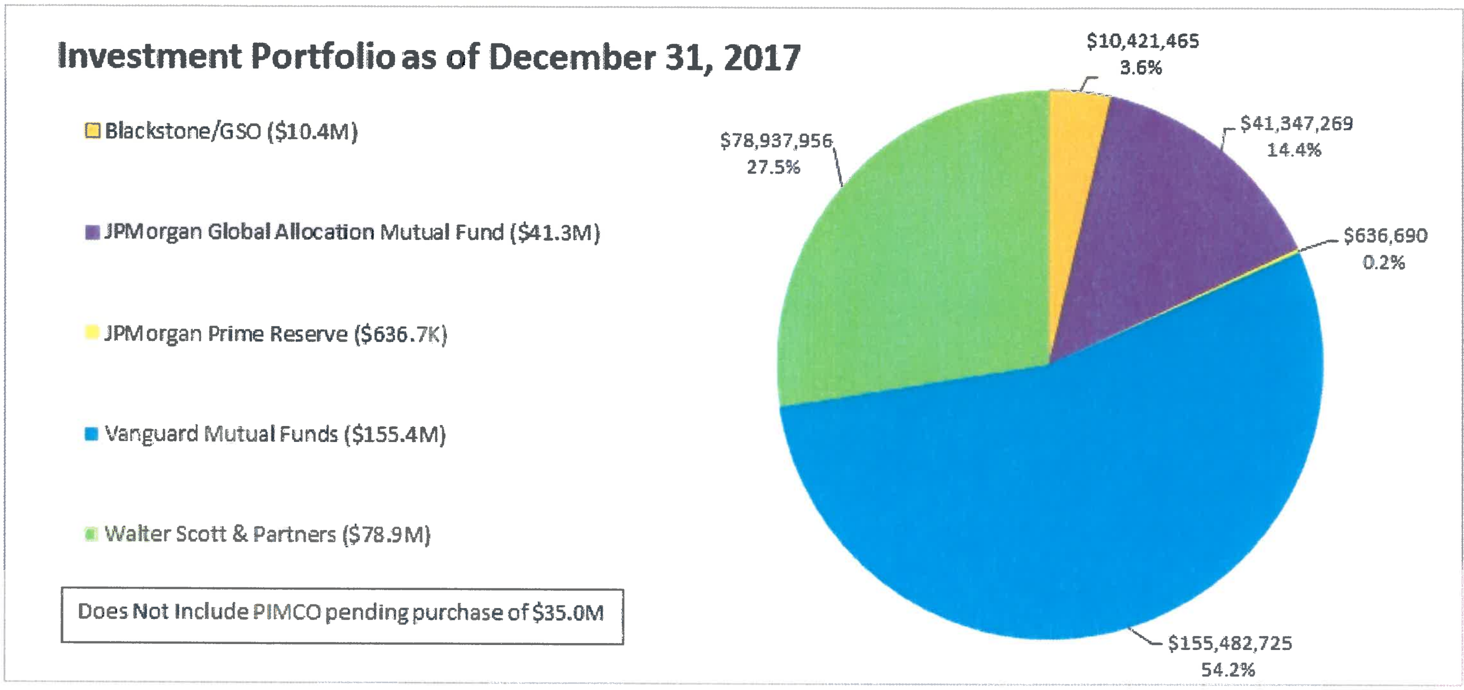
The Foundation had net realized and unrealized gains on investments of $44.9M in 2017 as compared to gains of $13.7M in 2016 due to the realized gains, as noted above, and a slight increase in unrealized gains. The increase in unrealized gains as compared to the prior year is due to the fact that the Foundation's investment portfolio, on a time-weighted basis, had a rate of return of 16.9%, well above the 2016 return of 6.1%. The 2017 performance compared favorably to a rate of return of 17.8% for the Foundation's blended 70/30 benchmark.

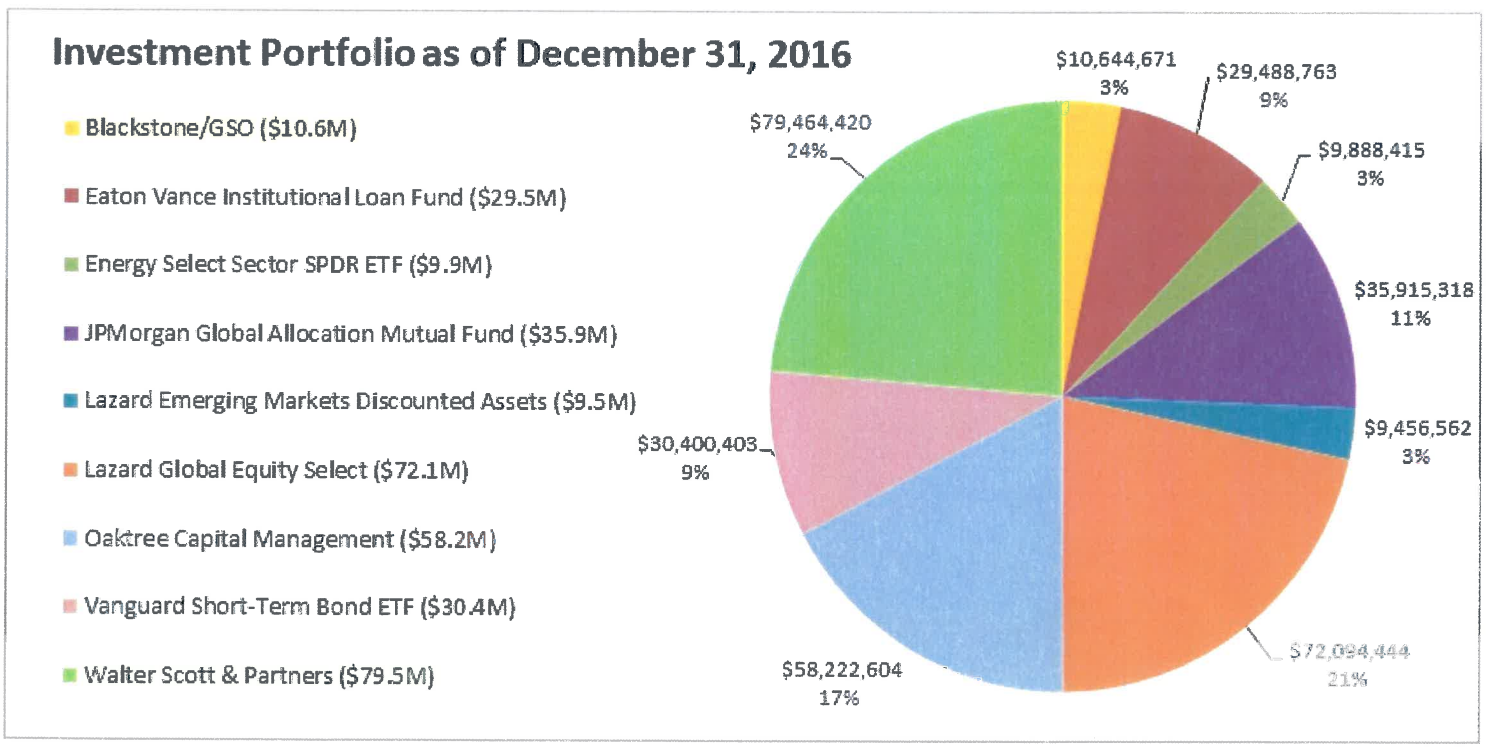
The investment portfolio is currently managed by Blackstone/GSO Partners (private lending fund for financially distressed companies), J.P. Morgan Global Allocation Mutual Fund (global tactical asset allocation), J.P. Morgan Prime Reserve (institutional money market account), Vanguard Institutional Advisory Services (diversified equity and bond institutional mutual funds) and Walter Scott & Partners (growth-oriented global equities).

The investment performance of the Foundation's portfolio managers for 2017, as compared with their respective benchmarks, is shown in the bar chart below. All performance results are net of fees and calculated on a cumulative, time-weighted basis. The managers are shown from left to right based on the largest assets under management to the smallest.



Please see the pie charts below highlighting the current allocation of the Foundation's portfolio between the five investment managers, as well as the portfolio allocation on December 31, 2016.





As illustrated on the prior page, there has been a significant turnover of the portfolio in 2017. As of January 4, 2018, the Foundation has concluded the transition of both the portfolio restructuring and the final distribution of the Kirby Alliance. This has resulted in a new base that has "reset" the Foundation financially for the long term. Please let me know if you have any questions.

S. Dillard Kirby