Minutes of the Meeting of the Investment Committee of the F. M. Kirby Foundation, Inc. January 31, 2017

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held on January 31, 2017 at 9:00 a.m. at the offices of Broadfield Capital Management, LLC, 86 Maple Avenue, Morristown, New Jersey. The following Committee members were present:

Jefferson W. Kirby
S. Dillard Kirby
William J. Raver

Mr. Jefferson W. Kirby, Chairman, presided and Mr. Frank N. Barra, Secretary/Treasurer, recorded the minutes of the meeting.

The Committee welcomed Messrs. Alan R. Kurtz, Portfolio Manager, Convertibles Securities, and Chris Ade, Director, Institutional Investor Services, representing Lord, Abbett & Co. LLC for an interview to potentially replace Oaktree Capital Management as the Foundation's convertibles manager.

Mr. Ade gave an overview of the firm, reporting to the Committee that, as of December 31, 2016, the firm had assets under management of $136.2 billion, of which $1.2 billion is invested in their convertibles strategy.

Mr. Kurtz then discussed Lord Abbett's investment strategy in more detail and noted that the goal of the investment strategy is to maximize total return and reduce downside risk. The convertibles team has access to both the credit and equity research teams of the firm, which helps improve market knowledge. The portfolio will also hold securities other than convertibles, including equity, high-yields bonds, and traditional fixed income bonds, however, the portfolio must consist of at least 80% convertible securities. As of December 30, 2016, the portfolio consisted of convertibles (81.7%), equity (13.6%), cash (2.4%), and high yield bonds (2.2%). The annual turnover in the portfolio is approximately 60%. Lord Abbett offered a separately managed account with fees of 50 basis points. After answering the Committee's questions, Messrs. Kurtz and Ade left the meeting at 10:02 a.m.

The Committee then welcomed Mr. Edward Silverstein, Senior Managing Director and Head of Convertible Division, and Ms. Beth Griper, Director and Product Specialist, representing MacKay Shields, LLC for an interview to potentially replace Oaktree as the Foundation's convertibles manager.

Ms. Griper gave an overview of the firm, reporting to the Committee that, as of December 31, 2016, the firm had assets under management of $94.5 billion, of which $2.2 billion is invested in their convertibles strategy. Ms. Griper also noted that MacKay Shields is owned by the New York Life Insurance Company.

Mr. Silverstein then discussed the investment strategy in more detail. The portfolio usually has 80-100 holdings with a historical portfolio turnover of 30%, which is mainly due to conversion of the convertible securities. The portfolio typically has a multi-year holding period with a yield lower than the benchmark as the portfolio is historically underweight convertible preferreds and busted convertibles. MacKay Shields offered a separately managed account with fees of 50 basis points. After answering the Committee's questions, Mr. Silverstein and Ms. Griper left the meeting at 11:05 a.m.

At 11:10 a.m., the Committee began the regular Investment Committee meeting.

The Committee discussed the two convertibles manager interviews. The Committee agreed that both presentations were informative and that the presentations were able to provide a renewed perspective on the convertibles asset class. The Committee also agreed that both managers utilized different strategies than Oaktree for their convertibles portfolios. The Committee decided to table any further discussion on a possible replacement of Oaktree until after their presentation.

The minutes from the October 20, 2016 and November 21, 2016 Investment Committee meetings were approved.

The Committee discussed the performance figures provided by the J.P. Morgan analytics team and the attribution analysis provided by Mr. Barra. The discussion focused on the convertibles and fixed income composites, along with the effect the asset mix has had on the portfolio's performance. The Committee also noted that the tracking error of the portfolio has increased and is now above 2.0 for both the one and three year time periods, which is desirable to achieve excess return.

The Committee then reviewed the peer rankings report as of December 31, 2016, the Endowment/Foundation Peer Report as of September 30, 2016, and the active share analysis. Mr. Barra noted that the J.P. Morgan Global Allocation Fund has been included on the peer rankings report for the first time. Mr. Barra also pointed out that the Value

Equities Peer Group had significantly outperformed the Growth Equities Peer Group over the last year. There was also a discussion on the benchmark currently being used to measure the performance of Walter Scott & Partners. The Committee agreed to request a switch in benchmarks from the MSCI World Index to the MSCI All Country World Index (ACWI) retrospective to inception. Finally, the Committee was pleased to note that the Foundation portfolio had outperformed the median Endowment/Foundation in the Callan database over the one year period ended September 30, 2016.

The Committee then discussed the information provided by Mr. Barra on Vanguard Institutional Advisory Services and Massey, Quick & Co., LLC. After a discussion, the Committee agreed that the use of outside resources was worthy of further investigation and expressed an interest in meeting with both managers. The Committee agreed to schedule a Special Meeting before the April 20, 2017 meeting. (Subsequent to the meeting, the Committee scheduled the Special Meeting for March 16, 2017.)

The Committee then considered the allocation model worksheet as of December 31, 2016. Mr. Barra provided the Committee with an update on GSO Capital Solutions Fund III and noted that Mr. W. Doyle Queally, Managing Director, informed him that fundraising was expected to begin shortly.

The Committee then considered the source of $3.0 million in funds needed to cover grants and expenses of the Foundation through the next Committee meeting in April 2017. After a dialogue, the Committee agreed to source $2 million from Walter Scott and $1 million from the Lazard Asset Management Global Equity Select mandate to help alleviate the 25% manager limits. The Committee then discussed the third and fourth tranches of $27 million scheduled to be withdrawn as of June 30, 2017 and December 31, 2017 for the Kirby Alliance. After a brief discussion, the Committee agreed to continue to utilize the updated methodology that reduced the portfolio's convertibles allocation to 10% of the projected January 2018 portfolio.

The Committee then reviewed the Investment Policy Statement. After a discussion, the Committee agreed that no major adjustments were necessary at this time, however, minor changes, including the addition of Conflict of Interest language, were made.

The Committee then set the date for the July meeting as July 19, 2017, where the Committee will meet with Oaktree and the J.P. Morgan Global Allocation Fund team.

At 1:15 p.m., the meeting continued at the offices of the Foundation, 17 DeHart Street, Morristown, New Jersey. Mr. Stu Spangler, Managing Director and Portfolio Manager, and Ms. Jennifer Spendlove, Senior Vice President, Marketing and Client Relations, representing Oaktree, were invited to join the meeting and began their presentation to the Committee.

Ms. Spendlove updated the Committee on the status of Oaktree. She said that Oaktree had approximately $99.8 billion in assets under management as of September 30, 2016, of which U.S. Convertible assets totaled approximately $3.6 billion. Mr. Spangler also noted that Mr. Scott Graves had left Oaktree, which resulted in him reporting directly to Bruce Karsh, Co-Chairman and Chief Investment Officer.

Mr. Spangler reported that the Foundation portfolio underperformed the Bank of America Merrill Lynch All U.S. Convertibles Index by 2.3 percentage points for the year ended December 31, 2016, 8.1% to 10.4%, gross of fee. Since inception, June 1, 2004 through December 31, 2016, the portfolio outperformed the same index cumulatively by 12.4 percentage points, 141.5% to 129.1%, gross of fee; and on an annualized basis by 0.5 percentage points, 7.3% to 6.8%, gross of fee.

Mr. Spangler then referred the Committee to a convertibles market overview for the fourth quarter and noted that equity price appreciation more than offset the drag from a higher interest rate environment. Mr. Spangler noted that during periods of rising U.S. interest rates, convertible securities have outperformed other fixed-income strategies and exhibited equity-like returns. Mr. Spangler also noted that he was optimistic on new issuance.

Mr. Spangler then discussed the characteristics of the portfolio as of December 31, 2016. He stated that the portfolio had a current yield of 2.3%, an average conversion premium of 35.3%, and an average duration of 4.5 years.

The market value of the portfolio managed by Oaktree as of December 31, 2016 was $58,775,598, of which $57,911,387, or 98.5%, was invested in convertible securities and $864,211, or 1.5%, was in cash and accrued income.

Oaktree was scheduled to give its next presentation to the Investment Committee at the July 19, 2017 meeting. After answering the Committee's questions, Mr. Spangler and Ms. Spendlove left the meeting at 2:20 p.m.

Messrs. Stephen Hess, Managing Director, Michael Griffin, Executive Director, and Phil Camporeale, Managing Director of Multi-Asset Solutions, representing J.P. Morgan joined the meeting and began their presentation to the Committee at 2:35 p.m.

Mr. Camporeale reported to the Committee that multi-asset solutions had $200 billion of assets under management as of December 31, 2016, of which $1.5 billion was invested in the Global Allocation Fund. Mr. Camporeale then reviewed the investment process. Mr. Camporeale noted that an opportunistic long/short equity sleeve, which invests primarily in mid to large cap securities, was added to the portfolio on November 30, 2016. Mr. Camporeale then reviewed the current and historical positioning of the fund as of December 31, 2016.

Mr. Camporeale then reported to the Committee the recent investment performance of the fund relative to the Global Allocation Composite Benchmark. He reported that the fund outperformed the benchmark for the quarter ended December 31, 2016 by 1.7 percentage points, -0.1% to -1.8%. Since inception, January 1, 2016 through December 31, 2016, the portfolio performed in line with the Global Allocation Composite Benchmark with a return of 5.5%. Mr. Camporeale also noted that the fund had a Morningstar Percentile Ranking of 50%, 12%, and 17% for the one year, three years, and since inception of the product periods.

J.P. Morgan was scheduled to give its next presentation to the Investment Committee at the July 19, 2017 meeting. After answering the Committee's questions, Messrs. Hess, Griffin, Geller, and Camporeale left the meeting at 3:35 p.m.

The Committee then discussed the presentations. The Committee agreed that the presentation by J.P. Morgan was strong and continued to reassure the Committee about its recent investment decision. The Committee also agreed to delay a decision on changing convertibles managers until after a decision is made on potentially employing outside resources, but there was consensus that MacKay Shields was the favorite of the two new candidates.

The meeting adjourned at 4:00 p.m.