

**Minutes of the Meeting  
of the Investment Committee of the  
F. M. Kirby Foundation, Inc.  
February 13, 2018**

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held on February 13, 2018 at 11:00 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 Mrs. Diana L. Kostas, Secretary/Treasurer, recorded the minutes of the meeting.

The Committee welcomed Messrs. Matthew Ruhl, Senior Investment Consultant, and Ralph Ivory, Sales Executive, representing Vanguard Institutional Advisory Services and encouraged their participation in the meeting.

The minutes from the October 24, October 31 and November 1, 2017 Investment Committee meetings were approved. Mrs. Kostas began a discussion regarding the JPM Analytics report, updating the Investment Committee on the change in support team and concerns regarding the reliability and timeliness of the reporting the past two months. The Committee discussed whether analyzing the Emerging Markets portions of Walter Scott and Vanguard on the Analytics report was appropriate given their mandates. Mr. Ruhl felt it was important to have some visibility to the Emerging Markets. Options discussed included: a) choosing a new Analytics service and focusing on data from November 1<sup>st</sup> forward, b) going back to the JP Morgan team to address the concerns and

review the pricing and c) moving from the Private Wealth Analytics to a turnkey product on the Institutional side of JP Morgan. The Vanguard team felt they could provide Analytics value on the equity side but that currently Vanguard had no fully adequate analytics tools for the fixed income and derivatives side. Vanguard uses InvestorForce for performance measurement, eVestment for manager data and FactSet for attribution.

The Committee agreed to discuss the issues with Mr. Stephen Hess, Managing Director, JP Morgan, following the JP Morgan presentation. Mrs. Kostas committed to following up with Mr. Christopher Moore, Managing Partner/ Chief Investment Officer, Massey Quick Simon regarding the firm's analytic reporting capability.

The Committee then reviewed the peer rankings report as of December 31, 2017 and the Endowment/Foundation Peer Report as of September 30, 2017. Mrs. Kostas noted that the Vanguard funds had been included on the peer rankings report for the first time. Vanguard suggested changes on two of the fund's benchmarks and Mrs. Kostas agreed to redistribute the report once the benchmarks were updated. Finally, the Committee was pleased to note that the Foundation portfolio had outperformed the median Endowment/Foundation in the Callan database over both the quarter and the one-year period ended September 30, 2017.

The Committee then considered the allocation model worksheet as of December 31, 2017. The question was raised on whether the portfolio should obtain a shorter-term exposure on the Fixed Income side given rising interest rates concerns. The Vanguard team did not recommend going any shorter given the Foundation's long-term perspective and Mr. Raver felt the spreads were too narrow, the portfolio had minimal exposure and a change was probably not necessary. The Committee agreed.

Mrs. Kostas provided the Committee with an update on GSO Capital Solutions Fund I and noted that Blackstone had requested a two-year extension from May 23, 2018 to May 22, 2020. No management fees would be payable during the extension. The Investment Committee approved the extension. Mrs. Kostas informed the Committee that the investment period of the GSO Capital Solutions Fund II would close the end of June 2018. The Foundation passed on the Fund III opportunity but would still consider Fund IV. Mr. Jefferson W. Kirby agreed to reach out to the GSO team and get some perspective on the new management structure at Blackstone.

Mrs. Kostas then briefly discussed two Invesco Real Estate opportunities. Mr. Raver expressed concerns about liquidity and suggested REITs as an alternative if the Foundation was looking to secure a Real Estate mandate. Mr. Ruhl pointed out that both the Vanguard Total Stock Market Index Fund and Total International Stock Market Fund have REIT exposure.

The Committee then considered the source of \$6.3 million in funds needed to cover grants and expenses of the Foundation through the next Committee meeting in April 2017. Mrs. Kostas informed the Committee that there were sufficient funds in the money market account and Prime Money Market fund to cover the expenses.

The Committee then reviewed the Expense Summary. Mr. Jefferson W. Kirby pointed out the substantial reduction in projected annual fees (down from 65.6 basis points in June 2017) to the current 43.8 basis points in December 2017.

The Committee then set the date for the July meeting as July 25, 2018, where the Committee will meet with PIMCO, Blackstone GSO and the J.P. Morgan Global Allocation Fund team in New York City. The Vanguard team will attend the

Foundation portion of the meeting. [Subsequent to the meeting, the July meeting date was changed to July 19, 2018].

Mr. Ruhl gave an overview of Vanguard's economic outlook during lunch. Vanguard had a positive twelve-month outlook for the economy due to tax reform tailwinds and wage growth accelerating. They anticipated the Fed instituting three rate hikes throughout the year up to 2% in 2018. As valuations come up, the 10-year outlook for global equities has deteriorated a bit (U.S. 4.1%, Non-U.S. 6.3%). Vanguard is more positive on developed markets and feels that U.S. and emerging markets are overvalued. Mr. Ruhl stated that it would be difficult to meet 5% plus CPI over the next 5 to 10 years. Mr. S. Dillard Kirby inquired about credence to the "unwinding of the volatility trade" topic and Mr. Ruhl responded that it might be interesting to follow up with Mr. Ron Temple at Lazard and see how they reacted to the recent volatility and whether they shifted out of equities.

Mr. Ivory made mention of Tim Buckley, Vanguard's new CEO. At a recent meeting Mr. Buckley stated that he was most proud of Vanguard being able to step into the Fixed Income space quietly and without any fingerprint. Cybersecurity is Vanguard's biggest budget item. Mr. Raver requested an Organizational Chart for Vanguard.

At 1:20 p.m., the meeting continued at the offices of the Foundation, 17 DeHart Street, Morristown, New Jersey. Messrs. Stephen Hess, Managing Director, Michael Griffin, Executive Director and Phil Camporeale, Client Portfolio Manager in Multi-Asset Solutions, representing J.P. Morgan, were invited to join the meeting and began their presentation to the Committee.

Mr. Camporeale reported to the Committee that multi-asset solutions had their best year ever in 2017 (since inception May 2011), earning 17.1%. He then noted additions to the portfolio management team: Rick Singh (Opportunistic Equity Long/Short), Jon Ingram (Europe Dynamic Hedged Equity) and Joanne Baxter (Emerging Market Debt).

Mr. Camporeale then reviewed the asset allocation views of Multi-Asset Solutions. JP Morgan was bullish on equities, with preference on Japan and emerging markets. U.S. high yield was scaled back to neutral as the firm felt risk-reward was better in stocks. JP Morgan is predicting growth momentum in global purchasing. Mr. Camporeale then reviewed the current and historical positioning of the fund as of December 31, 2017.

Mr. Camporeale then reported to the Committee the recent investment performance of the I Share Class of the Global Allocation Fund relative to the Global Allocation Composite Benchmark. All performance is net of fees. He reported that the fund outperformed the benchmark for the quarter ended December 31, 2017 by .15 percentage points, 3.87% to 3.72%. Since inception through December 31, 2017, the portfolio outperformed the Global Allocation Composite Benchmark with a return of 6.84% versus 6.13%. Mr. Camporeale also noted that the fund had a Morningstar Percentile Ranking of 23%, 15%, and 15%, respectively, for the one year, three years, and since inception of the product periods.

The Multi-Asset Solutions team has \$2.8 billion in assets under management. They have modest market share in the Morningstar GAA universe. There has been a lot of interest in the new R6 share class, with \$200M in AUM thus far.

Mr. Raver requested a new organizational chart and Mr. Camporeale discussed succession planning for Jeff Geller.

J.P. Morgan is scheduled to give its next presentation to the Investment Committee at the July 19, 2018 meeting in NYC. After answering the Committee's questions, Mr. Camporeale left the meeting at 2:20 p.m. Messrs. Ruhl and Ivory stepped out of the meeting while the committee met with the remaining J.P. Morgan representatives.

The Committee then met briefly with Messrs. Hess and Griffin to discuss concerns with the Analytics reporting over the recent months. Mr. Jefferson W. Kirby laid out possible options including starting with a new Analytics provider or switching from the Private Banking to the Institutional side of J.P. Morgan. Mr. Hess agreed to reach out immediately to the Analytics team and come up with solutions to address the concerns. Messrs. Hess and Griffin left the meeting at 2:30 p.m. Messrs. Ruhl and Ivory rejoined the meeting.

Mr. Ruhl reviewed the performance of the portfolio. The Vanguard system is unable to capture partial months so all funding should be done by the 31<sup>st</sup>. Accordingly, although the initial Vanguard investment was made November 1<sup>st</sup>, the performance results were strictly for December as November was considered a partial month. The portfolio's performance was at 1.16% vs the composite benchmark of 1.40%.

Mr. Raver raised the correlation issue regarding PIMCO using factor correlations rather than the monthly return series. The Vanguard team felt they could run fresh correlations for JPM GTAA and PIMCO and compare to the 60/40 benchmark.

A brief discussion ensued regarding Edinburgh Partners Limited being acquired by Franklin Templeton. Edinburgh accounts for 34% (\$3B) of the AUM for the Vanguard International Value Fund. Vanguard will pay close attention to the relationship. The Investment Committee requested a new Risk and Volatility chart by Fund to be included in the Active Equity Portfolio Analysis (to include  $R^2$ , Beta, Std. Deviation and Sharpe Ratio). Vanguard is scheduled to give its next presentation to the Investment Committee at the July 19, 2018 meeting in NYC.

The meeting adjourned at 3:30 p.m.