

**Minutes of the Meeting
of the Investment Committee of the
F. M. Kirby Foundation, Inc.
April 23, 2019**

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held on April 23, 2019 beginning at 10:00 a.m. at the offices of Vanguard Institutional Advisory Services, 100 Vanguard Boulevard, Malvern, PA. 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 was welcomed by Messrs. Matthew Ruhl, Senior Investment Consultant, and Ralph Ivory, Director, Nonprofit Solutions, representing Vanguard Institutional Advisory Services. The Investment Committee meeting commenced with a Cyber Security Tour led by Grant Pate, Department Head, of Vanguard's Global Information Cyber Security Operations.

Mr. Pate informed the Committee that approximately 100K-400K "threat actors" attacked Vanguard's websites daily and accounted for 29+ million attacks per day. Attacks were classified as either reconnaissance, application-specific, infrastructure or bot net attacks. Vanguard partners with CIA and FBI on any nation-state attacks. Vanguard has three Cyber Security locations: Malvern, PA, Charlotte, NC and Melbourne, Australia. They have pro-active (luring malware to a segregated server) and re-active (post-mortem analysis of vulnerabilities) defense mechanisms in place to

address all attacks. Vanguard also partners with McAfee, Symantec and other security technology companies. The Cyber Security overview ended at 10:55 a.m. and the Committee thanked Mr. Pate for his time.

The Committee then returned to the Vanguard meeting space and welcomed Mr. William “Lee” Norton, CFA, Senior Investment Analyst of Vanguard’s Portfolio Review Department. Mr. Norton leads the Value Search team and co-leads the Quantitative team. Mr. Norton reports to Mr. Dan Newhall, CFA, Principal of Vanguard’s Portfolio Review Department. The Portfolio Review Department takes an evergreen approach to manager searches. They track higher conviction ideas and managers, even if they don’t have an open mandate at the time and rank them on several criteria. Vanguard employs software to measure bias, tone and consistencies in manager and stock commentary. Both quantitative and fundamental managers are using Artificial Intelligence with regards to portfolio construction and manager/style research to get a “tone” from annual reports. FactSet, Style Research and most recently, Axioma, are some of the research tools that Vanguard managers utilize. The Committee thanked Mr. Norton for his presentation and he departed the meeting at 11:50 a.m.

The Committee took a brief break and reconvened at 12 p.m. for a working lunch. The minutes from the January 23, 2019 Investment Committee meeting were approved with a few minor changes. The Committee then reviewed the Investment Policy Statement, agreed upon a few changes and approved. The final approved version is attached to these minutes. Mrs. Kostas introduced a new Attribution Report, which the Committee reviewed. Feedback was provided, and Mrs. Kostas will produce a new version for the July meeting.

Mrs. Kostas then reviewed the eVestment reports for March, primarily focusing on the accounts that are actively managed. Walter Scott outperformed its benchmark for the past twelve months by 10.62% and ranked in the top 12% of its peer group. Vanguard's Windsor Fund continued to underperform, coming in 7.31% behind its benchmark over the last twelve months. Mr. Ruhl said that stock selection attribution was -5% and factor selection the remaining -2%. Mrs. Kostas noted the large swing between the 12-month Russell 1000 Value benchmark return of 5.67% versus the MSCI ACWI ex-US benchmark return of -4.22% . Deviations between Vanguard's Total International Stock Index and its benchmark were due to timing differences of when they are priced. A brief discussion ensued regarding the difference in performance figures versus the Vanguard reports. Mr. Ivory suggested that it may be due to eVestment pulling different share classes for the individual Vanguard holdings. Mr. Ruhl and Mrs. Kostas will investigate, and report back to the Committee.

Next, the Committee reviewed the Endowment/Foundation Peer Report as of December 31, 2018. The Callan median Endowment/Foundation peer group outperformed the Foundation for the quarter by 77 basis points, for the year by 60 bps and for the five-year period by 112 bps. Performance for the three-year period was the same for the Foundation and the median Callan Endowment at 5.84%. Mr. Ruhl noted that the larger foundations (the "nonprofit medium" Callan Endowment/ Foundation has assets ranging from \$100MM to \$1B) have higher private equity (which would be Q3 performance) allocations, so the fourth quarter dip was not yet fully reflected in their lag-reported year-end returns.

The Expense Summary was presented as of March 31, 2019. The projected annual fees are estimated at 48 basis points. Mrs. Kostas informed the Committee that Walter Scott had earned a performance fee of \$201,113 for 2018 and that those fees were reflected in the current expense estimates.

The Committee then considered the source of \$2.2 million in funds needed to cover grants and expenses of the Foundation through the next Committee meeting in July 2019. This led to a broader discussion of Walter Scott's performance and consistent overweight relative to the Foundation's Investment Policy Statement. The Committee decided to drawdown \$7.0M from Walter Scott on May 31, 2019 which should cover the Foundation's grants and expenses for the remainder of the year, coupled with anticipated dividends and interest. Mr. S. Dillard Kirby stated that he would notify Walter Scott of the decision.

The Committee then set the date for the October meeting as October 24, 2019, where the Committee will meet with Vanguard and Walter Scott at Broadfield Capital Management/ F.M. Kirby Foundation offices.

At 12:50 p.m., the Committee welcomed Mr. Fran Kinniry, Jr., CFA, Global Head of Portfolio Construction of Vanguard's Investment Strategy Group (ISG). Mr. Kinniry joined Vanguard in 1997 and has worked for all 4 CEOs. There are 70 people globally in ISG and Mr. Kinniry manages 1/3 of the team. His team takes a macro role and reviews active share, market outlook, ESG factors and investor behavior during portfolio construction. The team posts a "risk speedometer" and has witnessed more muted investor behavior as of late, possibly due to the prevalence of 401(k) targeted retirement funds rather than "stock pickers". Mr. Kinniry also highlighted Michael Maboussin's

concept of paradox of skills as it relates to costs. He cited the example of a soccer club owner selecting the flashy, big name star soccer player (high absolute skill), rather than eight solid players (high relative skill) who would guarantee the club's success. The dispersion of skill is shrinking, which leaves more to luck. He pointed out that 96% of stocks underperformed t-bills in the fourth quarter of 2018. Mr. Kinniry recently published an article on concentrated versus broadly diversified markets. Mr. Ruhl will forward the article to the Committee. The Committee thanked Mr. Kinniry for his presentation and he departed the meeting at 1:30 p.m.

Mr. Roy Leckie, Director at Walter Scott, was invited to join the meeting and began his presentation to the Committee. Mr. Leckie expressed his pleasure with the long relationship (since 2007) that Walter Scott has had with the Foundation and noted that he has been attending the Investment Committee meetings for the past nine years. Mr. Leckie stated that the Foundation provided \$120M in initial funding. Since that time, there have been \$97.7M in outflows and a balance of \$87M invested with Walter Scott. He noted that client retention rates are high, but the firm had some defined benefit withdrawals related to de-risking. With regards to clients, Walter Scott manages approximately \$67 billion in assets and picked up two new clients (The Templeton Foundation and The Irving Family Office).

Mr. Leckie then reviewed a few staff and Board level changes. Mr. Alex Hammond-Chambers joined the Board as an independent Non-Executive Director and Mr. John Miller joins Mr. Mitchell Harris as a second representative from BNY Mellon. The Boston office will be opening mid-summer. Mr. Francis Sempill will join Ms. Margaret Foley in Boston. As Head of Client Service, Mr. Sempill will represent Client

Service at BNY Mellon Board meetings. From a portfolio perspective, Walter Scott's investment philosophy remains the same: a long-term approach with research-driven decisions and an emphasis on the fundamentals such as strong balance sheets, stable/predictable revenue and profits and ESG considerations such as integrity.

Mr. Leckie then reviewed results for the Foundation's portfolio, highlighting the big security contributors (Mastercard, Microsoft) as well as the disappointments (Essilor, Shin-Etsu). New additions to the portfolio (Booking Holdings), as well as sales (China Mobile, Denso, Essilor), were also reviewed.

Walter Scott is scheduled to give its next presentation to the Investment Committee at the October 24, 2019 meeting. Mr. Jefferson W. Kirby informed Mr. Leckie that as the Foundation needed to rebalance the portfolio, a somewhat modest withdrawal would be needed, and that Walter Scott would soon be notified of the specifics. The Committee thanked Mr. Leckie for his time and Mr. Leckie left the meeting at 2:50 p.m.

Mr. Ruhl then began the Vanguard presentation by highlighting the overall performance of the Vanguard portfolio. For the first quarter of 2019, the portfolio earned 8.90% versus the custom benchmark which earned 9.82%. Domestic equity returned 12.56% versus the benchmark of 14.06% and international equity returned 9.71% versus the benchmark of 10.21%. Fixed income returned 2.92% versus a benchmark of 3.00%.

Mr. Ruhl reviewed the performance of the Windsor Fund over the past year, which earned a (-1.57%) versus a benchmark of 5.67%. Windsor is more deep value than Windsor II and was underweight in real estate and utilities, which had strong Q4 2018

performance. Of the approximate negative 7-point swing, five points were due to stock selection and the remaining two points due to factor selection.

Mr. Ruhl proceeded to outline the current expense ratios of each fund and highlighted that International Value reduced expenses by two basis points and Total International Stock Index by one basis point. Vanguard has added the expense ratios for Walter Scott, J.P. Morgan Global Allocation Fund and Pimco All Asset to their deck.

Mr. Ruhl and Mrs. Kostas informed the Committee that Vanguard's "feed" to the J.P. Morgan platform is operational for the Vanguard, Walter Scott, J.P. Morgan Global Allocation Fund and PIMCO accounts. Mr. Ruhl reviewed pages 12-15 of Vanguard's deck which now include performance data for the accounts mentioned above. A suggestion was made to use the Foundation's 75/25 (ACWI/Global Agg) benchmark rather than Vanguard's composite benchmark. In addition, a suggestion was made to use a 60/40 (ACWI/ Global Agg) benchmark for the "Balanced" funds which include the J.P. Morgan Global Allocation Fund and PIMCO All Asset.

Mr. William J. Raver noted the high correlation for PIMCO versus the Foundation's active stock (Walter Scott/ Windsor/ International Value) and the total portfolio. He suggested we request that the new PIMCO manager run correlation reports. Mrs. Kostas stated that she would review the initial PIMCO presentation to see if they ran correlations to the total portfolio and against J.P. Morgan's Global Allocation Fund.

Vanguard is scheduled to give its next presentation to the Investment Committee at the July 25, 2019 meeting. A suggestion was made to focus on the Vanguard Active Funds for that presentation. The meeting adjourned at 3:45 p.m.