

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

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held on January 23, 2019 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. Mr. F. Morgan Kirby IV was welcomed as a guest of the Committee.

Messrs. Matthew Ruhl, Senior Investment Consultant, and Ralph Ivory, Director, Nonprofit Solutions also joined the meeting, representing Vanguard Institutional Advisory Services. The Committee encouraged their participation.

The Chairman had three small modifications to the minutes from the October 30, 2018 Investment Committee meeting. The minutes were approved as modified. Mrs. Kostas reviewed the Attribution Report. As of December 31, 2018, the Total Fund outperformed the Benchmark by 145 basis points with a YTD return of -5.81% versus the Benchmark YTD return of -7.26%. Mr. Raver suggested adding a column to the Attribution report for the Investment Policy weights.

Mrs. Kostas then reviewed the eVestment peer group rankings report for all investments as of December 31, 2018, focusing on the actively-managed investments. At

the time of the meeting, the J.P. Morgan Global Allocation Fund had not yet submitted Q4 results to eVestment. A brief discussion regarding tracking error on the Vanguard funds ensued. Mr. Ruhl stated that he would get back to the Committee regarding tracking error on the active funds.

The Committee then reviewed the Endowment/Foundation Peer Report as of September 30, 2018. The Committee noted that the Foundation portfolio had outperformed the median Endowment/Foundation in the Callan database over both the 3rd quarter (by 93 bps), YTD (by 11 bps) and the 3-year rolling return (by 4 bps) when adjusted for fees.

Next, the Committee considered the allocation model worksheet as of December 31, 2018. The question was raised whether, given the portfolio's slight overweight on equities, any changes should be made. After a brief discussion the Committee decided that a change was not necessary at this point given the performance of the alternative investments and the Foundation's long-term time horizon.

The Chairman led a review of the Foundation's Investment Policy Statement, which underwent an extensive review and makeover in August 2017. A few minor changes were discussed and suggested. In the essence of time, it was agreed that Mrs. Kostas would prepare a draft incorporating suggested changes and distribute seeking approval. The revisions will be reviewed at the April 23, 2019 Investment Committee meeting.

Mrs. Kostas discussed the total monies (\$5.3 million) needed to fund grants and expenses through April 30, 2019. The Investment Committee approved a \$2 million

drawdown from the Walter Scott account to cover the funds needed. Walter Scott will be notified the end of February 2019 for funds available on March 29, 2019.

The Committee finalized the date for the July meeting as Thursday, July 25, 2019. PIMCO and J.P. Morgan are confirmed to present.

At 12:30 p.m., the conversation turned towards Vanguard and the upcoming Investment Committee meeting at the Vanguard offices in April. Potential topics and timelines were discussed. Mr. Ruhl will develop a suggested schedule with Mrs. Kostas to be forwarded to the Committee for its consideration.

Mr. Ivory highlighted that Vanguard had strong cash flows for 2018, with \$216 billion of net inflows and \$5 trillion in assets under management. Mr. Ruhl then discussed the performance of the Foundation's portfolio. For the twelve months ended December 31, 2018, the Vanguard portfolio value decreased by 9.82% versus a benchmark decrease of 7.37%. Total equity values declined by 12.22% for the year while fixed income provided a positive return of .20%.

At 1:15 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 reviewed the current and historical positioning of the fund as of December 31, 2018. He discussed both the quarterly strategy summit where the firm discusses asset allocations and the weekly meeting where tactical views are expressed.

Mr. Camporeale also reviewed the firm's long-call strategy to manage risk. He pointed out that over a rolling 3-year period the Global Allocation Fund's Sharpe ratio was in the top quartile 91% of the time. Morningstar upgraded Global Allocation Fund to a Silver rating from Bronze in October 2018.

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, 2018 by 108 basis points, -6.61% to -7.69%. Since inception through December 31, 2018, the portfolio outperformed the Global Allocation Composite Benchmark with a return of 5.07% versus 4.51%. The Fund had a Morningstar Percentile Ranking of 17%, 17%, and 10%, respectively, for the one year, three years, and since inception of the product periods.

Mr. Griffin distributed an attribution report for the fund. Mr. Camporeale highlighted the strong performance by Rick Singh, portfolio manager for the long/short equity sleeve. Mr. Singh's account contributed 24 basis points of alpha for Q4 2018. Mr. Camporeale stated that GAF rotates one or two managers per year and its investors do not pay acquired fund fees. A brief discussion regarding the different geographic teams and the division of assets by location was discussed. Mr. Camporeale stated that he would send a breakout of assets under management by category and location.

Mr. Raver inquired about the use of derivatives. Mr. Camporeale responded that the Fund always has physical cash for liquidity purposes and does take leverage. The Fund does not employ puts as they are too expensive systematically but uses calls and

futures instruments to establish exposures and manage risk. There is no over-the-counter derivative exposure. Every position is in an exchange-traded security.

J.P. Morgan is scheduled to give its next presentation to the Investment Committee at the July 25, 2019 meeting. After answering the Committee's questions, Messrs. Camporeale, Hess and Griffin left the meeting at 2:15 p.m.

At 2:15 p.m., Ms. Yinyin Wu, Vice President, PIMCO, and Mr. Brandon Kunz, Senior Vice President, Research Affiliates, joined the meeting and began their presentation. Ms. Wu gave a broad overview of the All Asset Strategy, which is a contrarian strategy focused on diversification and reducing irrational investment behavior. Mr. Raver inquired about asset outflows. Mr. Kunz replied that All Asset flows were highly correlated and that outflows had been occurring since the Taper Tantrum (2013). Outflows for 2018 totaled \$24 billion. Research Affiliates feels that the third pillar structure is poised to outperform a 60/40 allocation. For 2018, all three pillars had negative returns: core stocks (-9.7%), core bonds (-1.3%) and diversifiers (-7.4%).

The Committee inquired about where All Asset derives its yield. Ms. Yu responded that yield can be generated from both fixed income and non-fixed income products. While these strategies utilize financial leverage, they do not take excessive economic leverage. Any PIMCO fund with a "PLUS" in the title uses futures contracts to obtain exposure to the desired beta, and collateral is actively managed using high quality bonds. Mr. Kunz stated that foreign currency runs through emerging market equities and bonds. RAE or RAFI are products designed and updated by Research Affiliates, implemented by Parametric (equities only), distributed by PIMCO, and in the various Equities and Alternative Strategies in the All Asset Fund. The Committee also asked

about counterparty risk on derivatives. Ms. Wu stated that she would forward a document on PIMCO's approach to derivatives.

PIMCO is scheduled to give its next presentation to the Investment Committee at the July 25, 2019 meeting. After answering the Committee's questions, Ms. Wu and Mr. Kunz left the meeting at 3:30 p.m.

At 3:40 p.m., Vanguard resumed their presentation. Mr. Ruhl discussed the new omnibus structure on the J.P. Morgan platform which prevented Vanguard from viewing the Foundation's holdings and necessitated the need for a direct "feed". The direct "feed" allows Vanguard online visibility to the daily flows pertaining to the Foundation's Vanguard investments that reside on the JP Morgan platform. The Vanguard connection has been going well, and Vanguard stated that the PIMCO and JPM Global Allocation Fund investments could be easily added. Mr. Ruhl will look into the ability to add the Walter Scott account. If so, Vanguard could provide some total portfolio reporting (excluding the Blackstone investment). Vanguard is currently reviewing third party reporting packages as they are not entirely happy with InvestorForce.

Mr. Ruhl briefly reviewed historical market volatility and returns and valuation by style. Large cap value was the strong performer and small cap growth the detractor for Q4 2018. Conversely, large cap growth was the strong performer and small cap value the detractor for 2018 overall. Vanguard is scheduled to give its next presentation to the Investment Committee at the April 23, 2019 meeting in Malvern, PA at the Vanguard offices. The Committee thanked Messrs. Ruhl and Ivory and they left the meeting at 4:15 p.m. There being no further substantive discussion required, the meeting adjourned at 4:20 p.m.