

**Minutes of the Meeting  
of the Investment Committee of the  
F. M. Kirby Foundation, Inc.  
April 27, 2021**

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held via Zoom conference on April 27, 2021, at 11:45 a.m. The following Committee members were present:

Jefferson W. Kirby  
S. Dillard Kirby  
William J. Raver  
Ward K. Horton

Mr. Jefferson W. Kirby, Chairman, presided and Mrs. Diana L. Kostas, Secretary/Treasurer, recorded the minutes of the meeting. Messrs. F. Morgan Kirby IV, Justin J. Kiczek, Executive Vice President, and Mrs. Laura H. Virkler participated in the meeting as guests.

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

The minutes from the January 26, 2021, Investment Committee meeting were approved as amended. The Committee reviewed the Board Investment Committee Report as of March 31, 2021. The first quarter was a strong one for the Foundation, with the portfolio beating its benchmark by approximately 170 bps. Vanguard returns were 6.5% for the quarter, coming in 360 bps above benchmark, and 44.8% for the one-year period, also 360 bps above benchmark. Walter Scott returns were 0.8% for the quarter, 380 bps below benchmark, and 46.6% for the one-year period, 80 bps below benchmark.

Both Tactical Asset Allocation products had positive returns for the first quarter. J.P. Morgan's Global Allocation Fund had returns of 2.6% for the quarter, 150 bps over benchmark, and 39.6% for the one-year period, 710 bps over benchmark. PIMCO's All Asset returns were 6.2% for the quarter, 510 bps over benchmark, and 37.2% for the one-year period, 470 bps over benchmark. Blackstone's GSOI valuation increased modestly in Q1 and there was a small monetization from GSOII. The total portfolio had returns of 4.0% for the quarter, 170 bps above benchmark, and returns of 39.1% for the one-year period, 150 bps below benchmark. The total portfolio's yield was 1.6% as of March 31, 2021.

Mrs. Kostas presented the Attribution Report for the trailing twelve-month period. In the major asset categories, only equities outperformed the broad benchmark for the trailing twelve months, with returns of 56.0% versus benchmark returns of 54.6%. However, all three asset categories outperformed their broad benchmarks for Q1, 2021: equities by 51 bps, fixed income by 16 bps, and alternatives by 45 bps. A brief discussion ensued as to the appropriate benchmark to be used for the alternatives and the Committee agreed upon the 60% ACWI/ 40% Global Agg index to be used in all reports.

Mr. Ruhl presented the equity portfolio style box (excludes PIMCO alternative strategies) as of March 31, 2021. He noted the shift from value to blend, with value constituting 29% of the portfolio versus 37% back in September 2020. Morningstar buckets individual stocks into growth, value, or blend based on their individual characteristics like P/E and earnings growth, etc. As those characteristics change over time, a value stock can graduate to growth and a growth stock can shift to value. Mr. Ruhl also reviewed YTD and one-year attribution. Stock selection accounted for 140 bps

of the 190 bps total alpha for the trailing twelve months and all the alpha (100 bps) for March YTD, 2021. The top 10 contributors to the portfolio for the trailing twelve months had a positive 160 bps effect on the portfolio, with four of the ten being value stocks.

Mrs. Kostas then reviewed the eVestment peer group rankings report for all investments as of March 31, 2021. Walter Scott, with Q1 returns of 0.9% underperformed its benchmark by 372 bps but had a peer ranking of 57%. Walter Scott's one-year returns, gross of fees, of 45.8% underperformed its benchmark by 878 bps. Vanguard's Windsor Fund, with 12.7% returns for the quarter and one-year returns of 68.6% returns outperformed its quarterly benchmark by 143 bps and the one-year benchmark by 1247 bps. It had a peer ranking of 30% for the quarter. The large difference between US Large Cap Value Equity Q1, 2021 median performance (11.2%) versus Global All Cap Equity (1.7%) was noted. Vanguard's International Value posted 5.7% returns for the quarter (225 bps above benchmark) and 56.4% one-year returns (695 bps above benchmark). International Value had peer rankings of 82% and 63% for Q1, 2021 and one-year, respectively.

The Committee reviewed the Endowment/Foundation Peer Report as of December 31, 2020. The Committee noted that the Foundation portfolio outperformed the median Endowment/Foundation in the Callan database for all periods. Outperformance for the quarter was 394 bps, for one-year 153 bps, for three-year 43 bps and for five-year 51 bps. The Foundation portfolio also outperformed the median Endowment/Foundation in the Alpha Nasdaq OCIO database for all periods. Outperformance for the quarter was 394 bps, for one-year 14 bps, for three-year 23 bps and for five-year 44 bps.

Mrs. Kostas presented the Expense Summary as of March 31, 2021 and noted that the Walter Scott performance-based fee of \$350K was paid out on March 2nd. Mr. S. Dillard Kirby noted that Walter Scott's 2020 performance over benchmark created an incremental increase in value of \$4M so \$729K in total fees was not an issue. Both Vanguard's International Value and Windsor Fund had subadvisor performance-based decreases. The Foundation's expense ratio as of March 31, 2021, was 51.7 bps.

The Committee finalized the date for the October meeting as Tuesday, October 26, 2021. Messrs. Ruhl and Ivory confirmed their attendance for the October meeting.

The Committee moved on to review the Investment Policy Statement. Minor revisions were made based on recommendations by committee members and the approved version is attached to these minutes.

The Committee discussed the low yield in the J. P. Morgan Prime Money Market and possible alternatives. A decision was made to promptly liquidate \$12M from the J.P. Morgan Prime Money Market account and invest the proceeds in Vanguard's Ultra Short Term Bond Fund (VUSFX).

At 1:10 p.m., the participants signed off the Zoom call to accommodate the Webex call with Walter Scott. At 1:15 p.m., Mr. Roy Leckie, Director, Walter Scott, initiated the meeting and was joined by Mrs. Laura MacDonald, Client Investment Manager, from the Boston office. He noted that the majority of the firm's employees were still working from home. Over the past year the firm had tried to play an active role in the community by volunteering and that Walter Scott had helped distribute 45K meals. Firm culture is a critical factor to the firm's success and that communication and having a sense of purpose helped keep enthusiasm and energy high.

Mr. Leckie then addressed client retention. The firm experienced positive cash flows in 2020, with 90% from existing clients and has 23 new clients since September 30, 2020. He noted that BNY Mellon Investment Management is reorganizing Mellon Investments, but that Walter Scott will be unaffected. The firm's AUM at the end of Q1 2021 were \$94.8 billion, growing due to market share and alpha.

Recent changes at the firm include the shift of Alan Edington from Co-Head of Research to Investment Manager – Responsible Investment. Alan Lander will join Alex Torrens as Co-Head of Research. Walter Scott was moving toward an 8-person board, but John Miller (BNY) resigned from the Board. Currently the Board consists of the Chairman (Alex Hammond-Chambers - independent), four Walter Scott representatives (Jane Henderson, Roy Leckie, Charlie Macquaker, Jimmy Smith), one BNY Mellon representative (Hanneke Smits) and Independent Non-Executive Director, Stephen Potter.

The firm has announced a tentative roadmap to return to the office. Walter Scott is bound by the Scottish government and anticipates a gradual return to the office by September 5<sup>th</sup>, with employees in the office three days per week. Ms. MacDonald stated that the Boston team (six employees) was following suit. Mr. F. Morgan Kirby, IV, signed off at 1:40 p.m. for a prior commitment.

A brief discussion regarding ESG issues occurred. The Chairman expressed his satisfaction with Walter Scott's ESG reporting and that it did not intend on an explicit ESG directive for the time being.

Mr. Leckie moved on to portfolio performance as of March 31, 2021. He highlighted the overall flows since inception, with the Foundation funding \$120M. Net outflows of \$129.8M and an ending market value of \$100.2M equate to a gross gain of

\$110M. The portfolio had net returns of 0.8% for the quarter, 19.5% for 2020 and 45.5% for the twelve-month period. The portfolio underperformed its MSCI ACWI benchmark by 380 bps for the quarter and 910 bps for the twelve-month period but outperformed the benchmark by 320 bps for 2020. Mr. Leckie noted that 2020 was a great year for both absolute and relative returns. The firm added most of its alpha in February/March 2020, so it had a good lead on the markets. The largest detractor for the past six months was being underweight in financials, which was a tailwind historically but a headwind during the pandemic. The top contributor was Taiwan Semiconductor, Walter Scott's largest holding, which builds chips for Apple and has made large cloud and data center investments.

For 2021 there has been a change in focus on equities markets, with more cyclical, leveraged parts of the market taking precedence. Mrs. MacDonald highlighted the market rotation from growth to value and stated that the second quarter was off to a better start, with initial results for April being 70 bps over the benchmark. Walter Scott maintains its goal of returning 200-300 bps annualized over the benchmark. Mrs. Laura H. Virkler signed off at 2 p.m. for a prior commitment. Mr. Leckie reviewed a new risk chart (Foundation portfolio versus MSCI ACWI) that was prepared at Mr. William J. Raver's request.

A brief conversation regarding shareholder activity ensued and Mr. Leckie stated that the firm considers itself an "active" investor rather than an "activist" and if there were major concerns or discontent it would probably sell the investment. Mr. Leckie reviewed the rationale behind recent purchases and sales. Walter Scott has a cognitively diverse team of investment managers with a complete buy-in to Walter Scott's approach

to investing. He emphasized that when they buy a holding, they hope to never sell. The firm believes the economic outlook going forward is uncertain and that equity markets are 12 to 18 months ahead of where they should be. Walter Scott is scheduled to give its next presentation to the Investment Committee at the October 26, 2021, meeting. The Committee thanked Mr. Leckie for his time, and everyone signed off the Webex conference call at 2:30 p.m.

At 2:35 p.m., the Foundation's meeting resumed via Zoom with the Vanguard team. Mr. Raver stated his intent to review the appointment of Alan Lander as Co-Head of Research. The conversation was turned over to Messrs. Ruhl and Ivory for the Vanguard presentation.

Mr. Ruhl reviewed Vanguard's economic outlook for 2021 and projected 10-year returns by asset class. Vanguard anticipates growth in the 7% to 7.5% range for 2021. Vanguard's 10-year annualized nominal returns favor global equities ex-U.S., value over growth, and credit over treasuries.

Mr. Ruhl proceeded with a review of performance of the foundation's total portfolio, excluding the small Blackstone investment, for the period ending March 31, 2021. For the quarter, the portfolio produced returns of 3.9% versus benchmark returns of 2.3%. For the twelve-month period, the Foundation's consolidated portfolio had returns of 39.9% versus benchmark returns of 40.6%. Mr. Ruhl noted that the portfolio was overweight on equities, in part due to the Committee's decision in July 2020 to reallocate \$6M from both Vanguard's Total Bond Market Index Fund and the Short-Term Investment Grade Fund (for a total of \$12M) to Vanguard's Windsor Fund.

Equities were the strong performer for the twelve-month period ending March 31, 2021. Total Equity values increased 54.8%, Balanced Global values (the two GTAA products) increased by 38.3% and Total Fixed Income values grew by 3.3%.

The Vanguard portfolio produced returns of 45.1% for the twelve-month period versus a benchmark of 41.2%. Mr. Ruhl then reviewed the individual Vanguard funds. The Committee requested that Vanguard update the following benchmarks: Balanced Global to 75% ACWI / 25% Global Agg and both GTAA products to 60% ACWI /40% Global Agg.

The Vanguard team then covered the topic of private equity and the HarbourVest opportunity. Mr. Ivory gave a broad overview and noted that Vanguard researched approximately 20 private equity firms over the period of two years prior to selecting HarbourVest. HarbourVest has \$74.0 billion in total AUM across all strategies, with private market specialists in equity, credit and real assets and a deep network of relationships across global markets. He provided an overview of the Vanguard HarbourVest 2021 Private Equity Fund. The investment period is 3 years with quarterly commitment windows (final close Q4, 2021) and a 14-year time commitment. The investment focus is a broadly diversified portfolio of primary, secondary, and direct co-investments. Investing would include all geographies with a focus on North America and Europe. Mr. Ruhl said that Fran Kinniry oversees the Private Market team on the Vanguard side. The Committee asked several questions and thanked Mr. Ivory and Mr. Ruhl for their time. The Vanguard representatives signed off the meeting at 3:30 p.m.

The Committee determined that it would be interested in learning more about the HarbourVest product and considering a private equity investment. The Chairman stated



that the Foundation should pursue a multiple vintage approach if it does commit funds to private equity. Mrs. Kostas will arrange an informational call with the Vanguard and HarbourVest teams to occur prior to the Committee's next meeting in July. The meeting concluded at 4:10 p.m.