Minutes of the Meeting

of the Investment Committee of the

F. M. Kirby Foundation, Inc.

July 21, 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 July 21, 2021, at 11:00 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. Mr. 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 April 17, 2021 and June 1, 2021 Investment Committee meetings were approved. The Committee also reviewed and approved the revised Investment Policy Statement dated April 27, 2021.

The Committee examined the current allocations via the Allocation Model Report as of June 30, 2021 and discussed possible reallocations from Walter Scott to Vanguard to better align the Foundation's global and U.S. allocations. The conversation was tabled until later in the meeting.

Mrs. Kostas then reviewed the Board Investment Committee Report as of June 30, 2021. Vanguard returns were 4.7% for the quarter, coming in 100 bps below benchmark, and 34.8% for the one-year period, 530 bps above benchmark. Walter Scott returns were 8.6% for the quarter, 120 bps above benchmark, and 36.3% for the one-year period, 300 bps below benchmark. J. P. Morgan's Global Allocation Fund had returns of 4.3% for the quarter, 60 bps below benchmark, and 28.3% for the one-year period, 1100 bps below benchmark. PIMCO's All Asset Fund had returns of 6.1% for the quarter, 120 bps above benchmark, and 29.7% for the one-year period, 960 bps below benchmark. The total portfolio returned 5.8% for the quarter, 10 bps below the Foundation's custom benchmark, and 31.4% for the one-year period, 210 bps above benchmark.

Mrs. Kostas presented the Attribution Report for the twelve-month period ending June 30, 2021, as well as highlights for year-to-date performance. Total portfolio returns were driven by strong equity markets, with the equity asset class providing returns of 42.3%, alternatives 29.3% and fixed income 1.8%. Vanguard's manager selection resulted in positive attribution of 167 bps for its U.S. equities and 67 bps for its non-U.S. equity holdings. Both J. P. Morgan Global Allocation Fund and PIMCO's All Asset Fund also provided positive attribution for the one-year period of 60 bps and 63 bps, respectively.

Mrs. Kostas then shared the eVestment peer group rankings for all investments as of June 30, 2021. Walter Scott's performance lagged its peers (both Global All Cap Equity and Global All Cap Growth Equity) with rankings of 70% and 82%, respectively, YTD. Walter Scott had a 50% batting average against its primary benchmark both for YTD and one-year performance. Vanguard's Windsor Fund, with returns of 19.7% YTD ranked in the top 33% against its peers. For the one-year period, it posted returns of 52.1%, ranking in the top 18% against its peers. Its batting average against its benchmark for those periods was 100% and 75%, respectively.

Vanguard's International Value Fund, with returns of 9.9% YTD, ranked 57% against its peers. For the one-year period, it posted returns of 41.3%, ranking 50% against its peers. Its batting average against its benchmark for both periods was 50%. J. P. Morgan's Global Allocation Fund's performance ranked in the 44% YTD and in the top 17% for the one-year period against the Global Tactical Asset Allocation peer group. It had a batting average against its benchmark of 67% YTD and 75% for the one-year period. PIMCO's All Asset Fund's performance ranked in the top 9% YTD and top 26% for the one-year period against the same peer group. The Fund had a batting average against its benchmark of 67% YTD and 75% for the one-year period.

The Committee then reviewed the Endowment/Foundation Peer Comparison report as of March 31, 2021. The Committee noted that the Foundation portfolio outperformed the median Endowment/Foundation in the Callan database for all periods. Outperformance for the quarter was 67 bps; for one-year, 339 bps; for three-years, 43 bps; and for five-years, 58 bps. The Foundation portfolio also outperformed the median in the Alpha Nasdaq OCIO Endowments & Foundations database (currently 39 OCIOs participating) for all periods. Outperformance for the quarter was 47 bps; for one-year, 328 bps; for three-years, 24 bps; and for five-years, 50 bps.

Mrs. Kostas presented the Expense Summary of June 30, 2021, The Foundation's expense ratio as of June 30, 2021, was 51.4 bps.

The Committee finalized the date for the January meeting as Tuesday, January 25, 2022. Messrs. Ruhl and Ivory confirmed their attendance for the January meeting.

At 11:45 a.m. F. Morgan Kirby, IV, joined the Zoom meeting as a guest. The Vanguard portion of the meeting commenced with Mr. Ruhl giving a broad market and economic overview. Vanguard anticipates the pace of growth in the U.S. to slow but stay strong as the broader economy reopens. Full-year growth forecasts for the United States, Europe, China, and emerging markets are 7%, 5%, 8.5% and 6%, respectively. Given strengthening demand for goods and services, Vanguard anticipates headline and core inflation figures above the Fed's 2% target in the medium term, with price rises moderating toward the end of the year. Mr. Ruhl noted that the Foundation's overall approximate 80% equities / 20% fixed income allocation contributed to the portfolio's outperformance. Mr. Ruhl commented that the performance of both value managers, Pzena (Windsor Fund) and Arga (International Value) was improving.

The presentation then shifted to consideration of the private equity deck that the Vanguard/HarbourVest team prepared. Mr. Ruhl and Mr. Ivory shared the assumptions used by the Vanguard Capital Markets Model in building various private equity scenarios. The Committee reviewed possible distributions of annualized returns and maximum drawdowns and the resulting cash flow models based on various commitment percentages. A discussion ensued regarding the pros/cons of investing annually vs biennially, the amounts of the initial investment, choosing between a blocked (whereby corporate tax is paid before distributions to avoid any UBTI tax) or unblocked feeder fund and administrative considerations such as K-1 reporting and the number of capital calls per year. Mr. S. Dillard Kirby inquired as to how the Vanguard/ HarbourVest team arrived at the presumption of a 350-bps return premium over public markets. Mr. Ruhl stated that HarbourVest has averaged higher IRRs across their vintage funds, but Vanguard wanted to be conservative with the assumptions. Mr. Jefferson W. Kirby noted that a 60-bps return premium (assuming a 15% private equity allocation) would yield an additional $2.3M annually based on a $380M portfolio. Concerns raised by the Committee included market timing, peak equity market valuations, the length of the commitment (up to 14 years) and excessive amounts of dry powder ($3 trillion per Callan as of Q1, 2021) in private equity funds.

Regarding fees, Mr. Ivory stated that there was a 21-bps management fee on committed capital. HarbourVest will charge a 12.5% fee on carried interest once an 8% IRR has been exceeded for the portion of the Fund that will be in Secondaries and Direct Co-Investments (approximately 40% of each annual vintage Fund). The remaining portion of the Fund that is invested in Primary deals (approx. 60%) will not have a carried interest charged by HarbourVest. Each of the underlying GP funds that HarbourVest invests in has their own fee terms. Vanguard uses Prequin data to approximate those fees at about 1.03% with an average carried interest of 17%. Vanguard estimates all-in fees to be 1.24% (0.21% + 1.03%) on the management fee side and then the carried interest of whatever the underlying GP funds charge and whatever HarbourVest earns on the portion in Secondaries/Direct Co-Investments as referenced above. Vanguard has no economic interests or revenue arrangements with the Vanguard HarbourVest Fund 2021 (or other vintages). Its advisory/OCIO fees are separate and apart from any fees that go to HarbourVest.

No motion was made to make a private equity investment, and the Committee agreed to keep it under consideration. Mr. Raver commended the Vanguard team on their due diligence and the overall HarbourVest proposal. The Committee broke at 1:05 p.m. for a brief lunch.

At 1:15 p.m., Messrs. Jeffrey Geller, Chief Investment Officer, and Phil Camporeale, Client Portfolio Manager, Multi-Asset Solutions for J.P. Morgan, joined the Zoom meeting. Messrs. Stephen Hess, Managing Director and Michael Griffin, Managing Director for J.P. Morgan Private Bank also participated via Zoom. Mr. Camporeale reviewed YTD performance with the Global Allocation Fund posting returns of 6.8% gross of fees versus the benchmark returns of 5.8%.

Mr. Geller discussed Multi-Asset Solutions allocation views: more balanced beta exposure in 2021, pivoting away from bonds due to inflation risk and leaning more towards value, cyclicality, and ex-U.S. equities. He also cited the use of options as an important risk management lever. He then discussed management changes, noting the addition of Mr. Camporeale and Michael Feser to the portfolio management team to strengthen the team's fixed income expertise. Mr. Camporeale reviewed individual underlying portfolio asset class specialists and noted that Global Select Equity led by Helge Skibeli was the largest core strategy, accounting for 17% of the total portfolio. Other core strategies include Emerging Markets Equity and Crossover Credit.

Mr. Geller reviewed recent shifts in allocations. The Fund decreased small cap and EM exposure in mid-April. More recently, the Fund increased its China A Shares allocation from 2% to 3%, citing more local economy based investments and low correlation to other Chinese investments as the primary reasons for the shift. Mrs. Kostas requested that the team provide R6 Share class data, (rather than I Share class) on the performance page that details annualized and calendar year performance. The Committee thanked the participants for their time, and they signed off the meeting at 2:10 p.m.

At 2:15 p.m., Messrs. John Cavalieri, Executive Vice President and Asset Allocation Strategist and Ken Hau, Associate, PIMCO Product Strategy, and Ms. Kristen DePre, Vice President for PIMCO joined the Zoom meeting. Ms. DePre noted that Brandon Kunz was taking a six-week sabbatical after ten years with Research Affiliates and would be available for the next meeting. Ms. DePre informed the Committee that there were no organizational changes at PIMCO that affected the All Asset Fund. As a firm, PIMCO assets were $2.2 trillion and the All Asset Fund totaled $17.2bn in AUM (both as of June 30, 2021).

Mr. Cavalieri then reviewed All Asset Fund performance, noting that positive Q2 performance continued the 2020 rebound. All Asset Fund had returns of 12.7% (net of fees) YTD. He then turned the focus on overall returns for market diversifiers (U.S. high yield, EM equities/debt, REITs, and diversified commodities) and pointed out that the diversifiers outperformed mainstream equities in the second quarter of 2021. Attribution contributors and detractors for the second quarter of 2021 were highlighted, with exposures to EM equities, U.S. large/small-cap value equities, commodities and REITS contributing strongly to performance. Alpha from underlying PIMCO funds was +86 bps, driven both by PIMCO's fixed income strategies and Research Affiliates Equity's (RAE) equity alpha (which feature a pronounced value factor tilt). Mr. Raver inquired as to whether anyone else in the GTAA space focused on downside protection, and Mr. Cavalieri replied that most managers in that space are 60/40 oriented. Mr. Cavalieri ended the presentation with PIMCO/Research Affiliate's outlook and positioning. Diversifiers remain attractively priced with long-term nominal returns of 4.5% anticipated versus the traditional 60/40 allocation generating 2%. The portfolio is positioned modestly risk-on and is more diversified with larger allocations to commodities and REITS, developed ex-U.S. equities, and value-oriented strategies. The Committee thanked the participants for their time, and they signed off the meeting at 3:10 p.m.

The Committee returned to the topic of the Foundation's overall asset allocation and approved the drawdown of $13M from Walter Scott to be reinvested in Vanguard's Total International Stock Fund ($8M) and Windsor Fund ($5M), thereby addressing the issue of manager concentration, and rebalancing the global/ U.S. equity investments. It was agreed that Mr. S. Dillard Kirby would notify Walter Scott and request the funds be made available on August 29th.

Mr. Jefferson W. Kirby informed the Committee that the Nominating Committee would recommend to the Board to elect Mr. S. Dillard Kirby as Chairman of the Investment Committee at the September 10, 2021 meeting, effective October 1, 2021. He noted that a major inflection point in the market could drive the private equity discussion. The meeting concluded at 3:30 p.m.