

**Minutes of the Meeting
of the Investment Committee of the
F. M. Kirby Foundation, Inc.
January 25, 2022**

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held via Zoom conference on January 25, 2022 at 11:00 a.m. The following Committee members participated:

S. Dillard Kirby
Jefferson W. Kirby
William J. Raver
Ward K. Horton
F. Morgan Kirby, IV

Mr. S. Dillard Kirby, Chairman, presided and Ms. Diana L. Kostas, Secretary/Treasurer, recorded the minutes of the meeting. Mr. Justin J. Kiczek, Executive Director, and Ms. Laura H. Virkler, Chair of the Board, 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 October 26, 2021 Investment Committee meeting were approved. After a brief review of the agenda by the Chairman, Ms. Kostas shared key highlights for 2021 from the investment reports which were sent to the Committee in advance of the meeting. Items noted included:

- Total portfolio returns of 14.5% versus 75% ACWI/ 25% Global Aggregate benchmark of 12.4%
- Total portfolio yield of 2.6%.

- Walter Scott performance bonus of \$444K (\$804K total fees earned in 2021, approximately 78 bps)
- Wide outperformance of U.S. versus non-U.S. equity annual returns (over 1900 bps spread) for 2021
- Expense ratio of 52.0 bps as of December 31, 2021
- Cash position - \$20.2 million (VUSFX - \$11.9 million, Foundation money market \$7.1M, J. P. Morgan prime money market \$1.2M)

The Committee and guests discussed economic factors such as geopolitics, low GDP growth, inflation, performance fluctuations between growth and value, and articles by Jeremy Grantham (re: simultaneous bubbles across asset classes) and Bridgewater (tightening liquidity). The consensus was that future returns will be lower, and that the Foundation's cash position was a buffer to the aforementioned factors. Mr. Ruhl noted that Vanguard has become less bullish on emerging markets and less bearish on U.S. equities. The Committee concluded that it was comfortable with the current overweight in equities given the allocations to the two GTAA products (PIMCO's All Asset Fund and J. P. Morgan's Global Allocation Fund), fixed income and significant cash.

Ms. Kostas also reviewed the email response of Mr. Michael Griffin, Managing Director, J. P. Morgan Private Bank, regarding the two Blackstone investments and the likelihood of future capital calls. The investment period is complete for both funds and while the fund could call capital for follow-ons in existing portfolio companies, it is not likely that Blackstone will for unfunded commitments or recall distributions in any significant way.

Mr. S. Dillard Kirby raised the topic of Mr. Evan Lorey, Lazard Asset Management, as a potential Investment Committee member. Mr. S. Dillard Kirby and Mr. Jefferson W. Kirby met with Mr. Lorey in January to gauge his interest and to review the expectations and responsibilities of the role, following Mr. Raver's suggestion last fall. The conversation went

very well, and Mr. Lorey expressed sincere enthusiasm toward such a volunteer role. Messrs. Ward K. Horton and F. Morgan Kirby, IV also indicated their concurrence with the potential addition of Mr. Lorey. There were no concerns or issues of conflict of interest raised by the Committee or Lazard. Mr. S. Dillard Kirby will seek Board approval at the upcoming April 29, 2022 meeting and will invite Mr. Lorey to attend the April 26, 2022 Investment Committee meeting as a guest.

The Chairman sought feedback on the education component for the upcoming April meeting. Suggestions included education on different sectors (such as cryptocurrency, reinsurance, and infrastructure) rather than a manager-specific topic.

At 12:10 p.m., the Vanguard portion of the meeting commenced with Mr. Andrew Shuman, Investment Director, joining the Zoom call to give a presentation on Vanguard's Oversight and Manager Search process. Mr. Shuman shared details on considerations Vanguard makes during the firm's search process, red flags (ethics, consistency, turnover), preferences regarding both firms (privately-owned, boutique, number of owners) and people (top tier schools, CFA certification, background/gender/ethnicity diversity), and overall investment philosophy. Mr. Raver inquired as to how Vanguard assembled or built multi-manager portfolios and suggested this as a future topic for Vanguard to present to the committee. Mr. Shuman emphasized Vanguard's long-term views on assessing multi-manager performance and noted that the firm had never fired a manager solely on performance. The Committee thanked him for his presentation and Mr. Shuman signed off the Zoom conference at 1:10 p.m.

At 1:15 p.m., Messrs. Jeffrey Geller, Chief Investment Officer and Phil Camporeale, Client Portfolio Manager, Asset Solutions for J. P. Morgan Asset Management joined the Zoom conference. Messrs. Stephen Hess, Managing Director and Michael Griffin, Managing Director

for J. P. Morgan Private Bank also joined the conference. Mr. Camporeale kicked off the meeting with highlights from 2021. He noted that returns were dominated by asset allocations rather than manager-based, with overweight positions in U.S. equities and underweight positions in global government bonds. Mr. Geller reiterated the performance drivers for 2021, noting that asset allocation accounted for 180 bps of alpha, whereas managers' performance detracted 35 bps. Decision making was more nuanced in 2021. Early in the year the firm was leaning towards value. The firm shifted to an overweight in U.S. equities the last half of the year, along with an overweight in crossover credit.

Mr. Geller stated that the firm manages volatility with various risk management tools, including use of calls and shifting monies to markets that have lagged. Derivatives exposure (in this case, futures only) accounts for approximately 10% of the portfolio. The Global Allocation Fund has \$7.2 billion assets under management, with \$4.9 billion in the mutual fund, \$1.5 billion in sub-advised accounts and \$500 million in ERISA commingled accounts. The Committee thanked the J. P. Morgan representatives for their presentation, informed them of the July 26th meeting, and the J. P. Morgan team signed off the Zoom meeting at 2:10 p.m.

At 2:15 p.m., Ms. Kristen DePre, Vice President, PIMCO and Mr. Brandon Kunz, Senior Vice President, Research Affiliates, signed on via Zoom. Ms. DePre provided PIMCO firm updates, noting that assets under management remained flat to 2020 at \$2.2 trillion. Mr. Kunz outlined Research Affiliates' role as sub-advisor. Research Affiliates forecasts returns for each asset class, translates the forecasts to an asset allocation portfolio, and then maps the portfolio to PIMCO funds.

Mr. Kunz highlighted the 2021 market returns for the three investment pillars within All Asset (equities/bonds/diversifiers). Equities had annual returns of 18.3%, diversifiers 12.0% and

core bonds -2.4%. REITS and diversified commodities had the strongest returns in the diversifiers category, with annual returns of 45.9% and 27.1%, respectively. Alpha from underlying PIMCO funds was a strong contributor: +382 bps for the year. Returns were also supported by tailwinds in the form of rising inflation expectations and outperformance of All Asset's value-oriented RAE (Research Affiliates Equity) strategies.

The Committee inquired as to underlying funds in the commodities and REITS categories. Mr. Kunz referenced a Credit Suisse energy index as well as real estate investments in data centers and a recent return to commercial office space. Ms. DePre stated that they could share a module that gives more details on sectors within various strategies. Mr. Kunz noted that they outsource sector choices to the individual fund managers. There was also a brief discussion on how the firm calculates different yields. Mr. Kunz stated that PIMCO's current estimated yield (a weighted aggregate of all *anticipated* returns of each individual security in the portfolio which takes into account future cash flows of securities, depending on coupon, maturity, present value, and future value of each security) was approximately 3.6%. This contrasts with the Morningstar yield of 11.9%, which is a distribution yield (computed by summing the trailing 12-month income distributions and dividing that sum by the last month's ending NAV plus any capital gains distributed over the same period). He ended the presentation stating the All Asset Fund would benefit from the following conditions: 1) stable to rising inflation, 2) the upward valuation of value stocks, and 3) elevated volatility. The Committee thanked Mr. Kunz and Ms. DePre for their time, and they signed off the Zoom conference at 3:15 p.m. Ms. Virkler also signed off due to a prior engagement.

The Committee resumed its Foundation business and decided that no tactical or strategic changes would be made. It was decided that the Committee should review the Investment Policy

Statement at the April 26, 2022 meeting. Educational topics for that meeting were discussed and it was suggested that perhaps a presentation on natural resource strategies such as water solutions or real assets such as infrastructure. Ms. Kostas will follow up and invite Mr. Trevor Harlow, KBI Global Investors, to present an educational piece on natural resource strategies at the April 26, 2022 meeting.

Other business items included the discussion of automatically reinvesting capital gains for both the J. P. Morgan Global Allocation Fund and the PIMCO All Asset Fund. No decision was made, and Ms. Kostas noted that both funds more commonly distributed dividends than capital gains. Finally, a brief conversation was held regarding the securities lending practices of Vanguard and Walter Scott. Messrs. Ivory and Ruhl commented that they would send the Committee more details pertaining to Vanguard's practices in a follow-up email. The meeting concluded at 3:40 p.m.