Minutes of the Meeting

of the Investment Committee of the

F. M. Kirby Foundation, Inc.

July 26, 2022

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held at 17 DeHart Street and via Zoom conference on July 26, 2022 at 11:00 a.m. The following Committee members participated:

S. Dillard Kirby
Jefferson W. Kirby (via Zoom)
William J. Raver
Ward K. Horton (via Zoom)
Evan C. Lorey

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. Mr. F. Morgan Kirby, IV, was not in attendance due to a prior commitment.

Mr. Ralph Ivory, Director, Nonprofit Solutions, also joined the meeting, representing Vanguard Institutional Advisory Services.

The minutes from the April 26, 2022 Investment Committee meeting were approved. The Chairman highlighted the Committee's consideration of investing in the infrastructure space and the possibility of making a proactive decision prior to the next meeting in October. The Committee agreed to table the discussion until the end of the day, after the Cohen & Steers educational presentation on its infrastructure strategies. Ms. Kostas shared key highlights from the investment reports which were sent to the Committee in advance of the meeting. Items noted included:

- Total portfolio returns of -11.6% versus 75% ACWI/ 25% Global Aggregate benchmark of -13.8% (for Q2 2022)

- The Total portfolio exceeded the benchmark for all time periods (quarter, YTD, 1-year, 3-yr, 5-yr, 7-yr and since inception) except the month of June

- Second quarter was another quarter of negative absolute returns

- Vanguard and PIMCO provided significant alpha, 720 bps and 560 bps respectively, YTD

- There was a shift in the 12-month attribution story with fixed income the top asset class in terms of absolute returns (-7%)
  - Vanguard was the biggest contributor to alpha with strong outperformance in U.S. and non-US equities and fixed income

- The Foundation outperformed its Callan peers for the 1-year (16 bps), 3-year (20 bps) and 5-year (45 bps) periods and the Alpha Nasdaq OCIO Endowment & Foundations peer group for the same time periods by 27 bps, 42 bps and 46 bps, respectively

- Cash position is estimated as of July 31, 2022: $14.0 million (VUSFX - $11.8M, J. P. Morgan prime money market $1.2M, Foundation money market $1.0M)

- Expense ratio of 54.4 bps as of June 30, 2022

Ms. Kostas reviewed the estimated cash needs through year-end ($7.5M) and the estimated dividends (totaling $6.1M, including JPM Prime and current money market balances). The $1.4M shortfall could be funded via a partial redemption of the VUSFX - Vanguard Ultra Short Bond Fund, which would leave approximately $10.4M in the holding.

At 11:30 a.m., Mr. Ralph Ivory provided a market overview and Vanguard's overall economic outlook. He noted that only once in fifty years have equities not bounced back after large declines. Value stocks continue to modestly outperform growth stocks. International stocks declined due to geopolitical events such as the Ukraine invasion, China's zero-covid policy and the strength of the U.S. dollar. Widening credit spreads hurt VFIDX – Vanguard's Intermediate-Term Investment-Grade Fund performance. Fixed income volatility remains high.

A discussion ensued regarding sector weights. The Foundation's aggregate active stock portfolio remains underweight in energy, real estate, utilities, communication services and financials. Relative to these sectors, Mr. Raver inquired as to whether the Foundation should make any adjustments via ETFs to close the gap to the MSCI ACWI benchmark. Mr. Ivory stated that Vanguard is sector-aware but more focused on the individual companies. Mr. Jefferson W. Kirby noted that if the index funds were included in the Vanguard analysis, the underweights would be muted by close to 50%. He also commented on the importance of yields given the economic outlook. The Committee was ambivalent on making any tactical or strategic changes currently.

The conversation turned toward the two infrastructure managers: KBI Global Investors and Cohen & Steers. Mr. Raver noted Cohen & Steers 58% turnover ratio as well as its data, which stated that the Global Infrastructure strategy outperformed the BM by 200 bps but had a 2% tracking error. Typically, outperformance is half of the tracking error. The Chairman noted that KBI took a more secular approach to infrastructure. The Committee took a brief break at 12:05 p.m.

At 12:10 p.m., Ms. Marcia Glass, CFA and Senior Vice President, and Mr. Tyler Rosenlicht, Portfolio Manager, Cohen & Steers, joined the meeting. The firm has total assets under management of $102.1B, with approximately $90B in real assets and $10B in infrastructure. There are nine dedicated analysts on the Global Listed Infrastructure (GLI) Team, with team members in New York, Hong Kong, and London. The strategy focuses on four key sectors (transportation, utilities, communications, and energy) but avoids cyclical subsectors such as engineering and construction, and oil and gas production. The GLI Strategy has expected returns of a 3-4% dividend yield and a 4-6% long term cash flow growth. Historically, the strategy has provided equity-like returns with lower risk. Mr. Rosenlicht noted the wide dispersion (on average 30% to 40%) among infrastructure subsectors which creates potential opportunity for active managers. He stated that one-third of the alpha was from the top-down sector/geographic selection and two-thirds was from the bottom-up security selection.

Mr. Jefferson W. Kirby inquired whether intellectual property and software fell in Cohen & Steers investable universe. Mr. Rosenlicht replied no and stated that the FTSE Global 50/50 Index does not include software companies either. Mr. Rosenlicht reviewed the three investment vehicles available for the GSI strategy (separate account, collective investment trust, mutual fund) and the associated minimums and fees for each. In response to Mr. Jefferson W. Kirby's inquiry as to the day-to-day investment process, Mr. Rosenlicht responded that there are daily and weekly meetings along with a daily global team call. The Committee thanked Ms. Glass and Mr. Rosenlicht for their time, and they left the meeting at 12:55 p.m.

The Committee broke for a brief lunch break. At 1:15 p.m., Messrs. Phil Camporeale, Client Portfolio Manager, Multi-Asset Solutions, J. P. Morgan Asset Management, and Michael Griffin, Managing Director, J. P. Morgan Private Bank, joined the meeting. Mr. Camporeale highlighted recent Global Allocation Fund asset allocation decisions, with decreases in the equity and crossover credit sleeves and increases in cash, short-duration high yield and the U.S. Income Fund, a new sleeve, the U.S. Income Fund. Mr. Camporeale then turned to return contributions as of June 30, 2022. The Global Allocation Fund had negative returns of 18.3% YTD, with international developed equities and emerging markets underperforming. Treasury futures provided a ballast to the portfolio, but the portfolio still underperformed the 60% MSCI ACWI / 40% Bloomberg Global Agg benchmark by 67 bps YTD. With regards to performance attribution, manager stock selection was a detractor, contributing negative alpha of 80 bps YTD and 90 bps for the one-year period. Asset allocation provided +10 bps alpha YTD and +60 bps alpha for the one-year period. The portfolio management team continues to utilize call and put options to manage risk. The Committee thanked Messrs. Camporeale and Griffin for their time and requested them to next present to the Committee on January 24, 2023. They departed the meeting at 2:15 p.m.

Ms. Kristen DePre (in person), Vice President, PIMCO, and Messrs. Rob Arnott, Founder and Lead Portfolio Manager, and Brandon Kuntz, Senior Vice President, Research Affiliates, joined the meeting via Zoom. Mr. Kunz gave a brief update on inflows/outflows, noting that there was renewed interest in fixed income and diversifiers and that the $1B in outflows occurred in the retail environment. The All Asset Fund had AUM of $18.0B as of June 30, 2022. Mr. Arnott compared All Asset's portfolio structure versus a traditional 60/40 portfolio and then presented YTD results. He noted the first half of 2022 was the worst half-year ever with YTD returns of -12.1% (after fees), nevertheless outperforming the 60/40 benchmark by 560 bps. The "take no prisoners" environment left few places to hide, a sentiment echoed by the J. P. Morgan team. The upside to this environment is that sell-offs historically have provided the opportunity for All Asset strategies to rebalance into newly cheap assets and disproportionately benefit in the upside. Mr. Arnott stated that 35% of the portfolio, including liquid alternative strategies and defensively oriented bonds, provide ample rebalancing flexibility to exploit future opportunities.

Mr. Arnott outlined three tailwinds benefiting the fund: stable to rising inflation expectations (All Asset has 60% exposure to inflation-sensitive strategies), the upward revaluation of value stocks, and outperformance amid elevated volatility. Mr. Jefferson W. Kirby inquired as to how geopolitical developments (such as the Ukraine conflict) impact allocations. Mr. Arnott stated that the All Asset strategy is always diversifying, is active and tactical, and patient. Due to the suite of underlying funds, PIMCO can rebalance exposure within one fund, facilitating increased tactical flexibility. Research Affiliates has recently added exposure to Master Limited Partnerships, and has the flexibility to allocate to individual commodities, country equity markets, etc. Ms. DePre inquired if there were any analytics, tools, or reports that would be useful to the Foundation and noted that PIMCO could run simulations on historical asset class betas. She also shared that if the Foundation was interested in inflation hedging that PIMCO had three daily-liquid funds in the real return space (TIPS, commodities, and multi-real asset). She will forward information to the Committee after the meeting. The Committee thanked the team and requested them to present again on January 24, 2023. They left the meeting at 3:20 p.m.

The Committee reflected on the two manager presentations. Mr. Raver stated his concerns with succession planning for Jeff Geller and suggested that we request Eric Bernbaum to participate in the next J. P. Morgan meeting. Mr. Jefferson W. Kirby stated that he would like a side-by-side comparison of the KBI Global and Cohen & Steers products and that a $5M allocation would give us modest exposure to the infrastructure space. Mr. S. Dillard Kirby sought concurrence from the Committee to consider his and management's recommendation for the infrastructure investment upon receipt of the product comparison and, with member agreement, to invest in the product prior to the next Investment Committee meeting in October. The Committee agreed. The meeting concluded at 3:45 p.m.