Minutes of the Meeting

of the Investment Committee of the

F. M. Kirby Foundation, Inc.

October 25, 2022

A meeting of the Investment Committee of the Board of Directors of the F. M. Kirby Foundation, Inc., was held at Vanguard headquarters, 100 Brennan Boulevard, Malvern, PA and via Zoom conference on October 25, 2022 at 10:00 a.m. The following Committee members participated:

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

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 July 26 and September 13, 2022 Investment Committee meetings were approved. 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 -6.7% versus 75% ACWI/ 25% Global Aggregate benchmark of -6.8% (for Q3 2022)

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

- Third quarter was another quarter of negative absolute returns

- Vanguard and PIMCO provided significant alpha, 500 bps and 580 bps respectively, YTD

- 12-month attribution story – nowhere to hide
    - Alternatives (-17.8%)
    - Equities (-19.1%)
    - Fixed Income (-19.4%)

- The Foundation's performance (as of June 30, 2022) lagged all three peer groups (Callan Institute, Alpha Nasdaq OCIO Index - Endowments & Foundations, Alpha Nasdaq OCIO Index – Moderately Aggressive Asset Allocation Index) for the quarter, one-year and three-year periods but outperformed all three peer groups for the five-year period

- Cash position estimated as of October 31, 2022: $7.2million (VUSFX - $6.7M after infrastructure funding, Foundation money market $540K)

- Expense ratio of 55.7 bps as of September 30, 2022

Ms. Kostas sought latitude from the Committee to liquidate up to $4.0M, contingent on the timing and size of dividends, to fund grantmaking/operating expenses through January 2023. The Committee approved the request. Ms. Kostas also provided an update on the two infrastructure investments, noting that both firms (KBI Global and Cohen & Steers) agreed to $5.0M separately managed accounts. KBI lowered its investment fee to 80 bps (from 85 bps) and the Cohen & Steers fee is 70 bps (down from the original 75 bps with a pooled fund structure). All J.P. Morgan account documents have been signed and the funds will be placed into the investment accounts by October 31, with implementation likely to occur at the end of November.

Ms. Kostas sought feedback from the Committee as to the placement of the two infrastructure funds on the Allocation Model report. The initial consensus was to categorize the two infrastructure investments in the Equities section.

The Chairman surveyed the Committee to gauge the interest in any tactical changes to the portfolio. After a brief discussion on emerging market trends, geopolitical events and the U.S. dollar, the Committee concluded that no tactical changes were necessary. Mr. Ruhl stated that Vanguard's 10-year annualized return projections from high to low were global developed markets equities (6.5% to 8.5% anticipated returns), emerging markets (5.9% to 7.9% anticipated returns) and U.S. equities (4.1% to 6.1% anticipated returns).

At 10:50 a.m. the in-person attendees met with Grant Pate, Global Head of Security Operations for a tour of the Cyber Security Operations Center. Upon conclusion of the tour, the attendees met with Dan Newhall, CFA, Principal, Vanguard Institutional Advisory Services for a brief discussion on manager selection, active management, and ESG-oriented products. Mr. Newhall stated that Vanguard was willing to pay higher fees to managers with a demonstrated "edge" in their market space. Vanguard is a believer in performance-based fees, with a low but motivational base fee and the ability to earn a fulcrum fee (positive or negative) on a rolling 3- to 5-year basis. Mr. F. M. Kirby, IV, left the meeting at 12:10 p.m. for a prior work commitment. Mr. Newhall departed at 12:35 p.m.

The educational component of the meeting was led by Mr. Andrew Shuman, CFA, and Director of Research for the Vanguard Portfolio Department. Mr. Shuman provided an overview of Vanguard's approach to multi-manager selection and oversight, noting that the goal of portfolio construction is to smooth out performance via multiple managers and risk reduction. Approximately 25% ($1.7 trillion) of Vanguard's global assets are actively managed, with 47% of those assets managed externally. Oversight and manager search are a top priority at Vanguard and involve three layers of review: 1) the Portfolio Review department which maintains full-time responsibility for fund oversight and manager search, 2) the Global Investment Committee, which is a senior management panel led by Vanguard CEO, Mr. Mortimer “Tim” J. Buckley and 3) the Vanguard Board of Directors, which provides fiduciary oversight of funds and final approval of decisions about funds and advisors. Approximately 60% of Vanguard’s managers outperform their benchmark, with Baillie Gifford having the highest success rate. When asked about the ideal number of managers for a portfolio, Mr. Shuman responded probably 4 to 5 managers, depending on Vanguard’s selection skill, are an optimal number. Considerations include diluting alpha and paying higher fees when investing less with each manager. Mr. Shuman ended the presentation with a brief example of Vanguard’s oversight of its Walter Scott relationship, noting that having met with Walter Scott four times in the past few years that Vanguard has a strong understanding of Walter Scott’s philosophy and investment process. He commented that their long-only focus works for them and that macro and cyclical risks are integrated into their differentiated, insightful research. The Committee thanked Mr. Shuman for his presentation, and he departed at 1:20 p.m.

At 1:25 p.m., Mr. Alex Torrens, Co-Head of Research and Ms. Laura MacDonald, Client Investment Manager for Walter Scott, joined the meeting. Ms. MacDonald provided a firm update, nothing that Mr. James “Jimmy” D. Smith, Director, would be retiring in early 2023. The firm had $68.0 billion in assets under management as of September 30, 2022 and experienced $7.5 billion in outflows in 2022 year-to-date. The office is operating in a hybrid fashion with the research team working in the office on the same three days per week and other staff self-selecting their days. Over 80 companies visited Walter Scott’s Edinburgh office in the second and third quarters of 2022 and the research team visited 120 companies in that same time frame. Robin Vince took over as the new CEO at BNY Mellon in August 2022 and visited the Edinburgh office early in his tenure.

Mr. Torrens then reviewed both short-term and long-term performance. Walter Scott had gross returns of -29.0% YTD (through September 30) versus BM YTD returns of -25.6%. The firm experienced weaker relative returns this year as markets rotated from highly valued stocks (high PE) to lower valued stocks with higher dividend yields. Concerns about inflation, monetary policy, potential broad global economic recessions, and geopolitics are also having a negative effect. When asked about risk management, Mr. Torrens replied that the firm considers both the individual risk to each business in the portfolio (primary focus) and at the portfolio level how the companies interact and affect each other through diversification. The firm invests in approximately 50 companies, with no one company accounting for more than 5% weight in the total portfolio. Mr. S. Dillard Kirby pointed out the positive 5-year alpha in all sectors and regions, excluding energy. Mr. Torrens responded that the firm got the timing wrong on their energy holdings. On a positive note, the compound annual growth rate since inception is 7.4% versus BM returns of 4.4%. The Committee requested Walter Scott's attendance at the April 25, 2023 Investment Committee meeting and thanked Mr. Torrens and Ms. MacDonald for their presentation. They departed the meeting at 2:30 p.m.

Mr. S. Dillard Kirby thanked Messrs. Ruhl and Ivory for hosting the meeting. The Committee responded favorably to the multi-manager portfolio presentation by Mr. Shuman. The conversation turned briefly towards inflation and geopolitical events. It was noted that the average bear market decline was 38% and lasted 15 months. The global financial crisis decline was 29% and lasted 12 months. Currently, the market is down approximately 25% and has lasted 9 months. Mr. Raver commented that BlackRock is favoring bonds over equities because coupon yields have increased materially and provide a good floor for the asset class's future returns. The meeting concluded at 2:45 p.m.