Minutes of the Meeting

of the Investment Committee of the

F. M. Kirby Foundation, Inc.

April 25, 2023

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 April 25, 2023 at 11:00 a.m. The following Committee members participated:

S. Dillard Kirby
Jefferson W. Kirby
William J. Raver
Evan C. Lorey
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, with Ms. Virkler attending via Zoom. Mr. F. Morgan Kirby, IV was unable to attend due to a prior commitment.

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 24, 2023 Investment Committee meeting 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 +6.6% versus 75% ACWI/ 25% Global Aggregate benchmark of +6.2% (for Q1 2023)

- The total portfolio exceeded the benchmark for all time periods except the month of March.

- For the quarter, Walter Scott had the strongest outperformance, coming in 360 bps over its benchmark and providing 91 bps to the Foundation's returns.

- Equities was the top asset class in terms of absolute returns (+7.6%) for Q1 2023, with non-US equities returning 9.7% and US equities providing returns of 5.6%.

- The Foundation outperformed its Callan peers for the 1-year (26 bps), 3-year (18 bps) and 5-year (15 bps) periods ending December 31, 2022, and the Alpha Nasdaq OCIO Endowment & Foundations peer group for the 3-year and 5-year periods by 11 bps and 18 bps, respectively.

- The expense ratio as of March 31, 2023, was 56.9 bps (up from 54.5 bps as of December 31, 2022).

- Estimated cash sources through April 30, 2023: $9.4 million (VUSFX - $4.7M, Foundation money market $4.7M)

A brief conversation ensued regarding Vanguard fees. Mr. Ruhl stated that the increases for Windsor (from 20 bps to 28 bps) and International Value (from 36 bps to 38 bps) were performance-related, with both Pzena and Wellington earning performance bonuses. A longer conversation then took place regarding the high transaction fees for the Cohen & Steers (C&S) investment due to high trading volume in Tier II-V markets. Ms. Kostas reached out to Mr. David Driscoll, Relationship Manager for C&S, and was informed that the volume of trading would probably remain the same. A suggestion was made to explore moving from the separately managed account to the mutual fund vehicle. Ms. Kostas informed the committee that the C&S mutual fund (Ticker CSUIX) had a management fee of 94 bps. There was no final decision on whether to shift from a separately managed account to the mutual fund vehicle. [Subsequent to the Investment Committee meeting, Ms. Kostas followed up with Mr. Stephen Hess, Managing Director at J.P. Morgan Private Bank, to inquire whether the transaction fees were negotiable, to which he replied they were not.]

Ms. Kostas addressed cash needs through July 31, 2023, noting that the Foundation would require approximately $8.8M for grantmaking and administrative expenses. The

Committee reviewed the various sources of funding and suggested an immediate $5M drawdown from Walter Scott for three primary reasons: 1) it would de-risk the portfolio; 2) it would modestly increase the fixed income allocation; and 3) it would preserve the healthy yield that the Vanguard Ultra Short Bond Fund is currently providing. The conversation was tabled for the end of the meeting.

At 11:50 a.m., Mr. Timothy D'Arcy, Managing Director, and Ms. Jackie Rantanen, Managing Director, Hamilton Lane, joined the meeting via Zoom to present an educational piece on Private Equity. Mr. D'Arcy gave a brief history on Hamilton Lane, noting it had been building portfolios with access to private equity for over 30 years. Hamilton Lane has 570 employees and $824B in assets under management. Ms. Rantanen reviewed the structure and process behind private equity investments, along with various private equity strategies. Hamilton Lane devotes a significant amount of time to the "value creation thesis" with each fund manager, understanding their strategies and track record on value improvement. She highlighted the growth in private markets (2,000 funds in 2001 to over 11,500 funds in 2021) due to investors' desire for long-term performance enhancement and diversification. Mr. Lorey inquired as to whether it was too expensive to invest in private equity now. Ms. Rantanen replied that Hamilton Lane has leaned away from venture capital and buyouts due to prohibitive costs. She stated that when building a client portfolio, they design a strategy that is diversified by structure, method of investing, and geography and which suits the client's risk profile.

The Investment Chair noted the strong growth equity and multi-state venture capital performance on the "heat map" on page 20 of the deck. He commented that much of that performance is unrealized, and it would be important to see a cash distribution overlay. Mr. Lorey also inquired as to a pacing plan if one was entering from a position of no private equity allocation. Ms. Rantanen recommended a multi-year period of committing to capital over several years, with some secondary investments made early. Hamilton Lane would need to understand targets, cash needs, and risk appetite. Mr. Raver inquired as to their technology platform. Mr. D'Arcy stated the firm has a database with 30 years' worth of data. Approximately 60% of all funds raised are in the database and the firm has leveraged that information to help inform decisions. They have developed a system called Cobalt (to which both the firm and clients have access) which is available on a subscription basis. Mr. Jefferson W. Kirby inquired about the due diligence performed on the General Partners. Ms. Rantanen replied that Hamilton Lane has 200 investment professionals. Generally, the due diligence teams are organized by specific strategy. They screen opportunities, analyze strengths and weaknesses, and review value add processes. Each potential strategy is presented to the Hamilton Lane Investment Committee no less than three times. Strategy-specific funds have the highest priority. The Chairman thanked Hamilton Lane for their informative presentation. He asked Mr. D'Arcy to follow up on product solutions (minimum entry, fee structure, etcetera). Mr. D'Arcy commented that they were not as concerned about minimums and would send more information. The Hamilton Lane representatives left the meeting at 12:40 p.m.

After a brief break for lunch, the Committee was joined at 1:15 p.m. by Mr. Roy Leckie, Director, and Ms. Laura MacDonald, Client Investment Manager, Walter Scott. The Chairman welcomed the Walter Scott team. Mr. Leckie thanked the Committee for its continued support, acknowledged the Foundation's ongoing philanthropy and that Walter Scott was pleased to help fund its efforts. He made a quick reference to the Foundation's initial funding of $120M, with net flows of $150M and an ending market value as of March 31, 2023, of $86M for a gross gain of $116M. Mr. S. Dillard Kirby inquired as to whether an exception to the 30-day request notification could be made to draw down $5M in funds by May 1st. Mr. Leckie stated that it would be possible and Ms. MacDonald stated she would notify the investment team once the request was formalized in writing. Mr. Leckie then provided updates on the firm. Mr. Alex Torrens will be relocating to the Boston office in July or August of this year as part of his professional development, as well as to help ensure that the Walter Scott culture is instilled in the Boston office. This will result in an organizational structure change in Edinburgh with Mr. Alan Lander being the sole Head of Research. His primary responsibility will be to communicate conclusions made by the research team to the Executive team. Mr. Lander will work closely with Charlie Macquaker and will delegate some research functions (such as hosting research conferences) to associates such as Mr. Des Armstrong and Ms. Lindsay Scott.

Walter Scott has two new independent non-executive Board members: Sir Richard Watt from EPOCH who has experience with governance and ESG-related matters, and John Paul O'Meara from Ahold Delhaize (large food retail group) who has experience in corporate governance and brand strategy. Mr. Leckie feels the Board is resourced appropriately. Walter Scott's intern program will begin in June and last six weeks. They have five individuals in the program. Mr. Matthew Gerlach and Ms. Laura Clark came from the internship program (as did Mr. Torrens).

Mr. Leckie noted a large outflow in the first quarter of 2023. A Japanese sovereign wealth client had a CIO change who moved to passive investing and terminated all six of its active managers. Walter Scott is satisfied with client stability and received a clean bill of health from regulators. BNY Mellon provides all the technology, back-office infrastructure, and cyber security for Walter Scott while allowing it to operate autonomously. The Chairman inquired about how the research / portfolio teams are communicating with their portfolio companies now that Covid has receded. Mr. Leckie stated they have been keen to resume travel and prefer face-to-face meetings with the management teams. The breadth of the relationships they were developing expanded during the pandemic as they had access to the CEO, CFO, Supply Chain Manager, etc. as they couldn't travel. They are now trying to maintain those extended relationships. Walter Scott feels in-person research is critical. The research team is in the office a minimum of 3 days per week and management in 4 to 5 days per week. The office remains the center of gravity and supports the culture. There is not as much talk of recession on the road when meeting with global senior management.

Mr. Leckie noted performance had improved since we last met in October 2022 and believed it will persist for some time due to two characteristics of the Walter Scott portfolio: companies with high levels of profitability (best guard against loss is having a robust margin structure) and balance sheet strength (probably the overwhelming factor that determines outcomes for many companies). Walter Scott believes markets won't move much unless valuations go up and anticipates muted earnings growth. While geopolitics is a concern, the research team spends the majority of its time on the companies Walter Scott acquires and how much they pay for them. Mr. Raver inquired as to why companies weren't paying out higher dividends if they were doing well. Mr. Leckie stated that the average payout ratio of the portfolio is 25%. Their focus is on total return (share price, interest, and dividend). The Chairman thanked the Walter Scott representatives for their time, informed them of the October 24, 2023 meeting date and the attendees departed at 2:15 p.m.

Mr. Ruhl provided highlights of manager performance within the individual Vanguard funds. The Windsor Fund (VWNEX) had returns of 2.93% for the quarter ending March 31, 2023, beating its benchmark by 182 bps. Wellington was up 2.85% and Pzena up 2.99%.

International Value (VTRIX) was up 8.67% for the quarter, 180 bps over its benchmark. For the quarter all three fund managers (ARGA, Lazard and Sprucegrove) outperformed the index and core benchmarks.

Mr. Jefferson W. Kirby inquired as to how big was “too big” in terms of ownership with a sub-advisor. Mr. Ruhl stated Vanguard targets below 50% for any individual manager. Mr. Ruhl provided Vanguard’s market and economic outlook. Vanguard anticipates a mild recession in the last half of 2023 or early 2024 and anticipates another 75 bps rate increase by July. Core inflation is estimated at 3% by the end of 2023 and 2 to 2.5% in 2024. Mr. Lorey inquired as to whether more people were moving to fixed income. Mr. Ruhl directed everyone to page 20 in the deck to compare anticipated 10-year returns. Vanguard still sees a long-term premium for global equities ex-US, with anticipated 10-year returns of 7.7% versus US equity returns of 5.4%. Vanguard still favors U.S. value stocks (with 5.5% anticipated returns) over growth stocks (3.4% anticipated returns). He noted that the midpoint for U.S. equities wasn’t much higher than high quality bonds. The long-anticipated switch from FactSet to Investor Force is targeted to occur by the end of July and Vanguard expects better graphics and more analytics in the new reporting package.

The Committee came back to the discussion of cash needs. Given the low fixed income allocation and the yield that the Vanguard Ultra Short Bond Fund was providing, it was decided to draw down $5M from Walter Scott effective immediately. Mr. Ruhl suggested that if more funds were needed, redeeming from the Windsor Fund and the International Stock Fund (50/50 ratio), rather than the fixed income side, would be prudent.

The Committee briefly discussed whether to remain at the 1.5% allocation in the infrastructure space. It was determined that the Committee was comfortable with the current portfolio structure for the time being.

Mr. Raver mentioned an article from Ray Dalio which predicted a major downturn. Mr. Raver also mentioned that all the funds at Callan keep lowering their return assumptions (down near 6% now).

The Committee briefly reviewed the Investment Policy Statement and determined no changes were necessary to the current version. The members discussed the Hamilton Lane presentation and decided they would like more information on the products offered, with details such as the frequency of capital calls, the number of K-1's, etcetera. Finally, the Committee agreed that the next meeting (scheduled for July 25th) should be held in New York City. Ms. Kostas will coordinate with the various managers. The meeting concluded at 3:20 p.m.