



## VCU ORP Investment Advisory Committee Meeting

October 19, 2016

2:30 PM

**Committee members in attendance:** Meredith Weiss, Cathleen Burke, Timothy Graf, Carl Gattuso, Edward Ishac, and Heidi Jack,

**Committee members absent:** Brent Smith

**Other attendees:** Barry Schmitt, Daniel Jason, Patrick Warner, and Andy Daigenault

I. **Approval of Minutes** – the minutes of the February 29, 2016 meeting were approved with no revisions.

### II. **Fidelity Review**

#### Investment Review

Andy Daigenault provided the committee with a brief update on the economy and the various capital markets along with Fidelity's outlook. Andy highlighted several items including:

- Fidelity's approach to capital markets.
- Thought process in the creation and continuous review of the Fidelity Freedom Funds. Andy spent some time discussing the Freedom funds with respect to;
  - Construction including investor/participant behavior, capital market assumptions, and risk.
  - Fees
  - Glide path construction
  - Cash flow
  - Withdrawal rates
  - Asset class and fund composition of the target date funds
- September 30, 2016 performance including a discussion on the following funds;
  - Fidelity Contrafund
  - Fidelity Low-Priced Stock
  - Fidelity Diversified International
- Passive vs. active management and the thoughts around why plans should have both.

#### Fidelity Administrative Review

Patrick Warner provided the Committee with a re-cap of the past year highlighting several key metrics;

- \$287.5mm in assets (ORP, TDA, and Cash Match with an average balance of \$96,300) representing 2,986 unique participants
- 58% contact rate for the past year with 13% using Fidelity's guidance resources ( 15% took some kind of action)
- 61% of participants have an asset allocation in line with target date fund glide path
- 72% of eligible employees are contributing with an average savings rate of \$8,268 (for those that are investing in the ORP, cash match, and 403b, the average annual savings rate is \$17,506)
- 18% of VCU participants have another account at Fidelity
- The overall allocation tends to be slightly more aggressive than the average higher educational institution within VCU's peer group

### III. **Investment Review**

Mr. Schmitt delivered a review of recent industry trends and topical spotlights on current retirement issues in the marketplace. Key items discussed were:

- The new Fiduciary rule and the potential impact on the plan and its participants.
- Recent litigation on ERISA plans

#### Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$443.2 million as of

September 30, 2016:

- Optional Retirement Plan assets with Fidelity totaled \$114.6 million
- Cash Match Plan assets with Fidelity totaled \$8.4 million
- Optional Retirement Plan assets with TIAA-CREF totaled \$308.8 million (including \$14.1 million in non-approved investments)
- Cash Match Plan assets with TIAA-CREF totaled \$11.4 million (including \$589,000 in non-approved investments)

#### Performance Review

Mr. Schmitt discussed the review of plan investments consistent with the standards and approach defined in the Investment Policy Statement. As part of the review, Barry discussed the evaluation process of CAPTRUST and how the funds are scored.

Total assets as of 6/30/2016 were \$470.7mm (excluding 403b Plan) broken down as follows:

- VCU ORP- Fidelity \$123.6 million
- VCU Cash Match- Fidelity \$8.9 million
- VCU ORP- TIAA \$325.7 million
- VCU Cash Match TIAA \$12.4 million

#### Fidelity Lineup:

Of the 15 approved funds (with Freedom Funds counted as one), all funds are meeting policy guidelines.

#### TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), there is one fund marked for review:

**Marked for Review –TIAA-CREF Large Cap Value (Score of 78)** – This fund has showed improved over recent quarters. If this trend continues this fund will no longer be marked for review

#### **CREF Money Market**

TIAA-CREF recently announced changes to its money market suite in response to money market regulations that will take effect October 2016. These changes are consistent with the industry's adoption of post-money market reform:

- TIAA-CREF will designate all of its money market funds as “government” money market funds meaning they will be exempt from any floating NAV and/or liquidity gate and fee requirements. Currently the funds are classified as prime money market funds.
- Additionally, TIAA-CREF announced it will no longer waive administrative expenses on the CREF Money Market Account effective April 14, 2017. Previously, TIAA-CREF voluntarily waived expenses that would otherwise be charged to this account since 2009 in order to avoid negative yields.
- In the 4<sup>th</sup> quarter of 2015 TIAA-CREF increased the yield of their money market funds and at the same time eliminated the waivers on the R3 only fee class of the CREF Money Market account. Their rationale was that that the R3 class (the cheapest) had started to exhibit returns greater than the fees being waived. VCU is currently in the R2 share class.
- Along with removal of the fee waivers, TIAA will also begin recouping lost expenses, which cannot exceed 25% of the positive return on a daily basis. The recoupment is subject to a three year lookback period, with the clock already started for the R3 shares. The latest date recoupment would be in place for any share class would be April 14<sup>th</sup>, 2020.
- For clients in the RA/SRA/GRA/GSRA contracts at TIAA-CREF, the CREF Money Market account is invested in Individual Contracts and the accumulations cannot be changed.

#### **Recommendation**

Based on the items listed above, CAPTRUST is recommending VCU add the Vanguard Federal money Market Fund to the TIAA platform. Further, CAPTRUST is recommending that VCU re-direct future contributions, formerly going into the CREF Money Market fund, into the Vanguard Federal money market fund. CAPTRUST will prepare an email recommendation to the Committee for their review and approval.

All other funds are meeting policy guidelines.

The meeting was adjourned at 4:00 p.m.