



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Advisory Committee Meeting

September 3, 2014

11:00 AM

Committee members in attendance: Cathleen Burke, Kevin Davenport, William Decatur, Carl Gattuso, Edward Ishac, Brent Smith

Committee members absent: John Wiencek

I. Approval of Minutes

The minutes of the meeting of March 11, 2014 were approved with no revisions.

II. Economic/Market Update

Barry Schmitt, Senior Vice President and Financial Advisor for CAPTRUST, delivered a review of the economy and market along with CAPTRUST's outlook. Mr. Schmitt guided a review of the quarterly investment review document, and highlighted key sections of the economic and market commentary.

III. Investment Review

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$440.7 million as of June 30, 2014:

- Optional Retirement Plan assets with Fidelity totaled \$109.9 million (including \$21.5 million in non-approved investments)
- Cash Match Plan assets with Fidelity totaled \$8.5 million (including \$1.3 million in non-approved investments)
- Optional Retirement Plan assets with TIAA-CREF totaled \$311.5 million (including \$24.5 million in non-approved investments)
- Cash Match Plan assets with TIAA-CREF totaled \$10.8 million (including \$912,000 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.

Fidelity Lineup: Of the 15 approved funds (with Freedom Funds counted as one), there are two funds marked for review by CAPTRUST:

- *PIMCO Total Return* (Score of 74)-. Fund manager Bill Gross' performance has been volatile over the past few years, but long-term performance remains strong. CAPTRUST is encouraged to see recent performance pick up and views the new Deputy-CIO structure as a significant part of that improvement. Recently, exposure to emerging markets debt has helped performance. CAPTRUST continues to monitor this fund closely given the significant changes that have taken place in 2014 (CIO resignation and various published articles about the firm).
- *Fidelity Freedom Funds* have a CAPTRUST score of 79 (out of 100). These target date funds demonstrated lagging performance issues in several underlying areas (commodities exposure and several large cap value managers), a recent portfolio manager change, and changes to the asset allocation structure. The asset allocation structure changes were driven based on analysis that Fidelity performed in 2013 in the areas of capital market assumptions, participant behavior, and risk capacity. Freedom Funds remain the default funds for VCU's Optional Retirement Plan and Cash Match Plan participants.

TIAA-CREF Lineup: Of the 14 approved funds (with LifeCycle Funds counted as one), there are three funds marked for review:

- CREF Inflation Linked Bond Account (Score of 76) - this is not a performance issue but rather the volatility in excess returns has caused this fund to score below 80. No action is required at this time.
- *CREF Bond Market* has a CAPTRUST score of 77. The scoring of this fund results primarily from the benchmark-centric strategy and current “risk-on” environment we are experiencing. The fund is beating the benchmark but below the average peer group return. No action is recommended at this time.
- *Mainstay Large Cap Growth I (Score of 77)* – While longer-term performance remains solid, this strategy has exhibited inconsistent recent results and has also undergone some management changes. Recent performance, while improving, has lagged its peers due to an overweight position in the consumer discretionary sector and an underweight position in consumer staples. In 2013, co-manager Bart Weir retired and technology sector analyst Pat Burton became Co-PM. CAPTRUST continues to have confidence in the team’s investment process but will continue to monitor closely.

All other funds are meeting policy guidelines.

Passively Managed Funds

The Committee discussed a recent trend in offering more passively managed funds given the current low dispersion market (a challenging market for active managers to outperform the benchmarks). There are several things to consider when offering passively managed funds, including administrative costs that may not be equally distributed to those participants invested in passively managed funds; the total number of funds offered in a program (too much choice creates confusion); and the lack of significant “noise” from faculty or staff about the inclusion of such funds. Should there be a need or desire to consider in the future, the Committee will readdress.

IV. Revenue Credit Accounts

Mr. Schmitt and Cathleen Burke led a discussion regarding revenue credit accounts. Over the course of the last several years, VCU and CAPTRUST have been able to negotiate lower fees on both the Fidelity and TIAA-CREF platforms. As part of this process, all funds are now invested in the lowest cost share class resulting in better returns for participants. However, there remains excess revenue on each platform. There are several uses for these dollars:

- Lowering share classes which has been accomplished
- Offering more services, although VCU is very well covered so there are no significant additional services that are not already being offered
- Paying plan related expenses
- Crediting excess revenue back to participant accounts

Since there is no IPAC oversight on the 403b/TDA plan, all excess revenue will be given back to participants using a pro-rata approach.

On the ORP/Cash Match, the committee discussed the various uses of these dollars. The Committee consensus was that the revenue credit account balances should be used to pay plan related expenses with any remaining amounts given back to participants using a pro-rata approach.

V. Closing and Mapping of Funds

Historically, VCU has “frozen” future contributions to funds that have been removed from the approved lineup in the ORP and Cash Match Plans (no future contributions or transfers allowed) while allowing current assets to remain. Over time, the amount of funds that are “non-approved/frozen” has continued to diminish both in terms of the amount of assets as well as the percentage of assets remaining in the funds. Using ERISA as a guide, the Committee discussed the current list of “non-approved/frozen” funds and requested that CAPTRUST create a mapping strategy for discussion at the next meeting. This strategy would include the suggested mapping as well as the number of affected participants (active and terminated). On the Fidelity platform, there are approximately 72 funds that are “frozen/non-approved.” On the TIAA-CREF platform, there are 7 funds that are “frozen/non-approved”. It is important to note that on the TIAA-CREF platform assets in three of the seven non-approved funds are in individual annuity contracts and therefore cannot be mapped.

The meeting was adjourned at 11:45 a.m.