



**VCU Investment Policy Advisory Committee Meeting**  
**February 29, 2016**  
**10:00 AM**

**Committee members in attendance:** Cathleen Burke, Carl Gattuso, Timothy Graf, Heidi Jack, Brent Smith

**Committee members absent:** Edward Ishac

**Other attendees:** Barry Schmitt, Daniel Jason, Jeff Overweg (TIAA), and Tom Callahan (TIAA)

**I. Approval of Minutes**

The minutes of the meeting of November 10, 2015 were approved with no revisions.

**II. TIAA Review**

**Investment Review**

Tom Callahan provided the committee with a brief update on the economy and the various capital markets along with TIAA-CREF's outlook. Highlighted items included:

- Sluggish growth in US markets but better than most other developed market economies
- Lower unemployment rate
- Low inflation
- Slowing Chinese economy, its recent devaluation, and the impact across the global capital markets.
- Fed Rate hike the impact across the global markets
- Solid US housing data
- Low chance of a recession in US

Highlighted fund information included:

- CREF Stock and the makeup (70% US, 25% international developed and 5% international emerging markets). Callahan referenced the benchmark that TIAA has been using, which CAPTRUST will research
- TIAA Traditional
- TIAA Real Estate- growth from \$7.7 billion in 2009 to \$22.4 billion as of the end of 2015
- TIAA-CREF Lifecycle funds- Callahan discussed slight changes to the glide path that took place in 2015 and some recent alternatives to the TIAA-CREF lifecycle that might warrant further research and discussion. Jeff Overweg described several different solutions about which he will provide additional information to the Committee for review. Both options involve heavier use of the TIAA traditional during the accumulation phase of a faculty or staff participant's career.

**Money Market Reform**

Callahan and Overweg discussed recent money market changes. As a result of recent requirements from the SEC, Prime money market funds are required to impose a floating Net Asset Value, liquidity fees and redemption gates, based on certain market events. Institutional only money market funds will be required only to have a floating net asset value. As a result, most money managers are making changes to their approach and objectives. In order to avoid floating net asset values, redemption gates and liquidity fees, TIAA-CREF is converting all their money market funds to government money market funds. This will be completed by October 2016. This includes the CREF Money Market fund (\$8.3mm in assets as of 12/31/2015 on the ORP and Cash Match Plans). In addition, TIAA-CREF made the decision to no longer waive fees on the CREF Money Market Fund effective April 2017. Depending on where rates are at the time, this could result in a negative return on the money market fund. Lastly, TIAA-CREF has also elected to re-coup 25% of the net positive yield for the next three years. This was necessary as the fee waiver, in essence, was paid by TIAA traditional investors.

VCU has three options that will be discussed at the next committee meeting:

- Do nothing
- Offer a stable value like vehicle (like TIAA Stable Value)
- Offer another money market fund

### **Administrative Review**

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

- \$562.4mm in assets (ORP, TDA, and Cash Match with an average balance on active employees of \$96,400) representing 3,396 unique participants (6,768 total participants with a balance)
- 83% average income replacement ratio
- \$30.4 million in contributions last year and (\$30.2 million) in distributions
- Target date funds are now receiving the highest percentage of contributions
- TIAA-CREF conducted 677 individual counseling sessions in 2015
- The communications and education calendar and how TIAA-CREF segments the employee population in a target manner
- The level of engagement across the participant base

Overweg also discussed the recent rebranding of TIAA-CREF to simply TIAA and what we can expect to see going forward from a branding perspective.

## **III. CAPTRUST Review**

### **Industry Update/Overview**

Barry Schmitt delivered a review of recent industry trends and topical spotlights on current retirement issues in the marketplace including CAPTRUST's top predictions for 2016.

- Fiduciary Definition including disclosure requirements for IRA's.
- The use of money market funds, as a result of new rules, will diminish.
- Fee leveling will accelerate.
- With baby boomers retiring at a faster rate than new employees are joining the workforce, overall plan asset values are likely to diminish.
- Target date funds and passive funds will continue their growth in popularity
- Defined contribution plans continue evolving into retirement plans.
- Benefits outsourcing continues
- Financial wellness and financial advice program growth will accelerate.
- DOL audits will increase.
- Defined contribution related lawsuits will accelerate including recent class action suits that were discussed.

CAPTRUST's industry update can be found in the quarterly investment review document

### **Plan Level Review**

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$457.3 million as of December 31, 2015:

- Optional Retirement Plan assets with Fidelity totaled \$118.6 million
- Cash Match Plan assets with Fidelity totaled \$8.7 million
- Optional Retirement Plan assets with TIAA-CREF totaled \$318.1 million (including \$14.7 million in non-approved investments)
- Cash Match Plan assets with TIAA-CREF totaled \$11.9 million (including \$603,000 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 is one fund Considered for Termination and one fund marked for review by CAPTRUST:

- **Considered for Termination – BMO Small Cap Growth (Score of 59).** The Committee, through email, accepted the recommendation to close and map this fund to the Wells Fargo Advantage Small Company Growth Fund.

- **Marked for Review – Lazard Emerging Markets (Score of 73)** – Emerging markets have been a challenging asset class to invest, considering the significant headwinds including the Chinese economy and commodity prices. Overweight positions in Brazil and Turkey contributed to this fund's underperformance. However, through February 36, 2016 this fund ranks in the 12<sup>th</sup> percentile on a year to date basis so we hope improved performance continues.

TIAA-CREF Lineup:

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

- **Marked for Review – Lazard Emerging Markets (Score of 73) – see above notes**
- **Marked for Review- TIAA-CREF Large Cap Value (Score of 78)**- this fund's performance for the years 2014 and 2015 fell into the third quartile. As a result, this fund's three year and five year performance now falls into the third quartile. We hope to see improved performance.

All other funds are meeting policy guidelines.

The meeting was adjourned at 11:30 a.m.