



VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Policy Advisory Committee Meeting

November 4, 2019

1:00 PM

Committee members in attendance: Cathleen Burke, Timothy Graf, Edward Ishac, Heidi Jack, Andrew Ottens, and Meredith Weiss

Other attendees: Daniel Jason, Bruce Sheinhaus (TIAA), Russ Sykes (TIAA), Barry Schmitt (CAPTRUST), and Fran Slacum (CAPTRUST)

I. **Approval of Minutes** – the minutes of the March 6, 2019 meeting were approved.

II. **TIAA Investment and Plan Review**

Bruce Sheinhaus, Senior Relationship Manager with TIAA, highlighted components of TIAA's Annual Plan Review:

- Discussed the roles of certain member of the VCU team at TIAA
- \$753 million in assets as of June 30, 2019 across all plans
- 7,973 participants with a balance (3,842 active)
- Approximately \$300 million in plan assets are held by plan participants ages 60 - 70.
- Annual lifetime income payments total \$3.06 million.
- Total contributions of \$38.9 million (including rollovers) over the past year.
- (\$35.7 million) in distributions over the past year.
- Average account balance for women is lower than men within the same age demographic. TIAA conducts workshops for women to try and close the gap. VCU offered this workshop in the past.
- 43% of employees are millennials. TIAA is the default provider.
- 414 in-person advice sessions conducted for the first six months of 2019.

Russ Sykes, Institutional Investment Strategist, provided the Committee with a brief re-cap of the current capital markets along with an overview of the TIAA investments offered across all VCU plans.

- TIAA Traditional is the largest holding with 27% of the assets. CREF Stock has 16% of the assets.
- Most annuitants use TIAA. Over the past 30 years, TIAA Traditional returns have been like a common intermediate term bond index.
- TIAA's contingency reserves are used to increase annuity income.

Fund items discussed:

- CREF Inflation Linked Bond lagged behind its peer group. CREF ILB remains style pure compared to peers that invest in securities outside of inflation linked bonds such as foreign government bonds and corporate bonds.
- TIAA Real Estate provides diversification.
- TIAA-CREF Target Date Funds' one-year numbers lagged. Detractors were international equity and large cap value components. TIAA replaced large cap value manager in 2018. TIAA made changes to the latter half of its Target Date Fund glidepath:
 - It will move from its current static equity exposure from ages 65-95 to a gradual decrease in equity exposure until age 95.
 - Real estate will be removed 20 years into retirement

TIAA noted that plan participants keeping their retirement plan assets in the target date funds is an industry trend. TIAA notified all plan participants of the upcoming changes to the TIAA-CREF Target Date Funds.

Daniel Jason shared with the Committee that the Human Resources department will take individual counseling requests during new hire orientation.

Daniel will provide the Committee with the TIAA Institute's recent report *Financial Well-being and Retirement Readiness in the Higher Education Workforce*.

III. **CAPTRUST Investment Review**

Industry Overview

Barry Schmitt summarized CAPTRUST's industry update and quarterly investment review. CAPTRUST provided information in the following areas:

- There is increasing interest in how service providers protect and use participant information. Some recent settlements prevent recordkeepers from using participant information to market products or services unrelated to the plan. Fiduciaries should continue to monitor activity and developments surrounding this topic.
- Savings rates over time tend to determine retirement readiness. Plan sponsors should continue to evaluate their plan designs and savings rates by demographic to ensure their employees are on track for retirement.
- Recent Department of Labor retirement plan investigations have focused on the timeliness of the remittance of participant contributions. Participant contributions are treated as plan assets and should be deposited into the plan as soon as reasonably possible. Informally, the DOL has stated it expects contributions to be made as quickly as other benefits are paid.

Economic/Market Overview

Barry Schmitt summarized CAPTRUST's economic and market overview. CAPTRUST's economic and market commentary included the following key themes:

- US Stocks added to their gains and closed out their best first three quarters since 1997 despite slowing economic growth and ongoing trade dispute with China.
- International stocks posted slight losses for the quarter weighed down by emerging markets and a strong dollar—but remain positive for the year.
- Emerging market stocks were down 4.2% for the quarter due to a strong dollar.
- Bonds rallied again this quarter, building on their year-to-date gains, as interest rates hit multiyear lows.
- Public real estate held onto strong gains, due to a low interest rate environment and a favorable market demand.

Other market topics discussed were elevated consumer confidence, low unemployment, rising wages, and a strong housing market (on the positive side), and continued trade tensions, slow economic growth, impeachment talks, presidential election and Brexit uncertainty (on the negative side).

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks – 1.7%
- U.S. Bonds – 2.3%
- International Stocks – (1.1%)
- Emerging Markets – (4.2%)
- Real Estate – 7.3%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$552 million as of September 30, 2019 vs. \$579.1 million as of December 31, 2018:

- ORP assets with Fidelity totaled \$180 million
- CMP assets with Fidelity totaled \$11.3 million
- ORP assets with TIAA totaled \$411 million (including \$11.8 million in non-approved investments)
- CMP assets with TIAA totaled \$18.1 million (including \$607,203 in non-approved investments)

Fund Changes Completed

- Fidelity - moved three funds to a lower K6 share class – Fidelity Freedom K6, Fidelity Diversified International K6 (FKIDX) and Fidelity Govt MMKT K6 (FNBXX).
- TIAA - moved two funds to a lower share class American Beacon Small Cap Value (AASRX) and Mainstay Large Cap Growth (MLAIX to MLRSX).

Performance Review

CAPTRUST discussed the review of plan investments consistent with the standards and approach defined in the Investment Policy Statement.

Fidelity Lineup:

There are 15 approved funds (with Freedom Funds counted as one). All funds are meeting policy guidelines except one fund is marked for review – DFA Emerging Markets Core Equity I.

TIAA-CREF Lineup:

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

DFA Emerging Markets Core Equity I (score of 78 with assets of approximately \$6.3 million (offered on both TIAA and Fidelity platforms)

The strategy's year to date results lagged the benchmark and were in the fourth quartile of the peer group. While recent performance has been challenging, the strategy's five-year results are only slightly trailing the benchmark and are roughly in-line with the peer group. Year to date underperformance was driven by negative stock selection in consumer discretionary (underweight Alibaba), financials, and consumer staples. The strategy's small cap and value factors have hurt performance this year, while the profitability factor has been a positive contributor. Recently, DFA no longer caps country weights which has hurt short term performance. CAPTRUST continues to recommend this strategy.

Other funds discussed:

Goldman Sachs Small Cap Growth Insights (score of 80 with assets of approximately

The Small Cap Growth strategy fared better in 2018 and outperformed its benchmark. It faced similar headwinds from the value bias. Small-Caps were driven by trade and tariff concerns in 2018. The small cap growth strategy tends to be slightly underweight biotech, which can be a headwind in that sector has a strong rally.

IV. Other Items

- Loans will be offered through Fidelity under the 403(b) plan beginning first quarter 2020.

The meeting was adjourned at 2:30 p.m.