VIRGINIA COMMONWEALTH UNIVERSITY Heidi

VCU ORP Investment Policy Advisory Committee Meeting
April 11, 2023
11:00 AM

Committee members in attendance: Meredith Weiss, Cathleen Burke, Jay Bonfili, Melissa Burton, Denise Laussade, Andrew Ottens, and Pete Vatev
Other attendees: Daniel Jason and Daynon Smith (VCU)**,** Barry Schmitt and Fran Slacum (from CAPTRUST), Kevin Moultrie and Andy Daigneault (from Fidelity)

I. **Review of Minutes –** The Committee noted there were no changes needed to the minutes from the November 18, 2022, meeting.

II. **Committee Governance** – New member appointed to IPAC – Pete Vatev who replaces Dr. Manu Gupta.

III. **<u>Fidelity Plan Review and Investment Review (only reflects Fidelity data)</u>**

Kevin and Andy presented current plan information. Below are some key items and stats discussed: <u>Demographic information</u>

- 78% of active employees with a balance are actively contributing on the Fidelity platform. • Average total (employer plus employee) savings rate is $11,615. The savings rate for VCU participants continues to increase year after year.
- In last 12 months, .01% of active participants have one loan outstanding.
- 95% of active employees have an e-mail address on file.

<u>Investment information</u>

- The Federal Reserve and many other central banks further tightened monetary policy, and the U.S. and global economies faced rising recession risks.
- Fund highlights included:
  - Fidelity Contrafund K6 was overweight in technology stocks – Netflix, Meta resulting in some near-term underperformance.
  - Fidelity Real Estate was overexposed in real estate operating companies versus in real estate investment trusts (REITs). Hurt the fund in early 2022 but has benefited the fund more recently.
  - Fidelity's active target strategies (approximate expense ratio of 50 bps) are professionally managed diversified portfolios. The normal retirement age (NRA) used aligns with Social Security and varies by year of birth for retirees. 50% of Fidelity assets are in the Freedom series.

IV. **<u>CAPTRUST Investment Review</u>**

SECURE ACT 2.0 OF 2022:

President Biden signed the SECURE Act 2.0 as part of the Consolidated Appropriations Act of 2023. With more than 90 provisions, much of the legislation focuses on increasing retirement savings and coverage.

REQUIRED PROVISIONS:

- Increase in the required minimum distribution (RMD) age to 73 for those who attain age 72 between January 1, 2023, and December 31, 2032, and age 75 for those who attain age 74 after December 31, 2032.

• Catch-up contribution limit increased to the greater of $10,000 or 50% more than the regular catch up amount for ages 60 to 63. For taxable years beginning after December 31, 2024. • Catch-up contributions made after December 31, 2023, must be made as Roth contributions with an exception for employees earning $145,000 or less (dollar amount is indexed).

• The SECURE Act of 2019 required employers with 401(k) plans to permit employees with at least 500 hours of service in three consecutive years to participate in their plans. SECURE 2.0 reduced the years of service requirement from three years to two, effective for plan years beginning after December 31, 2024. The requirement is also extended to ERISA 403(b) plans.

• Saver's Credit modified to Saver's Match program. Taxpayers meeting gross income requirements with qualified retirement contributions can receive a government match contribution of up to $2,000 to an eligible IRA or retirement plan, which does not count toward the annual plan contribution limit. This provision applies to taxable years beginning after December 31, 2026.

• RMDs removed for Roth money held in employer plans, effective beginning after December 31, 2023.

• Paper benefit statements must be provided at least once per year, effective for plan years beginning after December 31, 2025.

OPTIONAL PROVISIONS:

• Employers can allow matching contributions to be made as Roth contributions, effective immediately.

• Student loan repayments can be treated as elective deferrals for the purpose of matching contributions for plan years beginning after December 31, 2023.

• Employers can offer an emergency savings distribution option of $1,000 per year that can be repaid to the plan. For distributions made after December 31, 2023.

• Employers can offer an emergency savings account linked to a defined contribution plan for non highly compensated employees. Participants can be automatically enrolled at up to 3% of salary for a total contribution amount of $2,500. Participating employees may take tax- and penalty-free distributions at least once per calendar month. Effective for plan years beginning after December 31, 2024.

• Automatic small balance cash-out maximum increased from $5,000 to $7,000. For distributions made after December 31, 2023. VCU will be paying out small balances for terminated participants in the Cash Match Plan.

• 403(b) plans can join a pooled employer plan (PEP), effective immediately.

• Employers may accept written certification by the employee for hardship distributions, effective immediately.

• De minimis financial incentives (not paid by plan assets) can be provided to employees to encourage retirement plan participation, effective immediately.

Plan amendments pursuant to SECURE 2.0 must be made on or before the last day of the first plan year beginning on January 1, 2025 (2027 for governmental plans).

IMPACT OF THE ESG FINAL RULE

On November 22, the Department of Labor (DOL) released its final rule designed to clarify a path forward for retirement plan fiduciaries to incorporate environmental, social, and governance (ESG) factors into their investment selection and monitoring process. The DOL made it clear that fiduciaries may consider ESG factors when making investment decisions and exercising shareholder rights. VCU doesn't offer an ESG fund currently.

ECONOMIC/MARKET UPDATE

Investors grew optimistic over the first half of the fourth quarter, anticipating the Federal Reserve was near the end of its tightening cycle. However, the excitement faded as Chairman Powell cautioned that conditions would need to remain restrictive for some time.

• Gains early in the quarter were more than enough to offset December declines, leading to positive quarterly results across nearly all asset classes.

• U.S. stock market gains were broad based with the energy sector at the top, posting a 25% quarterly return.

• Outside the U.S., investors benefited from both rising stock prices and a weakening U.S. dollar. • Bond markets posted a modest return for the quarter.

• Public real estate lost approximately one-quarter of its value in 2022.

• Commodities were the sole bright spot for the year.

Tailwinds Facing the Market

• With interest rates near zero for the last decade, investors have been forced to take more risk. With the re-establishment of a positive risk-free rate, investors can approach risk more out of conviction. • While the labor market's strength contributes to inflation pressures, it also protects economic activity in the face of the Fed's tightening programs.

• Subsiding supply-chain constraints, declining gas prices, easing COVID-related restrictions in China, and lowering inflation could improve consumer sentiment and spending.

Headwinds Facing the Market

• Ongoing uncertainty about rate hikes is driving volatility.

• The financial pain of surging interest rates will transition from the investor to the issuer as coupon payments reset higher.

Major indices performed as follows for the 4th quarter 2022:

• U.S. Stocks 7.6%

• U.S. Bonds 1.9%

• International Stocks 17.4%

• Emerging Markets 9.8%

• Real Estate 4.4%

• Commodities 2.2%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled $726.1 million as of December 31, 2022:

• ORP assets with Fidelity totaled $218 million.

• CMP assets with Fidelity totaled $12.9 million.

• ORP assets with TIAA totaled $472.8 million (includes $10.8 million in non-approved investments) • CMP assets with TIAA totaled $22.3 million (includes $528,863 in non-approved investments)

Performance Review

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

CAPTRUST discussed the way they evaluate the funds in the plan including their scoring methodology and how that scoring differs depending on the type of funds (active funds vs. passive funds, target date funds, and unique types of investments). CAPTRUST Monitoring Methodology scores funds based on

colors - green (In Good Standing), yellow (Marked for Review) and red (Consider for Termination) scoring for the funds shown. On actively managed funds, CAPTRUST evaluates funds on a 100, point scale – 70% quantitative and 30% qualitative. CAPTRUST noted that its scoring methodology is used to help inform and guide the discussion in evaluating a fund's performance and is not intended to be a required action. The Committee has the final decision on whether to remove or keep a fund on its menu.

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 (Fidelity Real Estate Investment Portfolio).

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), all funds meet policy guidelines.

Marked for Review:

Fidelity Real Estate Investment Port (score of 78 with approximately $3.5 million in assets - offered only on Fidelity's platform).

This strategy, led by Steve Buller, focuses on stock selection to add value. Sub-sector positioning typically stems from the team's bottom-up research, not top-down industry views. From 2017-2020, broad-based selection issues drove underperformance relative to the strategy's benchmark and the real estate category. Since then, however, performance has stabilized. This is partly due to the team making an exception to their bottom-up approach, avoiding mall and office REITs based on a top-down view that those sectors are facing structural headwinds. While 3- and 5-year relative returns are modest, the strategy has added value for longer-term investors. **No action is warranted at this time.**

Having no other items, the meeting was adjourned.

VCU Human Resources September 2023