



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Policy Advisory Committee Meeting March 23, 2022 3:00 PM

Committee members in attendance: Cathleen Burke, Jay Bonfill, Dr. Manu Gupta, Ashley Hanel, Denise Laussade, Andrew Ottens, and Meredith Weiss

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 15, 2021 meeting.
- II. **Committee Governance** – A new member was appointed to IPAC by Office of the Provost: Dr. Manu Gupta.
- III. **Fidelity Plan Review and Investment Review (only reflects Fidelity data)**
Kevin and Andy presented current plan information. Below are some key items and stats discussed:
 - 78% of active employees with a balance are contributing on the Fidelity platform.
 - Average total (employer plus employee) savings rate is \$10,676. The savings rate for VCU participants continues to increase year after year.
 - 77% of active participants contacted Fidelity via phone or logged into NetBenefits.
 - Asset prices experienced some intra-quarter ups and downs as markets grappled with an uneven global expansion, high inflation, and the beginning of a shift toward less accommodative monetary policy.
 - Fund highlights included:
 - Fidelity Contrafund K6 was underweight in cyclicals. Returns are based on the inception date of May 25, 2017.
 - Fidelity Freedom Funds are now underweight in U.S. Equities and U.S. Investment Grade Bonds.
 - Fidelity's active target strategies (approximate expense ratio of 50 bps) have outperformed Fidelity's index target date strategies over the past seven years.
- IV. **CAPTRUST Investment Review**
Plan Sponsors can expect to see increased legislative activity around retirement plans with Secure Act 2.0. Key elements to expect in the final bill:
 - A clearinghouse for lost retirement accounts
 - Higher catch-up limits
 - Another increase in the required minimum distribution (RMD) age, to age 75
 - Treatment of student loan repayments as elective deferrals

Benefit Solutions

With the tight labor market, plan sponsors are looking to add new and innovative benefits, which may include:

- Health Savings Accounts (HSAs), student loan assistance, and non-qualified plans
- Investment advice and financial wellness with a focus on more personalized solutions like managed accounts and one-on-one advice.

Plan litigation

Retirement plan lawsuits are expected to remain elevated in 2022, which will continue to impact fiduciary liability insurance. Plan sponsors looking to alleviate fiduciary responsibilities may increase the utilization of both 3(38) and 3(16) discretionary services.

DOL Update

The Department of Labor (DOL) issued an Interim Final Rule in August 2020 that requires a new lifetime income illustration as part of second quarter 2022 participant statements; thereafter, these statements will be delivered to participants on an annual basis.

Fiduciary Training Highlight

The Plan Sponsor is commonly named as both the plan fiduciary and plan administrator of a retirement plan. The role of a plan administrator is to ensure the plan is administered in accordance with the plan documents, overseeing and executing the day-to-day activities of the plan.

ECONOMIC/MARKET UPDATE

Despite volatility fueled by the COVID-19 virus and policy uncertainty, supply chain woes, and inflation worries, most asset classes posted solid returns in 2021, led by economically sensitive sectors that benefitted from reopening trends.

- U.S. large-cap stocks delivered solid returns for the quarter.
- International developed stocks posted positive returns for the year, even as China risks affect emerging markets.
- Fueled by oil prices, commodities advanced by more than 27% for the year.
- Public real estate added to gains in the fourth quarter despite continued virus concerns.
- Core bonds were flat in the fourth quarter.

Tailwinds Facing The Market

- Buying Power of US Consumer
- Strong fundamentals
- Tight labor market pushing wages higher

Headwinds Facing The Market

- Russia/Ukraine Crisis
- Inflation fears
- Signaling of changes in monetary policy by central banks
- Supply chain issues

Major indices performed as follows for the 4th quarter 2021:

- U.S. Stocks +11%
- U.S. Bonds 0.0%
- International Stocks +2.7%
- Emerging Markets (1.2)%
- Real Estate +14.6%
- Commodities (1.6)%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$839 million as of December 31, 2021:

- ORP assets with Fidelity totaled \$258.9 million
- CMP assets with Fidelity totaled \$15.1 million
- ORP assets with TIAA totaled \$539.2 million (includes \$15.6 million in non-approved investments)
- CMP assets with TIAA totaled \$25.8 million (includes \$786,341 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.

Fidelity Lineup:

There are 15 approved funds (with Freedom Funds counted as one). All funds are meeting policy guidelines except two funds are Marked for Review (Fidelity Real Estate Investment Portfolio and American Beacon Small Cap Value) and one fund that is Considered for Termination (Goldman Sachs Small Cap Growth Insights).

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), two funds are Marked for Review (CREF Money Market Account and American Beacon Small Cap Value).

Marked for Review:

Fidelity Real Estate Investment Port (score of 73 with approximately \$5.17 million in assets - offered only on Fidelity's platform).

The current real estate environment has been challenging with certain sectors facing challenges due to business closures and its impact on commercial real estate. The Committee will continue to monitor this fund. **No action is warranted at this time.**

CREF Money Market Account (with assets of \$4.9 offered only on TIAA's platform)

CREF Money Market's expense ratio waiver expired at the end of 2021. Participants may see negative returns in the CREF Money Market Account if interest rates do not rise sufficiently to cover the Account's expenses.

American Beacon Small Cap Value R6 (score of 78 with combined assets of \$6.65 million- offered on both TIAA and Fidelity platforms)

Matt Peden has been named as a portfolio manager on the American Beacon Small Cap Value Fund. Additionally, both Colin Hamer and Robyn Serrano were named associated portfolio managers. These changes took place in anticipation of Portfolio Manager Cynthia Thatcher's retirement. The portfolio has a slight valuation approach that was a headwind in 2021 but has improved as valuations have come down in 2022. **No action is warranted at this time.**

The DFA Emerging Markets Core Equity I which was previously marked for review is meeting policy guidelines.

Considered for Termination:

The Goldman Sachs Small Cap Growth Insights Fund (offered on the Fidelity Platform) was replaced with the Mass Mutual Select Small Cap Growth Fund effective February 23, 2022.

V. QDIA/Target Date Fund Analysis

CAPTRUST and the Committee compared the current QDIA – Fidelity Freedom Funds and TIAA-CREF Lifecycle Funds – against other Target Date Strategies. The Committee compared performance of the current QDIA against both the Morningstar peer group averages and the S&P Target Date Series and found their current

QDIA selection performs well. In addition, CAPTRUST discussed the assumptions made and the approach each target date series makes in order to create the series glidepath (percentage of equities to fixed income over time). Approximately 29% of the plan assets are in target date funds. **The Committee reaffirmed that the QDIA accurately reflects and meets the needs of their current employee population based on its competitive cost, consistent and solid performance, and glidepath that align with the plan's objectives.**

Having no other items, the meeting was adjourned.