

VCU ORP Investment Policy Advisory Committee Meeting
March 25, 2024
10:00 AM

Committee members in attendance: Meredith Weiss, Jay Bonfili, Denise Laussade, Alison Miller, Andrew Ottens, and Pete Vatev

Other attendees: Melissa Burton, Daynon Smith, David Allen, Jessica Cheatham, and Kelvin Allen (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, 2023, meeting.

II. **Committee Governance** – Daynon thanked Denise Laussade for her service since this is her last Committee meeting.

III. **Fidelity Plan Review and Investment Review (only reflects Fidelity data)**

Kevin and Andy presented plan information as of December 31, 2023. Below are some key items and stats discussed:

Demographic information

- There are 3,371 total plan participants (active and terminated) on the Fidelity platform. The average account size is \$181,200 for actives and \$108,800 for terminated plan participants. • The average total (employer plus employee) savings rate is \$11,807. The savings rate for VCU participants continues to increase year after year.
- 81% of eligible employees participate in the retirement plan.
- 67% of participants have an age-appropriate equity allocation with the outliers being older faculty/staff.
- In the last 12 months, .08% of active participants have one loan outstanding. The peer average is 2.5%.
- 95% of active employees registered on Fidelity's NetBenefits site. And 90% of active employees enabled two-factor authentication.
- Fidelity's SOC2 Report is available to download from the Plan Sponsor Website (PSW). • Fidelity can coordinate a follow up meeting with their Cyber Security Team and VCU's subject matter experts upon request.

Investment information

- Inflation appears to be rolling off its peak while the Federal Reserve is keeping higher interest rates longer.
- Almost all major global market categories registered a solid rally in Q4 and ended 2023 with positive returns. U.S. stocks led the way, with technology and growth stocks at the top. Non U.S. stocks also rallied in Q4 to end a strong 2023. After languishing during most of 2023, fixed income rebounded during Q4 as yields fell.
- Fund highlights included:
 - Index funds are a cost-effective way for participants to access the market. Index funds are available on the VCU fund menu for bonds, U.S. Equities, and international investment options.
 - Fidelity Contrafund K6 ranked in the 27% percentile. 2022 was a drag on the three year performance.
 - Fidelity's Target Date Funds encompasses three components – glidepath, active management, and specialized research. Fidelity manages over \$550 Billion in Target Date Fund Solutions.

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The Committee discussed the features of a self-directed brokerage window and the participant fees

associated with it. It was noted that 1940 Act ETFs are available on the Fidelity Platform, not on TIAA's platform. The Committee may visit this topic in the future.

IV. **CAPTRUST Investment Review**

INDUSTRY UPDATE/OVERVIEW

2024 Predictions

Financial wellness and plan design will be key topics for plan sponsors as they began to adopt some of the optional provisions under Secure Act 2.0 including:

- Provisions and guidance around student loans, emergency savings, and auto portability. •

Continued evaluation of retirement income products and solutions including managed account offerings.

- Cybersecurity protocols and plan documents aligning with policies and procedures. •

Fiduciary rule finalization, particularly around rollovers.

- Collective Investment Trusts on 403b plans.

Service providers will be rolling out new processes and services to comply with the Secure Act.

SECURE Act 2.0 increases the mandatory distribution limit from \$5,000 to \$7,000 effective January 1, 2024. Mandatory distributions are used for small balance force-outs of terminated employees. Small account balances must be rolled over to an IRA that the plan sponsor has chosen if a participant does not select an alternative option (i.e., rollover to a new employer's plan). VCU intends to adopt the higher \$7,000 threshold. External Counsel is working on amending the plan document.

FIDUCIARY TRAINING – CYBERSECURITY BEST PRACTICES:

- Ensure the service provider is following DOL guidelines.
- Review service providers contract for provisions for information sharing and confidentiality. • Plan sponsors should confirm that they have implemented internal processes and controls to restrict access to plan data and other sensitive information.

ECONOMIC/MARKET UPDATE (part of review but wasn't discussed due to time constraints) The higher-for-longer interest rate message reiterated by the Federal Reserve through the first three quarters of 2023 was essentially dismissed by investors late last year as inflation data showed continued easing. Consequently, expectations for future interest rate changes were reset significantly lower. Nearly all asset classes performed well.

- The small-cap value segment of the market benefited most from the decline in rate expectations, driven by sizable exposure to regional banks. Broader large-cap equities also surged, and multiple sectors within the index ended the quarter with double-digit gains.
- Bond investors also captured the value of falling rate expectations, with fixed income markets recouping their modest year-to-date losses.
- Outside the U.S., international stock market gains were more minimal, but a weakening U.S. dollar filled the gap.
- The interest-rate-sensitive real estate was the end of quarter market leader.

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Tailwinds Facing the Market

- As inflation wanes to pre-pandemic levels without having spurred a recession, a soft landing seems likely. Fed rate cuts and a lower inflationary environment could drive economic growth. • Real wage

growth remained positive in 2023, leaving consumers better positioned to tackle rising debt.

- The potential for operational efficiency and revenue enhancement has driven heavy investment in artificial intelligence across industries. Widespread implementation over the next decade has the potential to boost productivity growth above long-term averages, thereby increasing gross domestic product (GDP).
- Funds from programs targeting infrastructure and clean energy will be deployed in 2024, adding liquidity to the economy.

Headwinds Facing the Market

- Credit card balances remain high, and excess savings have been mostly depleted. Despite higher borrowing costs, consumers continue to spend and are now facing high interest rate payments on loans.
- In 2023, higher interest rates created an inventory shortage and pushed home prices higher. Although mortgage rates have declined, it will take time for housing affordability to return to historical norms.
- The prospect of lower interest rates has inspired high optimism, which may drive volatility if reality falls short of expectations.

Major indices performed as follows for the 4th quarter:

- U.S. Stocks 11.7%
- U.S. Bonds 6.8%
- International Stocks 10.5%
- Emerging Markets 7.9%
- Real Estate 18.0%
- Commodities (4.6%)

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$838.5 million as of December 31, 2023:

- ORP assets with Fidelity totaled \$2263.3 million.
- CMP assets with Fidelity totaled \$15.3 million.
- ORP assets with TIAA totaled \$533.9 million (includes \$13.2 million in non-approved investments) • CMP assets with TIAA totaled \$26 million (includes \$674,267 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 provided an overview of how 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.

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Fidelity Lineup:

There are 15 approved funds (with Freedom Funds counted as one). All funds meet policy guidelines.

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), all funds meet policy guidelines except one fund that is marked for review.

Marked for Review:

American Funds Euro Pacific Growth R6 (Approximately \$13 million in assets with a score of 78 on TIAA Platform Only)

During the fourth quarter, the strategy returned 10.37% versus 9.75% for the core benchmark. At the sector level, portfolio positioning was a modest detractor due to a cash drag and an overweight to the lower returning healthcare sector, leaving stock selection as the primary driver of outperformance. While the strategy's growth tilted style has been a headwind relative to the core benchmark and peer group for much of the past three years, the strategy has been a consistent performer within that space over the longer-term. **No action is warranted at this time.**

V. FEE BENCHMARK ANALYSIS

CAPTRUST provided a fee benchmarking on Fidelity's current 4-basis point (bps) and TIAA's current 5.2-basis point (bps) recordkeeping and administrative fees. The presentation was designed to provide the Committee with a fiduciary process to 1) understand the current fees and 2) assess the reasonableness and competitiveness of Fidelity's fee compared to other similarly structured plans. Based on the plan demographic information utilized to benchmark the plan against the industry, Fidelity's current fees are within the current benchmark range. TIAA's current fees are above the current benchmark range. **CAPTRUST will negotiate with TIAA on their fee.**

Having no other items, the meeting was adjourned.