VCU ORP Investment Policy Advisory Committee Meeting
March 25, 2025
2:30 PM

Committee members in attendance: Meredith Weiss, Jay Bonfili, Alison Miller, Andrew Ottens, and Pete Vatev
Other attendees: Melissa Burton, Daynon Smith, 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 12, 2024, meeting.

II. **Fidelity Plan Review and Investment Review (only reflects Fidelity data)**
Kevin and Andy presented plan information as of December 31, 2024. Below are some key items and stats discussed:
Demographic information
- There are 3,425 total plan participants (active and terminated) on the Fidelity platform.
- Total contributions were $29.5 million, and distributions were $46.5 million.
- The average total (employer plus employee) savings rate is $12,320. The savings rate for VCU participants continues to increase year after year.
- 82% of active employees with a balance at Fidelity participate in the retirement plan.
- 65% of participants have an "age-appropriate" equity allocation with the outliers being older faculty/staff.
- In the last 12 months, .09% of active participants have one outstanding loan. The peer average is 2.6%.
- 95% of active employees registered on Fidelity's Net Benefits site. And 91% of active employees enabled two-factor authentication.
- Fidelity's SOC2 Report is available to download from the Plan Sponsor Website (PSW).

Investment information
- Customer sentiment (which is low) is factored into the markets today.
- Large cap growth stocks have been flat for the past six months.
- Congress wants to make permanent tax cuts revenue neutral.
- 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 Contra fund K6 ranked in the 18th percentile. YTD the fund is down 82 basis points compared to the S&P 500 that is down about 1.5%. Distributions exceeded contributions in 2024.
    - 65% of VCU employees are in Fidelity's Target Date Funds. The Target Date Funds philosophy encompasses three components – glidepath, active management, and specialized research. Fidelity manages over $550 Billion in Target Date Fund Solutions.

III. **CAPTRUST Investment Review**

INDUSTRY UPDATE/OVERVIEW

2025 Outlook

The future of the defined contribution (DC) industry will be shaped by technology enhancements, legislative changes, and a focus on the evolving needs of the U.S. workforce.

- Financial wellness and plan design conversations focus on student loan debt, emergency savings, auto portability, and missing participants. VCU launched a customized retirement program with TIAA that was well received.
- Plan sponsors turn their focus to the impact of SECURE 2.0 provisions on participant savings and plan leakage.
- The use of managed accounts and retirement income products increases as the demand for personalization and income continues.
- Plan sponsors continue to outsource through 3(38) and 3(16) discretionary services.

FIDUCIARY UPDATE

On October 15, 2024, the Internal Revenue Service (IRS) released Notice 2024-77, providing guidance on inadvertent benefit overpayments to plan participants from qualified retirement plans which includes payments made before a distribution is permitted under IRS Code or under the terms of the plan (i.e., an impermissible in-service distribution). Plan sponsors are not required to seek recoupment of the inadvertent overpayments from participants but may do so at their discretion. If the plan sponsor does not seek recoupment of an overpayment, it will be treated as an eligible rollover distribution, except for overpayments related to 401(a)(17) or 415 limit failures.

On January 1, 2025, the SECURE 2.0 Act super-catch-up optional provision became available for 401(k), 403(b), and governmental 457(b) plans that currently offer catch-up contributions.

FIDUCIARY TRAINING: UNDERSTANDING FIDUCIARY RESPONSIBILITIES OF ADMINISTRATIVE FUNCTIONS

ERISA defines a *plan fiduciary* as someone having discretion and control over the plan. Many administrative tasks associated with retirement plans are fiduciary in nature but performed by an employer's human resources or finance staff who do not necessarily have a fiduciary role. It is important that employees responsible for administrative functions understand the importance of following both Department of Labor and Internal Revenue Service guidelines to ensure the plan remains compliant and is not subject to inadvertent fines or penalties.

ECONOMIC/MARKET UPDATE

Political and monetary policy crosscurrents drove volatility in the final quarter of 2024. In the U.S., a clean election outcome provided a mid-quarter boost while tariff rhetoric and divergent monetary policy proved to be headwinds for foreign equities. Sentiment continued to favor the U.S., though a more hawkish Federal Reserve disrupted momentum in December. While high interest rates remain a hurdle for many sectors, U.S. mega-cap growth stocks continue to rise.

- Investor sentiment shifted in favor of domestic equities on strong relative fundamentals with a clear preference for mega-cap growth stocks.
- Bond yields mostly rose as the market anticipated a slower pace of rate cuts with economic growth and inflation still above expectations.
- Commodities saw modest losses and soft global demand. The strength of the dollar contributed.
- Real estate, which faced challenges all year, was constrained by the increase in interest rates.

- International markets struggled against one of the best years for the U.S. dollar in nearly a decade. Weak relative growth from the EU was also an additional headwind.

Tailwinds Facing The Market
- President Trump's platform of regulatory reform and extended tax cuts is intended to drive growth and profitability. This could be positive for U.S. consumers and businesses; however, timing is unknown.
- The Magnificent Seven stocks continue to enjoy robust profits and cash flow, while smaller companies have struggled amid high interest rates. Slightly lower rates and pro-domestic business initiatives create the potential for smaller corporations to improve earnings and foster investment.
- Artificial intelligence adoption and related infrastructure investment continue. Small productivity steps have been achieved but larger outcomes will be necessary to accelerate economic growth.

Headwinds Facing The Market
- While the Fed has lowered expectations for additional rate cuts, investors remain focused on each new economic release for signs of monetary policy clarity.
- While the goal of tariffs and immigration reform is to promote national interests, these policies could be disruptive to business operations and result in wage inflation and higher input costs.
- While looming deadlines are likely to be extended and the Treasury may provide temporary liquidity, this year will be filled with budget and debt-ceiling debates. The headline risk around this process will be notable.
- The housing market remains stuck as elevated interest rates keep affordability at multi-decade lows.

Major indices performed as follows for the 4th quarter 2024:
- U.S. Stocks 2.4%
- U.S. Bonds (3.1%)
- International Stocks (8.1%)
- Emerging Markets (7.8%)
- Real Estate (7.8%)
- Commodities (0.4%)

Plan Level Review
Plan assets for the Optional Retirement Plan and Cash Match Plan totaled $928.9 million as of December 31, 2024:
- ORP assets with Fidelity totaled $303.8 million.
- CMP assets with Fidelity totaled $17.1 million.
- ORP assets with TIAA totaled $578.9 million (including $14.7 million in non-approved investments)
- CMP assets with TIAA totaled $29 million (including $738,800 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 meet policy guidelines except one fund that is marked for review.

TIAA-CREF Lineup:
Of the 14 approved funds (with LifeCycle Funds counted as one), all funds meet policy guidelines except two funds that are marked for review.

Marked for Review:

American Funds Euro Pacific Growth R6 (Approximately $10.7 million in assets with a score of 70 on TIAA Platform)
The American Funds Euro Pacific Growth Fund is being evaluated relative to a Large Cap Blend peer group although the Fund has been leaning more towards a growth style. Morningstar placed the Fund in the Large Cap Growth peer group. The fund finished the fourth quarter ahead of the benchmark. The Fund's underperformance in 2021 and 2022, as growth-oriented stocks did poorly was the biggest detractor. Given the stable team and a disciplined process has resulted in an attractive long-term return profile. **CAPTRUST recommends clients that are currently using the strategy continue to do so. However, if performance doesn't improve, CAPTRUST will explore an alternative option.**

MFS Value R6 (Approximately $29.3 million with a score of 76 on Fidelity and TIAA platforms)
MFS Value is a defensive value strategy. Portfolio Managers Nevin Chitkara and Katherine Cannan seek companies with attractive value propositions, robust free cash flow, and solid balance sheets. The team's investment process works best over complete market cycles but occasionally struggles in the short term. The strategy's five-year annualized return is only 8.1% compared to the peer group at 9.6%. The underperformance is mostly due to the strategy's defensive bias. Separately, the firm added Thomas Crowley to the strategy at the beginning of 2025 ahead of Nevin's retirement in 2026. MFS has a proven track record of transitioning portfolio managers. **CAPTRUST recommends clients that are currently using the strategy continue to do so.**

TIAA Real Estate (Approximately $22.4 million in assets on TIAA platform)
The TIAA Real Estate Account has experienced challenging absolute and relative performance over the trailing three years. The strategy declined -4.1% in 2024 and has generated a -3.6% return over the trailing three years. The Account's underperformance is primarily due to property type selection as well as notable valuation declines tied to discount rate and terminal cap rate assumptions. Despite efforts to reduce exposure to traditional office and retail sectors, the account still has a higher weight in these areas compared to the index. Specifically, within the office sector, which has been the hardest hit since the pandemic with valuations declining by over 40% industry-wide, REA's allocation is 18% versus the index's 16%. **CAPTRUST recommends clients that are currently using the strategy continue to do so.**

Follow Up Items

- Fidelity will send a list of participants with no hire date on file to Kelvin Allen for review.
- Fidelity will provide a report of the number of plan participants with Roth deferrals. Fidelity will also provide the number of clients that include Roth deferral balances for loan eligibility.
- VCU is in the process of paying out small balance participants to Inspira in the late summer of 2025. CAPTRUST will need to work with VCU in the selection of a default investment.

Having no other items, the meeting was adjourned.