



Heidi

VCU ORP Investment Policy Advisory Committee Meeting
March 8, 2021
1:30 PM

Committee members in attendance: Cathleen Burke, Edward Ishac, Denise Laussade, Andrew Ottens, and Meredith Weiss

Other attendees: Daniel Jason and Daynon Smith (VCU), Barry Schmitt and Fran Slacum (from CAPTRUST), Ellen Savary, Joe Ciccariello, and Andy Daigneault (all from Fidelity)

I. **Approval of Minutes** – the minutes of the November 13, 2020 meeting were approved.

II. Fidelity Plan Review and Investment Review

Joe Ciccariello highlighted Fidelity's corporate initiatives which include commitment to diversity and inclusion, cybersecurity, enhancements to the plan sponsor and participant web portals. Joe also mentioned Fidelity is extending their offerings to include Retirement Income Solutions, Financial Wellness and Student Debt programs.

Ellen and Andy presented current plan information. Below are some key items and stats discussed:

- Covid 19 related activity included:

- 16% increase in visits to Net Benefits site
- 24 people took a CARES Act distribution. Median distribution amount was \$7,500.
- There were two Covid related loans. Daniel noted that due to State legislation and the origins of the Optional Retirement Plan, Covid related loans were not allowed from the Optional Retirement Plan. They were allowed from the 403(b) Plan.
- During COVID, 90% of employees maintained their deferral election.
- Average total (employer plus employee) savings rate is \$10, 272. The savings rate for VCU participants continues to increase year after year.
- Loans are currently allowed on the 403(b) Plan on the Fidelity Platform.
- Market highlights included:
 - U.S. and most major economies enter 2021 in maturing recoveries.
 - 17% US savings rate at the end of 2020 compared to 7% in 2019. High saving rates usually followed by economic expansion and inflation.
 - Fidelity Freedom Funds' portfolios maintain overweight allocations to inflation-sensitive assets. Performance of the freedom funds was better in 2020 versus 2019 with strong performance overall.
 - Slight underperformance in Fidelity Real Estate Investment due to overweight in Industrial and Healthcare REITS.
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III. CAPTRUST Investment Review

Plan Sponsors can expect to see increased activity around retirement-income-oriented products and services with the SECURE Act and the proposed Secure 2.0. The new bi-partisan bill includes a focus on:

- Auto enrollment

- The use of collective investment trusts by 403(b) plans.
- Another Increase in required minimum distribution age (from 72 to 75)
- Tax credit for lower- income savers.

With the Biden administration's focus on the COVID-19 pandemic, there may be no meaningful progress on major policy proposals in 2021 except for adjustments in:

- Fiduciary Rule – May see increased fiduciary standards to the “Improving Investment Advice for Workers and Retirees” which became law in February.
 - ESG – DOL may revisit most recent guidance issued by softening the language around the appropriateness of using ESG factors when selecting and monitoring plan investments.

Fiduciary Training Highlight:

Duty to Diversify - The duty to diversify under ERISA 404(a)(1)(C) serves several different purposes. Fiduciaries are required to diversify plan assets to minimize risk of large losses. For defined contribution plans, the plan should be sufficiently diversified to afford participants the opportunity to manage risk.

Economic/Market Overview

Despite 2020's historic ups and downs, stocks and bonds posted strong returns this year, with U.S. stocks closing out the year at all-time highs. Fiscal and monetary stimulus from governments around the world boosted households, economies, and markets.

- U.S. stocks posted strong gains in the fourth quarter.
- International developed and emerging stocks rallied in the fourth quarter outperforming U.S. stocks.
- Bonds played an important stabilizer role as interest rates fell to historical lows.
- While real estate typically benefits from falling interest rates, that has not been the case due to the impact of COVID-19 related office closures and economic shutdown on the office and retail sectors.

Major indices performed as follows for the 4th quarter:

- U.S. Stocks +12.1%
- U.S. Bonds + 0.7%
- International Stocks +16.0%
- Emerging Markets +19.7%
- Real Estate +7.7%

CAPTRUST noted that large cap growth stocks that included significant allocations to Facebook, Amazon, Apple, Netflix, Microsoft and Google stocks performed well compared to large cap value stocks or more valuation sensitive strategies over that same period.

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$750.3 million as of December 31, 2020:

- ORP assets with Fidelity totaled \$225.2 million
- CMP assets with Fidelity totaled \$13.4 million
- ORP assets with TIAA totaled \$489 million (including \$14.6 million in non-approved investments)
- CMP assets with TIAA totaled \$22.7 million (including \$808,579 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.

VCU Human Resources November 2021

Fidelity Lineup:

There are 15 approved funds (with Freedom Funds counted as one). All funds are meeting policy guidelines except two funds that are Marked for Review (Fidelity Real Estate Investment Portfolio and DFA Emerging Markets Core Equity I) 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 DFA Emerging Markets Core Equity I).

Marked for Review:

Fidelity Real Estate Investment Port (score of 78 with approximately \$3.77 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. No action is warranted at this time.

CREF Money Market Account (with assets of \$6.7 offered only on TIAA's platform) The

fund seeks high current income consistent with maintaining liquidity and preserving capital. CREF Money Market received approval by the state of New York to extend its expense waiver through the end of June. TIAA will be sending a reminder to CREF Money Market participants early June to remind them the waiver is currently in effect through June 30, 2021. After the waiver expires, participants may see negative returns in the CREF Money Market Account if interest rates do not rise sufficiently to cover the Account's expenses. CREF Money Market assets will remain in the individual contracts until individual participants make an election to move those assets. **CAPTRUST will work with Daniel and TIAA to draft communication that will make participants aware that Vanguard Federal Money Market is another available option on the platform.**

DFA Emerging Markets Core Equity I (score of 73 with combined assets of \$7.14 million-offered on both TIAA and Fidelity platforms)

In 2020, the strategy significantly lagged the benchmark and peer group. The strategy's bias to value and small cap stocks has been a headwind in recent years, as growth stocks and large caps have led the market. Its profitability factor has been a modest positive. While value stocks could see a short-term rebound following significant underperformance recently, it is unclear whether any rally can be sustainable. Dr. Ishac inquired about moving to passive fund in this category. Barry noted that actively managed funds have performed better than passively managed funds in this category. **The Committee will continue to monitor this fund over the next few quarters.**

Considered for Termination:

Goldman Sachs Small Cap Growth Insights (score of 59 with assets of \$3.5 million - offered only on Fidelity's platform)

During the first ten months of 2020, the strategy significantly lagged the benchmark and was in the bottom quartile of the peer group. The strategy's quantitative model has four components:

1) high quality firms, 2) attractive valuation, 3) positive sentiment, and 4) themes and trends. In 2020, three of the four components detracted from performance with sentiment and high quality as the largest drags. However, more recent performance is encouraging. **The Committee decided to continue monitoring this fund before making a change.**

Barry and Cathleen updated the Committee on TIAA's incoming CEO – Thasunda Brown Duckett – who is the former CEO of JPMorgan Chase's Consumer Banking division.

The meeting was adjourned at 3:00 p.m.