

VCU ORP Investment Policy Advisory Committee Meeting
November 11, 2024
10:00 AM

Committee members in attendance: Meredith Weiss, Jay Bonfili, Alison Miller, and Andrew Ottens

Absent: Pete Vatev

Other attendees: Melissa Burton, Daynon Smith, David Allen, Jessica Cheatham, and Kelvin Allen (VCU), Barry Schmitt, Karren Gorney, and Fran Slacum (from CAPTRUST), Sonya Bessong and Shirley Yang (from TIAA)

I. **Review of Minutes** – The Committee noted there were no changes needed to the minutes from the March 25, 2024, meeting.

II. **TIAA Plan Review and Investment Review (only reflects TIAA data)**

Sonya Bessong and Shirley Yang presented plan information as of September 30, 2024. Below are some key items and stats discussed:

Demographic information

- There are 10,243 total plan participants (active and terminated) on the TIAA platform. The average account size is \$125,871 for actives and \$94,604 for terminated plan participants.
- The average income replacement ratio is 77.7%
- There are 266 total annuitants with assets with an average annual payout of \$17,158. The largest annual payment is \$181,456.
- Approximately 50% of the contributions are invested in the Nuveen Lifecycle Fund which represents more than 20% of the total plan assets on the TIAA platform.

Cybersecurity update

- TIAA provides protection for the data they manage which includes 24/7 threat monitoring leveraging artificial intelligence.
- Annual assessments and audits are completed by independent auditors and government agencies align TIAA with DOL cyber guidance.
- Multi-factor authentication is required for all plan participants.
- TIAA has a total protection promise where they will reinstate a plan participant's account due to no-fault fraud on their account.
- TIAA can coordinate a follow-up meeting with their Cyber Security Team and VCU's subject matter experts upon request.

Investment information

- The TIAA Traditional Account provides consistent growth through all market cycles. The current rate for the GRA is 5.00% and the GSRA is 4.25%. Potential for higher amounts of income for all annuitants, based on factors such as current interest rate environment and current mortality expectations.
- CREF Annuity Accounts provides an opportunity for growth to hedge against inflation, and lifetime income—at the lowest costs in the industry.
- The TIAA Real Estate Account is a private fund that primarily invests in privately owned commercial real estate. Traditional office space exposure in the portfolio is down by 15%.
- Nuveen Lifecycle Active Funds rolling performance since inception versus Morningstar peer have outperformed by more than 100 basis points as of September 30, 2024.

III. **CAPTRUST Investment Review** INDUSTRY UPDATE/OVERVIEW

50 YEARS OF ERISA

This is the 50th anniversary of the Employee Retirement Income Security Act (ERISA). There are pivotal moments in 403(b) history including how its provisions, portability, coverage, and liquidity have changed over time.

TRENDS IN DEFINED CONTRIBUTIONS PLANS

Today's defined contribution retirement plans have a diverse participant population requiring different solutions to prepare and manage their retirement savings including auto-enrollment, Roth feature, managed accounts, and more flexible withdrawal features for hardship situations.

Litigation continues to be an issue for retirement plan sponsors. Current lawsuits have been brought against a recordkeeper's investment advice program, Qualified Default Investment Alternatives (QDIAs), as well as an alleged breach of fiduciary duty based on the use of forfeiture assets to offset employer contributions.

FIDUCIARY TRAINING: HOW TO DRAFT GOOD MEETING MINUTES

One important fiduciary responsibility required under ERISA is to keep records of every meeting and to track fiduciary discussions and decisions made for an employer's retirement plan. Meeting minutes serve as proof that a committee is following a prudent process to act in the best interest of their plan participants. CAPTRUST drafts the meeting minutes and the Committee approves the minutes at the next Committee meeting as part of fiduciary governance.

ECONOMIC/MARKET UPDATE

Shifting market leadership in the third quarter highlighted the sensitivity of economic data leading to the Federal Reserve's first interest rate cut in September. The Fed messaged the move as proactive, with risks now balanced against a slowing but overall solid, economic backdrop. Rate reductions are expected to continue at a moderate pace, but economic complexity remains elevated.

- U.S. stock markets ascended, with rate-sensitive stocks like utilities and real estate leading the way.
- Bond yields moved considerably lower ahead of a more accommodative Fed policy stance, a solid tailwind for fixed income in the quarter.
- Commodities saw only marginal movement due to softening economic trends. Oil prices declined despite geopolitical tensions. Gold was the standout and one of the best-performing assets amid a falling dollar and strong central bank demand.
- Lower rates and attractive valuations thrust real estate upward, another star of the quarter.
- International markets outperformed the U.S., aided by a weaker dollar, while stimulus efforts in China proved a significant quarter-end tailwind.

Tailwinds Facing The Market

- With the first rate cut, the economy has transitioned from an extended rate pause to an easing cycle. Fed officials are focused on preserving economic growth while maintaining a strong labor market.
- Rising rates gradually slow consumer activity, while falling rates can provide immediate relief to consumer spending capacity.

- With rates moving lower, consumers may feel some relief on credit card debt, resume borrowing for larger purchases, or tap into the more than \$15 trillion of additional home equity accumulated over the last five years.
- Lower rates could also provide relief to more speculative, or debt-laden, areas of the equity market while reducing pressure on bank balance sheets.

Headwinds Facing The Market

- Although the Fed has entered an easing cycle, the pace and magnitude of rate cuts remain unknown.
- The debt limit suspension expires on January 1, leading Congress back to the negotiating table after November elections.
- The presidential election will likely be decided by a narrow margin and could leave half the country upset with the outcome. This may create economic and market turmoil.

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks 5.9%
- U.S. Bonds 5.2%
- International Stocks 7.3%
- Emerging Markets 8.9%
- Real Estate 17.0%
- Commodities 0.7%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$942.4 million as of September 30, 2024:

- ORP assets with Fidelity totaled \$308.8 million.
- CMP assets with Fidelity totaled \$29.3 million.
- ORP assets with TIAA totaled \$586.8 million (includes \$14.7 million in non-approved investments)
- CMP assets with TIAA totaled \$29.3 million (includes \$715,531 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 \$12.2 million in assets with a score of 70 on TIAA Platform Only)

During the third quarter, the strategy returned 5.41% versus 8.06% for the core benchmark. At the country level, portfolio positioning was a modest detractor due to an underweight to China, but weaker stock selection was a bigger overhang for the strategy. The most meaningful underperformance came from holdings in Canada and South Korea. Stock selection had a minor negative impact with tougher results in healthcare and energy, offsetting strength in consumer discretionary. While the strategy's

growth tilted style has been out of favor for much of the past four years and has resulted in weaker intermediate-term results, the fund's longer-term track record remains competitive. More recent performance is encouraging. **No action is warranted at this time.**

MFS Value R6 (Approximately \$31.3 million in assets with a score of 76).

MFS Value only rose 8.4% in Q3 2024, compared to the Russell 1000 Value Index, which rose 9.4%. YTD 2024, the strategy, ranks in the bottom half of the peer group. Poor security selection within healthcare drove the Q3 and 2024 YTD underperformance. The strategy's three-year underperformance is partially due to Meta and Netflix joining the Russell 1000 Value Index in 2022. The team's disciplined investment philosophy/process works best through a complete market cycle. However, its conservative approach tends to be out of favor for shorter periods like 2023 and 2024 YTD. **No action is warranted at this time.**

IV. **QDIA/TARGET DATE FUND ANALYSIS**

CAPTRUST and the Committee compared the current QDIA – Fidelity Freedom Series and Nuveen Lifecycle Retirement Target Date 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. Approximately 31% 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.

V. **FEE BENCHMARK ANALYSIS**

CAPTRUST provided a fee benchmarking on TIAA's proposed 4.2-basis point (bps), recordkeeping and administrative fees (The current fee is 5.2 basis points). 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 TIAA's fee compared to other similarly structured plans. Based on the plan demographic information utilized to benchmark the plan against the industry, TIAA's proposed fees are within the current benchmark range. This will save participants over \$100,000/year. **CAPTRUST will work with TIAA to implement their proposed 4.2 bps fee.**

VI. **OTHER BUSINESS**

- CAPTRUST and TIAA briefly mentioned the lawsuit that was recently filed alleging bias in the selection of proprietary products in TIAA's Advice Tool.
- VCU will be moving forward with forced distributions for terminated plan participants with balances below \$7,000. The forced distributions will only apply to the Cash Match and, perhaps, the 403(b) plans.

Having no other items, the meeting was adjourned.