



VCU

VIRGINIA COMMONWEALTH UNIVERSITY Heidi

VCU ORP Investment Policy Advisory Committee Meeting November 13, 2020 10:00 AM

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

Other attendees: Daniel Jason (VCU), Barry Schmitt, Drew Battle, and Fran Slacum (all from CAPTRUST), Greg Diagonale, Ciaran Murphy, Rhonda Rodriguez, and Molly McCormack (all from TIAA)

I. **Approval of Minutes** – the minutes of the April 27, 2020 meeting were approved. II.

TIAA Plan Review and Investment Review

Greg Diagonale, Senior Relationship Manager with TIAA, highlighted components in the Annual Plan Review:

- Legislative update on the Secure Act enacted January 1, 2020 and the proposed Retirement Security Savings Act which may further increase RMD to age 75.
- 8,336 participants with a balance (3,937 active)
- \$826.3 million total assets (includes 403b plan in addition to ORP and Cash Match) • Annual lifetime income payments total \$3.4 million.
- Total contributions of \$40.7 million (including rollovers) over the past year.
- (\$39 million) in distributions over the past year.
- 3,961 plan members are actively contributing to 403(b) Plan. Daniel Jason noted that VCU auto enrolls employees into the 403(b) Plan.
- 578 advice sessions conducted for the first nine months of 2020.

Rhonda Rodriguez, Communications Consultant, highlighted the 2020 Communications Calendar.

Ciaran Murphy, Institutional Investment Strategist, provided the Committee with a brief re-cap of the current capital markets along with an overview of the TIAA investments offered across all VCU plans.

- TIAA Traditional is designed to help you create a "paycheck" in retirement – no matter what happens in the markets.
- The glidepath of TIAA's Lifecycle Funds is 45% equity, 5% real estate and 50% fixed income within the first 5 years of retirement. Twenty years into retirement, it changes to 30% equity and 70% fixed income. TIAA has developed a target date fund that has a built-in annuity feature if there is interest in VCU looking at further.
- TIAA Real Estate Primarily invests in privately owned commercial real estate.
- CREF Money Account – Financial regulators allowed TIAA to waive fee through the end of 2020. Beginning 1st quarter 2021, investors may experience negative returns. TIAA sent a communication in May and will be sending another communication in December. Less than 2% of plan assets in the CREF Money Market account.

III. CAPTRUST Investment Review

The SECURE Act eliminated barriers to the adoption of guaranteed retirement income investments in defined contribution plans, including fiduciary liability concerns for annuity provider selection and portability of these products at the participant level. Plan Sponsors are reviewing options to help their plan participants in the decumulation stage of retirement, including but not limited to:

- Participant Education and Advice
- Systematic or periodic withdrawal options
- Managed account programs
- Guaranteed and non-guaranteed investments

Fiduciary Update:

The IRS and DOL have provided additional guidance for plan sponsors regarding the SECURE Act and the CARES Act.

- The DOL has provided the assumptions to be used by parties producing benefit statements for lifetime income disclosure.
- Qualified Birth or Adoption Distributions (QBADs) in the amount of \$5,000 per parent or adoption. Distributions are exempt from the 10% early withdrawal penalty.
- CARES Act increased loan amounts ended September 23. Penalty-free distributions end December 30, 2020.

Fiduciary Training Highlight:

Duty of Prudence - The duty of prudence is linked to the processes used to evaluate options, make decisions, and document actions. Fiduciaries should strive for a strong, consistent, and defined process that focuses on making sound fiduciary decisions in the best interest of participants.

Economic/Market Overview

CAPTRUST provided the economic and market overview for 3rd Quarter 2020.

All major asset classes rallied from March's market lows. Historic levels of fiscal and monetary stimulus support buoyed market's mid-year.

- U.S. stocks posted strong gains in the third quarter and are now in positive territory. • International developed and emerging stocks rallied in the third quarter but trail U.S. stocks by a wide margin for the year.
- Bonds outpaced stocks so far this year and played stabilizer role as interest rates have fallen to historically low levels.
- While real estate typically benefits for 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 3rd quarter:

- U.S. Stocks +8.9%
- U.S. Bonds + 0.6%
- International Stocks +4.8%
- Emerging Markets +9.6%
- Real Estate +2.1%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$681.6 million as of September 20, 2020:

- ORP assets with Fidelity totaled \$202.2 million
- CMP assets with Fidelity totaled \$12.1 million
- ORP assets with TIAA totaled \$446.7 million (including \$13.1 million in non-approved investments) • CMP assets with TIAA totaled \$20.5 million (including \$732,490 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 – DFA Emerging Markets Core Equity I and Goldman Sachs Small Cap Growth Insights are Considered for Termination.

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), there is one fund Considered for Termination: DFA Emerging Markets Core Equity I

DFA Emerging Markets Core Equity I (score of 67 with combined assets of \$6 million- offered on both TIAA and Fidelity platforms)

Year to date, the strategy is significantly lagging the benchmark and in the bottom quartile of the peer group. The strategy's bias to value and small cap stocks has been a significant headwind in recent years,

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as growth stocks and large caps have led the market. Its profitability factor has been a modest positive. Relative to the index and peer group, the strategy has less exposure to some higher growth stocks such as Alibaba and Tencent which has been a drag on performance. While value stocks could see a short term rebound following significant, CAPTRUST is concerned that DFA will continue to lag its peers and benchmarks. **CAPTRUST recommends that the Committee replace this fund with either an actively managed Emerging Markets Fund (American Century Emerging Markets) or a passively managed Emerging Markets Fund (Vanguard Emerging Markets Index Fund).**

Daniel will poll the Committee for their thoughts on the best approach.

Goldman Sachs Small Cap Growth Insights (score of 59 with assets of \$2.2 million - offered only on Fidelity's platform)

Year to date, the strategy is significantly lagging the benchmark and 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. Year to date, three of the four components have detracted from performance with sentiment and high quality as the largest drags. The strategy has faced headwinds in recent years from its valuation factor, as higher growth, higher valuation stocks have led the market. **CAPTRUST recommends that the Committee replace this fund with Principal Small Cap Growth because the fund has:**

- **Better performance long term**
- **Low turnover**
- **Manager tenure – 11.3 years**

Daniel will poll the Committee for their recommendations regarding the potential fund change.

The meeting was adjourned at 11:30 a.m.

