



VIRGINIA COMMONWEALTH UNIVERSITY Heidi

VCU ORP Investment Policy Advisory Committee Meeting

November 15, 2023

9:00 AM

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

Absent: Andrew Ottens

Other attendees: Melissa Burton, Kelvin Allen, and Daynon Smith (VCU), Barry Schmitt 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 April 11, 2023, meeting.

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

Sonya and Shirley presented the current plan and investment information. Below are some key items and stats discussed:

- 74.7% is the average income replacement ratio.
- There are 9,831 plan participants (active and terminated).
- \$43.5 million total contributions.
- \$47.6 million in distributions. TIAA pays \$4.31 million in annuities on an annual basis. • Participants have approximately 41% of their assets in equities and approximately 21% in fixed income.
- TIAA has conducted 689 advice and counseling sessions year-to-date.
- Approximately 60% of contributions go to the TIAA-CREF Lifecycle Funds representing approximately 20% of the total assets while <10% of contributions (7%) go to TIAA Traditional which represent 25% of the total assets.
- Investment Overview included:
 - TIAA Traditional Crediting Rate is 6.75%/6.0% in the RA and GSRA as of November 1, 2023.
 - The TIAA General Account has \$49 billion in statutory capital, 5X from what is required. TIAA's General Account's diversification focuses on public and private fixed income. 42% of the General Account's assets are in investment-grade corporate bonds.
 - Over the long term, the returns of TIAA Traditional have been similar to the returns of a common intermediate-term bond index (Bloomberg Barclays U.S. Aggregate Bond Index).
 - The CREF Stock Account is intended to serve as a core equity holding and aims to achieve growth during the accumulation phase and provide a strong foundation for lifelong income in retirement. It has approximately \$113 billion in assets under management (as of 6/30/23) and has 65% in US, 28% in developed international, and 7% in Emerging Markets.
 - TIAA-CREF Lifecycle Funds includes direct real estate. The real estate allocation remains constant along the glidepath at 5% until 10 years past retirement and then phased out from 10 years to 20 years past the retirement date.
 - Each Lifecycle fund has a targeted tracking error between 1% to 3%.
 - TIAA can create a custom-in plan retirement savings and income solution through their RetirePlus product. TIAA's RetirePlus product leverages the plan's existing lineup to help create a guaranteed stream of income. TIAA Traditional is included in the custom target date fund.

III. **CAPTRUST Investment Review**

INDUSTRY UPDATE/OVERVIEW

SECURE ACT 2.0

Mandatory Provisions:

- On August 25, the IRS announced a two-year delay in the implementation of the new mandatory Roth catch-up rule under SECURE Act 2.0.

Optional Provisions:

- The small balance force outs plan design option where plan sponsors can automatically distribute separated participant accounts with balances of \$5,000 or less without participant consent. The allowed threshold increases to \$7,000 after December 31, 2023.
- SECURE Act 2.0 provides legislative support for plan sponsors to automatically transfer small balances of former employees to a new employer's plan.
- SECURE Act 2.0 allows retirement plan sponsors to adopt permanent federal disaster withdrawal and loan procedures for their plan.

FIDUCIARY TRAINING – COMMITTEE BEST PRACTICES:

- Committee membership typically represents finance, human resources, and business affairs. In house legal may attend in a non-voting capacity.
- Members should understand their role, compliance obligations, and associated liabilities.
- Formal fiduciary training should be part of the onboarding process for new members.

TARGET DATE FUND GLIDEPATHS:

CAPTRUST discussed the evolution of target date funds since the Pension Protection Act of 2006. CAPTRUST examined the marketplace, both from an industry and market perspective. Over the past decade, the number of distinct glidepaths from Investment managers has diminished to around 59. At the same time, the average equity exposure variances have also diminished from a range from 30-48%, depending on the vintage year. Therefore, CAPTRUST is altering the peer groups used in its monitoring process. Instead of separating each vintage year strategy by Conservative, Moderate, or Aggressive, CAPTRUST will be using a broader, year-based peer group. The result was very little change to the scoring of each target date fund.

ECONOMIC/MARKET UPDATE

Fed Chairman Jerome Powell has repeatedly stated that monetary policy will remain restrictive for an extended period to combat inflation. The result is a rare bear-steepening yield curve, when long-term interest rates rise faster than short-term rates. In the third quarter, this surge in longer maturity yields put pressure on nearly all asset classes, creating a reiteration of the 2022.

- Large-cap U.S. equity markets were pinched this quarter. As in 2022, the energy sector took top honors, accompanied by communication services as the only two sectors in positive territory. The interest-rate-sensitive utilities sector felt the most pressure from the rise in yields. The broad large cap benchmark is up double digits year-to-date.

- Bond investors, especially those holding longer-maturity instruments, felt the impact of rising rates. Bonds are now in negative territory for the year.
- Outside the U.S., equity markets across Europe and the Pacific were mixed; however, a strengthening U.S. dollar pulled dollar-based returns across those regions down for the quarter.
- Real estate markets ended the quarter deeply in the red while commodities were the standout (like 2022), supported by rising oil prices.

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Tailwinds Facing the Market

- The economy seems to be withstanding the Fed's aggressive rate-hike cycle, largely due to a robust labor market and steady wage growth.
- Despite rising debt levels, employed consumers benefit from strong employment and wage growth and retired consumers benefit from higher interest income and continue to confidently spend.
- Workforce productivity has been trending below average due to labor shortages and misaligned skillsets. The introduction of artificial intelligence (AI) promises a boost.

Corporations are investing heavily, supporting economic growth even before AI technology reaches its full potential. Headwinds Facing the Market

- Some indicators, such as gross domestic product (GDP) and low unemployment, point to economic strength. Others, such as gross domestic income (GDI), suggest underlying weakness.
- Most consumers have depleted excess stimulus-related savings and are increasingly relying on credit cards to pay bills. As credit card debt and loans mount for borrowers, consumer spending may come under pressure.
- The federal deficit continues to grow as a percentage of GDP, with government officials at odds about how to curb spending. New and refinanced debt is now being issued at peak interest rates, adding to the government's growing interest burden.

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks (3.3%)
- U.S. Bonds (3.2%)
- International Stocks (4.0%)
- Emerging Markets (2.8%)
- Real Estate (8.6%)
- Commodities 4.7%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$774.7 million as of September 30, 2023:

- ORP assets with Fidelity totaled \$238.6 million.
- CMP assets with Fidelity totaled \$13.9 million.
- ORP assets with TIAA totaled \$498.2 million (includes \$11.9 million in non-approved investments).
- CMP assets with TIAA totaled \$23.9 million (includes \$620,697 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 one fund is Marked for Review (Fidelity Real Estate Investment Portfolio).

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), all funds meet policy guidelines except one fund is Marked for Review (American Funds Europacific Growth).

Marked for Review:

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Fidelity Real Estate Investment Port (score of 79 with approximately \$3 million in assets - offered only on Fidelity's platform).

This strategy, led by Steve Buller, focuses on stock selection to add value. Sub-sector positioning typically stems from the team's bottom-up research, not top-down industry views. From 2017-2020, broad-based selection issues drove underperformance relative to the strategy's benchmark and the real estate category. Since then, however, performance has stabilized. This is partly due to the team making an exception to their bottom-up approach, avoiding mall and office REITs based on a top-down view that those sectors are facing structural headwinds. While 3- and 5-year relative returns are modest, the strategy has added value for longer-term investors. **No action is warranted at this time.**

American Funds EuroPacific Growth R6 (score of 78 with approximately \$58.2 million in assets - offered only on TIAA's platform).

During the third quarter, the strategy declined in value by -6.33% versus -3.77% for the core benchmark. Stock selection was broadly weak at the sector level. The fund's holdings in the healthcare, consumer staples, and energy sectors showed modest outperformance, but were overpowered by weak results in financials, consumer discretionary, and information technology. 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. CAPTRUST recommends that clients who are currently utilizing the strategy continue to do so.

The Committee and CAPTRUST thanked Cathleen Burke, who is retiring from VCU, for her services. Having no other items, the meeting was adjourned.

