



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Policy Advisory Committee Meeting November 18, 2022 11:00 AM

Committee members in attendance: Meredith Weiss, Cathleen Burke, Jay Bonfili, Melissa Burton, Manu Gupta, Denise Laussade, and Andrew Ottens

Other attendees: Marc Aiello, Daniel Jason and Daynon Smith (VCU), Barry Schmitt and Fran Slacum (CAPTRUST), Greg Diagonale and Ciaran Murphy (TIAA)

I. **Review of Minutes** – The Committee noted there were no changes needed to the minutes from the March 23, 2022, meeting.

II. **Committee Governance** – New member appointed to IPAC – Melissa Burton, nominated by Staff Senate

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

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

- 72% is the average income replacement ratio.
- There are 9,085 plan participants (active and terminated).
- \$41.8 million total contributions.
- \$50.9 million in distributions. TIAA pays \$4.01 million in annuities on an annual basis.
- 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.
- Economic Outlook and Investment Overview included:
 - Global central banks have tightened financial conditions by hiking rates, yet private sector balance sheets remain strong.
 - Tighter policy should eventually cause unemployment to rise, but data has continued to show strong job creation.
 - TIAA Traditional Crediting Rate has increased from 4%/3.25% to 6.25%/5.5% in the RA and GSRA respectively over the past 11 months.
 - TIAA increased equity exposure in the TIAA-CREF Lifecycle Funds.

IV. **CAPTRUST Investment Review**

Auto-Portability:

There is a bi-partisan bill introduced in the Senate that encourages plan sponsors to adopt auto-portability features by offering a tax credit to offset the implementation cost. Auto-portability identifies a participant retirement account at a previous employer and automatically moves those assets to a new employer's plan. This impacts participants with balances below \$5,000 that are subject to automatic distribution to an IRA.

ECONOMIC/MARKET UPDATE

Stocks and bonds climbed in the first half of the quarter as concerns about inflation subsided, but the Federal Reserve aggressive interest policy and messaging brought investors back to reality.

- U.S. stocks ended the quarter back near 2022 lows. Small-cap stocks fared a little better than large-cap stocks. Growth stocks outperformed value stocks for the quarter.
- International stocks continue to face economic, geopolitical, and currency headwinds.

- Bond prices remained under pressure as interest rates continued to rise which led to a third consecutive quarterly decline and added to the double-digit losses generated in the first half of the year.
- Rising interest rates and emerging recession concerns added to 2022 difficulties for public real estate.
- Commodities declined in the third quarter because of rising recession concerns but remained the only asset class in positive territory for the year.

Tailwinds Facing the Market

- Supply-chain constraints and rising gas prices have been key drivers of inflation.
- The U.S. labor market remains resilient.
- Widespread pessimism can provide attractive entry points.

Headwinds Facing the Market

- The Fed continues to aggressively fight inflation.
- Rising mortgage rates have the intended effect of slowing home sales.
- Historically, markets performed well under division of power. Election outcomes could create policy uncertainty.

Major indices performed as follows for the 3rd quarter 2022:

- U.S. Stocks (4.9%)
- U.S. Bonds (4.8%)
- International Stocks (9.3%)
- Emerging Markets (11.4%)
- Real Estate (10.4%)
- Commodities (4.1%)

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$685 million as of September 30, 2022:

- ORP assets with Fidelity totaled \$202.2 million
- CMP assets with Fidelity totaled \$11.5 million
- ORP assets with TIAA totaled \$451 million (includes \$10.3 million in non-approved investments)
- CMP assets with TIAA totaled \$20.9 million (includes \$508,200 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.

Marked for Review:

Fidelity Real Estate Investment Port (score of 78 with approximately \$3.3 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.**

Having no other items, the meeting was adjourned.