



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Advisory Committee Meeting

February 12, 2013

2:00 PM

Committee members in attendance: David W. Hanson, Cathleen Burke, Jan Clement, Kevin Davenport, Carl Gattuso, Edward Ishac, Carolyn Norman, Rebecca Pousson, John Povlishock

Committee members absent: Etti Baranoff, Stephen Gottfredson

I. Approval of Minutes

The minutes of the meeting of October 1, 2012 were approved with no revisions.

II. Economic/Market Update

Elina Steinberg, Director Client Portfolio Management for TIAA-CREF, delivered a review of the economy and market along with TIAA-CREF's outlook. Committee members were provided with TIAA-CREF's investment review document and market commentary.

III. Investment Review

Plan Level Review

Assets as of December 31, 2012 totaled \$349.7M broken down as follows:

- VCU ORP Plan – Fidelity- \$81.9M (including \$15.6M assets in non-approved funds)
- VCU ORP Plan – TIAA-CREF - \$253.3M (including \$17.2M assets in non-approved funds)
- VCU Cash Match Plan – Fidelity - \$6.7M (including \$1M assets in non-approved funds)
- VCU Cash Match Plan – TIAA-CREF - \$7.8M (including \$700K assets in non-approved funds)
-

TIAA-CREF Performance Review

Ms. Steinberg reviewed TIAA-CREF's philosophy and history, and provided background regarding the depth of investment research staff and the current low-cost fee structure. Ms. Steinberg focused her comments on funds that are widely utilized as well as any funds that have performance issues to address:

- *CREF Stock:* This fund holds 70% domestic/30% international securities. As a result of being compared to more domestically-dominated funds, the 30% international component caused this fund to perform below its peer group for the three-year and five-year periods ended December 31, 2012. The fund is performing in line with TIAA-CREF's specific and unique approach.
- *Index Fund:* Vanguard now has index funds at 5 basis points (.05%). Indexing is becoming a commodity.
- *TIAA Traditional Annuity:* Ms. Steinberg reviewed the make-up of this fixed annuity and several changes that have occurred.
- *CREF Bond Market:* Due to this fund's low tracking error and tight sector weights (in a "risk on" market), the fund underperformed its peers for the three-year period ended December 31, 2012. However, it continues to beat its benchmark.
- *TIAA Real Estate:* This fund invests in commercial real estate. Currently, the account properties enjoy a 93% occupancy rate among approximately 100 properties. Retail office space represents 40% of the account's holdings.
- *TIAA-CREF LifeCycle Funds:* Ms. Steinberg reviewed the philosophy surrounding this investment, including glide path development and monitoring, tactical allocation process, fees and asset allocation.
- *TIAA-CREF International Equity:* This fund has been quite volatile given its ability to have tracking error off its benchmark of 6-8%. The one-year period ended December 31, 2012 found this fund ranked in the top 1%, however the five-year return ranks below the fund's peers and benchmarks.

Administrative Review

Jeff Overweg, Relationship Manager – Institutional Relationships for TIAA-CREF, provided an update on the following items:

- TIAA-CREF's technology updates including iPhone app, microsite updates, plan sponsor site redesign, online enrollment improvements, and iPad enrollment
- Participant website upgrades including the 360° financial review, Retirement Advisor, Retirement Income Planner and Plan Analyzer
- Demographics for VCU's plans
- The expected opening of a TIAA-CREF office in Richmond during 2013

IV. CAPTRUST Performance Review

Barry Schmitt of CAPTRUST Financial Advisors reviewed plan investments with the committee in accordance with the Investment Policy Statement.

Fidelity Investments

Of the fifteen funds in the approved lineup (all Freedom Funds are counted as one), there are two funds considered for termination and one fund marked for review:

- *PIMCO Total Return is considered for termination.* During the second and third quarter of 2011, fund manager Bill Gross decided to divest of treasuries. This decision did not benefit investors and resulted in significant underperformance for the year ended December 31, 2011. In addition to this fund's appetite for riskier asset classes, the index to which we compare this fund now holds over 47% in US Government-backed debt (a significant increase over pre-recessionary periods). This fund's holds 20% or less, and fails policy as a result of its low correlation to the index (R-Squared). 2012 performance was strong and continues to exceed peer group averages over three- and five-year periods. CAPTRUST will continue to monitor but supports its continued inclusion in the fund lineup.
- *Fidelity Small Cap Stock terminated from lineup.* This fund is in the process of being replaced by American Beacon Small Cap Value Fund.
- *Fidelity Freedom Fund Target Date Series is marked for review.* Fidelity Freedom Funds offer a well-diversified portfolio of investments based on a participant's estimated retirement age. Fidelity has done a good job in creating the glide path based on views of savings, inflation, longevity, withdrawal rates, etc. In addition, over the last several years Fidelity has created "series" funds within the Freedom Funds to manage cash flow better while cutting expenses. However, performance issues, specifically on the value side, have been problematic. Since this fund is the plan's default, the committee felt that a deeper analysis would be prudent.

TIAA-CREF Investments:

Of the fourteen funds in the approved lineup (all LifeCycle funds are counted as one), there is one fund considered for termination and one fund marked for review:

- *Columbia Small Cap Value is considered for termination.* This fund has a CAPTRUST score of 67. The fund has a high-quality small cap value mandate, taking less risk and lagging in more aggressive markets. The fund is well diversified and has good exposure. There is no recommendation to change at this time but CAPTRUST will monitor closely.
- *CREF Stock Fund is marked for review.* This account has a CAPTRUST score of 75. See above comments from TIAA-CREF under Item III.

All other funds in the Fidelity and TIAA-CREF lineups are meeting policy guidelines.

V. Administration

Cathleen reviewed adjustments to the committee bylaws and discussed revenue credits.

The meeting was adjourned at 3:30 p.m.