



## VCU Investment Policy Advisory Committee Meeting

February 27, 2018

9:30 AM

**Committee members in attendance:** Cathleen Burke, Timothy Graf, Carl Gattuso, Edward Ishac, Heidi Jack, and Andrew Ottens

**Committee members absent:** Meredith Weiss

**Other attendees:** Barry Schmitt, Daniel Jason, and Andy Daigneault

I. **Approval of Minutes** – the minutes of the February 8, 2017 meeting were approved with no revisions.

### II. **Fidelity Review**

#### **Investment Review**

Andy Daigneault, Vice President and Investment Consultant for Fidelity Investments, provided the committee with a brief update on the economy and the various capital markets along with Fidelity's outlook. Andy highlighted several items including:

- The current business cycle in the U.S. somewhere between mid and late cycle
- Global economy in synchronized expansion with low recession risk
- Positive global economic expansion may have peaked
- Risks include tightening of global monetary policy and the increase in volatility as a result
- The recently passed tax cuts and what the result may be from an economic perspective
- Current equity valuations across U.S., International develop, and emerging markets.
- Current participant behavior in the ORP and Cash Match plans in terms of asset allocation. VCU participants, on average, appear to be slightly more aggressive than their peers.

Andy discussed several funds in the plan:

- Fidelity Contrafund and its continued outperformance
- Fidelity low Priced Stock
- Fidelity Diversified International's recent underperformance relative to peers. This is a result of this fund's lack of emerging markets exposure vs. its peers.
- Fidelity Freedom Funds performance and the glide path strategy that Fidelity employs

### III. **CAPTRUST Review**

#### **Industry update/overview**

Barry Schmitt, Senior Vice President and Financial Advisor for CAPTRUST, delivered a review of recent industry trends. Barry discussed several topical items including:

- Increasing complexity for retirement plan sponsors
  - Plan litigation continues and it is coming down market
  - Focus on fees including choice of investment vehicles, active vs. passive management, asset based vs. per-head fees, and zero revenue sharing vs. fee leveling
  - New or enhanced product offerings including managed accounts and ESG solutions
  - Fiduciary rule delay and continued complexity in monitoring and supervising providers delivering advice
  - Benefits Matter more
    - Tight labor market and competition for talent
    - Employers' focus on perks including financial wellness
    - Three generations in the workforce have complex financial issues

- The return of market volatility
  - All major asset classes were in positive territory for 2017
  - U.S. stocks are due for a correction after two years with no pullback
  - Central banks are moving toward more restrictive monetary policy

#### Plan sponsor considerations

Ensure commitment to fiduciary process and adherence to best practices

- Consistency of meetings and proper documentation
- Adherence to Investment Policy Statement
- Routine fee benchmarking and development of a fee policy on payments of plan expenses
- Attractiveness of retirement benefits for all employee demographics including Plan design, income solutions, and participant access to tools, education, wellness and advice solutions.

#### **Economic/market update**

CAPTRUST delivered a review of the economy and markets along with CAPTRUST's outlook, including key themes on the economic environment, driven by strong performance across all major asset classes, positive corporate earnings, consumer spending, contained inflation, and optimism about impact of tax reform. Business and consumer confidence remain high with continued wage growth and low interest rate environment. Headwinds remain political risks and high tax states that were negatively impacted by tax reform.

Major indices performed as follows for the 4th quarter:

- U.S. Stocks – 6.6%
- U.S. Bonds – 0.4%
- International Stocks – 4.3%
- Emerging Markets – 7.5%
- Real Estate – 2.6%

#### **Plan Level Review**

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$579.1 million as of December 31, 2017 vs. \$495 million as of December 31, 2016:

- Optional Retirement Plan assets with Fidelity totaled \$161.6 million
- Cash Match Plan assets with Fidelity totaled \$11.1 million
- Optional Retirement Plan assets with TIAA-CREF totaled \$390.3 million (including \$14.9 million in non-approved investments)
- Cash Match Plan assets with TIAA-CREF totaled \$16.1 million (including \$668,000 in non-approved investments)

#### **Performance Review**

Barry discussed the review of plan investments consistent with the standards and approach defined in the Investment Policy Statement.

Fidelity: Of the 15 approved funds (with Freedom Funds counted as one), three funds are Marked for Review:

- *Fidelity Inflation-Protected Bond (Score of 78):* Fund is scoring a 78, largely driven by the 3-year risk-adjusted performance, 5-year peer-relative performance, and the confidence scores (consistency of excess returns). The fund is in the 48th, 49th, and 51st percentile of its category on a 1-, 3-, and 5-year basis, and the 5 year underperformance has been modest relative to the peer group median (2 bps) and benchmark (40bps, or roughly the same as the fund's expense ratio, at approx. 45bps). This category is a bit smaller than most (universe consists of 215 funds), so it's not unusual to see smaller deviations causing larger moves in scoring. Finally, this fund has tended to take a somewhat benchmark-like approach, and maintains a high degree of style purity (with a 5-year R<sup>2</sup> of 99.08). There are some funds in this category that take a more active approach, including investing in non-US issues, for example. CAPTRUST continues to recommend this strategy.
- *Wells Fargo Small Company Growth (score of 75):* This fund has had a long term track record of success. However, recent years has been challenging for this strategy. The team focuses on

growth firms that are either in discovery (younger firms with long term earning growth projected to be over 20%) or re-discovery (firms with near term growth projections of over 40%). In addition, the recent news surrounding Wells Fargo has created an environment that makes it more challenging. As a result, the Committee would like to see some alternative funds at the next meeting in May.

- *Lazard Emerging Markets Fund* (Score of 71): This fund is also offered on the TIAA approved lineup. While this management team has a long term track record of success with a relative value approach, performance has been struggling of late. This manager has done a good job in market downturns like 2008, 2011, and 2013. However, it has not been able to keep pace in strong growth rallies that we have seen recently. Therefore, the Committee would like to see alternative funds at the next meeting in May.

TIAA: Of the 14 approved funds (with LifeCycle Funds counted as one), there are two funds Marked for Review:

- *TIAA-CREF Large Cap Value Fund* (score of 78): This fund struggled in 2017 after an exceptional 2016. There are no material issues with this fund and CAPTRUST continues to recommend this fund be maintained on the platform.
- *Lazard Emerging Markets Fund* (Score of 71): As described above

#### **IV. Action items**

- Fee benchmarking- CAPTRUST will benchmark the plan's fees and provide at the next committee meeting
- Fund alternatives- CAPTRUST will provide several alternative funds for the Wells Fargo Small Company Growth and Lazard Emerging Markets funds.
- Investment Policy Statement (IPS) review- CAPTRUST will review the current IPS and draft an update.

The meeting was adjourned at 11:00 a.m.