



## VCU ORP Investment Policy Advisory Committee Meeting

May 2, 2018

9:00 AM

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

**Committee members absent: None**

**Other attendees:** Barry Schmitt and Daniel Jason

I. **Approval of Minutes** – the minutes of the February 27, 2018 meeting were approved with no revisions.

### II. **Fund line up recommendations**

Barry Schmitt, Senior Vice President and Financial Advisor for CAPTRUST, discussed fund recommendations in his capacity as advisor for the VCU retirement plans.

**Wells Fargo Small Company Growth (score of 73, assets of approximately \$3.5 million) (offered on Fidelity platform only)** – While this fund has had a long-term track record of success, recent years have been challenging for its strategy. The fund management 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%). The recent news surrounding Wells Fargo has created an environment that also presents additional challenges. In light of these concerns, the Committee asked CAPTRUST to provide several alternatives for consideration. CAPTRUST recommended reviewing Goldman Sachs Small Cap Growth and Eagle Small Cap Growth as potential replacements for the Wells Fargo fund. After review and discussion, the Committee unanimously recommended replacing Wells Fargo Small Company Growth Fund with Goldman Sachs Small Cap Growth fund.

**Lazard Emerging Markets Fund (Score of 74, with assets of approximately \$7.9 million) (offered on both Fidelity and TIAA platforms)** – Lead manager James Donald has been with the firm since 1996 and at the helm of the strategy since 2001. He is joined by two co-PMs who also have lengthy tenures at the firm. The fund's strategy tends to perform well when value and yield-oriented stocks are leading the market such as 2016. Conversely, it typically lags in growth-driven markets such as 2015 and 2017. The strategy does not own technology stocks such as Alibaba and Tencent, which performed well in the 2017 rally, based on valuation concerns. Due to the fund's inconsistent performance, the Committee asked CAPTRUST to recommend alternatives. CAPTRUST provided four alternatives for consideration- William Blair Emerging markets, DFA Emerging Markets Core Equity, Driehaus Emerging Markets Growth, and the Vanguard Emerging Markets Stock index. After review and discussion, the Committee unanimously recommended replacing Lazard Emerging Markets Fund with the DFA Emerging Markets Core Equity Fund

### **Passively managed fund offerings**

The Committee has periodically considered and discussed whether to add index funds covering the major capital markets to the approved lineup for the ORP and Cash Match plans, so that VCU faculty/staff who wish to do so can simply invest in the broad market in a cost competitive manner. CAPTRUST provided the Committee with the following recommendations to round out the passive/index fund offerings:

- **Fidelity platform-** Currently the ORP and Cash Match plans offer the Fidelity 500 Index fund. CAPTRUST recommended that the committee consider offering three additional index funds- the Fidelity US Bond Index, the Fidelity Extended Market index, and the Fidelity Total International Index. These funds allow for broad market exposure in a cost competitive manner, without overwhelming participants with too much choice. The Committee supported the recommendation to add these funds to the approved lineup.
- **TIAA platform-** Currently the ORP and Cash Match plans offer the CREF Equity Index, which is intended to replicate the broad US market. This fund comes with a fee of 0.34%. CAPTRUST

recommended the Committee consider freezing contributions into the CREF Equity Index fund, adding the Vanguard Institutional Index Fund at 0.04%, and directing future contributions to the added Vanguard Institutional Index Fund. CAPTRUST recommended also adding the Vanguard Total Bond Market index, the Vanguard institutional Index, the Vanguard Extended Market index, and the Vanguard total international stock index. The Committee supported the recommendation to add these funds to the approved lineup.

### III. **Fee Benchmarking**

CAPTRUST provided the Committee with a recent fee benchmarking study it conducted on behalf of the VCU retirement plans. Since both Fidelity and TIAA price their book of business at a relationship and plan level, for this exercise the VCU 403b/TDA plans were included in the benchmark study although the Committee does not evaluate the investment lineup for the TDAs. CAPTRUST has a significant client base from which data can be used to compare fees across vendors and across plans. Within the past year, CAPTRUST has done almost 50 plan benchmark studies for plans with assets greater than \$250 million. The following are the results for the VCU plans by vendor:

#### **Fidelity**

- Total assets of approximately \$365 million representing approximately 3,100 participants.
- Current required revenue of 0.12% representing approximately \$430,000/year.
- Fee range of other similarly structured plans- 0.05%-0.09%. There is room to improve pricing for the VCU plans. CAPTRUST will initiate work with Fidelity to get an updated bid, and then follow up with VCU to further discussions.

#### **TIAA**

- Total assets of approximately \$694 million representing approximately 7,500 participants.
- Current required revenue of 0.135% representing approximately \$937,000/year.
- Fee range of other similarly structured plans- 0.08%-0.12%. There is room to improve pricing for the VCU plans. CAPTRUST will initiate work with TIAA to get an updated bid, and then follow up with VCU to further discussions.

### IV. **Investment Policy Statement**

CAPTRUST recommended several updates to VCU's Investment Policy Statement. These primarily consist of updates to benchmarks, updates to average market capitalization ranges, and the addition of language describing the methodology used in evaluating performance. The Committee accepted these minor revisions.

### V. **Investment Review**

#### **Industry Overview**

CAPTRUST delivered a review of recent industry trends. CAPTRUST's industry update was provided in a quarterly investment review document. CAPTRUST discussed several topical items including:

- **Impact of rising rates on Defined Contribution investments**
  - Fixed income (active and passive)
  - Capital preservation including money market, stable value, and general account guaranteed funds
  - Target date Funds (active and passive)
- **When Tax reform meets tight labor market**
  - For those companies that reported a change in their approach to employee wages and benefits as a result of tax reform, what did they do (one-time bonus, wage increase, and/or increase in retirement contribution)?
- **Fiduciary rule update-**
  - Based on the recent decision of the Fifth Circuit Court of appeals, the Fiduciary rule has been vacated. What does this mean to the plan and how will vendors engage going forward?

## Economic and Market Overview

CAPTRUST delivered a review of the economy and markets along with its outlook. CAPTRUST's economic and market commentary was provided in the quarterly investment review document, including key themes on the current volatile economic environment driven by tax reform, business and consumer confidence, budget debate, trade tensions, and geopolitical concerns including the Korean Peninsula. There has been weak performance across most major asset classes. Tailwinds include tax cuts, manufacturing, and consumer/business confidence. Headwinds remain including mid-term elections, trade tensions, privacy concerns for tech companies, rising gas prices, and geo-political risks.

Major indices performed as follows for the 1st quarter:

- U.S. Stocks – (0.80%)
- U.S. Bonds – (1.5%)
- International Stocks – (1.4%)
- Emerging Markets – 1.5%
- Real Estate – (5.9%)

## Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$580.9 million as of March 31, 2018 vs. \$579.1 million as of December 31, 2017:

- Optional Retirement Plan assets with Fidelity totaled \$161.7 million
- Cash Match Plan assets with Fidelity totaled \$11 million
- Optional Retirement Plan assets with TIAA totaled \$391.9 million (including \$14.1 million in non-approved investments)
- Cash Match Plan assets with TIAA totaled \$16.3 million (including \$650,000 in non-approved investments)

## Performance Review

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

### Fidelity Lineup:

Of the 15 approved funds (with Freedom Funds counted as one), two funds are Marked for Review. See fund replacements items above

### TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), there are two funds marked for review. See above for Lazard Emerging Markets fund.

### Marked for Review

**TIAA-CREF Large Cap Value Fund (score of 78 with assets of approximately \$13.7 million) (offered on TIAA platform only)** - 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.

## **VI. Action items**

- Fee negotiations- CAPTRUST will get the initial pricing from the vendors and then work with VCU on further negotiations
- Fund alternatives and fund additions- CAPTRUST will work with VCU and the two vendors in implementing the changes. As part of this implementation, the messaging of the fund menu will involve the tiering of the fund into distinct groups like target date, passive, and active funds.
- Investment Policy Statement review- completed

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