



# VCU

VIRGINIA COMMONWEALTH UNIVERSITY

## VCU ORP Investment Policy Advisory Committee Meeting

November 16, 2018

9:00 AM

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

**Committee members absent:** Cathleen Burke and Timothy Graf

**Other attendees:** Jason Shepard (TIAA), Abby McCormick (phone-TIAA), Rhonda Rodriguez (phone-TIAA), Barry Schmitt (CAPTRUST), Fran Slacum (CAPTRUST), and Daniel Jason

I. **Approval of Minutes** – the minutes of the May 2, 2018 meeting were approved with no revisions.

II. **VRS Surcharge on ORP**

Daniel Jason, Benefits Director, provided the Committee with an update on the ORP surcharge for Tier III Universities. VCU and other ORP schools will be assessed a surcharge to be paid to VRS. The surcharge will apply to employees (hired 2014 or later) that participate in the ORP Plan but are “not directly involved in teaching.” This reflects approximately 260 employees with the amount calculated as the difference between the ORP contribution (8.5%) and the VRS Contribution (13.52%). This is an ongoing discussion with the state and other “opt-out” schools. VCU’s projected surcharge for the first year is approximately \$1.4 million.

III. **TIAA Investment and Plan Review**

Jason Shepherd, Director, Institutional Investment Strategist for TIAA, provided the Committee with an overview of the TIAA investments offered across all VCU plans.

- \$749 million in assets as of September 30, 2018.
- Approximately \$42 million in annual contributions.
- Approximately 49.6% of contributions are invested in TIAA-CREF Lifecycle Funds.

Fund items discussed:

- TIAA plans to increase its Real Estate exposure in the TIAA-CREF Lifecycle funds from 2.8% to 5%. Performance has been very good.
- TIAA-CREF Large Cap Value Fund has underperformed compared to its peers for the last 6 out of 10 years. Jason informed the Committee that Tom Kolefas who has been a Co-Portfolio Manager (PM) with Richard Cutler since 2002 recently retired. Charlie Carr will become the Co-PM.
- CREF Inflation Linked Bond recent underperformance due to a shorter duration than the benchmark.
- TIAA-CREF International Equity fund and inconsistent performance.

Abby McCormick, Senior Relationship Manager, updated the Committee on the increased level of in-person engagement for VCU. There were 629 individual sessions with TIAA’s Financial Consultants and Wealth Management Advisors as of September 30, 2018. TIAA has increased the number of Consultants and Advisors that service VCU’s campus. TIAA offers counseling every month. 96% of the employees responding to individual counseling session surveys agreed that the TIAA Consultant/Advisor put their interests first.

TIAA noted that average income replacement ratio for VCU is 85.4%. 52% of the average income replacement ratio is guaranteed – Social Security and TIAA Traditional assets. The 85.4% is calculated using estimated salary (peer benchmark) data. TIAA’s Retirement Income Analysis is limited in scope without additional data points - salary, VRS balance, Fidelity balance and asset allocation for employees that participate with both TIAA and Fidelity. VCU is not able to provide salary data to TIAA.

Rhonda Rodriguez, Senior Communications Consultant, reviewed VCU’s segmentation profile compared to peers. TIAA defines VCU’s peer group as higher educational institutions with assets between \$500M and \$1.5B.

- 26% of VCU employees investing with TIAA are considered Dollar Stretchers. TIAA defines Dollar Stretchers - employees that have not saved enough over time. For VCU the number

includes employees that are auto enrolled into the 403(b) so this will overestimate the true number of Dollar Stretchers. Peer benchmark is 10%.

- 17% of VCU employees are considered Life Builders. Life Builders is defined as a population that can save more than dollar stretchers. Peer benchmark is 19%.
- 7% of VCU employees are Established. The Established population are employees age 65 and older. The average total assets for this demographic is \$766,238.
- TIAA defines the remaining population as Accumulators (38%) and Transitioners (21%). Accumulators are defined as professionals in accumulation mode with increasingly complex financial needs and goals. Transitioners are nearing the end of their earning years, preparing to transition to “retirement”.

#### **IV. Fund Pricing Review**

CAPTRUST provided the Committee with an update on fee negotiations with both TIAA and Fidelity which resulted in a fee reduction for VCU retirement plans. The following is the revised pricing 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.
- Revised required revenue of 0.07% representing an additional savings of \$175,000/year. this equates to \$47 per participant per plan or \$85 per unique participant.

This will increase the revenue credit account from \$250,000 to \$425,000.

##### **TIAA**

- Total assets of approximately \$694 million representing approximately 7,500 participants.
- Current required revenue of 0.135% representing approximately \$937,000/year.
- Revised required revenue of 0.083% representing an additional savings of approximately \$360,000/year. this equates to \$41 per participant per plan or \$78 per unique participant.

The Committee accepted the fee change. CAPTRUST notified both TIAA and Fidelity of the Committee's decision. Both providers will work directly with VCU to implement the change.

#### **V. Investment Review**

##### **Industry Overview**

Barry delivered a review of recent industry trends. CAPTRUST's industry updates included:

- Passive Investments – It is important for fiduciaries to evaluate several factors on passive funds including fees, performance, and tracking error to a benchmark. In addition, understanding how closely they replicate their given benchmark is also important.
- Passive Target Date funds – Movement towards passive target date funds indicates a preference by plan sponsors for low cost. In addition to fees, plan sponsors should consider performance, asset allocation, glidepath and plan demographic data.
- Retirement accounts and student loan debt – there are some new ways to making contributions into retirement plan accounts contingent upon student loan payments.
- Employment Benefits Security Administration (EBSA) enforcement activities are ramping up. Specific areas of focus are
  - Audit missing participants – Plan Sponsors should have a policy and process in place for finding terminated participants. Relying on the recordkeeper is not always enough.
  - 5500 filing which does not apply to VCU
- Executive Order- The President signed an Executive order for the DOL to review Required Minimum Distribution rules along with the review of notice requirements.

##### **Economic/Market Overview**

CAPTRUST's economic and market commentary included the following key themes: U.S. Stocks added to their gains for the year based on strong earnings and strong economic growth which continues to offset concerns about escalating trade tensions, international developed markets are slightly negative due to sluggish economic growth and trade tensions, emerging market stocks continue to face pressure from a stronger U.S. dollar and economic turmoil in several countries, including Turkey and Argentina, bonds

had a small loss for the year as interest rates reached their highest levels in five years, and public real estate remains modestly positive for the year despite pressure from higher rates. Specific tailwinds have been job and wage growth, rising interest rates, in addition to capital expenditures and stock buybacks continue to increase. Specific headwinds include trade tensions with China persists, uncertainty remains about the potential market impact of midterm elections, as well as, higher interest rates mean higher mortgage rates which may dampen household income and housing demand.

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks – 7.7%
- U.S. Bonds – 0.0%
- International Stocks – 1.4%
- Emerging Markets – (0.9%)
- Real Estate – 0.6%

### **Plan Level Review**

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$607.8 million as of September 30, 2018 vs. \$579.1 million as of December 31, 2017:

- ORP assets with Fidelity totaled \$173.1 million
- CMP assets with Fidelity totaled \$11.3 million
- ORP assets with TIAA totaled \$406.1 million (including \$14.2 million in non-approved investments)
- CMP assets with TIAA totaled \$17.4 million (including \$687,150 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:**

All funds are meeting policy guidelines. There are 15 approved funds (with Freedom Funds counted as one). The Fidelity Freedom Funds made some adjustments to certain allocations including TIPS, long term treasuries, reducing equity allocations nearing retirement, and replacing a fund due to a manager change,

### **TIAA-CREF Lineup:**

Of the 14 approved funds (with LifeCycle Funds counted as one), there is one fund marked for termination and one fund marked for review.

**Marked for Termination- TIAA-CREF Large Cap Value Fund (score of 64 with assets of approximately \$13 million) (offered on TIAA platform only)** - The strategy uses a combination of quantitative and fundamental research to find companies that have experienced problems in the recent past but are likely to recover in the next 12-18 months. This approach has produced volatile results over the last 10 years, as performance has remained in either the top or bottom quartile of their peer group each year. Following underperformance in 2017, the strategy has not rebounded year to date through the third quarter. Due to the inconsistent performance, CAPTRUST recommended the Committee consider alternatives at the next meeting. The Committee agreed with this approach.

**Marked for Review- TIAA-CREF International Equity Fund (score of 78 with assets of approximately \$12.6 million) (offered on TIAA platform only)** - This fund has been taking on more risk than its peers and, due to its concentrated portfolio, the results have been very inconsistent. Drivers of underperformance over the past year include sector weights and/or security selection in categories such as Financials, Energy, and Industrials. From a country weighting perspective, overweight positions to Germany and Italy, and underweight to Japan, detracted from benchmark-relative performance (MSCI EAFE). Due to the inconsistent performance, CAPTRUST recommended the Committee consider alternatives at the next meeting. The Committee agreed with this approach.

## **VI. Action items**

- Fee changes- CAPTRUST notified both TIAA and Fidelity of the Committee's decision. Both providers will work directly with VCU to implement the change.
- Fund alternatives - CAPTRUST will provide fund alternatives to consider for the TIAA-CREF Large Cap Value Fund and the TIAA International Equity Fund at the next Committee Meeting.

The meeting was adjourned at 10:30 a.m.