



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Policy Advisory Committee Meeting

March 6, 2019

9:00 AM

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

Committee members absent:

Other attendees: Daniel Jason, Patrick Warner (Fidelity), Andy Daigneault (Fidelity), Barry Schmitt (CAPTRUST), and Fran Slacum (CAPTRUST)

I. **Approval of Minutes** – the minutes of the November 16, 2018 meeting were approved with minor revisions.

II. **Fidelity Investment and Plan Review**

Andy Daigneault, Director, Institutional Investment Strategist, provided the Committee with an overview of the Fidelity investments offered across all VCU plans.

Fund items discussed:

- Fidelity Freedom Funds offered in VCU's plan will be moved from K Series to lower share class K6 Series. Fidelity Freedom Funds underperformed during the 4th Quarter of 2018, driven partly to their underweight position in utilities. 2019 is faring better. He also discussed the structure and both co-leads and their roles along with some recent changes (added exposure to Treasury Inflation-Protection Securities (TIPS) and long-term treasuries to portfolio in 2018).
- Fidelity US Bond Index (FXNAX). Fidelity reduced expense ratio to 2.5 bps.
- Fidelity Diversified International (FDIKX) underperformed versus benchmark. Stock picking in consumer staples, industrials and communication services sectors held back the fund's performance

Patrick Warner, Vice President, Managing Director with Fidelity, highlighted components in the Annual Business Plan Report:

- \$338 million in assets (Fidelity) as of December 31, 2018.
- There are 3,141 active participants. 66% of active plan participants have a beneficiary on file with Fidelity.
- 76% of active employees with a balance at Fidelity are contributing to the plan on a voluntary basis.
- Average total (employer plus employee) savings rate is \$9,248.
- 24% of active employees participating with Fidelity on the VCU Plans have no employee deferrals.
- Fidelity's outcomes analysis shows that there is a direct correlation between engagement and savings rates. For example, highly engaged participants have a higher average savings rate of \$13,181 versus the deeply unengaged participants who have an average savings rate of \$6,145 .

Employee savings rates have steadily risen due to increased employee education offered at VCU. VCU's Benefits Office actively promotes employee education on campus. Merit increase notifications include information about saving for retirement.

The Committee discussed managed accounts and Self-Directed Brokerage Accounts (SDBA). Are employees asking about these products/services? VCU employees have access to VRS' 457 plan that has a brokerage window.

VCU employees are utilizing Roth accounts in addition to tax deferred savings. In 2018, VCU's Benefits Office completed a Roth Communication Outreach campaign implemented by the account providers.

III. **Fund Pricing Review**

CAPTRUST provided the Committee with an update on the upcoming fee reduction for VCU retirement plans. The following is the revised pricing for the VCU plans by vendor:

Fidelity

- Total assets of approximately \$338 million representing approximately 3,100 participants.
- Revised required revenue of 0.07% effective January 1, 2019
- Moving three funds to a lower K6 share class – Fidelity Freedom K6, Fidelity Diversified International K6 (FKIDX) and Fidelity Govt MMKT K6 (FNBXX).
- Changes will reduce the revenue credit account from \$425,000 to \$135,000.

TIAA

- Total assets of approximately \$694 million representing approximately 7,500 participants.
- Revised required revenue of 0.083% effective January 1, 2019
- Moving two funds to a lower share class American Beacon Small Cap Value (AASRX) and Mainstay Large Cap Growth (MLAIX to MLRSX).

The fund changes with Fidelity and TIAA along with the reduction in fees will result in an approximate savings of \$500,000 across the VCU Plans.

IV. **Investment Review**

Industry Overview

CAPTRUST reviewed its industry update and provided their 2019 predictions including the following topics:

- As the market continues to be competitive for acquiring talent, employers continue to look at their wellness programs for areas to increase offerings to current and future employees.
- Higher Interest Rates are helpful to savers as short-term instruments are paying higher rates but are a negative to households with credit-card det, auto loans, and mortgages as higher rates mean higher borrowing costs.
- Vendors looking for more sources of revenue- as fee compression continues to take hold for recordkeepers and active investment managers, organizations like Fidelity and TIAA are looking for other sources of revenue including managed account programs, HSA servicing, banking, etc.
- Retirement Coverage Gap – Legislators and regulators seek to increase access to workplace retirement plan savings, address student loan debt, and broaden adoption of in-plan lifetime income solutions.

Economic/Market Overview

CAPTRUST provided the economic and market overview. CAPTRUST's economic and market commentary included the following key themes:

- US Stocks fell sharply in Q4 erasing year to date gains. Concerns over fed rate hikes, slower economic growth, and trade tensions weighed on prices.
- International stocks posted double-digit losses in the 4th quarter thanks to weaker economic growth in Europe and uncertainty over Brexit.
- Emerging market stocks added to their woes in Q4 and finished the year as 2018's laggard due to a stronger U.S. Dollar and slower economic growth in China and Europe.
- Bonds provided an anchor to windward amid the fourth quarter's volatile equity markets. Although they finished flat for the year, they were the standout performer as interest rates declined.
- Public real estate fell in the fourth quarter and posted a modest decline for the year.

Other market topics discussed were job openings, a robust shopping season, strong corporate earnings growth (on the positive side), and trade tensions, moderating economic growth, inverted yield curve, and the increasing U.S. debt (on the negative side).

Major indices performed as follows for the 4th quarter:

- U.S. Stocks – (13.5%)
- U.S. Bonds – 1.6%
- International Stocks – (12.5%)
- Emerging Markets – (7.4%)
- Real Estate – (6.00%)

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$552 million as of December 31, 2018 vs. \$579.1 million as of December 31, 2017:

- ORP assets with Fidelity totaled \$154.7 million
- CMP assets with Fidelity totaled \$10 million
- ORP assets with TIAA totaled \$371.6 million (including \$11.7 million in non-approved investments)
- CMP assets with TIAA totaled \$15.7 million (including \$557,423 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).

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), there are two funds marked consider for termination.

TIAA-CREF Large Cap Value Fund (score of 59 with assets of approximately \$10.1 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 a strong 2016, the strategy has fallen into the bottom quartile the last two years. Due to the inconsistent performance, CAPTRUST recommended that the Committee consider replacing the TIAA-CREF Large Cap Value Fund with MFS Value R6 for the following reasons:

- MFS Value Fund has already been approved and currently offered on VCU's fund menu (Fidelity)
- Lower standard deviation. Fund takes on less risk to achieve returns
- More consistent and better performance

Investment Policy Advisory Committee approved replacing TIAA-CREF Large Cap Value Fund with MFS Value R6.

TIAA-CREF International Equity Fund (score of 64 with assets of approximately \$9.79 million) (offered on TIAA platform only) - This fund has been taking on more risk than its peers and, due, in part, 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). CAPTRUST recommended that the Committee consider replacing TIAA-CREF International Equity Fund with American Funds EuroPacific Growth R6 for the following reasons:

- Fund has lower expense ratio – 49 bps
- Total holdings 424 versus 65 (TIAA-CREF International Equity) creates a more diversified portfolio
- Lower standard deviation. Fund takes on less risk to achieve returns
- Better performance in every period measured.

Investment Policy Advisory Committee approved replacing TIAA-CREF International Equity Fund with American Funds EuroPacific Growth R6. **Committee requested that CAPTRUST verify the turnover rate (.49%) shown on the comparison report and to identify emerging markets within AF EuroPacific Growth Fund.**

CAPTRUST clarified that the turnover ratio for 2018 was approximately 29%, which is below the average of 59% and below the TIAA-CREF International Equity Fund. The emerging market countries this fund currently invests in are listed below:

- Turkey
- Russia
- South Africa
- Israel
- United Arab Emirates
- Indonesia
- India
- China
- Thailand
- Vietnam
- Philippines
- Papua New Guinea

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.” VRS Surcharge affects a smaller population than originally reported.

V. Action items

- Fund changes - CAPTRUST will notify TIAA of the Committee’s approval to replace the TIAA-CREF Large Cap Value Fund with MFS Value R6 and the TIAA-CREF International Equity Fund with American Funds EuroPacific Growth R6. These fund changes will be combined with moving the American Beacon Small Cap Value and the Mainstay Large Cap Growth fund to a lower share class.

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