



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

VCU ORP Investment Policy Advisory Committee Meeting November 15, 2021 11:00 AM

Committee members in attendance: Cathleen Burke, Jay Bonfili, Ashley Hanel, Denise Laussade, Andrew Ottens, and Meredith Weiss

Other attendees: Daniel Jason and Daynon Smith (VCU), Barry Schmitt and Fran Slacum (from CAPTRUST), Greg Diagonale and Ciaran Murphy (from TIAA)

- I. **Review of Minutes** – The Committee noted there were no changes need to the minutes from the March 8, 2021 meeting.
- II. **Committee Governance** – Daniel shared that Edward Ishac retired from the University and will no longer serve on the Committee. The Committee Bylaws were updated to include a member- at- large from the Staff Senate. Two new members were added to IPAC – Jay Bonfili and Ashley Hanel. The Committee discussed recommending another faculty member for the remaining open IPAC seat. Cathleen and Meredith will discuss with the Provost.

III. **TIAA Plan Review and Investment Review**

Greg Diagonale, Senior Relationship Manager with TIAA, highlighted components in the Annual Plan Review:

- \$978.2 million total assets (includes 403b plan in addition to ORP and Cash Match). It was noted that assets exceed \$1 billion year to date.
- There were \$45.6 million in distributions. Approximately 74.9% of the distributions as of September 30, 2021 were terminated participants. Terminated participants includes retirees and employees who separated from service.
- 8,529 participants with a balance (3,891 active). There are 1,427 plan members actively contributing to the ORP.
- Annual lifetime income payments total \$3.8 million.
- Total contributions of \$40.7 million (including rollovers) over the past year.
- 471 individual sessions conducted for the first nine months of 2021. Daniel noted that more than 200 employees attended webinars hosted by TIAA over the past six months.

Ciaran Murphy, Institutional Investment Strategist, provided the Committee with a brief re-cap of the current capital markets along with an overview of the TIAA investments offered across all VCU plans.

- The global economy is on solid footing, but growth is already past its peak.
- Target Date Funds represent approximately 50% of the current contributions while TIAA Traditional has 24.7% of plan assets. If contributions to the Target Date Funds (TDFs) continue at the current rate, TIAA Traditional will play a lesser role on the menu over time.
- Performance for the TIAA Real Estate Primarily which invests in privately owned commercial real estate was positive – up 12% year to date.
- CREF Money Account –TIAA’s fee waiver is set to expire by the end of 2021. Investors may experience negative returns in 2022. Greg confirmed that TIAA will reach out to anyone with a money market balance >\$250,00. Less than 2% of plan assets in the CREF Money Market account.

- CREF Stock and TIAA-CREF Target Date Fund Changes – The Portfolio Management Teams increased exposure to international equities in both CREF Stock Fund and TIAA-CREF Lifecycle funds. The asset allocation will now be 65% US Stock and 35% International. The allocation had been 70% US and 30% International.
- Environmental Social and Governance (ESG) Funds – Ciaran noted that responsible investing demand is leading to increased ESG flows and assets.

IV. **CAPTRUST Investment Review**

Thoughtful Governance: Committee Design

Effective retirement programs are anchored in prudent and thoughtful governance.

Following a process, maintaining records, understanding responsibilities, and assigning duties can help minimize the risk of litigation. When setting up a governance structure, ensure that the Committee is actionable and properly trained.

On April 13, 2021, the Department of Labor (DOL) issued clarifying guidance for Prohibited Transaction Exemption (PTE) 2020-02, Improving Investment Advice for Workers & Retirees, which became effective on February 16, 2021. PTE 2020-02 allows investment advice fiduciaries to receive compensation as a result of providing fiduciary investment advice if that advice meets the DOL’s “Impartial Conduct Standards,” which include (1) a best interest standard, (2) a reasonable compensation standard, and (3) a requirement to make no materially misleading statements about recommended investment transactions and other relevant matters. It was noted that employees may continue to leave assets in the plan.

Fiduciary Training Highlight: Understanding Fiduciary Roles – Fiduciary training provides a way to minimize risk through education and governance and serves as a critical component to managing a retirement plan.

Economic/Market Overview

Asset classes posted mixed results in the third quarter, as the delta variant raised concerns about the sustainability of the economic reopening. Despite a rocky quarter, U.S. and international stocks, real estate, and commodities remain in positive territory for the year.

- U.S. large-cap stocks rose slightly and small- cap stocks fell in the third quarter.
- International developed market stocks continue to trail U.S. Stocks for the year. Emerging market stocks are now slightly negative for the year, driven by slower growth and regulatory actions in China.
- Bonds treaded water in the third quarter as interest rates changed remained relatively unchanged.
- Commodities were the standout performers fueled by a rebound in oil prices.
- Public real estate had a small gain.

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks +0.6%
- U.S. Bonds +0.1%
- International Stocks (0.4%)
- Emerging Markets (8.0%)
- Commodities +6.6%
- Real Estate +0.9%

Plan Level Review

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$810.3 million as of September 30, 2021:

- ORP assets with Fidelity totaled \$247.8 million
- CMP assets with Fidelity totaled \$14.5 million
- ORP assets with TIAA totaled \$523.1 million (includes \$15 million in non-approved investments)
- CMP assets with TIAA totaled \$24.8 million (includes \$793,029 in non-approved investments)

Performance Review

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

Fidelity Lineup:

There are 15 approved funds (with Freedom Funds counted as one). All funds are meeting policy guidelines except three funds that are Marked for Review (Fidelity Real Estate Investment Portfolio, DFA Emerging Markets Core Equity I, and American Beacon Small Cap Value) and one fund that is Considered for Termination (Goldman Sachs Small Cap Growth Insights).

TIAA-CREF Lineup:

Of the 14 approved funds (with LifeCycle Funds counted as one), three funds are Marked for Review (CREF Money Market Account, DFA Emerging Markets Core Equity I, and American Beacon Small Cap Value).

Marked for Review:

Fidelity Real Estate Investment Port (score of 78 with approximately \$4.57 million in assets - offered only on Fidelity's platform).

This strategy, led by Steve Buller, focuses on stock selection to add value. Sub-sector positioning typically stems from the team's bottom-up research, not top-down industry views. While they provided some protection in the Q1 2020 selloff, sub-sector bets drove underperformance in the subsequent rally. No action is warranted at this time.

CREF Money Market Account (with assets of \$5.1 offered only on TIAA's platform)

CREF Money Market's expense ratio waiver is set to expire at the end of the year. The expense waiver reduces the possibility of negative net returns for the fund in the short-term. After the waiver expires, participants may see negative returns in the CREF Money Market Account if interest rates do not rise sufficiently to cover the Account's expenses.

DFA Emerging Markets Core Equity I (score of 78 with combined assets of \$7.18 million - offered on both TIAA and Fidelity platforms)

DFA has reduced this fund's management fee by 9 basis points. Like most DFA strategies, small-cap and value biases have presented headwinds to peer-relative performance since 2017. Although the strategy offers lower-cost exposure to emerging markets compared to many active managers, this has not been enough to overcome the stylistic headwinds in recent years. However, performance has perked up this year. **No action is warranted at this time.**

American Beacon Small Cap Value R6 (score of 78 with combined assets of \$9.53 million- offered on both TIAA and Fidelity platforms)

This fund seeks long-term capital appreciation and current income primarily through investments in small market capitalization U.S. stocks. Based on its strategy, their approach has faced headwinds in the current market, but long-term performance is near the benchmark. **No action is warranted at this time.**

Considered for Termination:

Goldman Sachs Small Cap Growth Insights (score of 59 with assets of \$3.5 million - offered only on Fidelity's platform)

During Q1 2021, the Goldman Sachs Small Cap Growth Insights strategy experienced net outflows of more than 10% of the strategy's assets. In 2020, the strategy significantly lagged the benchmark and was in the bottom quartile of the peer group. The strategy's quantitative model has four components: 1) high quality firms, 2) attractive valuation, 3) positive sentiment, and 4) themes and trends. In 2020, three of the four components detracted from performance with sentiment and high quality as the largest drags. **CAPTRUST recommended and the Committee agreed to replace the Goldman Sachs Small Cap Growth Insights Fund with Mass Mutual Select Small Cap Growth for the following reasons:**

- A better and more consistent performance track record in both up/down markets.
- A lower standard deviation and lower turnover ratio.

CAPTRUST will notify Fidelity of this change.

V. **Fee Changes**

Barry updated the Committee of the recent fee changes for both TIAA and Fidelity:

- TIAA lowered VCU's fee from 8.3 bps to 5.2 bps. Effective October 1, 2021.
- Fidelity will continue to offer bundled pricing (a target fee of 7 basis points), but migrate seven Fidelity Funds to the lower K6 share:
 - Fidelity Contrafund
 - Fidelity Blue Chip Growth
 - Fidelity Growth Company
 - Fidelity Magellan
 - Fidelity OTC
 - Fidelity Mid Cap Stock
 - Fidelity Growth Strategies

Moving to a lower share class means better performance as the fee is lower. The effective date of the fund changes is December 2021.

Having no other items, the meeting was adjourned.