

MEETING MINUTES

Plan Sponsor:	Virginia Tech
Plan Name(s):	VT Optional Retirement and VT Cash Match Plans
Committee Members:	Dwight Shelton- Trustee John Cusimano- Co-Chairperson Angela King- Co-Chairperson Greg Kadlec Monica Mathena Maxine Lyons Steve Capaldo- via phone Yohna Chambers Brian Murphy- absent Savita Sharma
Other Attendees:	Barry Schmitt (CAPTRUST) – via phone Jeff Overweg (TIAA-CREF) Tom Callahan (TIAA-CREF)
Meeting Topic:	Plan Investment Review
Date:	August 20, 2014
Time:	3:00 PM (EST) – 5:00 PM (EST)
Location:	North End Center, Suite 2300
Documentation Referenced:	TIAA-CREF Investment Management Review, TIAA-CREF Annual Plan Review, 6/30/2014 Plan Investment Report, Flash Report, Non-approved asset report, and excess revenue chart

OLD BUSINESS

The committee approved the meeting minutes of the March 12, 2014 meeting.

ECONOMIC/MARKET AND TIAA-CREF UPDATE

Tom from TIAA-CREF delivered a review of the economy and market along with TIAA-CREF's outlook. TIAA-CREF's economic and market commentary can be found in the annual investment review document. Tom focused on current capital market views as well as providing insight in the following areas:

- The final regulations on Money market reform (floating NAV) and what it means
- TIAA-CREF investment philosophy and structure
- Recent Lipper award
- Overall difficulty for active managers to add value over the index in the current market environment.
- Recent announcements
 - Rob Leary new head of asset management
 - Recent purchase of Nuveen Investments
 - Joint Venture with Henderson Global Real Estate
- Performance and structure of several funds:

- CREF Stock
- TIAA Real Estate
- CREF inflation Linked Bond Account and the lack of product in this space.
- CREF Bond Market Account and its recent underperformance against peers- this is due to the funds benchmark centric approach.
- TIAA-Mid Cap Value- struggles based on valuation conscious approach and difficulty for most managers to outperform benchmarks, especially in mid cap value
- Solid performance on other TIAA-CREF funds such as lifecycle funds, CREF Growth, and CREF Global Equities.

ADMINISTRATIVE REVIEW

Jeff Overweg, from TIAA-CREF provided the Committee with an overview of the plan demographics as well as recent enhancements to their offerings.

Jeff's comments focused on the following areas:

- Retirement Readiness and the tools that TIAA-CREF can now use to better assess the retirement readiness of Virginia Tech plan participants
- Asset and participant breakdowns by plan as of June 30, 2014 (2,933 contributing participants and 3,426 non-contributing participants covering a total of 6,359 unique participants):
 - ORP- 4,089 participants with \$396.2mm (\$16.1mm in contributions)
 - TDA- 4,181 participants with \$248.7mm (\$21mm in contributions)
 - C/M- 3,875 participants with \$17.7mm (\$1.2mm in contributions)
- Services currently being provided to Virginia Tech
- Channel engagement stats
 - 1,974 unique participants accessing information 22,383 times for the first six months of 2014
 - 200 Counseling sessions through June 2014 (Wealth Advisors)
- Enhancements to TIAA-CREF technology for both participant and plan sponsor have been a focus and greatly improved.
- Other services TIAA-CREF provides

INVESTMENT REVIEW

Plan level Review (does not include 403b plan or various other supplemental plans)

Assets as of June 30, 2014 totaled \$527.6mm broken down as follows:

- VT ORP Plan- Fidelity- \$101.9mm (including non-approved assets of \$11.7mm)
- VT Cash Match Plan- Fidelity- \$11.8mm (including non-approved assets of \$1.4mm)
- VT ORP Plan- TIAA-CREF- \$396.2mm (including non-approved assets of \$8.3mm)
- VT Cash Match Plan- TIAA-CREF- \$17.7mm (including non-approved assets of \$307k)

Performance Review (CAPTRUST)

The committee and its advisor reviewed the investments in a manner consistent with the standards and approach defined in the Investment Policy Statement.

Fidelity Review

Out of the 26 funds in the plan (Target date funds counted as one) there are three Funds Considered for Termination and four funds Marked For Review:

Considered for Termination

DWS Dreman Small Cap Value (Score of 54) – Performance challenges in 2010 and 2011 have highlighted issues with the contrarian investing style that this strategy utilizes. While long term performance is roughly in line with its peers, more recent performance has been trending negative on both a benchmark and peer relative basis. Additionally, David Dreman retired in early 2013. It is now failing the Virginia Tech overlay. **As a result, CAPTRUST recommended the Committee consider “freezing” this fund to new contributions and placing new contributions in the other small cap value fund on the Fidelity platform- American Beacon Small Co Value. The Committee unanimously accepted the recommendation.**

Fidelity Small Cap Stock (score of 59) – Consistent underperformance relative to benchmark and peers has been a lingering problem for the strategy. Specifically, the new management’s higher quality oriented approach has been unable to keep up in strong markets and has provided large downside capture with high volatility. This fund is now failing the Virginia Tech overlay. **As a result, CAPTRUST recommended the Committee consider “freezing” this fund to new contributions and placing new contributions in the other small cap growth fund on the Fidelity platform- INVESCO Small Cap Growth. The Committee unanimously accepted the recommendation.**

Thornburg Intl Value (Score of 49) – Recent performance has lagged significantly behind its peers and benchmark due to poor stock selection as well as a larger allocation to mega cap names relative to its benchmark. The strategy’s sector positioning tends to deviate materially from its benchmark, including overweight position to financials and consumer discretionary. Although the managers are well-seasoned, execution has been poor in recent years. This fund is barely passing the Virginia Tech overlay. **As a result, CAPTRUST recommended the Committee consider “freezing” this fund to new contributions and placing them in the other international blend manager on the Fidelity platform- Fidelity Diversified International. The Committee felt it was prudent to give this manager some time to “right the ship” so the Committee did not accept the recommendation. CAPTRUST will continue to monitor the fund closely.**

Marked for Review

PIMCO Total Return (Score of 74)- PIMCO continues to be marked for review based on the recent departure of Mohamed El-Erian (CO-CIO) along with performance that has been inconsistent, taking on more Risk than its peer for the excess return it has achieved. CAPTRUST recommended no action at this time but will monitor closely.

Fidelity International Small Cap (Score of 73) - this fund is marked for review due primarily to the fact that a new management team took over responsibility for this fund in February 2014. For the three year and five year periods ended June 30, 2014, this fund beat its benchmark but ranked in the 50th and 55th percentile respectively against its peer group.

Cohen & Steers Realty Shares (Score of 79) – while the five year return ranked this fund in the 43rd percentile, it struggled in 2011 (72nd percentile) and 2012 (77th percentile). However, the one year return beat both its benchmark and peer group average.

Fidelity Freedom K Funds (Score of 79) – Significant changes were recently made to the glide path of the fund along with a management change.

TIAA-CREF Review

Out of the 27 funds in the plans (Target date counted as one) there are two funds Considered for Termination and six funds Marked for Review:

Considered for Termination

DWS Dreman Small Cap Value (Score of 54) - see above comments. The Committee accepted the recommendation of “freezing” this fund to new contributions and placing them in the American Beacon Small Cap Value Fund (fund to be added to TIAA-CREF platform).

Thornburg International Value (Score of 49) – See comments above. **As a result, CAPTRUST recommended the Committee consider “freezing” this fund to new contributions and placing them in the other international blend manager on the TIAA-CREF platform- American Funds Europacific Growth Fund. The Committee felt it was prudent to give this manager some time to “right the ship” so the Committee did not accept the recommendation. CAPTRUST will continue to monitor the fund closely.**

Marked for Review

CREF Inflation-linked Bond Account (Score of 76) - This fund is marked for review due to the volatility it has demonstrated in achieving its excess return. While underperforming its benchmark for the three year and five year periods measured, it is ranked in the 28th and 32nd percentile respectively against its peer group.

CREF Bond Market Account (Score of 77) - The CREF Bond Market Fund employs a benchmark centric strategy. As a result of the current “risk on” market, this manager is lagging its peer group averages. However, the manager has beaten its benchmark over the last three year and five year periods measured. No action is required at this time.

PIMCO Total Return (Score of 74) – see above comments

Mainstay Large Cap Growth (score of 77) – While longer-term performance remains solid, this strategy has exhibited inconsistent recent results and has also undergone some management changes. Recent performance has lagged its peers due to an overweight position in the consumer discretionary sector and an underweight position in consumer

staples. Despite this, along with a recent co-portfolio manager change, we continue to have confidence in the team's investment process, but will monitor near-term results for signs of improvement.

TIAA-CREF Mid Cap Value Fund (Score of 77) – see TIAA-CREF comments above

Cohen & Steers Realty Shares (Score of 79) – see comments above.

Other items discussed

Revenue credits on 401(a) and Cash Match Plans

John Cusimano led a discussion on revenue credits (chart attached).

- **403b Plan** - Considering the Committee has no oversight responsibility for the 403b plan, the committee previously adopted a policy to credit back any excess revenue amounts to participants based on a pro-rata method. This has resulted in approximately \$110,000 of savings back to participants on an annual basis.
- **ORP/Cash Match Plan** - There are several acceptable practices in the use of excess revenue on these plans:
 - Lower share classes on funds to reduce the amount of the excess revenue
 - Credit amounts back to participants
 - Offer more services to participants
 - Pay plan related expenses
 - Any combination of the above.

Between Fidelity and TIAA-CREF, through June 30, 2014, there is approximately \$203,000 in excess revenue where the Committee needs to decide how to utilize. On an ongoing basis, the estimated annual amount is around \$131,000.

A discussion ensued with varying opinions on the use of these excess revenue amounts with no consensus achieved. Mr. Shelton suggested that part of the revenues be used to pay the CAPTRUST fee. Faculty and staff representatives preferred that the money be credited back to the participants. Dr. Kadlec suggested that the payment of consultant fees and receipt of excess revenue be listed separately on the participant's statement in an attempt at full disclosure. Ultimately, the application of excess revenue is Mr. Shelton's decision, and he will consider each option and report back to the Committee. Ms. King will review possible education alternatives and report any recommended program(s) back to the Committee. Staff will also review the option of separating the payment of the consultant fee and the crediting back of excess income on participants' accounts.

Brokerage Window on ORP and Cash Match

The Committee continues to discuss a trend with other higher educational institutions in offering a brokerage window. While Virginia Tech offers a window on the 403(b), consideration should be given on the merits of offering a window on the ORP and Cash Match Plans. The State ORP currently doesn't offer this today. Other Virginia Schools have begun to offer or are considering offering a brokerage window. John Cusimano suggested

that we take a fresh look at this with an eye towards implementation. Steve Capaldo will research further and report back to the Committee.

Closing and mapping of funds

The Committee discussed recent trends within the Virginia Opt out schools in this area and will consider this for a future meeting. One Virginia school has made the decision to begin closing and mapping funds as a standard practice going forward.

Having no other discussion items, the Committee meeting was adjourned.