

MEETING MINUTES

Plan Sponsor: Virginia Tech
Plan Name(s): VT Optional Retirement and VT Cash Match Plans
Committee Members: Dwight Shelton- Trustee- absent
John Cusimano- Co-Chairperson
Ellen Banks Co-Chairperson- ~~absent~~
Susan Hughes
Greg Kadlec
Art Keown
Steve Capaldo, Counsel
Brian Murphy- absent
Savita Sharma
Other Attendees: Barry Schmitt- CAPTRUST via conference call
Drew Battle- CAPTRUST
Patrick Warner (Fidelity)
Andy Daigneault (Fidelity)
Meeting Topic: Plan Investment and Administrative Review
Date: May 7, 2018
Time: 2:00 PM (EST) – 4:00 PM (EST)
Location: North End Center, Suite 2300
Documentation Referenced: 3/31/18 CAPTRUST Plan Investment Report, Fidelity investment review, Fidelity Business Planning report, and passive funds analysis

OLD BUSINESS

The committee approved the minutes of the January 16, 2018 meeting of the Committee.

FIDELITY ANNUAL REVIEW

Andy Daigneault from Fidelity provided the Committee with a current market overview paying particular attention to increased volatility, effect of tax cuts in the economy, inflation fears, and trade.

Andy then focused on several funds in the current fund menu. He noted the following:

- Plan assets in the ORP of \$167.3 million and \$16.7 million in the Cash Match
- ORP Median account balance of \$29,400 with an average equity exposure of 80%
- Fidelity Total Bond, Fidelity Contrafund, and Fidelity Low-Priced Stock- strong performance for every period measured.
- Fidelity Diversified International K- weaker short-term performance due to lack of emerging markets exposure.
- Fidelity Freedom funds- strong performance for every period measured.

Patrick Warner then went through some key statistics/demographics of the plan:

- This size and scope of the peer groups used to compare the VT ORP with peers (93 plans and over 145,000 participants)
- 74% of active participants with a balance are contributing (was 70% in 2014)
- \$7,842 average total savings rate for active participants with a balance (was \$6,622 in 2014)
- 67% of participants equity allocation is aligned with a target retirement date (was 61% in 2014)
- Total assets among all plans, including TDA/403b, was \$388.5 million as of 3/31/2018) (assets were \$281.9 million as of the end of 2015)
- 3,964 total participants with a balance
- 60% of active participants have contacted Fidelity within the past year (online or by phone)
 - 26% deeply unengaged (no contact in prior two years)- 53% voluntary contribution rate
 - 14% unengaged (no contact in prior 12 months)- 82% voluntary contribution rate
 - 18% basic engaged (engagement through NetBenefits, or inbound phone contact)- 77% voluntary contribution rate
 - 23% education engaged (net benefits, article view, video view, engager click or financial wellness assessment)- 83% voluntary contribution rate
 - 19% highly engaged (completion of a retirement planning, advice tool, onsite one on one, or group interaction, or retail branch visit)- 85% voluntary contribution rate
- 55% of active participants have contacted Fidelity through NetBenefits
- 24% of unique visitors to NetBenefits completed at least one transaction (primarily an asset allocation change)
- 14% of unique participants have engaged in retirement planning or advice

Fidelity representatives were excused from the meeting.

INDUSTRY UPDATE/OVERVIEW -

CAPTRUST delivered a review of recent industry trends. CAPTRUST's industry update can be found in the 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/MARKET UPDATE

CAPTRUST delivered a review of the economy and markets along with CAPTRUST's outlook. CAPTRUST's economic and market commentary can be found 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. 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%)

INVESTMENT REVIEW

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

Assets as of March 31, 2018 totaled \$714.6mm broken down as follows:

- VT ORP Plan- Fidelity- \$167.2mm (including non-approved assets of \$15.7 million)
- VT Cash Match Plan- Fidelity- \$16.7mm (including non-approved assets of \$1.8mm)
- VT ORP Plan- TIAA-CREF- \$506.3mm (including non-approved assets of \$8.4mm)
- VT Cash Match Plan- TIAA-CREF- \$24.4mm (including non-approved assets of \$377k)

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) all funds are meeting policy guidelines except one.

American Century Large Cap Value (score of 70 with assets of approximately \$967,000) - this fund had a challenging 2017 ranking them in the 92nd percentile among its peers. This year was preceded by 4 years of 2nd quartile performance. This fund continues to pass the VT overlay.

TIAA Review

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

TIAA-CREF Large Cap Value (score of 78 with assets of approximately \$10.5 million) – This fund had a very challenging 2017 after a strong 2016. CAPTRUST hopes we see more consistent performance on this fund. The fund continues to pass the VT overlay.

TIAA-CREF Mid Cap Value (score of 79 with assets of approximately \$6.2 million) - Score is being affected by modestly below-median performance in 2015 through 2017. However, the quarter ended 3/31/2018 was strong ranking this fund in the 22nd percentile among its peer group. The fund's overweight position to energy and consumer staples were a drag on performance in addition to stock selection to energy and consumer discretionary sectors. The fund continues to pass the VT overlay.

Money Market Funds

John asked CAPTRUST to review our money market fund offerings and provide a recommendation on a way to consolidate money market funds. CAPTRUST will work directly with John to make any appropriate changes to the money market offerings.

Passively managed fund offerings

Recently there has been discussion surrounding index funds and if it makes sense for the ORP and Cash Match plans to offer several index funds that cover the major capital markets for those Virginia Tech faculty/staff that would simply like to 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 the committee consider offering three additional index funds- **the Fidelity US Bond Index, the Fidelity Extended Market index, and the Fidelity Total International Index.** This will allow for broad market exposure in a cost competitive manner without overwhelming participants with too much choice. **The Committee accepted this recommendation.**
- **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 and with all future contributions being directed to the Vanguard Institutional Index fund (this is a fund addition) at a cost of 0.04%. **In addition, CAPTRUST recommended the following additional funds to be added- The Vanguard Total Bond Market index, the Vanguard institutional Index, the Vanguard Extended Market index, and the Vanguard total international stock index. The Committee accepted this recommendation.**

ETF AVAILABILITY IN SELF-DIRECTED BROKERAGE ACCOUNT

John Cusimano led a discussion on the possible inclusion of '40's act ETF's to be made available in brokerage. Fidelity has this functionality, TIAA does not. There are well over 1,000 Exchange traded funds on the Fidelity brokerage platform today. Fidelity has

functionality to prevent participants from purchasing an “ineligible” (non-40 Act ETF) fund within the self-directed brokerage account. Fidelity also has a process in place to identify and remedy the purchase of an ineligible (unregistered) ETF. The process is as follows:

- Fidelity monitors purchases in their self-directed brokerage account and notifies Virginia Tech if an unregistered ETF is purchased
- VT gives direction to Fidelity to liquidate the purchase as soon as administratively possible (no later than 30 days)
- Security is liquidated

Fidelity stated that this has not yet happened with any Fidelity clients who permit ETF in self-directed accounts.

After further discussion, the Committee agreed, in concept, to offer registered, 1940 Act ETF as a permissible security in Fidelity self-directed brokerage accounts. However, this acceptance is contingent upon Virginia Tech Counsel’s approval.

Other items discussed

Status of updating the ORP Investment Policy Statement- This is under review with counsel and should be ready for approval at the next meeting.

Future topics

Plan fees- CAPTRUST will be benchmarking Fidelity’s and TIAA’s administrative fees for the next Committee meeting. As part of this discussion a fee policy will need to be developed

Fiduciary Training to be considered for a future meeting.

403(b) oversight will be discussed at a future meeting

Closing and mapping will be discussed at a future meeting.

A **Committee Charter** will be discussed at a future meeting.

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