

## 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 Susan Hughes Greg Kadlec Art Keown Steve Capaldo, Counsel- absent Brian Murphy- absent Leisa Shelor Savita Sharma
Other Attendees:	Barry Schmitt- CAPTRUST via conference call
Meeting Topic:	Fiduciary training and Plan Investment Review
Date:	August 22, 2018
Time:	4:00 PM (EST) – 5:00 PM (EST)
Location:	HR Conference Room, North End Center
Documentation Referenced:	Fiduciary training presentation, 6/30/18 CAPTRUST Plan Investment Report, and money market analysis

## OLD BUSINESS

The committee approved the minutes of the May 7, 2018 meeting of the Committee.

## MONEY MARKET ANALYSIS

John asked CAPTRUST to review our money market fund offerings and provide a recommendation on a way to consolidate money market funds. CAPTRUST provided information on each current money market fund along with their recommendations. Based on much discussion, the Committee accepted the recommendation to offer the Vanguard Treasury Money Market Fund going forward. This fund will accept future contributions while the prior money market funds will be frozen to new contributions. Mapping of accumulations will not occur.

This change will be captured within the other changes that we accepted and approved at the last committee meeting (see prior meet minutes for a complete review of those changes). These changes will occur during the 4<sup>th</sup> quarter 2018.

## FIDUCIARY TRAINING

CAPTRUST provided Fiduciary training to all members that were present. This presentation was designed, even though the plans are Non-ERISA plans, to provide the committee with best practices using ERISA as a guide in this process. Topics covered:

- Who is a Fiduciary?
- What is their role?
- Duty to be Prudent

- Duty of Loyalty and Impartiality
- Duty to Diversify
- Duty to Monitor and Supervise
- Duty to Ensure Reasonable Costs
- Duty of Avoid Prohibited Transactions

## **ORP SURCHARGE**

Ellen discussed the recent VRS surcharge item and the impact this have at Virginia Tech. This is a surcharge that was enacted post January 2014 and represents a 5% surcharge for certain classification of employees that were now eligible to participate in the ORP. She is working with Counsel and VRS (along with other peer schools) to determine the most appropriate course of action. This represents about 1,400 employees with an estimate annual cost of between \$2 to 2.5 million.

**While the review was not discussed at this meeting, the following is a re-cap of the review.**

## **INDUSTRY UPDATE/OVERVIEW -**

CAPTRUST's industry update can be found in the quarterly investment review document. Industry updates include:

- Litigation trends shifting from investment to excessive fees
- Optimizing retirement program through employees saving enough, invested appropriately, and employee engagement.
- Fiduciary update including:
  - Selecting an auditor with employee benefit plan experience.
  - DOL New disability guidelines effective April 2<sup>nd</sup>.
  - Review definition of compensation to confirm it matches processes and procedures.

## **ECONOMIC/MARKET UPDATE**

CAPTRUST's economic and market commentary can be found in the quarterly investment review document including key themes on the rebound of U.S. Stocks based on strong earnings and economic activity more than offsetting trade tensions currently, slowing economic growth in international developed markets along with the return of political turmoil, headwinds for emerging market stocks due to a stronger dollar and tariffs, bonds which have improved but still negative for the year, and public real estate that was boosted by stabilizing interest rates. Specific tailwinds have been job growth, repatriation of funds held outside the U.S., and tax cuts which have prompted more capital expenditures and stock buybacks. Specific headwinds are the fading of "global synchronization", geopolitical tensions, tariffs, and gas price increases offsetting much of the tax cuts.

Major indices performed as follows for the 2<sup>nd</sup> quarter:

- U.S. Stocks - 3.4%
- U.S. Bonds – (0.20%)
- International Stocks – (1.0%)
- Emerging Markets – (7.9%)
- Real Estate – 7.8%

## **INVESTMENT REVIEW**

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

Assets as of June 30, 2018 totaled \$732mm broken down as follows:

- VT ORP Plan- Fidelity- \$173.4mm (including non-approved assets of \$16.2 million)
- VT Cash Match Plan- Fidelity- \$17.2mm (including non-approved assets of \$1.8mm)
- VT ORP Plan- TIAA-CREF- \$516.5mm (including non-approved assets of \$8.2mm)
- VT Cash Match Plan- TIAA-CREF- \$24.9mm (including non-approved assets of \$358k)

### **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 two.

**American Century Large Cap Value (score of 70 with assets of approximately \$1 million) (Marked for Review)** - this fund had a challenging 2017 ranking them in the 92<sup>nd</sup> percentile among its peers. However, this fund ranked in the 32<sup>nd</sup> percentile for the quarter ended June 30, 2018. This fund continues to pass the VT overlay.

**Thornburg International Value (score of 67 with assets of approximately \$1.2 million) (Considered for Termination)** - This fund is run by co-lead portfolio managers Lei Wang and Di Zhou. Mr. Wang became a co-portfolio manager in 2006 with Ms. Zhou becoming co-lead in 2015. The strategy has been at the bottom half of its peer group every year since 2011, except 2015. Large sector bets have been a significant detractor to performance. However, this fund continues to pass the VT overlay.

Other funds of note:

**Fidelity Freedom Series-** Fidelity made some recent changes to this series including:

- A dedicated allocation to long-term US Treasuries (3%) and TIPS (4%-10% depending on the vintage year)
- Reducing Freedom's equity allocation closer to and in retirement
- Removing allocations to Series Real Estate equity and series 100 index to reduce overlap
- Replacing growth and income manager with large cap stock manager

#### **TIAA Review**

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

**Thornburg International Value (score of 67 with assets of approximately \$2.4 million) (Considered for Termination)** - This fund is run by co-lead portfolio managers Lei Wang and Di Zhou. Mr. Wang became a co-portfolio manager in 2006 with Ms. Zhou becoming co-lead in 2015. The strategy has been at the bottom half of its peer group every year since 2011, except 2015. Large sector bets have been a significant detractor to performance. However, this fund continues to pass the VT overlay.

**TIAA-CREF Large Cap Value (score of 78 with assets of approximately \$10.6 million)** – The strategy is led by Portfolio Managers Richard Cutler and Tom Kolefas. Mr. Cutler joined TIAA-CREF in 1997 and has been the lead PM since December 2002, while Mr. Kolefas joined him in 2004 as co-PM. The fund 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. In the first half of 2018, the strategy has remained flat vs. the benchmark. Due to the inconsistent performance, we believe this strategy merits further consideration. The fund continues to pass the VT overlay.

**JPMorgan Short Duration Bond R6 (score of 73 with assets of approximately \$1.3 million) (Marked for Review)- Eric** Bernum, Portfolio Manager within JPMorgan's Fixed income group departed the firm. This fund tends to be a higher quality fund meaning that it takes on less risk than most of its peers, particularly in 2016 and 2017. The current market hasn't rewarded this style. The fund continues to meet the VT overlay.

#### **Other items for future meetings**

- **ETF availability** within the Fidelity brokerage platform- this item is in the hands of VT counsel for further review.
- **Membership to this committee** and how best to "memorialize" the membership and their duties. This may include a Committee Charter
- **Investment Policy Statement**- this is being reviewed with counsel.
- **Plan fees**- CAPTRUST will be benchmarking Fidelity's and TIAA's administrative fees for the next Committee meeting once VT provides approval for CAPTRUST to receive all plan level details from both TIAA and Fidelity. As part of this discussion a fee policy will need to be developed
- **Advice Methodology** being used by Fidelity and TIAA for advice interactions.
- **Possible TIAA migration to group contracts**
- **403(b) oversight** will be discussed at a future meeting
- **Closing and mapping** will be discussed at a future meeting.
- **Scheduling of future meetings.**

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