

MEETING MINUTES

Plan Sponsor: Virginia Tech
Plan Name(s): VT Optional Retirement and VT Cash Match Plans
Advisory Committee Members: Dwight Shelton- Trustee- absent
John Cusimano- Co-Chairperson
Ellen Banks Co-Chairperson
Susan Hughes
Greg Kadlec
Art Keown
Steve Capaldo, Counsel
Brian Murphy- absent
Leisa Shelor
Savita Sharma

Other Attendees: Barry Schmitt- CAPTRUST via conference call
Meeting Topic: Plan Investment Review
Date: November 28, 2018
Time: 3:30 PM (EST) – 5:00 PM (EST)
Location: HR Conference Room, North End Center
Documentation Referenced: 9/30/18 CAPTRUST Plan Investment Report, Fund comparisons, Overlay, and RC contract handout

OLD BUSINESS

The Advisory Committee approved the minutes of the August 22, 2018 meeting of the Advisory Committee, pending two corrections.

Brian Murphy will be retiring from Virginia Tech at the end of January. A replacement will be considered.

ORP SURCHARGE

Susan continues to work with Counsel and VRS on the surcharge item.

INDUSTRY UPDATE/OVERVIEW -

Barry delivered a review of recent industry trends. CAPTRUST's industry update can be found in the quarterly investment review document. Industry updates include:

- Passive Investments – It is important for fiduciaries to evaluate several factors on passive funds including fees, performance, tracking error to a benchmark, and understanding how closely they replicate their given benchmark.
- Passive Target Date funds – Movement towards passive target date funds indicates a preference by plan sponsors for low cost. In addition to fees, plan sponsors should consider performance, asset allocation, glidepath and plan demographic data.
- Retirement accounts and student loan debt – there are some new ways to making contributions into retirement plan accounts contingent upon student loan payments.

- Employment Benefits Security Administration (EBSA) enforcement activities are ramping up. Specific areas of focus are
 - Audit missing participants – Plan Sponsors should have a policy/process in place for finding terminated participants. Relying on the recordkeeper is not enough.
 - 5500 filing which doesn't apply to Virginia Tech.
- Executive Order- The President signed an Executive order for the DOL to review Required minimum distribution rules along with the review of notice requirements.

ECONOMIC/MARKET UPDATE

Barry provided the economic and market overview. CAPTRUST's economic and market commentary can be found in the quarterly investment review document including the following key themes: U.S. Stocks added to their gains for the year based on strong earnings and strong economic growth which continues to offset concerns about escalating trade tensions, international developed markets are slightly negative due to sluggish economic growth and trade tensions, emerging market stocks continue to face pressure from a stronger U.S. dollar and economic turmoil in several countries, including Turkey and Argentina, bonds had a small loss for the year as interest rates reached their highest levels in five years, and public real estate remains modestly positive for the year despite pressure from higher rates. Specific tailwinds have been job and wage growth, rising interest rates, in addition to capital expenditures and stock buybacks continue to increase. Specific headwinds include trade tensions with China persists, uncertainty remains about the potential market impact of midterm elections, as well as, higher interest rates mean higher mortgage rates which may dampen household income and housing demand.

Major indices performed as follows for the 3rd quarter:

- U.S. Stocks – 7.7%
- U.S. Bonds – 0.0%
- International Stocks – 1.4%
- Emerging Markets – (0.9%)
- Real Estate – 0.6%

INVESTMENT REVIEW

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

Assets as of September 30, 2018, totaled \$760.2mm broken down as follows:

- VT ORP Plan- Fidelity- \$182.2mm (including non-approved assets of \$16.5 million)
- VT Cash Match Plan- Fidelity- \$17.8mm (including non-approved assets of \$1.9mm)
- VT ORP Plan- TIAA-CREF- \$534.4mm (including non-approved assets of \$8.3mm)
- VT Cash Match Plan- TIAA-CREF- \$25.8mm (including non-approved assets of \$371k)

Performance Review

The Advisory 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 76 with assets of approximately \$1.1 million) (Marked for Review) – Lead portfolio manager Brian Woglom took over this strategy in January 2016 and has experience at several of the firm’s other value strategies. Co-PM Brendan Healy retired in May 2018 and was replaced by Phil Davidson, who has considerable experience at the firm. Under the prior investment team, the strategy used a quantitative model as part of the investment process. The new PMs recently stopped using the model and the strategy now follows a traditional fundamental process. Despite experienced PMs, performance has not been compelling in recent years particularly in 2017 when the strategy lagged the benchmark and landed in the bottom quartile of the peer group. Year to date results through the third quarter have not shown much improvement. **In reviewing the Virginia Tech overlay, it continues to pass the additional screens. While this fund will be watched closely the Advisory Committee has chosen to take no action.**

Thornburg International Value (score of 67 with assets of approximately \$1 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. In reviewing this fund against the Virginia Tech overlay, it now fails certain performance measures, tracking error, and turnover. Consequently, the Advisory Committee reviewed two fund alternatives to consider- JHancock Disciplined Value International and American Beacon international Equity Y. **After much discussion, the Advisory Committee selected the American Beacon International Equity as the replacement (no mapping of accumulations).**

TIAA Review

Out of the 27 funds in the plans (Target date counted as one) there are two funds Marked for Review and two funds 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. In reviewing this fund against the Virginia Tech overlay, it now fails certain performance measures, tracking error, and turnover. Consequently, the advisory committee reviewed two fund alternatives to consider- JHancock Disciplined Value International and American Beacon international Equity Y. **After discussion, the Advisory Committee selected the American Beacon International Equity as the replacement (no mapping of accumulations).**

TIAA-CREF Large Cap Value (score of 64 with assets of approximately \$10.9 million) (Considered for Termination) – 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 underperformance in 2017, the strategy has not rebounded year to date through the third quarter. Due to the inconsistent performance, CAPTRUST recommended that the Committee consider replacing the TIAA-CREF Large Cap Value Fund. **In reviewing the Virginia tech overlay, it continues to pass the additional screens. While this fund will be watched closely the Advisory Committee has chosen to take no action.**

JPMorgan Short Duration Bond R6 (score of 75 with assets of approximately \$1.2 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 the most of its peers, particularly in 2016 and 2017. While the current market hasn't rewarded this style vs. its peers, the fund consistently beats its benchmark. **The fund also continues to meet the VT overlay, so no change was initiated.**

TIAA-CREF International Equity Premier (score of 78 with assets of approximately \$7.8 million) (Marked for Review) The biggest drivers of the score are the risk-adjusted performance and confidence (e.g. consistency) categories. 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). **The fund also continues to meet the VT overlay, so no change was initiated.**

TIAA-Group contracts

Barry discussed the recent ability to offer group contracts from TIAA instead of the current individual contracts. The pros and cons were discussed. While there was some interest, this item will be tabled for now.

Sample Charter

The Advisory Committee discussed the membership and how best to "memorialize" along with their duties. This may include a Committee Charter. Barry discussed the Charter and how it is often used.

Other items discussed and/or topics for future meetings

- **Sovereign Immunity-** Stephen Capaldo mentioned that the State is looking to tighten sovereign immunity language. He will update the committee as appropriate.
- **ETF availability** within the Fidelity brokerage platform- this item is in the hands of VT counsel for further review.
- **Investment Policy Statement-** this is being reviewed with counsel.
- **Plan fees-** CAPTRUST will benchmark Fidelity's and TIAA's administrative fees 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

- **403(b) oversight** will be discussed at a future meeting
- **Closing and mapping** will be discussed at a future meeting.

Having no other discussion items, The Advisory Committee meeting was adjourned.