

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
Leisa Shelor Co-Chairperson
Susan Hughes absent
Greg Kadlec
Art Keown
Steve Capaldo, Counsel
Savita Sharma
Other Attendees: Barry Schmitt- CAPTRUST via conference call
Meeting Topic: Plan Investment Review
Date: February 20, 2019
Time: 3:30 PM (EST) – 5:00 PM (EST)
Location: HR Conference Room, North End Center
Documentation Referenced: 12/31/18 CAPTRUST Plan Investment Report, 3rd quarter
2018 minutes, fee benchmarking report, and Overlay

OLD BUSINESS

The Advisory Committee approved the minutes of the November 28, 2018 meeting of the Advisory Committee.

INDUSTRY UPDATE/OVERVIEW -

CAPTRUST's industry update can be found in the quarterly investment review document. CAPTRUST provided their 2019 predictions including the following topics:

- As the market continues to be competitive for acquiring talent, employers continue to look at their wellness programs for areas to increase offerings to current and future employees (this may include student loan payment programs). HHMI held a series of financial wellness courses which were well attended.
- Higher Interest Rates are helpful to savers as short-term instruments are paying higher rates but are a negative to households with credit-card debt, auto loans, and mortgages as higher rates mean higher borrowing costs.
- Retirement Coverage Gap – Legislators and regulators seek to increase access to workplace retirement plan savings, address student loan debt, and broaden adoption of in-plan lifetime income solutions.
- As plans continue to increase in complexity, plan sponsors could look to delegate responsibility and risk to 3(38) discretionary investment managers and focus committee efforts on other core issues. Plan sponsors will look to regulators to provide more clarity around best practices and fiduciary protections when adopting new services.

CAPTRUST also discussed the new hardship withdrawal changes and the early adoption of the new provisions. Leisa will research.

ECONOMIC/MARKET UPDATE

CAPTRUST 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:

- US Stocks fell sharply in Q4 erasing year-to-date gains. Concerns over fed rate hikes, slower economic growth, and trade tensions weighed on prices.
- International stocks posted double-digit losses in the 4th quarter thanks to weaker economic growth in Europe and uncertainty over Brexit.
- Emerging market stocks added to their woes in Q4 and finished the year as 2018's laggard due to a stronger U.S. Dollar and slower economic growth in China and Europe.
- Bonds provided an anchor to windward amid the fourth quarter's volatile equity markets. Although they finished flat for the year, they were the standout performer as interest rates declined.
- Public real estate fell in the fourth quarter and posted a modest decline for the year.

Other market topics discussed were job openings, a robust shopping season, strong corporate earnings growth (on the positive side), and trade tensions, moderating economic growth, inverted yield curve, and the increasing U.S. debt (on the negative side).

Major indices performed as follows for the 4th quarter:

- U.S. Stocks: (13.5%)
- U.S. Bonds: 1.6%
- International Stocks: (12.5%)
- Emerging Markets: (7.4%)
- Real Estate: (6.00%)

INVESTMENT REVIEW

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

Assets as of December 31, 2018, totaled \$692.3mm broken down as follows:

- VT ORP Plan- Fidelity- \$163.7mm (including non-approved assets of \$16.5 million)
- VT Cash Match Plan- Fidelity- \$15.8mm (including non-approved assets of \$1.7mm)
- VT ORP Plan- TIAA-CREF- \$489.3mm (including non-approved assets of \$8.1mm)
- VT Cash Match Plan- TIAA-CREF- \$23.5mm (including non-approved assets of \$327k)

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 one.

Thornburg International Value - This fund is in the process of being frozen to new contributions based on decisions made at the last committee meeting. The fund that is being added is the American Beacon International Equity (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- this fund is in the process of being frozen to new contributions based on decisions made at the last committee meeting. the fund that is being added is the American Beacon International Equity (no mapping of accumulations).

TIAA-CREF Large Cap Value (score of 59 with assets of approximately \$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 so no action was taken. This fund will continue to be watched closely.**

TIAA-CREF Mid Cap Value Premier (score of 76 with approximately \$4.9 million) - This fund has struggled for each of the past four years, with performance each year ranking them in the 3rd quartile. While the fund has a low tracking error, stock selection has hindered performance. **The fund also continues to meet the VT overlay, so no change was initiated.**

TIAA-CREF International Equity Premier (score of 64 with assets of approximately \$6.5 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.**

Fee Benchmarking

CAPTRUST provided the Committee with a recent fee benchmarking of the fees being assessed by both Fidelity and TIAA. CAPTRUST discussed the process used in assessing the fees associated with the plan including:

- CAPTRUST's broad vendor experience
- Specific demographic data and its relevance in assessing fees
- The current fees being assessed at a fund and relationship level
- The number of fee comparisons CAPTRUST has performed the past year
- Recent negotiations with other client plans of similar size and service levels

Based on this analysis, the current Fidelity fee of 14 basis points is higher than what the current pricing in the marketplace is showing (the current range is approximately 7 to 10 basis points). CAPTRUST will negotiate directly with Fidelity on lowering the fees going forward.

For TIAA, the current 14.5 basis points is higher than what the current pricing in the marketplace is showing (the current range is approximately 7 to 9 basis points). CAPTRUST will negotiate directly with TIAA on lowering the fees going forward.

As part of this discussion, there will need to be a discussion on how fees should be assessed going forward including the uses of excess revenue. This will be an agenda item at the next meeting of the Advisory Committee.

The Committee would like to see the history of fee decreases on the plan for reference purposes only.

Committee Charter

Stephen and Leisa will work with Dwight to create the Committee Charter to best “memorialize” the current and/or desired process.

Investment Policy Statement (IPS)

The IPS is in the final stages of review and will be discussed at the next committee meeting.

Committee Representation:

HR will make a recommendation at the next committee meeting on whether to include a Staff representative on the Advisory Committee.

Other items discussed and/or topics for future meetings

- **Closing and mapping** was discussed. The Committee gave CAPTRUST the “green light” to move forward with a mapping strategy on any of the remaining frozen funds in the ORP and Cash Match Plans to be discussed at the next Committee meeting. As part of this discussion, the Committee would like to understand the funds (and minimums) available in brokerage of the affected funds.
- **Managed account methodology** will be discussed when Fidelity and TIAA are part of a future meeting.
- **403(b) oversight** will be discussed at a future meeting

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