

MEETING MINUTES

Plan Sponsor: Virginia Tech
Plan Name(s): VT Optional Retirement and VT Cash Match Plans
Advisory Committee Members: John Cusimano- Co-Chairperson
Leisa Shelor Co-Chairperson
Ellen Banks (via video conference)
Marie Bliss
Greg Kadlec
Steve Capaldo, Counsel
Art Keown (absent)
Dwight Shelton (absent)
Other Attendees: Debbie Greer
Barry Schmitt (CAPTRUST)
Fran Slacum (CAPTRUST)
Meeting Topic: Plan Investment Review, Investment Policy Statement discussion, Fees and expenses, and future topics
Date: August 21, 2019
Time: 3:30 PM (EST) – 5:00 PM (EST)
Location: 2470 North End Center
Documentation Referenced: 6/30/19 CAPTRUST Plan Investment Report, 4th quarter 2019 minutes, Investment Policy Statement, Fee History, and Overlay

INVESTMENT POLICY STATEMENT (IPS)

John updated the Committee on the changes made to the IPS. The changes, almost exclusively, were updates to such items as benchmarks, universes used to compare funds, and minimums/maximums from a market capitalization perspective and technical corrections. In addition, there were several updates to plan governance matters.

The purpose of the IPS is to be used as a guide in the decision-making process. It is not intended to be restrictive.

Signature authority will be determined after upcoming Board Meeting. **CAPTRUST provided additional IPS language to money market, core/core plus fixed income funds, and real estate.**

The IPS will be approved at the next Committee meeting.

OLD BUSINESS

The Advisory Committee approved the minutes of the February 20, 2019 meeting of the Advisory Committee.

Since the last Committee meeting the American Beacon International Equity fund replaced Thornburg International Value for future contributions.

INDUSTRY UPDATE/OVERVIEW

CAPTRUST's industry update can be found in the quarterly investment review document. CAPTRUST provided information in the following areas:

- Change to CAPTRUST's Scoring Methodology. Periodically, changes occur that necessitate revisions to CAPTRUST's scoring methodology. Recently, Morningstar "split" their intermediate core bond universe into two separate universes- intermediate core and intermediate Core Plus. CAPTRUST has updated their methodology to reflect this change.
- Employees have needs, but what do they want? Today more than ever, employers face the difficult task of striking the right balance between strengthening existing employee programs and investing in new ones. When prioritizing benefits, those that solve for employee needs consistently find their way to the top for both employers and employees—rightfully so. However, employers' benefit strategies may have to shift toward addressing not only what employees need, but also what employees want in order to continue to attract and retain talent.

ECONOMIC/MARKET UPDATE

All asset classes moved higher in the second quarter. Despite a bout of volatility in May, stocks, bonds, and real estate have posted excellent returns this year. U.S. stocks were approaching record highs at quarter end, thanks to an accommodative Federal Reserve and a temporary trade truce with China. Specifically:

- U.S. stocks rebounded from a difficult May, notching gains as the Federal Reserve signaled it would consider cutting interest rates in response to slower growth. Large-cap stocks had their best first half in >20 years.
- Bonds have had an outstanding 2019 as interest rates hit their lowest levels since late 2016.
- International developed and emerging market stocks also performed well, albeit not at the torrid pace of U.S. stocks. They have been hampered by sluggish growth in Europe and Japan and the strong U.S. dollar.
- Real estate lagged in the second quarter, but remains this year's standout, aided by lower interest rates

Major indices performed as follows for the 2nd quarter:

- U.S. Stocks +4.3%
- U.S. Bonds + 3.1%
- International Stocks +3.7%
- Emerging Markets +0.6%
- Real Estate +1.8%

INVESTMENT REVIEW

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

Assets as of June 30, 2019, totaled \$782.3mm broken down as follows:

- VT ORP Plan- Fidelity- \$193.3mm (including non-approved assets of \$18.7 mm)
- VT Cash Match Plan- Fidelity- \$18.2mm (including non-approved assets of \$2.1mm)
- VT ORP Plan- TIAA-CREF- \$544.3mm (including non-approved assets of \$8.1mm)

- VT Cash Match Plan- TIAA-CREF- \$26.5mm (including non-approved assets of \$360k)

There is approximately \$3.7 million in the Self-Directed Brokerage Account (SDBA). The Committee's longer-term goal is to consider closing and mapping frozen "non-approved funds". **CAPTRUST will confirm with TIAA and Fidelity which non-approved funds are available in the brokerage window.**

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.

TIAA Review

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

TIAA-CREF Mid Cap Value Premier (score of 70 with approximately \$5.6 million) (Marked for Review) - 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. **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 Large Cap Value (score of 59 with assets of approximately \$9.5 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. **The fund continues to meet the VT overlay, so no change was initiated. This fund will continue to be watched closely.**

TIAA-CREF International Equity Premier (score of 64 with assets of approximately \$6.9 million) (Considered for Termination) - 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 failed the VT overlay. After much discussion, the Advisory Committee selected the AF Europacific Growth Fund as the replacement (no mapping of accumulations). Since this fund is already on the TIAA platform, no fund addition is needed but future contributions will be mapped to the Europacific Growth Funds.**

FEE POLICY

CAPTRUST provided the Committee with a history of Virginia Tech's Plan Administrative Fees. Over the past ten years, CAPTRUST has help to negotiate lower fees on both recordkeeping platforms. Over that period, administrative fees from Fidelity have been reduced over 74% and TIAA's administrative fees have been reduced by over 63%. Recently, CAPTRUST negotiated lower fees for Virginia Tech with both Fidelity and TIAA. Fidelity's new fee is 8bps negotiated down from 14 bps. TIAA's fee is now 7.3 bps negotiated down from 14.5 bps.

On the 403b plan, while this Committee doesn't maintain oversight responsibility, all excess revenue received goes back to participants in the form of revenue credits on a pro-rata basis.

On the ORP, in the past when excess revenue was given back to participants, it was also given back on a pro-rata basis.

Current excess revenue being held by the plans are as follows:

- Optional Retirement Plan TIAA- approximately \$350,000
- Cash Match Plan TIAA- approximately \$29,700
- Optional Retirement Plan Fidelity- approximately \$180,300

The Committee would like to develop a policy on how to distribute excess revenue moving forward along with ways to pay for administrative services provided to the plans today from TIAA and Fidelity, so the advisory committee agreed to establish a work group to research options. The work group will ask both Fidelity and TIAA to present fee options to the group. The Advisory Committee agreed to reimburse current excess revenue to plan participants on a pro-rata basis. **CAPTRUST notified Fidelity and TIAA of the Committee's decision.**

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.
- **Adopting the volume submitter/prototype Plan Document** for ease of plan administration.
- **Strategy on legacy assets**
- **Small balance payouts for termed participants**
- **Managed accounts discussion**
- **403(b) oversight**

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