

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
Steve Capaldo, Counsel
Bryan Garey
Debbie Greer
Greg Kadlec
Art Keown
Dwayne Pinkney
Other Attendees: Barry Schmitt (CAPTRUST)
Fran Slacum (CAPTRUST)
Drew Battle (CAPTRUST)
Karren Gorney (CAPTRUST)
Meeting Topic: Investment Review, fund menu alignment, and Fee Policy
Date: August 20, 2020
Time: 3:30 PM (EST) – 5:00 PM (EST)
Location: Microsoft Teams Meeting
Documentation Referenced: 6/30/20 CAPTRUST Plan Investment Report and Fee Analysis and fund menu Deck

FEE POLICY/403(B) OVERSIGHT

Barry led a discussion on the current fee structure of the plan including how fees are generated, how fees are being charged today, and how to assess fees in a more equitable and even way to participant accounts (fee leveling/fee fairness). The overall goal would be for participants to pay the same amount (or percentage) towards plan administrative costs with revenue share assessed at the same rate for all participants and credits returned to those participants that generated the excess revenue. This can be accomplished through a “fee leveling” approach.

- Currently, fees are being paid based on revenue sharing in certain funds which creates a fee disparity across plans and vendors.
- Fees assessed today are less transparent to participants.
- Fidelity and TIAA have slight differences in how they can assess fees (both assess fees on an asset-based basis today).
 - On the Fidelity platform, all funds can be charged a recordkeeping fee.
 - On the TIAA platform, annuities cannot be assessed a fee. For annuity investments that are receiving greater than the required revenue, TIAA can “credit” participants that generated excess revenue.

If the Committee were to adopt the fee leveling method (which is consistent with industry trends), all fees associated with the plans would be paid by plan participants in an equitable manner including recordkeeping, administration, and advisory fees. The plan costs are much

more transparent to participants with this method. The Committee discussed the differences between “per head” pricing and the current “asset based” approach.

As part of the fee analysis, CAPTRUST incorporated oversight of the 403(b) plan (and all executive plans) and the effect it would have on overall fees and the funds being offered. CAPTRUST reviewed both the pros and the cons if the Committee were take oversight of the 403(b) plan. It was noted that if the 403(b) plan fund menu were to align (mapping included) with the ORP and Cash Match plans, overall investment and administrative costs would be lower on both the Fidelity and TIAA platforms – total range is \$247,000 to \$260,000 lower - based on June 30, 2020 assets. CAPTRUST mentioned there would be an increase in advisory fees with the addition of the 403(b) and Excess plans.

Barry provided the Committee with the results of recent fee discussions with both Fidelity and TIAA. TIAA proposed 5.3 basis points, \$78/per unique participant, or \$39/per participant per plan. TIAA also proposed absorbing any shortfall for participants that cannot afford the per participant fee.

Fidelity proposed \$79/head. One Committee member noted that implementing a per participant fee appears to be the most equitable. **CAPTRUST will request the basis point fee and the per participant/per plan fee from Fidelity.**

After a robust discussion, the **Committee agreed to take oversight of the 403(b) plan and to move to a fixed dollar or fixed asset-based fee arrangement. As part of this process, funds will be closed and mapped into the ORP/Cash match fund menu (with additions and modifications as appropriate to round out the fund menu).** The Committee would like to implement these plan changes by Spring 2021.

As a follow up to the Committee’s decision, **CAPTRUST requested from TIAA and Fidelity 1) the impact a per participant/per plan fee would have on participants with low balances and 2) a sample production schedule for the fund menu alignment and fee implementation project.**

CAPTRUST suggested that the Committee select a lead communicator for the project that will coordinate plan changes for Virginia Tech. **Virginia Tech’s Counsel will review what changes if any will need to be made to the 403(b) Volume Submitter Plan Document.**

OLD BUSINESS

The Advisory Committee approved the minutes of the May 21, 2020 meeting.

INDUSTRY UPDATE/OVERVIEW

As the shock of COVID 19 wears off, defined contribution plan sponsors are looking ahead towards what is next.

- Financial wellness and advice – Emergency savings, debt management, student loan repayment and budgeting are priorities for plan participants.

- Plan sponsors look to offer more personalized solutions for their participants both in accumulation and decumulation phases of retirement planning.
- Secure Act – Extends the current required minimum distribution requirements to age 72 (effective for anyone turning 70.5 (after 12.31.2019) and allows penalty-free withdrawals for birth or adoption (optional).
- Plan sponsors should understand the impact of the CARES Act on their plans.

Plan amendments for the Secure Act and the CARES Act can be made up until the last day of the plan year beginning January 1, 2022 (for ERISA plans).

Fiduciary Update:

- The DOL adopted a new safe harbor for electronic delivery of participant notices. *CAPTRUST suggested that we work with Fidelity and TIAA on how best to implement this cost savings approach.*
- Plan sponsors should be diligent in using secure means of transmitting data and participants should be encouraged to use strong passwords and multi-factor authentication when available.

ECONOMIC/MARKET UPDATE

All major asset classes rose in the second quarter, with U.S. and international stocks staging significant recoveries from their first quarter losses. Historic levels of fiscal and monetary stimulus and easing of COVID-19 lockdowns fueled the asset price bounce as some measures of economic activity began to recover.

- U.S. stocks posted their best quarter in more than 20 years and have repaired much of the first quarter's damage.
- International developed stocks rebounded in the second quarter but trail their U.S. counterparts for the year due to sluggish growth in Europe and Japan.
- Emerging market stocks also participated in the global stock rally, benefitting from a weaker U.S. dollar during the second quarter.
- Bonds added to their gains this quarter as interest rates lingered at historically low levels.
- While real estate has surged from market lows, thanks to low interest rates, investors remain concerned about the longer-term impact of the coronavirus on retail and office properties.

Major indices performed as follows for the 2nd quarter:

- U.S. Stocks +20.5%
- U.S. Bonds + 2.9%
- International Stocks +14.9%
- Emerging Markets +18.1%
- Real Estate +13.9%

CAPTRUST discussed more recent performance of the major asset classes including the FAANG stocks' (Facebook, Apple, Amazon, Netflix, and Google) performance relative to the overall market along with the significant outperformance of growth stocks versus value stocks.

INVESTMENT REVIEW

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

Assets as of June 30, 2020, totaled \$828.7mm broken down as follows:

- VT ORP Plan- Fidelity- \$214.5mm (including non-approved assets of \$14.4mm)
- VT Cash Match Plan- Fidelity- \$19.4mm (including non-approved assets of \$2mm)
- VT ORP Plan- TIAA-CREF- \$566.9mm (including non-approved assets of \$12.7mm)
- VT Cash Match Plan- TIAA-CREF- \$27.9mm (including non-approved assets of \$620k)

There is approximately \$4.6 million in the Self-Directed Brokerage Accounts (SDBA) across both Fidelity and TIAA.

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) there are two funds marked for review.

Marked for Review:

American Beacon International Equity (score of 75 with approximately \$68,106)- The fund passes the internal overlay, so no action is needed.

Fidelity International Small Cap (score of 72 with approximately \$2.3 million)- The fund passes the internal overlay, so no action is needed. Effective 9/30/20, CAPTRUST will change the fund's classification from foreign small/mid-cap growth to foreign small/mid-cap blend.

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.

Marked for Review

American Beacon International Equity (score of 77 with approximately \$450,373)- The fund passes the internal overlay, so no action is needed.

Considered for Termination

TIAA-CREF Mid Cap Value Premier (score of 53 with approximately \$4.1 million) - This fund passes the internal overlay, so no action is needed.

TIAA-CREF Large Cap Value (score of 61 with assets of approximately \$7.3 million) - This fund passes the internal overlay, so no action is needed.

Other Fund Discussed

CREF Money Market Account (assets of approximately \$11 million) – Given the significant reduction in the federal funds rate, many money market funds are facing the possibility of having to waive management fees to prevent yields from going negative. The CREF Money Market fund recently received a fee waiver from the NY Department of Financial Services (NYDFS) to avoid the potential of having a negative yield on this fund. **The Committee agreed to send a communication to CREF Money Market plan participants later this year.**

Other items discussed and/or topics for future meetings

- **Migration to group contracts on the Fidelity platform.**
- **Small balance payouts** for termed participants
- **Strategy on legacy assets**
- **Managed accounts discussion**
- **Retirement income analysis.**

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