

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
Marie Bliss - absent
Steve Capaldo, Counsel
Bryan Garey
Debbie Greer
Greg Kadlec
Art Keown - absent
Ken Miller
Other Attendees: Barry Schmitt (CAPTRUST)
Fran Slacum (CAPTRUST)
Karren Gorney (CAPTRUST)
Meeting Topic: Investment Review
Date: May 19, 2022
Time: 3:00 PM (EST) - 5:00 PM (EST)
Location: Microsoft Teams Meeting
Documentation Referenced: 3/31/22 CAPTRUST Investment Report, Future State Fund Menu, and Prior Meeting Minutes

OLD BUSINESS

The minutes of the March 24, 2022, Committee meeting were approved.

INDUSTRY UPDATE/OVERVIEW

Fiduciary Update

- The IRS issued proposed RMD regulations on February 24, 2022, that may affect the new 10-year payout rules for non-spouse beneficiaries. The new regulations may require changes to the SECURE Act amendments that are due on December 31, 2022, for calendar plan years.
- The Cycle 3 restatement deadline for IRS preapproved 401(k) and 401(a) defined contribution plan documents is July 31, 2022. Individually designed plan which includes 457(b) plans are not required to be restated. 403(b) plans and defined benefit plans are on different six-year restatement cycles.
- March 10, 2022, the DOL issued Compliance Assistance Release No. 2022-01 warning plan fiduciaries to exercise care before considering adding a cryptocurrency option to a retirement plan's investment menu.

Self-Directed Brokerage Accounts (SDBA)

- Plan sponsors with self-directed brokerage accounts (SDBA) should confirm that cryptocurrency investments are prohibited.

- Under ERISA section 404(a), brokerage windows, or self-directed brokerage accounts (SDBAs), are excluded as designated investment alternatives and enable participants and beneficiaries to select investments beyond those designated by the plan.
- Plan sponsors have a fiduciary responsibility to prudently select and monitor the SDBA provider as well as assess the reasonableness of fees.

Recordkeeping Fees

The cost of recordkeeping and plan administration fees has steadily declined. Revenue is being reclaimed through:

- Proprietary investments – retirement plan providers typically offer reduced pricing for plan administration if proprietary investment options are used. Fees paid for asset management help offset lost revenue.
- Ancillary fees – providers may implement one-time fees for special projects such as fund changes or data clean up. Participant transaction fees may also increase.
- Participant services – providers may add services such as student loan management, health savings accounts, and financial planning or budgeting assistance.

Fiduciary Training Highlight:

Settlor vs Fiduciary Decisions – There are some decisions that are business in nature – commonly known as settlor functions – and are sometimes referred to as the business decision exception to ERISA guidelines. Decisions considered to be settlor functions include:

- Choosing the type of plan or options in the plan.
- Incorporating elective plan amendments
- Requiring employee contributions or changing the level of employee contributions; and Terminating a plan.

ECONOMIC/MARKET UPDATE

2022 began with modest declines across major asset classes. Only commodities were propelled higher during the quarter, accelerated by supply shocks stemming from the Russian invasion of Ukraine. The bond markets were rattled by inflation fears and the beginning of a Federal Reserve tightening campaign.

- U.S. large-cap stocks declined 4.6% during the first quarter despite a strong March rally, as the S&P 500 delivered its first quarterly decline since the first quarter of 2020.
- International stocks fared worse amid fears of energy and commodities shortages. Developed market stocks slipped by 5.8%, while emerging markets stocks dropped by 6.9%.
- Bond prices retreated as interest rates rose, leading to a 5.9% decline in the first quarter, the largest quarterly loss for the Bloomberg U.S. Aggregate Bond Index in more than 40 years.
- The only major category to post gains during the quarter was commodities, as prices for a wide range of inputs—from food to energy and basic materials—surged higher. The result was the best quarter for commodities since 1990.

Tailwinds Facing The Market

- U.S. household balance sheets remain strong
- Healthy corporate profits persist
- Economic reopening accelerated

Headwinds Facing The Market

- Russia/Ukraine crisis continues
- Inflation fears persist
- Tighter monetary policy pushes rates higher
- Supply chain issues continue

Major indices performed as follows for the 1st quarter:

- U.S. Stocks (4.6%)
- U.S. Bonds (5.9%)
- International Stocks (5.8%)
- Emerging Markets (6.9%)
- Real Estate (6.5%)
- Commodities +25.5%

INVESTMENT REVIEW

Plan Level Review

Assets as of March 31, 2022, totaled \$1.88 Billion broken down as follows:

- VT ORP Plan - Fidelity - \$303.8 mm
- VT Cash Match Plan - Fidelity- \$25.1 mm
- VT 403(b) Plan - Fidelity - \$307.5 mm
- VT Select DC Plan - Fidelity - \$2.4 mm
- VT Incentive Plan - Fidelity - \$10,236
- VT ORP Plan - TIAA - \$697.8 mm
- VT Cash Match Plan - TIAA - \$34.5 mm
- VT 403(b) Plan - TIAA - \$506.8 mm
- VT Incentive Plan - TIAA - \$359,131
- VT Select DC – TIAA - \$2.3 mm

There is approximately \$20.6 million in the Self-Directed Brokerage Accounts (SDBA) across both Fidelity and TIAA.

Performance Review

The Advisory Committee and its advisor, CAPTRUST, reviewed the investments in a manner consistent with the standards and approach defined in the Investment Policy Statement.

Fidelity Review (Cash Match and ORP Plans)

Out of the 26 funds in the plan (Target date funds counted as one) there are three funds marked for review and one fund considered for termination.

TIAA Review (Cash Match and ORP Plans)

Out of the 27 funds in the plans (Target date counted as one) there are four funds marked for review and two funds considered for termination.

Marked for Review:

American Century Focused Large Cap Value (score of 71 with approximately \$1 million total assets - Fidelity) The strategy has gone through a litany of changes since the current lead PM took over in 2016 and significantly lagged the benchmark and peer group in 2021. However, the fund passes the internal overlay to avoid immediate replacement, but an internal review is warranted. Unless the internal review uncovers a concern that warrants immediate replacement, the fund will remain open until it is replaced in 9-12 months as part of the overall transition to a new fund lineup.

CREF Money Market Account (assets of approximately \$8.5 million – TIAA) CREF Money Market's expense ratio waiver expired at the end of 2021. Participants may see negative returns in the CREF Money Market Account if interest rates do not rise sufficiently to cover the Account's expenses. Virginia Tech moved to TIAA's Retirement Choice/Retirement Choice Plus Contracts in September. **CREF Money Market assets will remain in the individual contracts until participants make an election to move those assets.**

Fidelity Real Estate Investment Portfolio (score of 73 with approximately \$3 million – Fidelity only) The current real estate environment has been challenging with certain sectors facing challenges due to business closures and their impact on commercial real estate. However, the fund passes the internal overlay, so no action is needed.

T Rowe Price Mid-Cap Growth (score of 79 with approximately \$14.2 million total assets - Fidelity and TIAA) - The manager employs a growth at a reasonable price approach which has been out of favor in 2019 and 2020 but has begun to be rewarded for their "growth at a reasonable price" objective. The fund passes the internal overlay, so no action is needed.

T Rowe Price Growth Stock Adv (score of 76 with approximately \$19 million total assets - TIAA) - The manager employs a growth at a reasonable price approach which has been out of favor in 2019 and 2020 but has begun to be rewarded for their "growth at a reasonable price" objective. The fund passes the internal overlay, so no action is needed.

TIAA-CREF Large Cap Value Premier (score of 73 with approximately \$16.5 million total assets – TIAA only) - The investment seeks a favorable long-term total return, mainly through capital appreciation, by investing primarily in a portfolio of equity securities of large domestic value

companies based on a market index. The fund passes the internal overlay, so no action is needed.

Considered for Termination:

American Beacon International Eq (score of 68 with approximately \$1.9 million total assets - Fidelity and TIAA) - The manager has struggled over the past three and five-year periods as the fund's value bias approach has not been rewarded. While the overall strategy benefits when value comes back into favor, stock selection has been a headwind. However, the fund passes the internal overlay, so no action is needed.

TIAA-CREF Mid Cap Value Premier (score of 59 with approximately \$10.2 million total assets - TIAA) – Future Contributions have been redirected to JPMorgan Mid Cap Value Fund effective September 9, 2021. Current accumulations will not be moved.

The Committee took oversight of all retirement plans excluding the 415(m) plan. There are several funds in the 403(b) Plan, Select DC Plan, and the Incentive Plan that are marked for review and considered for termination. The funds will be addressed when the plan and fund menu consolidation is estimated to be completed by January 2023 (estimated time frame).

FUTURE STATE FUND MENU

With the Investment Committee taking oversight of all retirement plans, CAPTRUST based its recommendations on designing a fund menu that mirrors the current ORP and Cash Match Plan's investment menu with several additions. The intent is to provide enough choice without overwhelming participants. On the Fidelity Platform, CAPTRUST proposed the following:

- Allocation Tier – Map current allocation tier funds to the Fidelity Freedom Fund K Series
- Passive Tier – Reduce the number of investment options in the passive tier from 26 funds to 15 funds
- Active Tier – Mirror the current active tier funds held in the ORP and Cash Match plans with the addition of two funds – Dodge & Cox International Stock X and Vanguard Explorer Admiral. Migrate the T. Rowe Price Mid-Cap Growth Fund to the Institutional share class.

On the TIAA Platform, CAPTRUST proposed the following:

- Allocation Tier – Migrate to the TIAA-CREF Lifecycle Institutional Share Class
- Passive Tier – Eliminate certain Index funds that share revenue and replace them with Vanguard Index funds that share zero revenue, but with a lower expense. Add the Vanguard Emerging Markets Stock Index.
- Active Tier – Consider replacing four funds that share revenue, migrating to a lower share class where available, and adding four new funds:
 - Vanguard Inflation-Protected Secs Adm
 - MFS Value R6
 - JHancock Disciplined Value Mid Cap R6
 - Dodge & Cox International Stock X
- Annuities – Consider freezing the CREF Equity Index, CREF Money Market, CREF Inflation-Linked Bond, CREF Bond Market, CREF Growth, and CREF Global Equities. The eliminated CREF Annuity Fund options would be replaced with a “like” mutual fund option.

Most eliminated funds would be available in the Self-Directed Brokerage at the same or higher expense. The only exception would be certain CREF variable annuities that will be frozen in this process.

Before making a final decision, the Committee requested the following:

- Consistency with the number of large-cap growth and large-cap value funds offered on the TIAA and Fidelity platforms.
- High correlation when mapping a closed fund to the replacement fund otherwise the fund will default to the named default fund.
- More research on inflation-protected products.
- Confirm which mutual funds that will be closed are available in the brokerage window.

CAPTRUST will present the fund menu recommendations along with the follow up items noted above for final Committee review and approval before the August Investment Committee Meeting.

FOLLOW UP/OTHER ITEMS:

- The payment of small/de minimis plan balances for terminated participants. This project will take place in late Spring 2022. The current plan document allows for forced distributions.
- Implementing a flat dollar per head fee in early 2023 as part of the new fund menu realignment. The Committee is interested in tiering fees. The Committee could use revenue credits to offset participant fees. **CAPTRUST will work with Fidelity and TIAA on the tiered fee approach after small balances are removed from the plan.**
- Decide on a lead communicator for this process.

ACTION ITEMS:

- CAPTRUST will present the fund menu recommendations for final Committee review and approval before the August Investment Committee Meeting.
- CAPTRUST will conduct Fiduciary Training at a future Committee Meeting.
- Explore lead recordkeeping services in 2023.

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