

MEETING MINUTES

Plan Sponsor: Virginia Tech
Plan Name(s): VT Optional Retirement Plan, VT Cash Match Plan, VT 403(b) Employee Plan, VT 403(b) Employer Plan, VT Select DC Plan, and the VT Incentive Plan
Advisory Committee Members: Ken Miller Co-Chairperson
Leisa Shelor Co-Chairperson
Amy Sebring - absent
Ellen Banks
Marie Bliss - absent
Steve Capaldo, Counsel - absent
Bryan Garey
Debbie Greer
Greg Kadlec
Michael Walsh
Other Attendees: Barry Schmitt (CAPTRUST)
Fran Slacum (CAPTRUST)
Karren Gorney (CAPTRUST)
Meeting Topic: Investment Review
Date: August 17, 2023
Time: 3:30 PM (EST) - 4:30 PM (EST)
Location: Zoom Meeting
Documentation Referenced: 6/30/23 CAPTRUST Investment Report and Prior Meeting Minutes

OLD BUSINESS

The minutes of the May 18, 2023, Committee meeting were approved.

INDUSTRY UPDATE/OVERVIEW

SECURE ACT 2.0 CORRECTION

On May 23, congressional leaders wrote an open letter to the Treasury and IRS expressing their intent to correct the following technical errors involving SECURE 2.0:

- The provision regarding the increase to age 75 for required minimum distributions (effective in 2033) could be interpreted to apply to people who turn 74 after December 31, 2032. It is meant to apply to those turning 73 after that date.
- The provision mandating that catch-up contributions in retirement plans be designated as Roth starting in 2024 for those with more than \$145,000 in prior-year earnings could be read as a ban on catch-up contributions entirely, which is not the intent.

IRS GUIDANCE ON EPCRS

On May 25, the IRS issued guidance on its formal procedure for correcting plan defects, known as the Employee Plans Compliance Resolution System (EPCRS), as updated by SECURE 2.0.

- Even though EPCRS has yet to be amended, the SECURE 2.0 provisions are effective immediately, which means many defects can now be self-corrected, regardless of time frame.
- The correction process can also be used to correct defects that occurred before SECURE 2.0 was enacted.

SECURE 2.0: ROTH PROVISIONS

Roth updates in SECURE 2.0 focus on expanding and enhancing Roth usage. They do not restrict any existing Roth functionality.

- Roth contributions in retirement plans will no longer be subject to required minimum distributions (RMDs). This aligns employer-sponsored plans with Roth IRAs.
- Employers will have the ability to make matching and nonelective contributions to Roth accounts for their participants.
- Any catch-up contributions made by participants who meet the wage qualification (prior-year wages exceeding \$145,000) must be made as Roth contributions. **CAPTRUST was able to confirm that the Roth catch up provision only applies to age based catch-up and not the special 15-year catch-up provision.**

FIDUCIARY UPDATE

The Internal Revenue Service issued proposed regulations on forfeitures that clarify the following:

- Forfeitures incurred under a defined contribution plan must be used within 12 months following the close of the plan year which is less restrictive than the prior informal guidance that stated forfeitures should generally be utilized in the plan year in which they occurred.
- To ensure that forfeitures are properly utilized, recordkeepers should ideally maintain separate forfeiture accounts by plan year.

FIDUCIARY TRAINING – REVENUE CREDIT ACCOUNT:

This account can be used to pay approved plan expenses, including – audit fees, third-party administrative and compliance fees, recordkeeping fees, advisory fees and required plan amendment costs.

Business or settlor plan expenses cannot be paid from plan assets. Funds not used by the end of the plan year in which they occur should be allocated to plan participants.

ECONOMIC/MARKET UPDATE

Over the past year, labor markets have remained strong despite the Fed’s actions to slow the economy to combat inflation. This labor market strength has given consumers the confidence to continue spending, and the economy has continued expanding in response. In the second quarter, this economic resilience received an artificial-intelligence-fueled tailwind, sending stocks upward.

- While large- and small-cap U.S. stock indexes posted strong results, extreme dispersion exists among sectors. The technology sector soared ahead, while four sectors sit in negative territory for the year.
- Bond investors have been forced to raise their interest-rate expectations, putting downward pressure on bond prices.
- Outside the U.S., developed international stocks enjoyed strong results. Meanwhile, emerging market stocks have underperformed, weighed down by disappointing economic activity in China.

- Despite modest gains for the year, real estate uncertainty remains high, especially in the office and retail sectors.
- Commodities posted a second consecutive quarterly decline, with both oil and precious metals prices sinking.

Tailwinds Facing The Market

- Labor participation has not returned to pre-pandemic levels, creating historically low unemployment and steady wage growth—two underpinnings of consumer strength.
- As inflation falls from its June 2022 peak, real wage growth has supported consumer spending. Combined with excess savings and higher interest income, wage growth has partially insulated consumers from rising debt costs.
- A debt ceiling deal reduced uncertainty and helped the U.S. avoid default, but the agreement lacked notable spending changes. The stage is set for another showdown in 2025.
- In 2022, the technology sector saw a breakthrough in artificial intelligence (AI), creating AI models that interpret, learn, and provide human-like responses faster than ever.
- AI has tremendous potential but will require significant capital to develop necessary infrastructure.

Headwinds Facing The Market

- As interest rates have climbed from near-zero levels, public debt burden may reach a record.
- With savings declining, many consumers face the added burden of higher interest payments on home, auto, and student loans.
- Higher interest costs may also squeeze profitability for corporations that need to refinance debt.
- Liquidity fuels the economy. Yet the money supply is contracting as the Fed reduces its balance sheet, the Treasury refills its reserves, and commercial banks impose stricter lending standards.
- Core inflation remains stubbornly elevated, likely resulting in additional Fed restrictions.

Major indices performed as follows for the 2nd quarter:

- U.S. Stocks 8.7%
- U.S. Bonds 2.1%
- International Stocks 3.2%
- Emerging Markets 1.0%
- Real Estate 2.4%
- Commodities (2.6%)

INVESTMENT REVIEW

Plan Level Review

Assets as of June 30, 2023, totaled \$1.88 Billion broken down as follows:

- VT ORP Plan - Fidelity - \$314.1 mm
- VT 403(b) Plan - Fidelity - \$303.7 mm
- VT Cash Match Plan - Fidelity- \$24.7 mm
- VT Select DC Plan - Fidelity - \$2.5 mm.
- VT Incentive Plan - Fidelity - \$10,262

- VT ORP Plan - TIAA - \$689.8 mm
- VT 403(b) Plan - TIAA - \$513.2 mm
- VT Cash Match Plan - TIAA - \$33.5 mm
- VT Select DC – TIAA - \$2.6 mm.
- VT Incentive Plan - TIAA - \$345,326

There is approximately \$21.4 million in the Self-Directed Brokerage Accounts (SDBA) across both Fidelity and TIAA.

Performance Review (ORP and Cash Match only)

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.

TIAA Review (Cash Match and ORP Plans)

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

Marked for Review:

Fidelity Real Estate Investment Port (score of 79 with approximately \$1.76 million total assets - Fidelity only)
This fund will not be included as a fund offering in the “future state” fund menu.

PIMCO Total Return (score of 77 with approximately \$5.4 million total assets - Fidelity and TIAA)

This fund will not be included as a fund offering in the “future state” fund menu.

Invesco Small Cap Growth (score of 70 with approximately \$5.2 million total assets - Fidelity and TIAA)

This fund will not be included as a fund offering in the “future state” fund menu.

American Funds Euro pacific Growth R5 (score of 77 with approximately \$5.2 million total assets - TIAA only)

The fund passes the internal overlay, so no action is needed.

TIAA-CREF Lifecycle Funds (score of 77 with approximately \$130 million in assets – TIAA only)

The fund passes the internal overlay, so no action is needed.

Consider for Termination

TIAA-CREF Mid Cap Value Premier (score of 67 with approximately \$4.6 million total assets – TIAA only)

Future contributions were redirected to JPMorgan Mid Cap Value Fund effective September 9, 2021. **This fund will not be included as a fund offering in the “future state” fund menu.**

T Rowe Price Growth Stock Adv (score of 59 with approximately \$16.5 million total assets – TIAA only)

This fund will not be included as a fund offering in the “future state” fund menu.

Performance Review (for new fund menu effective September 26, 2023)

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 (All Plans)

Out of the 33 funds in the plan (Target date funds counted as one) all funds met policy guidelines.

TIAA Review (All Plans)

Out of the 35 funds in the plans (Target date counted as one) there are two funds marked for review.

TIAA-CREF Lifecycle Funds (Score 77)

Hans Erickson, head of Target Date Multi-Asset, recently left the firm to pursue another opportunity. Target Date Portfolio Manager John Cunniff has assumed leadership of the team and succeeded Hans as head of Target Date Multi-Asset. Nuveen has increased the equity allocation in the section of the glidepath 20-15 years from retirement by 4%. This change impacts three current vintages, the 2045, 2040, and 2035 vintage funds. The equity allocation was increased by 1.8% in the 2045 vintage, by 4% in the 2040 vintage, and by 2.2% in the 2035 vintage. To fund these increases, the vintages’ fixed income allocations were reduced. For the Lifecycle (active) series, there was no impact to the private real estate allocation. **CAPTRUST recommends that clients who are currently utilizing the strategy continue to do so.**

American Funds EuroPacific Growth R6 (Score of 77)

The fund invests primarily in common stocks of issuers in Europe and the Pacific Basin that the investment adviser believes have the potential for growth. Shorter-term performance has improved for the strategy, as a couple of tough quarters (Q4-2021 and Q1-2022) roll off the near-term numbers. The trailing one-year return is still slightly below the median of the foreign large blend peer group but is well ahead of the benchmark MSCI ACWI ex-U.S. Index. **CAPTRUST recommends that clients who are currently utilizing the strategy continue to do so.**

FOLLOW-UP/OTHER ITEMS:

- **Payout small/de minimis balances (less than \$5,000) for terminated participants** – Fidelity and TIAA sent notification letters to approximately 2,150 terminated participants. The project should be completed by the end of September.
- **Fund Menu Realignment** - The new fund menu and the self-directed brokerage window were added to all plans on August 11, 2023, with closing and mapping of assets taking place on September 26, 2023. Fidelity and TIAA will have representatives available on campus to assist employees.
- **Revenue Credit Account** – A follow up call will be scheduled to discuss using the revenue credit account for other plan expenses.

- **Per Head Fee** - Implementing a flat dollar per head fee will be explored after the new fund menu realignment and small balances are removed from the plan. The expected timeframe is early 2024. Fidelity proposed lowering the per head fee from \$79 (average current fee per unique participant) to \$64 per unique participant. TIAA proposed lowering the per head fee from \$78 (average current fee per unique participant) to \$56 per unique participant. CAPTRUST will work with Fidelity and TIAA on the tiered fee approach after small balances are removed from the plan.

ACTION ITEMS:

- Explore lead recordkeeping services in 2024.

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