

## MEETING MINUTES

Plan Sponsor: Virginia Tech  
Plan Name(s): VT Optional Retirement and VT Cash Match Plans

Committee Members: John Cusimano  
Monica Mathena  
Angie King  
Steve Capaldo  
Maxine Lyons  
Savita Sharma

Other Attendees: Andrew Gradus (TIAA-CREF)  
Jeff Overweg (TIAA-CREF)  
Barry Schmitt (CAPTRUST)

Meeting Topic: Plan Investment Review  
Date: October 18, 2013  
Time: 10:00 AM (EST) – 12:00 PM (EST)  
Location: North End Center, Suite 2300  
Documentation Referenced: 6/30/2013 Plan Investment Report and TIAA-CREF Investment/Administrative Review, Plan Outcomes assessment, and Fidelity Freedom materials

### OLD BUSINESS

The committee approved the meeting minutes of the March 12, 2013 meeting.

### ECONOMIC/MARKET AND TIAA-CREF INVESTMENT UPDATE

Mr. Andrew Gradus delivered a review of the economy and market along with TIAA-CREF's outlook. TIAA-CREF's economic and market commentary can be found in the TIAA-CREF investment review document.

Andrew discussed the TIAA-CREF investment team structure, differences in management philosophy of annuities vs. mutual funds, along with several funds that he wanted to highlight.

- TIAA Traditional- highlighted features of the Traditional, different vintage year structure, and current crediting rate. Rate for new monies is now 3.75%
- CREF Bond Market- as a benchmark centric fund in a risk on market, the CREF Bond Market has underperformed the majority of its peers over the last 10 years. However, it has outperformed its benchmark.
- CREF Stock- CREF Stock is being compared to a universe of US large cap blend managers. Given that 30% of the fund is invested in international securities and considering the

outperformance of the US equity market relative to international equities, this fund has underperformed the majority of its peers over the last 5 years.

- TIAA-CREF Lifecycle funds- The Lifecycle have done very well over the last three years with most vintage years ranking in the top 25% of its peer group universes. Andrew also went through the asset class breakdown by vintage year.
- CREF Growth- good turnaround story. Now ranks in the 36<sup>th</sup> percentile on a five year basis.

Jeff Overweg, Virginia Tech's Managing Director, discussed various plan demographics along with areas of focus from TIAA-CREF:

- Fees- Fees on most funds rank in the bottom quartile or 25<sup>th</sup> percentile among its peer group averages
- Assets- Assets as of June 30, 2013 were as follows:
  - 401(a)- \$342 million, 4,013 participants, and \$14.7 million in contributions last year.
  - 403(b)- \$206.8 million, 4,064 participants, and \$20 million in contributions last year.
  - Cash Match- \$15.1 million, 3,771 participants, and \$1.1 million in contributions last year
  - Supplemental 403(b)- \$200,000
- Team structure and the roles of each team member.
- Ways TIAA-CREF helps drive better outcomes in the following areas:
  - Plan Design- services being used on Virginia Tech today
  - Investments- ability to invest in a broad universe of available funds
  - Employee Engagement- various ways TIAA-CREF is touching employees and the statistics behind each touch.
  - Plan Management- recent enhancements that provide easy and more focused communications to drive better outcomes.

#### Plan Outcomes assessment

Based on a thorough review of the existing TIAA-CREF participants within the Virginia Tech plans, Jeff assessed the overall "retirement readiness" of these employees. While assumptions were made, the discussion provided a framework to assess what the average retirement income replacement ratio would be attained. On average the Virginia Tech average replacement ratio was 82.1% (most studies show a number that should be attained of 70-85%).

Jeff also discussed ways they communicate to employees given their individual situation based on the data they house.

Lastly, we discussed if there were any areas of operational improvement that the Virginia Tech Committee should consider. the only area that was discussed was loans where there seems to be some efficiencies that should be considered.

## INVESTMENT REVIEW

### Plan level Review

Assets as of June 30, 2013 totaled \$443.8mm broken down as follows:

- VT ORP Plan- Fidelity- \$78.3mm (including non-approved assets of \$10.1mm)
- VT Cash Match Plan- Fidelity- \$9.3mm (including non-approved assets of \$1.2mm)
- VT ORP Plan- TIAA-CREF- \$341.6mm (including non-approved assets of \$7.2mm)
- VT Cash Match Plan- TIAA-CREF- \$14.6mm (including non-approved assets of \$260k)

### Performance Review (CAPTRUST)

The committee and its advisor reviewed the investments in a manner consistent with the standards and approach defined in the Investment Procedures Document.

### Fidelity

Out of the 26 funds in the plan (Target date funds counted as one) there are two Funds Considered for Termination and three funds Marked For Review:

#### Considered for Termination

- **DWS Dreman Small Cap Value (Score of 68)** - this attempts to achieve long term capital appreciation by utilizing a contrarian value investment strategy. They look for beaten down stocks where they believe have above average earnings prospects. This strategy has a tendency to be focused on financials and energy stocks. This fund does not fail the Virginia Tech overlay. However, alternative options will be discussed at the next meeting.
- **Fidelity Small Cap Stock (score of 66)**- in addition to a new manager (Nov 2011) this fund has struggled, particularly in 2011 where the fund ranked in the 99<sup>th</sup> percentile in its peer group averages. This performance has caused the fund to fail policy guidelines. This fund does not fail the Virginia Tech overlay. However, alternative options will be discussed at the next meeting.

#### Marked for Review

- **PIMCO Total Return (Score of 74)** - In addition to this fund's appetite for riskier asset classes, the index by which we compare this fund now holds over 47% in US Government backed debt (significant increase over pre-recessionary periods). As a result of most managers (like this fund) hold 20% or less which has caused the fund to fail policy as a result of its low correlation to the index (R-Squared). 2012 Performance was strong and continues to exceed peer group averages over three and five year periods.

- **Fidelity International Small Cap**- while taking on less risk than its peers, 2012 rewarded those managers that were more aggressively postured, resulting in this fund now ranking in the 55<sup>th</sup> percentile for the three year period ended June 30, 2013. However, for the one year period ended June 30, 2013, the fund ranks in the 22<sup>nd</sup> percentile.
- **Thornburg Intl Value (Score of 79)** - This fund invests in securities domiciled outside of the United States. In addition to investing primarily in developed countries, approximately 18% to 25% of the portfolio is invested in emerging market securities. As Emerging markets have felt the full effect of the recession in Europe and the slowdown in China, this exposure has had a negative impact on the Thornburg portfolio. Longer term *performance is good*.

**Fidelity Freedom Target Date Fund Series**- Barry discussed the recent changes to the Fidelity Freedom Funds (materials attached). The comments were focused on three areas:

- Capital market assumptions
- Participant behavior
- Risk Capacity

At the next meeting with Fidelity, these changes will be discussed in greater detail but, generally, these are positive changes.

#### TIAA-CREF Review

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

#### Considered for Termination

- DWS Dreman Small Cap Value (Score of 66)- see above comments

#### Marked for Review

- CREF Bond Market (score of 78) - see above comments.
- PIMCO Total Return (score of 70) – see above comments.
- CREF Stock Account (Score of 77) – see above comments.
- Thornburg International Value (Score of 79) – see above comments.
- DWS Dreman Small Cap Value (score of 66) – see above comments.

Topics for next meeting:

- Revenue credits on 401(a) and Cash Match Plan
- Closing and mapping of funds.
- Comparison of Target date glide paths

Having no other discussion items, the Committee meeting was adjourned.