

MEETING MINUTES

Plan Sponsor: Virginia Tech
Plan Name(s): VT Optional Retirement and VT Cash Match Plans
Committee Members: Dwight Shelton- Trustee- absent
John Cusimano- Co-Chairperson
Angela King- Co-Chairperson
Greg Kadlec
Art Keown
Monica Mathena
Maxine Lyons - absent
Steve Capaldo
Yohna Chambers - absent
Brian Murphy- absent
Savita Sharma

Other Attendees: Barry Schmitt (CAPTRUST)
Meeting Topic: Plan Investment Review
Date: December 5, 2014
Time: 10:00 AM (EST) – 12:00 PM (EST)
Location: North End Center, Conference Room 3600
Documentation Referenced: 9/30/2014 Plan Investment Report, Short Term Bond Fund comparison, Flash Report, Non-approved asset report, and excess revenue chart

OLD BUSINESS

The committee approved the meeting minutes of the August 20, 2014 meeting of the Committee.

The following fund actions are taking place based on actions at the August 20, 2014 Committee meeting:

- Fidelity
 - On November 20, 2014, the following actions took place:
 - Freezing of contributions into the Fidelity Small Cap Stock Fund with future contributions being directed into the INVESCO Small Cap Growth Fund.
 - Freezing of contributions into the DWS Dreman Small Cap Value Fund with future contributions being directed into the American Beacon Small Cap Value Fund
- TIAA-CREF
 - On October 29, 2014 the following action took place:
 - Freezing of contributions into the DWS Dreman Small Cap Value Fund with future contributions being directed into the American Beacon Small Cap Value Fund. American Beacon Small Cap Value will be added to the lineup on the same date.

ECONOMIC/MARKET UPDATE

Mr. Barry Schmitt delivered a review of the economy and market along with CAPTRUST's outlook. CAPTRUST's economic and market commentary can be found in the quarterly investment review document.

INDUSTRY UPDATE/OVERVIEW

Barry delivered a review of recent industry trends including a discussion on managed accounts. CAPTRUST's industry update can be found in the quarterly investment review document.

INVESTMENT REVIEW

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

Assets as of September 30, 2014 totaled \$522.7mm broken down as follows:

- VT ORP Plan- Fidelity- \$102.1mm (including non-approved assets of \$11.6mm)
- VT Cash Match Plan- Fidelity- \$11.7m (including non-approved assets of \$1.4mm)
- VT ORP Plan- TIAA-CREF- \$391.2mm (including non-approved assets of \$7.9mm)
- VT Cash Match Plan- TIAA-CREF- \$17.7mm (including non-approved assets of \$294k)

Performance Review (CAPTRUST)

The 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 four Funds Considered for Termination and four funds Marked For Review:

Considered for Termination

- **DWS Dreman Small Cap Value (Score of 59)** – Replaced November 20, 2014 (see above notes)
- **Fidelity Small Cap Stock (score of 61)** – Replaced November 20, 2014 (see above notes)
- **Thornburg Intl Value (Score of 60)** – Performance continues to lag significantly behind its peers and benchmark due to poor stock selection as well as a larger allocation to mega cap names relative to its benchmark. This fund is passing the Virginia Tech overlay. **While CAPTRUST continues to recommend “freezing” this fund to new contributions and placing them in the other international blend manager on the Fidelity platform- Fidelity Diversified International, the Committee felt it prudent to give this manager some more time to “right the ship”, as their five-year performance ranking on the VT overlay improved versus the previous quarter. Accordingly, the Committee**

decided not to freeze the fund. CAPTRUST will continue to monitor the fund closely.

- **PIMCO Total Return (Score of 67)**- Given the recent events surrounding founder and longtime manager Bill Gross' departure from the PIMCO Total Return Fund and the uncertainty of this strategy going forward, **CAPTRUST recommended the "freezing" of PIMCO Total Return on the Plan. Upon further discussion, the Retirement Plan Committee felt it prudent to monitor the fund and communicate the events of the fund to participants, but not to take any action at this time. The Committee did not want to make any presumptions about the new management team, and will continue to monitor their performance to ensure that it stays within the VT overlay guidelines. The Committee also felt that, by the time information was communicated to the participants, most of the pricing pressure from exiting investors would be over. CAPTRUST will continue to monitor.**

Marked for Review

- **Fidelity International Small Cap (Score of 76)** - this fund is marked for review due primarily to the fact that a new management team took over responsibility for this fund in February 2014. For the three year and five year periods ended September 30, 2014, this fund beat its benchmark and peer group averages.
- **Artisan Mid Cap Value (Score of 75)** – recent performance struggles has caused this fund to be marked for review. While a more risk conscious manager will have a tendency to struggle in risk on markets like we have experienced recently, performance has trailed its peer group averages significantly during 2010, 2012, and year to date 2014. While CAPTRUSTS remains convicted to this manager, improved performance is expected.
- **Cohen & Steers Realty Shares (Score of 78)** – The strategy underwent management changes in 2012 when Jon Cheigh stepped down as lead manager to take over another real estate fund at Cohen & Steers. Jon remains a co-manager on this strategy. Thomas Bohjalian, who has been with the firm since 2002, became lead manager. The strategy's long-term performance is near the middle of its peer group. The strategy performed well during the 2008 financial crisis and the 2009 market rebound, but that was followed by several years of disappointing results. Recent performance has been encouraging. CAPTRUST continues to have confidence in this strategy.
- **Fidelity Freedom K Funds (Score of 77)** – Significant changes were made to the glide path of the fund along with a management change. More recent performance is encouraging and hope the trend continues.

TIAA-CREF Review

Out of the 27 funds in the plans (Target date counted as one) there are three funds Considered for Termination and four funds Marked for Review:

Considered for Termination

- **DWS Dreman Small Cap Value (Score of 59)** – Replaced October 29, 2014 (see above notes)
- **Thornburg Intl Value (Score of 60)** – Performance continues to lag significantly behind its peers and benchmark due to poor stock selection as well as a larger allocation to mega cap names relative to its benchmark. This fund is barely passing the Virginia Tech overlay. **While CAPTRUST continues to recommend “freezing” this fund to new contributions and placing them in the other international blend manager on the TIAA-CREF platform- American Funds Europacific Growth Fund, the Committee feel it prudent to give this manager some more time to “right the ship”, as their five-year performance ranking on the VT overlay improved versus the previous quarter. Accordingly, the Committee decided not to freeze the fund. CAPTRUST will continue to monitor the fund closely.**
- **PIMCO Total Return (Score of 67)**- Given the recent events surrounding founder and longtime manager Bill Gross’ departure from the PIMCO Total Return Fund and the uncertainty of this strategy going forward, **CAPTRUST recommended the “freezing” of PIMCO Total Return on the Plan. Upon further discussion, the Retirement Plan Committee felt it prudent to monitor the fund and communicate the events of the fund to participants but not to take any action at this time. The Committee did not want to make any presumptions about the new management team, and will continue to monitor their performance to ensure that it stays within the VT overlay guidelines. The Committee also felt that, by the time information was communicated to the participants, most of the pricing pressure from exiting investors would be over. CAPTRUST will continue to monitor.**

Marked for Review

- **CREF Bond Market Account (Score of 76)** - The CREF Bond Market Fund employs a benchmark centric strategy. As a result of the current “risk on” market, this manager is lagging its peer group averages. However, the manager has beaten its benchmark over the last three year and five year periods measured. No action is required at this time.
- **Artisan Mid Cap Value (Score of 75)** – recent performance struggles has caused this fund to be marked for review. While a more risk conscious manager will have a tendency to struggle in risk on markets like we have experienced recently, performance has trailed its peer group averages significantly during 2010, 2012, and year to date

2014. While CAPTRUSTS remains convicted to this manager, improved performance is expected.

- **Cohen & Steers Realty Shares (Score of 78)** – The strategy underwent management changes in 2012 when Jon Cheigh stepped down as lead manager to take over another real estate fund at Cohen & Steers. Jon remains a co-manager on this strategy. Thomas Bohjalian, who has been with the firm since 2002, became lead manager. The strategy’s long-term performance is near the middle of its peer group. The strategy performed well during the 2008 financial crisis and the 2009 market rebound, but that was followed by several years of disappointing results. Recent performance has been encouraging. CAPTRUST continues to have confidence in this strategy.
- **TIAA-CREF Mid Cap Value Fund (Score of 77)** – Being a valuation conscious manager, this fund will have a tendency to struggle in risk on markets like we have experienced over the last several years. However, for the one year period ended September 30, 2014, the fund ranked in the 29th percentile among its peer group. Beating the benchmark in mid cap value has been particularly challenging of late.

Fund addition

Given the restrictions within the TIAA Traditional account, the Committee explored offering a short term bond fund as an alternative. **After much discussion, the Committee elected to add the JPMorgan Short Duration Bond Fund to the TIAA-CREF Platform.**

Other items discussed

CREF Share Class Changes- Barry led a discussion on the changes to the CREF variable annuities where TIAA-CREF has created three share classes based on the amount of plan assets invested in these annuities. More details will follow over the coming months to determine the full impact. While the total cost changes will be relatively minor the revenue sharing for each fund may be impacted which could affect the amount of excess revenue received.

Revenue credits on 401(a) and Cash Match Plans

John Cusimano led a discussion on decisions in relation to revenue credits. Virginia Tech will use excess revenue to pay consulting fees and, to the extent excess revenue remains, they will give back to participants. For TIAA-CREF it will be a fund level pro-rata method for all revenue producing funds, and for Fidelity it will be a plan level pro-rata method for all funds.

Brokerage Window on ORP and Cash Match

The Committee continues its discussion on the offering of a brokerage window. Stephen Capaldo explained his reservations as the federal laws don’t address 401(a) plans in brokerage account exemptions. Stephen will research further and report back to the

Committee. If there is comfort from the legal side, the Committee would like to offer a brokerage window.

Closing and mapping of funds

Depending on the outcome of the brokerage window the Committee will explore closing and mapping in a future meeting.

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