

**VCU ORP Investment Committee Meeting  
Friday, June 8, 2007**

**Minutes**

**Committee members in attendance:** John Bennett (Chair), Cathleen Burke, Bill Gleason, Paul Jez, E. G. Miller, Dennis Pavick and Michael Pitts

**Committee member absent:** Ken Daniels, John Povlishock, and David Sarrett

**Guests:** Barry Schmitt, Vice President and Financial Advisor with CAPTRUST; George Mellman, VP Investment Consultant, and Patrick Warner, Sr. Relationship Manager with Fidelity Investments

**I. January Minutes**

Members received a copy of the Minutes from the January 31, 2007 VCU ORP Investment Committee Meeting. Mr. Bennett noted that corrections were made to the minutes.

**II. Fidelity Investments Plan Review – Patrick Warner, Presenter**

**A. ORP and Cash Match**

1. Plan assets were \$141,570,742, with 65% in the voluntary 403(b) plan, 33% in the ORP, and 2% in the Cash Match Plan.
2. The assets grew by 16% with 54% of growth from net cash (\$3.8 million) and 46% of growth from how the funds performed.
3. Annual contributions increased by 10% to \$5,431,499.
4. 12.6% of participants in the ORP and 10.5% in the Cash Match held one fund other than a Fidelity Freedom fund, compared to 22% in the peer group.
5. 25.2% of participants in the ORP and 48% in the Cash Match utilize a Freedom Fund as their sole investment option.
6. The median balance per participant was equal to or higher than the industry peer group in all age categories except 65-69 for the ORP.
7. Participants in the 60-69 age group are extremely aggressive relative to their University peers.
8. The largest fund in these two plans is Diversified International at \$4.6 million, followed by Low Priced Stock at \$3.4, Freedom 2020 at \$3.2, Freedom 2030 at \$2.6 and Blue Chip Growth at \$2.4.

B. A total of 6,149 participant-initiated contacts occurred with Fidelity about these plans over the past year. Of that number, 63% took place through NetBenefits (online), 25% were through phone representatives, and 12% were received from voice response. 72% of these participant exchanges occurred through NetBenefits and 28% made them through phone representatives.

C. Even though this Committee is not responsible for the oversight of the 403(b), the following is provided as information regarding Fidelity's portion of the 403(b) program:

1. Plan assets increased by 11% to \$91,744,224 and the rate of return for the last year was 12.2%.
2. 24.4% of plan participants hold one fund other than a Fidelity Freedom Fund, compared to 22% in the peer groups.
3. Participants are also aggressive in this plan – 40% of them invested 100% in equity.
4. 21.4% of plan participants utilize a Freedom Fund as their sole investment option.
5. Fidelity is known in the marketplace for technology and the company has full aggregation tools that participants can use to come up with comparisons.
6. The largest fund in the plan is Magellan at \$8.3 million, followed by Contrafund at \$7, Equity Income at \$4.1, Blue Chip Growth at \$3.4, and Low Priced Stock at \$3.4.
7. Annual contributions increased by 34% to \$9,251,287.

8. A total of 7,448 participant-initiated contacts occurred with Fidelity last year about this plan. Of that number, 65% took place through NetBenefits (online), 23% were through phone representatives, and 36% were received from voice response.
9. Almost 100 people enrolled within the last year and there are 160 funds in the platform available to employees.
10. The Commonwealth of Virginia passed a feature (effective July 1, 2008) that automatically enrolls new employees in the Deferred Compensation Plan (457 Plan) unless they are already enrolled in a 403(b) plan. VCU will work with the benefits attorney to change the VCU 403(b) program to auto enroll.

### III. Fidelity Investments Annual Investment Review – *George Mellman, Presenter*

- A. Fidelity is the largest defined compensation record keeper in the U.S.
- B. Market Perspective
  1. The bond market yield has gone up, which is long overdue since the rates have been relatively flat.
  2. As of March 31, 2007, value stocks have outperformed growth stocks for the one-, three-, and five-year periods.
  3. Unemployment and inflation are low. Most corporate earnings, as opposed to domestic earnings, are coming from overseas.
- C. Cash Match and ORP
  1. Diversification is key – 2% of participants invested nothing in equities and 18% invested 100% in equities.
  2. Nearly half (44%) of all of the Plan's Fidelity assets are invested in Freedom Funds. As Fidelity continues to refine its Freedom fund strategy, the company has made some enhancements that have improved returns relative to the benchmarks.
    - a. The expense ratio for the money market component of Freedom Funds has been lowered.
    - b. Freedom Funds now include an S&P 100 equity index vehicle, which assists in the funds' risk and expense controls.
  3. VCU's fund line-up has three large-cap funds – Allianz NFJ Dividend Value, Spartan US Equity Index, and American Funds Growth Fund of America.
  4. Fidelity recently launched three new funds. These funds are all enhanced index funds (large value, large blend, and large growth) and market cap so they are risk-controlled.
  5. When asked what changes Fidelity would make to the fund line-up, Global was mentioned as an asset class not typically liked because participants do not understand what a Global fund does. Fidelity recommends that VCU add another actively managed fund, such as an extended market index fund or international equity fund as a replacement to this fund.
  6. One of the investment grade bond funds is now called total bond and has a very good track record.
  7. The Cash Match has \$3.3 million in assets and, of that amount, 28% are in frozen funds.
  8. The ORP has \$46.5 million in assets and, of that amount, 34% are in frozen funds.
  9. 86% of participants have not made a change in a year.
- D. The Fidelity Investment Grade Bond Fund had a total return in the top 22% on a one-year basis.
- E. Fidelity Small Cap Stock is growth oriented and receives large contributions, but it is not as strong against its blend peers.
- F. Fidelity Worldwide Fund is a mixed asset class whose performance, historically, is sub par.
- G. The Diversified International Funds is a little below its peers, although its absolute fund performance and allocations are pretty good. This fund is currently frozen to new investors.

- H. In looking at the overall “Retirement Readiness of the industry,” Fidelity finds it troubling how relatively little money is being set aside currently. Since Fidelity does not see the entire picture, other items need to be looked at including years of service, compensation, balances, etc.
- I. Fidelity will provide the following to the Committee:
  - 1. Average deferral information from UVA, VA Tech, and GMU.
  - 2. A report that details the average balances for employees over age 50, based on their years of service.
  - 3. Details of the new Aggregator Tool for Plan Sponsors to take a look at the Retirement Plan encompassing all vendors.

#### **IV. Quarterly Performance Report - Barry Schmitt, Presenter**

- A. There are no issues with any particular funds and the last of the conversions to TIAA-CREF’s new system is due to occur in June, so we would expect an increased focus in getting all accounts and balances reconciled.
- B. To echo Fidelity’s comment, VCU should consider the appropriateness of the Fidelity Worldwide fund. Most participants do not understand that Fidelity Worldwide invests both domestically and internationally. Participants could get full access to international and domestic securities with VCU’s existing fund line-up.
- C. Fidelity has good flow in the plans since the new funds were added.

#### **V. Bylaws**

- A. Mr. Bennett suggested replacing “eliminated or replaced” (Section 1.7, Replacement of Investment Options) with “added, eliminated or replaced.”
- B. The effective date will be September 2007 as that is when the Committee will be adopting the Bylaws.

#### **VI. Updates**

Retirement education

- A. Vendors are now coming on campus four times a month for retirement counseling sessions and will begin conducting departmental retirement education sessions.
- B. The vendors will also start tracking participants by name and what they are doing with their funds.
- C. Both TIAA-CREF and Fidelity offer an online advice tool for those participants who want more specific advice on their particular situations.

#### **VII. Next Meeting**

The committee will meet the first part of September to adopt the Bylaws and discuss Fidelity Worldwide, Fidelity Diversified International, the enhanced index, the bond index, extended market index, large value, large blend, and large growth funds.