

**VCU ORP Investment Committee Meeting  
Thursday, January 31, 2008**

**Minutes**

**Committee members in attendance:** John Bennett (Chair), Cathleen Burke, Dr. Jan Clement, Dr. Dave David Upton, Jeff Overweg, Alan Johns, Dr. David Urban, Barry Schmitt, Dr. Michael Pitts, Carl Gattuso, Paul Jez, Dr. Robert Mattauch, Dr. John Povlishock, Mike Morgan

**Committee members absent:** Dr. Kenneth Daniels, Dr. Michael Pratt

**Guests:** Barry Schmitt, Vice President and Financial Advisor with CAPTRUST; Heather Conover, TIAA-CREF Instructional Consultant; Sheryl Hempel, TIAA-CREF Managing Director; Jeff Overweg, TIAA-CREF Managing Consultant

**I. September Minutes**

Members received a copy of the minutes from the September 18, 2007 VCU ORP Investment Committee Meeting. The minutes were approved by the committee.

**II. TIAA-CREF Annual Plan Review - Sheryl Hempel, presenter**

**A. Financial Update**

1. \$436.2 billion in combined assets under management as of December 31, 2007.
2. One of three companies receiving AAA rating from all major rating agencies.

**B. Economic and market overview**

1. The economy had a major impact on the market in the second half of the year due to the sub-prime mortgage fall-out. TIAA-CREF moved mortgage lending away from sub-prime markets before problems occurred.
2. Corporate earnings growth in 2007 was approximately flat.
3. Paradigm shift from value to growth.
4. Large cap companies outperformed mid and small caps.
5. Solid returns were achieved in fixed income markets.
6. 2007 performance, overall, was good. Some exceptions were noted in the areas of small cap blend and value, large value, mid value, and Real Estate.
7. International outperformed domestic; value was out of favor for growth; emerging markets were up 40%.
8. Equity market returns were bifurcated; biggest losers were financial and consumer discretionary; technology sector stocks were viewed as safe; energy and utilities fared very well for the year.
9. Bond markets saw a downward shift due to expectations of a slowing economy; treasuries outperformed all spread products; High Yield bond spreads widened dramatically; Money Markets stabilized.

**C. Performance Review**

1. CREF Stock accounts provided a 7.99% return, 75% domestic, 25% International; they out-performed the index.
2. CREF Equity Index performed in line with the benchmark.
3. CREF Social Choice underperformed benchmarks and peers for the one-, three-, and five-year periods.
4. TIAA Traditional had \$169 billion in assets with a credit rate at 5¼, and 50 basis points above.
5. CREF Bond Market underperformed the benchmark for the year but did better than the majority of its peers.
6. CREF inflation-linked bonds were impacted by real interest rates; were very volatile, but provided solid returns in the past year.

7. CREF Money Market account had better returns than its peer group, performing 4.9% for the year.
8. TIAA Real Estate Accounts (commercial and apartment buildings) had a 15.8% return; 75% hard assets (east/west coast). TIAA-CREF is a top five buyer in real estate. Continue to stick with high-quality properties with no real international exposure.
9. Mutual Funds
  - a. Life Cycle Funds made adjustments with REITS; added international; increased allocation in equity and fixed income; 90% equities in the longer maturity funds, and rebalances on a continual basis. One of the leaders for one-year numbers.
  - b. International Equity actively managed fund, one-year returns better than in the past.
  - c. Large Cap Value ended behind the benchmark and value fund, and felt the market's turn.
  - d. Small Cap Index Fund followed index.
  - e. Small Cap Value lagged index and peer groups for the year.
  - f. Growth and Income significantly outperformed for the one-, three-, and five-year periods.
10. Vanguard Explorer lagged for the one- and three-year periods
11. Lazard Emerging Markets - as discussed, this fund lagged behind the benchmark, primarily due to its high value process for security selection; good addition to the fund line-up.

**D. Administrative Improvements - Jeff Overweg, Doug Rigow, presenters**

1. Mr. Rigow explained the process for moving from the old legacy system to Open Plan Solutions (OPS) Record Keeping, which began in July 2004. The move was needed because the old system could only manage 19 investments and was based on individual contracts; whereas, OPS is a plan-based record keeping system.
2. In November 2005, VCU was one of the first clients to move to the OPS platform.
3. The change to the OPS system also meant a change in the TIAA transaction process. Moving to a make all transactions processed on the (T)rade date. Previous process was (T) + 3 days. When problems began to occur, migrations stopped and formed different work-streams that looked at the backlog of transactions. VCU-specific issues were examined, including the remittance process, distributions, and the transfer of funds.
4. The OPS platform will allow for controls to prevent errors. Risk is no longer with individual transfers but remittance is still a concern. This has meant operational and cultural organizational changes. To make this change possible, 250 more employees have been added, along with more work shifts during the day, and additional sites. In addition, improvements have been made with interfaces, to include more edits and controls in the platform.
5. By March 2008, TIAA-CREF's goal is to be (T) at all institutions
6. By the end of 2008, all migrations to OPS should be complete.

**III. ORP 4<sup>th</sup> Quarter Performance Review - Barry Schmitt, presenter**

- A. Overall, TIAA-CREF performance went well.
- B. One issue noted was the problem with the link on website for outside funds.
- C. Mr. Schmitt reviewed the fact sheet (five funds failed to meet IPS standards):
  1. Two TIAA-CREF Life Cycle funds – Ms. Hempel addressed concerns.
  2. T. Rowe Price Growth Fund – Portfolio Manager changes will be watched closely.
  3. Fidelity Core Bond Fund – Disappointing returns; was put on the watch list.
  4. Fidelity Real Estate Fund – REITS hurt the market and also affected the volatility of the market.
- D. Key to a rough market is asset allocation; VCU should continue to push education.
- E. Lazard was a nice addition to plan offerings.

**IV. 403(b) Update - Cathleen Burke, presenter**

- A. 403(b) Auto Enroll:
  1. Effective January 1, 2008, VCU implemented automatic enrollment for the 403(b) Program.
  2. VCU has chosen a 60-day election period following automatic enrollment to provide participants with the opportunity to opt out of program.

3. VCU has chosen TIAA-CREF as the default vendor and TIAA-CREF Life Cycle funds as the default investment.
  - a. TIAA-CREF will receive and process the contributions that will result from an employee being automatically enrolled in the 403(b) program at the rate of \$20 each pay period.
4. VCU must provide an annual notice to each employee. For example, employees will be notified December 1, 2008 and annually thereafter.
5. Participants in the 403(b) are eligible for the Cash Match 401(a).

#### **V. Bylaws**

- A. Mr. Bennett stated that, from this point forth, the committee will operate under the bylaws, which were accepted by the committee.

#### **VI. Retirement Education**

- A. The 2007 retirement education participation numbers were reviewed.
- B. One of the issues discussed was that participants are under-investing.
- C. As it relates to trends – Mr. Schmitt mentioned that other universities are requiring meetings with vendors and there is a movement toward auto enrollment.
- D. Ms. Burke proposed that departmental meetings be held to reach employees in small groups. She will present this option to the Council of Deans.

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

The next quarterly meeting will take place the end of April 2008. At that time, Fidelity will present its annual plan review.