

RATIONALE

The Senate has been asked to immediately provide advice on whether any additional firms should be engaged to provide investment services to Virginia college faculty. This is a rationale for advising that Vanguard be added as one of our choices.

Active and passive investing are the two broad classes of investment strategies. Actively managed funds hire stock pickers to research and select stocks for the fund. Passively managed funds use statistical techniques to track an index. Expense ratios (what one pays to invest in the fund) are almost always higher for actively managed funds than for passively managed funds. The use of index funds and passive management was pioneered by the not-for-profit firm Vanguard which continues to offer the broadest range of index funds for investors.

The table below compares the expense of investing in funds TIAA-Cref makes available compared with equivalent funds at Fidelity and Vanguard. As the totals indicate, faculty would pay only half as much to have their funds managed by Vanguard as they pay TIAA-Cref. The compounded increase in returns available to JMU faculty from lower management costs would be millions of dollars. In addition, Vanguard like Fidelity, offers far more investment choices than TIAA-Cref does. Lower costs and more choices are possible because Vanguard and Fidelity are much larger firms than TIAA-Cref. Fidelity is the 4<sup>th</sup> largest investment firm in the world with \$1.7 trillion under management. Vanguard is 5<sup>th</sup> with \$1.5 trillion. TIAA-Cref is 38<sup>th</sup> with just \$414 billion under management.

<b>TIAA-Cref</b>	<b>Cost</b>
Emerging Markets Equity	1.34
Emerging Markets Equity Index	0.64
International Equity	0.75
Equity Index	0.28
Large Cap Growth	0.70
Large Cap Value	0.72
Mid Cap Growth	0.77
Mid Cap Value	0.71
Small Cap Equity	0.83
Social Choice Equity	0.38
Bond Index	0.48
Real Estate Securities	0.84
Money Market	0.39
<b>Average</b>	<b>0.68</b>

<b>Fidelity</b>	<b>Cost</b>
Fidelity Emerging Markets Fund	1.02
Spartan Emerging Markets Index	0.22
Sartan International Equity Index	0.20
Spartan Total Market Index	0.10
Large Cap Growth	0.87
Value Discovery	0.50
Mid Cap Growth	0.77
Mid Cap Value	0.87
Small Cap Stock	1.12
Spartan US Bond Index	0.22
Real Estate Securities	0.85
Select Money Market	0.31
<b>Average</b>	<b>0.59</b>

<b>Vanguard</b>	<b>Cost</b>
Emerging Markets Select Stock	0.95
Emerging Markets Stock Index	0.22
Total International Stock Index	0.20
Total Stock Market Index	0.18
Large Cap Growth	0.51
Vanguard Windsor Fund	0.33
Mid Cap Growth	0.51
Mid Cap Value Index	0.10
Strategic Small Cap Equity	0.48
FTSE Social Index	0.29
Total Bond Market Index	0.22
REIT Index	0.26
Federal Money Market Fund	0.22
<b>Average</b>	<b>0.34</b>

RESOLVED: The JMU Faculty Senate requests that Virginia add Vanguard to the list of available ORP and 403b retirement fund managers.