

NEW MEXICO
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
SMARTSAVE COMMITTEE MEETING
March 9, 2021

This meeting of the Public Employees Retirement Board SmartSave Committee Meeting was held on the date cited above via Zoom tele/video conferencing. The meeting was called to order at 9:50 am by Vice-Chair Steve Neel.

1. Roll Call

Roll call was undertaken by Trish Winter, Executive Assistant. Meeting attendance met quorum, with the following members present.

Committee Members Present

Steve Neel, Vice Chair
Francis Page

Tim Eichenberg

Committee Members Excused

John Melia, Chair
Maggie Toulouse Oliver

Other Board Members Present

Lawrence Davis
Paula Fisher
Loretta Naranjo Lopez
Shirley Ragin
Diana Rosales Ortiz
David Roybal

Staff

Greg Trujillo, Acting Executive Director
Susan Pittard, General Counsel
Trish Winter, Executive Assistant
Anna Williams, CFO
Dominic Garcia, CIO
Geraldine Garduno, Assistant General Counsel
Kristin Varela, Deputy CIO
LeAnne Larranaga Ruffy, Co-Head of Equity
Angela Romero, Albuquerque Office Manager
Karyn Lujan, SmartSave Plan Manager

Others

Paul Cowie, Meketa
Charles Burciaga, Voya

2. Pledge of Allegiance

Tim Eichenberg led the Pledge of allegiance.

3. Approval of Agenda

A motion to approve the agenda was made by Mr. Page and seconded by Mr. Eichenberg. The motion to approve the agenda passed by roll call vote as follows:

Steve Neel	Yes
Francis Page	Yes
Tim Eichenberg	Yes

4. Approval of Consent Agenda

A motion to approve the agenda was made by Mr. Page and seconded by Mr. Eichenberg. The motion to approve the consent agenda passed by roll call vote as follows:

Steve Neel	Yes
Francis Page	Yes
Tim Eichenberg	Yes

5. New Business

A. Q2 FY2021 (31 December 2020) Investment Performance Review

[Exhibit 1: Investment Performance Review]

Mr. Garcia introduced Ms. Lujan to provide an update on the Q2 FY2021 Investment Performance Review. Ms. Lujan introduced Paul Cowie from Meketa Investment Group to present their 2020 Fourth Quarter Report on the New Mexico Public Employees Retirement Association Smart Save Deferred Compensation Plan.

Mr. Cowie advised the Committee that the fourth quarter of 2020 had been positive, following a difficult start to the year in the first quarter. He said with the optimism surrounding the rollouts of coronavirus vaccines, the stimulus payments, and the reopening of economies around the world, there had been an increase in performance in risk assets everywhere in the fourth quarter - in stocks in the US and abroad, as well as some of the riskier areas of the fixed income markets.

Mr. Cowie advised the Committee that the plan assets increased from \$700, to finish the year at just under \$750 million despite net cash outflows of nearly \$3.9 million. He said there were just over 23,000 participants in the plan with an average balance of a little over \$32,000. He noted that the Lifecycle Portfolio Target Date funds, representing just under 27% of the plan, continue to be the largest option in terms of assets, and just eclipsed \$200 million in total. He said the New Mexico Stable Value was the second-largest option at about 18% of the plan, but it had been a little over 20% a quarter ago.

Referring to the report, Mr. Cowie said it was a strong year, driven by a strong equity market rebound in the second half of the year. He said returns were very strong in the fourth quarter, as expected, with the New Mexico Lifecycle funds or the target-date funds, that the most conservative fund returned 5.6%, and then the most aggressive fund, the 2055 fund returned 13.9%. Looking at the total for 2020, Mr. Cowie said returns were between 9% and almost 15% for the lifecycle portfolios. Mr. Cowie also noted that the 2020 fund, as typically happens every five years, had rolled into the Conservative portfolio, which was the large

cash inflow of nearly \$2.9 million into that portfolio. He noted that next quarter the 2060 fund for the new younger members that are entering the plan would be seen.

Mr. Neel asked what the significance was of the percentile ranking given for the portfolios. Mr. Cowie responded that it was the portfolio's ranking within the peer group of other publicly available target-date funds, such as Vanguard, Fidelity, etc. He explained that this fund ranks in the 75th percentile, which means it is underperforming the median fund. He said one of the reasons for not performing as well or ranking a little bit lower relative to peer groups, especially with the shorter-dated funds, is that there they are more conservatively positioned so there is more fixed income and less equity. Mr. Neel clarified with Mr. Cowie that the lower the number there, the better.

Mr. Cowie said the performance would be similar to what could be seen between the 2025 and Conservative portfolios, as the strategies have the same underlying investments, but they become slightly more conservative each year. On that basis, he said the 2030 fund today would look like the 2025 fund in five years, as the performance is very similar.

Referring to the report on Active Funds, Mr. Cowie spoke of these funds being the actively managed options for members that like to manage their own investments, and that do not default into the Lifecycle Portfolios. Regarding the New Mexico Stable Value fund, he said this fund continues to deliver nice returns, although not as high as the equity options, but that the 2.4% return in 2020 given interest rates were essentially at zero was a good option for people looking to be ultra-conservative.

Referring to the equity funds and active options and equity funds, Mr. Cowie said one of the strongest performing options this year was the American Funds EuroPacific Growth, which was up 20% for the quarter, and finished the year up 25% – nearly 15% ahead of its benchmark and in the 15th percentile of its peers.

Mr. Page asked what the criteria was for maintaining that investment with it being down so much lately, and what would cause PERA to pull the investment. Mr. Garcia reminded the Committee that the investment selection process in the SmartSave replicates what is done on the DB side and is delegated down to PERA staff who work with Mr. Cowie and Meketa to review the fund managers periodically. He said that when a decision is made to remove and replace a fund manager is also done through their PRISM process internally. Ms. Lujan reminded the Committee that the SmartSave plan also has its own investment policy with quantitative and qualitative requirements. She said with the investment policy always being in the foreground, it was another measurement that is used when they are evaluating these funds. Ms. Lujan noted that the investment policy and other plan documents are on the Board portal in the SmartSave library and are also available for public viewing on the PERA website. Regarding the investment policy, Mr. Cowie said one part of that policy is that options should outperform their peers and their benchmark over a three- and five-year time-period. He said when underperformance is seen over those time-periods, that that would call for PERA staff and Meketa to begin a detailed review to see if a change was called for. He mentioned there are also qualitative factors considered that may destabilize an organization such as staff changes, a sale of a company, and so forth.

Referring to the Extended Choice options, Mr. Cowie noted that these options, from a variety of asset classes, are not very heavily used being a total of about \$15.2 million or 2% of plan total assets. He said the newest option on the plan, the Wellington, is an emerging markets debt strategy that is also used within the Lifecycle portfolios. He said that had a nice quarter and finished the year ahead of its benchmark.

Mr. Neel asked what the "Self-Directed Brokerage Options" were. Mr. Cowie responded that is an option for members that would like to select investments that are not part of the investments that were seen

in the report. He said these members can sign up for the brokerage account and select pretty much any investment they would like. Ms. Lujan advised it was a brokerage through Charles Schwab. She said for members who have the self-direction option, they can see all of the data when they log into their SmartSave accounts. Mr. Garcia added that it was a fairly unrestricted brokerage account and that members can also do covered options.

Referring to the Loan Account details, Mr. Cowie explained this is the cumulative amount of loans that members have, totaling \$11.6 million. He said the negative flow of over \$600,000 means that on a net basis people are paying off their loans, which is good. He said it is concerning if large positive flows are seen into the loan account, but that is not seen in this report. Referring to the two other investment options, he said these are investments that are only available as subcomponents of the Lifecycle portfolios, and because they work with the Board and PERA staff to manage the underlying components of this fund, the performance shows in this section. He said there is a real estate fund with Prudential, a high yield bond fund with Columbia, both of which have performed within expectations over the last year and since their inception with the plan.

There being no further questions on performance, Mr. Cowie discussed the Investment Expense Analysis. He said he likes to remind people of this, it is a very important feature of the plan. He explained this showed the fees of the investment options, which they feel are very competitive relative to maybe some other options that participants may have in the retail marketplace, and about a percent lower.

There were no further questions for Mr. Cowie.

B. Q2 FY2021 (31 December 2020) Plan Activity Review

[Exhibit 2: Plan Activity Review]

Mr. Garcia informed the committee that Ms. Lujan would present on this item.

Referring to Participation Balance Summary, Ms. Lujan highlighted to the Committee additions to the content in the presentation graphs to include a statistical indication of how the plan is fairing over time. Speaking to the plan's net asset value, she said the number shown, \$752 million, includes the loan balance and that, as previously mentioned by Mr. Cowie, as there is about \$2 million in loans the true net asset value is about \$749 million, and if all loans were paid off it would be at \$752 million. She noted that the plans grew by over 11% in 2020, despite \$10 million in outgoing assets due to the CARES Act provision, reminding the Committee that CARES Act was enacted to allow participants to take distributions as well as additional loans if they were affected by COVID. Ms. Lujan said she considered the summary spoke to good performance, as previously mentioned by Mr. Cowie mentioned, and that at the end of 2020 there was an increase despite money going out of the plan.

Referring to the Participation Rate Summary, Ms. Lujan said the participant number remained at around 23,000. She noted that the participation only decreased by 1% in 2020 and that she thought that could also be attributed to COVID panic. She said in her opinion when the pandemic hit in those few months of 2020 there may have been participants who cashed out their balances altogether instead of waiting it out.

Mr. Neel asked if there had ever been a decrease in participation seen before, as he thought it was disturbing seeing a decrease given the importance of participation as a "leg of the retirement stool". Ms. Lujan responded that it was important to note that participation numbers given represented those with an actual balance. She said when the plan was with Nationwide, they would see numbers increasing by 100-200 every quarter, however, she believed Nationwide was counting new enrollments in the quarterly numbers. Whereas the figure from Voya of 23,000, counts accounts with a balance only once they have a made

contributions. She said she would give new enrollment numbers later in the presentation, and which are increasing as they normally would, however, do not yet have balances in their accounts. She pointed out that the number of participants has stayed at around 23,000 as new enrollments have come into the plan, and others have left.

Referring to the Digital Engagement: Personalized Video Engagement information given, Ms. Lujan advised the Committee this was a new inclusion in the quarterly update. She said one of the reasons Voya scored favorably during the RFP in the outreach category was because of their personalized engagement and messaging to participants. She said when a participant logs into their online SmartSave/Voya account, there is a more robust experience than it was at Nationwide. She noted for the Committee members who may have a SmartSave account, that when they log into their plan, messages are personalized, so what is seen is dependent on an individual's balances, age, asset allocation, and types of investments. Speaking to the information in the presentation, Ms. Lujan said this showed how people are responding and engaging with their personalized video. She noted that of the 98 participants who had viewed their video, 36 participants clicked on the call to action, and five participants actually took action or took the advice of the video. She said while five does not seem like a big number, because it was something they had not had before it was a great starting number.

Ms. Lujan remarked that one thing to note was that while Voya scored highest in the RFP process, and their digital engagement was part of it, but also that this plan is not just a separate savings. She said through these types of experiences for participants, Voya is trying to get people to see a secure strong healthy retirement to complement their PERA pension and not just a separate bucket of money to be used later.

Mr. Garcia referred to a comment made earlier by Mr. Neel's of the plan being part of a three-legged stool. He said this captures that three-legged stool of the complete retirement picture, being the PERA-defined benefit retirement, SmartSave, and what people may get from social security. He said now that members are using the tools within the SmartSave modules, they can have that complete picture of their three-legged stool and can toggle where they may be deficient or see if they're on track for their retirement goals after they stop working for state or local government in New Mexico. Mr. Garcia reiterated Ms. Lujan's earlier comment that it was, literally, a one-stop-shop for members for the entire retirement picture.

Ms. Lujan added that if participants do see they are deficient when they utilize the module, the system will give suggestions on how to fix it. For example, by increasing their contributions, or updating their asset allocation. She said, again, she thought the module was robust, awesome, and helpful not only for retirement but also financial health because members could enter their other assets, other retirement plans, life insurances that they might have – whatever they have for their future financial picture.

Mr. Burciaga asked to speak to and review the Participant Engagement information. He said it was important to point out that this new approach that PERA has taken to go digital, to go electronic, it's resonating with plan participants. Noting that Voya is tracking participant engagement, he pointed out that under the E-Delivery results, 78% of PERA participants have elected to receive their statements and regulatory documents via e-delivery, which they refer to as their "Journeys Campaign". He said because they choose e-delivery, they may receive automatic messages as described in the quarterly summary based on the data collated by Voya, such as their contribution levels, demographics, and so on, and that a participant can get three different Journeys Campaigns depending on their data. For example: if a participant is not diversified, they will get a diversified message; if a participant does not have a beneficiary, they will get a beneficiary message; if a participant has not increased their contributions in six months, they will get a 'save more' message. He advised that the messages are not sent out in blast form on one day in a quarter, that Voya is sending these messages via email daily, meaning that someone within PERA is getting a

touchpoint from Voya every single day. He commented that the engagement number of e-delivery for PERA participants at 78%, is huge, and far exceeds what Voya experiences with many of their other clients.

Referring to the Digital Engagement: myOrangeMoney information presented on page 15, Mr. Burciaga said this information is very important as it relates to the first screen that participants see when logging on to their account. He noted that almost 11,000 participants logged onto myOrangeMoney, and of those 10,000 plus, or 94%, actually went through it and viewed it. Of the 10,000 plus, 4,600 people actually interacted with the slide bars with different information such as modeling contributions and the effect on their paycheck, modeling a loan, or modeling changing contributions. Then of the 4,600 who interacted, 565 or 12% took action. He said the participant engagement numbers of 94%, 46%, and 12%, are huge numbers by any measure.

Speaking to the time before digital engagement was possible, Mr. Burciaga said companies like Voya would previously send out mailing campaigns to try and get people engaged – to try to get them to do something, to try to get them to call, and have an appointment with them. He said in the past with mailing campaigns, a single-digit response rate of around 3-4% was considered successful.

To put the information presented in perspective, Mr. Burciaga explained PERA participants are engaging in ways they never did before, and that it was bearing out in the data. For example, looking at diversification and having very high numbers of people who are selecting just one investment, and then looking at the data showing they're in the Lifecycle fund, where they should be. He said that the data is showing that participants are doing the right thing, tracking, and responding to the messaging. Referring to a point previously made by Mr. Garcia, Mr. Burciaga spoke of the way myOrangeMoney allows participants to go in and select their PERA pension formula that will factor in their anticipated pension benefit into this model.

Mr. Burciaga said, at some point, Voya will want to do another outreach to people reminding them of the power behind myOrangeMoney, and that they can get a very complete and comprehensive view of what their retirement looks like. Thanking the Committee for the ability to speak to the results, he reiterated that the numbers are very strong and that he thought the Board should feel confident and proud that employees are responding very favorably.

Mr. Neel asked if there was a Roth option within the platform. Ms. Lujan responded that the plan does offer a Roth option, but the employer has to opt into the Roth option because their internal payroll has to be able to handle the Roth contribution administratively. She said at the time of transitioning to Voya, they did not have Roth, and that Voya had asked if PERA wanted this implemented. The option was then taken to the PERA the Board and approved. She said employers were asked if they wanted to opt into the Roth during the transition to Voya, and at present the State of New Mexico, and about eight other municipalities have opted into the Roth.

Mr. Garcia responded that while ultimately the member or the participant has the final discretion of how their investments are managed, PERA's role in managing the DC is to ensure, one, participants are given very strong and cost-effective options, and, secondly, to try to nudge participants in the right direction and give them the tools to make sound, prudent, and thoughtful decisions. He said as part of that, particularly on the investment side, because everybody gets defaulted to a Lifecycle fund which they have to opt-out and then choose something else, that PERA staff, along with Mr. Cowie and Meketa, ensure that their choices are top-notch and cost-effective. He said every choice that participants make, they try to ensure they are made aware of the best offerings that we can produce in the DC plan, via digital engagement, so participants can make decisions for their financial health.

Referring to the Enrollment Summary on, Ms. Lujan reminded the Committee that there was no online enrollment until the transition to Voya. She noted for the last quarter of 202, the plan had 274 new enrollments, and of those 66% were all done online, which she thought was a good number. Mr. Neel agreed.

There were no further questions from the Committee on this item. However, Ms. Naranjo Lopez thanked Ms. Lujan, Mr. Cowie, Mr. Garcia, and Mr. Burciaga for an excellent presentation and said it was very informative.

Ms. Naranjo Lopez also recommended that this item be part of the PERA Investment Committee and said that it used to be part of it, and she did not understand the separation. Ms. Lujan reminded the Committee that the Board had previously decided to establish the SmartSave Committee as due to the length of Board meetings, SmartSave plan action items were not receiving the full attention of the Board it deserved. She also noted that the SmartSave plan is managed in tandem with the PERA Investments team and Mr. Garcia. Mr. Neel thanked Ms. Lujan, for the response, saying he had also previously had the same question as Ms. Naranjo Lopez, but that Ms. Lujan had made a good point that because these are separately managed assets and they deserved time to be focused upon.

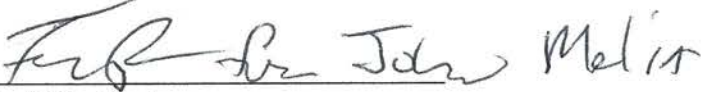
Mr. Neel confirmed there were no further questions or comments.

6. Adjournment

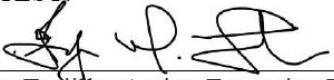
Having completed the agenda, Vice-Chair Neel declared this meeting adjourned at 10:44 pm.

A motion to adjourn was made by Mr. Eichenberg and seconded by Mr. Page.

Approved by:


John Melia, Chair
PERA SmartSave Committee

ATTEST:


Greg Trujillo, Acting Executive Director

Attached Exhibit(s):

Exhibit 1: Investment Performance Review

Exhibit 2: Plan Activity Review