

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

BOARD MEETING

January 30, 2014

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 9:00 a.m. on the above-cited date at the PERA Building, Fabian Chavez Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

2. ROLL CALL

Following the Pledge of Allegiance, roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

Members Present:

Patricia French, Chair - Municipal
Dan Mayfield, Vice Chair - Retiree
Roman Jimenez - State
Louis Martinez - Municipal
Paula Fisher - State
James Lewis - *Ex-officio*
Stewart Logan - County
Loretta Naranjo-Lopez - Retiree
John Reynolds - State

Member(s) Excused:

Dianna Duran - *Ex-officio*
Jackie Kohlasch - State
Dan Esquibel - Municipal

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Sylvia Barela, ASD Director
Judy Olson, Executive Assistant
Karen Risku, Assistant General Counsel
Julian Baca, Deputy CIO
Greg Trujillo, Deputy Director Member Service
LeAnne Larrañaga-Ruffy, Portfolio Manager
Christina Keyes, Portfolio Manager
Roderick Ventura, Assistant General Counsel
Jason Goeller, Portfolio Analyst
Joaquin Lujan, Portfolio Manager
JoAnn Garcia, Deferred Compensation Program Manager
Greg Portillos, IT Division Director
Rose Rael, Customer Service

Staff Member Present: (con't)

Donielle Carrillo, Death & Disabilities
Claudine Serna, Retirements & Payroll
Jodi Trujillo, Retirements & Payroll
Brenda Cordova, Retirements & Payroll
Natalia Manzanares, Retirements & Payroll

Others Present:

Jamie Feidler, Cliffwater
Michael Schlachter, Wilshire Associates
Paul Lium, Nationwide
Jamie Macmillan, Schroders
Richard Sennitt, Schroders
Brian Pattinson, Principal
Susan Fitzgerald, Principal
Stephen Verchinski, Self

3. APPROVAL OF AGENDA

Mr. Lewis introduced the following motion:

“RESOLVED, that the PERA Board approve the agenda as published”

Mr. Logan seconded and the motion carried by unanimous [9-0] voice vote.

4. APPROVAL OF CONSENT AGENDA

[Exhibit 1: Consent Agenda]

Mr. Logan introduced the following motion:

“RESOLVED, that the PERA Board approve the consent agenda.”

Mr. Mayfield seconded and the motion carried by unanimous [9-0] voice vote.

5. CURRENT BUSINESS

**A. Recognition and Congratulations: Claudine Serna on her Retirement
Effective February 2, 2014**

Mr. Propst said Ms. Serna has served the State of New Mexico for 25 years and of those, 21-plus years have been with PERA. He discussed her employment history with PERA and said the agency will miss her greatly.

Ms. Serna received a round of applause and appreciation from each of the Board members.

B. Investments Division

1. Deputy Chief Investment Officer's Performance Report

Julian Baca, Deputy CIO, reported that for the month of December the total fund touched a new high of \$14.104 billion. The one-year return was 16.42 percent. Through September 30, 2013 PERA's peer rank was in the 35th percentile. He reviewed the fund market values, asset allocation comparison and alternative asset activities. Referring to the STIF/STO cash balance he said as it appears on the report is overstated because the retiree payroll is not reflected as yet. December was a record month for distributions in private equity, real estate, and real assets, with the fund receiving approximately \$42 million from the return of capital and stock distribution proceeds.

Responding to Chair French's comments, Mr. Baca said manager performance will be presented in the quarterly report next month. Regarding the fixed income performance numbers, Mr. Baca said the portfolio outperformed the benchmark. Michael Schlachter confirmed the Chair's observation that there are negative numbers from fixed income and noted that PERA's performance was less bad than the benchmark.

2. December Hedge Fund Performance Report

Jason Goeller, Portfolio Manager, stated the hedge funds finished 2013 with solid performance across most strategies. Positive contributions from long-biased beta equity exposure and a robust corporate transaction environment offset the negative impact of short equity portfolio hedges in a complex macro landscape that was linked to the US Federal Reserve's stimulus measures. He noted that equity long short and event driven funds posted the best numbers for December. While macro funds ended 2013 with the third consecutive month of gains it was not enough to overcome earlier losses in the year.

PERA's absolute return program returned 75 basis points for December and 11.75 percent for 2013. Portable alpha returned 2.75 percent for December and over 40 percent for 2013.

Ms. Naranjo-Lopez asked what strategies were being looked at in regard to the negative 0.2 with the hedge funds. Mr. Goeller said the negative number was from the global macro funds and it was a particularly difficult year for the systematic trend following strategies and PERA has two hedge funds in that space. He noted the negative 30 basis points is for the broader macro index not the PERA fund.

Mr. Goeller confirmed for Mr. Reynolds that long-biased beta equity exposure was long exposure to equities that are correlated with market indices.

3. Presentations: International Equity Small Cap Managers

a. Schrodgers

[Exhibit 2: Schrodgers Performance Report; Exhibits 3 & 4: Schrodgers additional staff biography information; Exhibit 5: Wilshire Report re: Schrodgers]

Jamie Macmillan, Schroders, provided an overview of the firm noting they are based in London, have over 400 portfolio managers with over \$415 billion under management and manage a variety of strategies.

Richard Sennitt, Schroders Fund Manager, said the firm has a bottom-up fundamental approach to managing money. Stock selection is a primary source, 80 percent, of value added. Small cap stocks are reviewed for growth and quality with visible earnings and strong balance sheets. Stocks are purchased with a long-term time horizon, typically three years. Risk is monitored closely. He reviewed Schroders' dedicated team and discussed the regional organization of their team.

From an absolute standpoint, Mr. Sennitt highlighted that the returns have been very strong for the asset class with the index up under 30 percent. Relative to the benchmark, PERA's portfolio is up 4.4 percent for the year. He attributed the results to stock selection. The positive numbers were attained in the UK, Continental Europe and Pacific ex Japan.

The portfolio is highly active with 200 stocks, stated Mr. Sennitt.

Mr. Jimenez asked the manager to speak to the fee structure noting the manager was behind the index for a period. Mr. Sennitt noted the gross and net performance numbers were provided. Mr. Macmillan said it was important to keep the objective in mind which is to outperform the benchmark by 2 percent to 3 percent per annum on a rolling basis. Although they did lag the benchmark that has been recovered.

Mr. Logan asked about the annual transition cost with the firm turning over approximately 35 percent of the stocks. Mr. Sennitt concurred there were costs involved and the firm strives to achieve the best execution possible and have an extensive team globally based. Mr. Macmillan offered to provide those numbers to staff.

Mr. Sennitt reviewed the portfolio positioning within each of the regions against the benchmark highlighting changes over time. Exposure to Pacific ex Japan has been reduced. Continental Europe is marginally overweight and driven by stock opportunity in the more peripheral markets – Italy and Ireland.

Mr. Sennitt said emerging market exposure is principally in Asia and with the stronger US dollar investors repatriate money back to the US which impacts those countries with weak external finances. Countries running a current account deficit – Latin America, South Africa – are effectively dependent on foreign capital. Within the Asia context it is India and Indonesia that run current account deficits. What remains positive for Asia is it remains the manufacturer to the world and with a pick-up in growth in the US economy it will help Asian companies.

Mr. Sennitt reviewed the portfolio in sectors versus the benchmark noting they were quite underweight in financials. He reviewed the price to book over its long-term average.

Chair French asked Wilshire to explain the low rating of Schroders' portfolio construction. Mr. Schlachter said the score was 2.5 which is exactly average on a 0 to 5 scale. Implementation and forecasting is at the higher end of the scale. The fact they are running an

EAFE small cap portfolio with 5 percent in emerging markets is outside the realm of a more tightly constrained portfolio. Because the portfolio is 90 percent different than the index the performance will not match that of the index.

b. Principal Global Investors

*[Exhibit 6: Principal Global Investors Performance Report;
Exhibit 7: Wilshire Report re: Principal]*

Susan Fitzgerald, Principal, Relationship Manager, provided an overview of the organization. The firm manages \$1.9 billion in the international small cap mandate.

Brian Pattinson, Principal Portfolio Manager, reviewed the small cap team specialists and the firm's investment philosophy. Principal believes bottom-up stock selection is the most reliable and repeatable source of consistent performance. Their stock selection process integrates and combines quantitative and traditional fundamental research.

Mr. Pattinson presented a market review of 2013 stating it was a strong year for equity returns across regions. In most regions except Japan, small cap stocks fared better than large cap benchmarks. He reviewed the regional and sectors trends in the small cap market.

Principal is relatively optimistic for earning trends and equity performance in most markets in 2014. Monetary policy remains generally accommodative across most developed markets. With the US in a recovery mode, Europe exiting recession and Japan aggressively stimulating their economy, Mr. Pattinson said the general economy is demonstrating a synchronized upturn in growth. The portfolio shows strong earning trends within Europe's housing and auto stocks. Cable companies have presented opportunities in Spain and Portugal. He noted an overweight in Japan's auto parts industry.

Referring to the portfolio distribution in the non-European countries, Mr. Mayfield asked whether those were more volatile. Mr. Pattinson responded that the northern European market appears to be stable. There are opportunities opening in the peripheral European market.

Mr. Pattinson said the firm's goal is to select bottom-up stocks that have positive change occurring in the business with earnings expectations on the rise. The portfolio is built to have a high active share consistent with our alpha objectives. For the calendar year 2013 the portfolio return exceeded the index by over 6 percent. He reviewed the stocks that led the strong performance noting the portfolio performed well across all regions and most sectors throughout the year.

Mr. Logan asked about stock turnover and Mr. Pattinson estimated it at 65 percent annually.

C. 2014 Legislative Update

Mr. Propst announced that the House Appropriations and Finance Committee approved the executive budget recommendation for FY15 for PERA, a 14 percent increase over operating budget for this year. The budget increase will allow for the needed expansion to the

Albuquerque office and two new positions in Albuquerque.

A number of PERA bills were introduced and those will be forwarded along with fiscal impact reports to the Board members. He mentioned a bill calling for a 5 percent employee contribution, a bill regarding the injured police officer incident with workman's comp impacting PERA contributions, and bills dealing with the MRA/JRA plans continue to move forward. The Governor continues to express concern about cash infusion to the MRA/JRA plans. He said he remains cautiously optimistic about the JRA and MRA.

Ms. Fisher asked that the Legislative Committee discuss the unsuccessful proposed bills in the event they are reintroduced at a future session.

Mr. Propst said a recently completed SPO report reviews total compensation including benefit structure for the state and he understood it was on line.

D. Executive Director's Report

Mr. Propst thanked Greg Trujillo for preparing and reformatting the Executive's report. He said the agency has begun mailing out the 45,000 1099s to the membership.

Mr. Logan asked whether the City of Hobbs offer to pickup 45.2 percent of the municipal fire member contributions was unusual. Mr. Propst said that was common and noted the City of Albuquerque picks up 75 percent which is the maximum.

Mr. Propst said the increase in retiree payroll is expected to continue to increase.

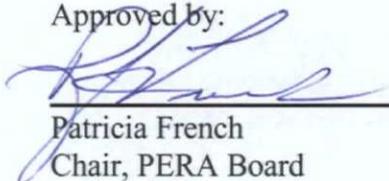
6. OTHER BUSINESS

None were presented.

7. ADJOURNMENT

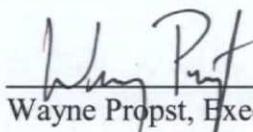
Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 10:40 a.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibits:

Exhibit 1: Consent Agenda

Exhibit 2: Schroders Performance Report

Exhibits 3 & 4: Schroders additional staff biography information

Exhibit 5: Wilshire Report re: Schroders

Exhibit 6: Principal Global Investors Performance Report

Exhibit 7: Wilshire Report re: Principal