**STATE OF NEW MEXICO**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**P.O. Box 2123**

**Santa Fe, N.M. 87504-2123**

**33 Plaza la Prensa**

**Santa Fe, N.M. 87507**

**REQUEST FOR PROPOSAL**

**FOR**

**LISTED INFRASTRUCTURE**

**INVESTMENT MANAGEMENT SERVICES**

**RFP NO. NM INV-001-FY16**

**JANUARY 5, 2016**

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**STATE OF NEW MEXICO**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**RFP NO. NM INV-001-FY16**

1. **INTRODUCTION AND GENERAL INFORMATION**

The Public Employees Retirement Association of New Mexico (PERA) is a public pension fund responsible for the investment of all monies constituting the assets of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund. The retirement systems are treated as qualified plans under Section 401(a) of the Internal Revenue Code. The Fund’s assets were valued in excess of $14 billion as of October 31, 2015.

As further described below, the purpose of this Request for Proposal (“RFP”) is to invite responsible Offerors to submit competitive sealed proposals to acquire and actively manage a Listed Infrastructure product for the PERA of NM Plan. Such services shall conform to PERA’s investment rules, Investment Policy and statutory investment requirements, as they may be amended from time to time. PERA’s current Investment Policy and Investment Statues (NMSA 1978, Sections 10-11-132 and 10-11-133), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), and the Investment Policies and Practices (2.80.300 NMAC) is attached hereto in Appendix “F”. Additional guidelines will be provided to semifinalists.

1. **SUBMISSIONS**
2. **General Information**

In order to be considered, Offerors shall submit a formal acknowledgement of meeting all of the Minimum Qualifications (MQs) to PERA’s consultant, Cliffwater LLC (Cliffwater) on behalf of PERA by the time stated in the Timetable below. Only the Offerors meeting the MQs shall be considered. All proposals shall become the property of PERA.

A proposal may be withdrawn or modified prior to the time and date established in the Timetable below. Any withdrawal, or modification received after the established time and date for delivery to PERA shall be considered late. Offerors shall bear in mind that such late withdrawals or modifications can only be considered under very limited circumstances.

1. **Timetable for the Procurement**

PERA intends that the following schedule govern the procurement under this RFP. If there is any discrepancy between the dates in the “Timetable for the Procurement” and the dates listed in other parts of the RFP, the dates referenced within the “Timetable for the Procurement” will prevail. However, the exact dates for items No. 6-9, and the dates for negotiations, if any, shall be set at PERA’s discretion without the need to amend the RFP.

|  |  |  |
| --- | --- | --- |
| **Action** | **Responsibility** | **Date** |
| **1. Release of RFP** | **PERA** | **1/5/2016** |
| **2. Return Acknowledgement of Compliance with Minimum Qualifications** | **OFFEROR** | **1/12/2016** |
| Please address Submissions to Cliffwater at  [**NMPERA2016infra@cliffwater.com**](mailto:NMPERA2016infra@cliffwater.com)**.** |  | 5PM MT |
| Only the Offerors meeting the MQs shall be considered. |  |  |
| **3. Deadline for Submission of Written Questions** | **OFFEROR** | **1/19/2016** |
| Please address Written Questions to Cliffwater at  [**NMPERA2016infra@cliffwater.com**](mailto:NMPERA2016infra@cliffwater.com)**.** |  | 5PM MT |
| Please clearly label questions by referring to the appropriate section, paragraph,  and page of the RFP. |  |  |
| PERA is not obligated to answer inappropriately labeled questions nor questions  of the firms not meeting the MQs and questions received after the stated  deadline. |  |  |
| **4. Response to Written Questions** | **PERA** | **1/26/2016** |
| In order to obtain copies of PERA’s answers to written questions, respondents  shall submit the Acknowledgment of Minimum Qualifications Compliance  (Appendix “A”) to Cliffwater by **January 12, 2016.** |  | 5PM MT |
| No written response to the questions shall be construed as a modification of the  RFP unless PERA amends the RFP in accordance with New Mexico PERA’s  Investment-Related Services Procurement Policy. |  |  |
| **5. Deadline for Submission of Proposals** | **OFFEROR** | **2/2/2016** |
| Please address Submissions to Cliffwater at  [**NMPERA2016infra@cliffwater.com**](mailto:NMPERA2016infra@cliffwater.com)**.** |  | 5PM MT |
| Please refer to the instructions in Part II. Include Appendix B and Signature  Page (B-1 and B-2) with full proposal. |  |  |
| Electronic format only. No Facsimile transmissions shall be accepted. No  proposals shall be sent directly to PERA. |  |  |
| **6. Evaluation of Proposals, Oral Presentations of Finalists** | **EVALUATION** | **TBD** |
| Short-listed Offerors may be requested to make oral presentations to the  Evaluation Committee, as is more fully described in Part V and VI of the RFP. | **COMMITTEE** |  |
| **7. On-site Due Diligence** | **EVALUATION** | **TBD** |
| PERA Board members, PERA staff, or other PERA representatives may make  on-site due diligence visits to the offices of short-listed respondents. | **COMMITTEE** |  |
| **8. Contract Award (s)** | **PERA** | **TBD** |
| The PERA Board intends to make the contract award at one of its meetings,  subject to satisfactory completion of a due diligence visit by PERA, if  appropriate, and further subject to negotiation of a final contract on terms  acceptable to PERA. | **BOARD** |  |
| **9. New Contract (s) Proposed Effective Date** |  | **TBD** |

1. **Delivery of Information**

**Acknowledgement Form**. All Offerors planning on submitting a response to this RFP should complete, sign and return the Acknowledgement of Minimum Qualifications Compliance and Acknowledgement of Receipt Form (Appendix “A”) electronically to Cliffwater LLC at the following address: [NMPERA2016infra@cliffwater.com](mailto:NMPERA2016infra@cliffwater.com)

**Questions.** Prospective Offerors shall direct all questions for the Questions and Answers portion of this RFP electronically to Cliffwater LLC by the date specified in the Timeline at the following address: [NMPERA2016infra@cliffwater.com](mailto:NMPERA2016infra@cliffwater.com)

Answers to questions will be provided only to Offerors who have completed and submitted Appendix “A” by the deadline noted above.

Nothing stated by PERA or Cliffwater orally or in writing shall operate to amend this RFP unless such statements are reduced to a written amendment in accordance with the PERA Procurement Policy for Investment-Related Services.

NO ORAL OR WRITTEN QUESTIONS CONCERNING THIS RFP, WITH THE EXCEPTION OF QUESTIONS CONCERNING THE EXECUTION OF THE RFP, SHALL BE DIRECTLY ADDRESSED BY OFFERORS OR POTENTIAL OFFERORS, OR THEIR REPRESENTATIVES, TO ANY OTHER MEMBER OF THE PERA STAFF, TO PERA BOARD MEMBERS, OR TO PERA’S INVESTMENT CONSULTANT UNTIL CONTRACTS HAVE BEEN AWARDED AND THE PROTEST PERIOD HAS EXPIRED. AN OFFEROR’S FAILURE TO COMPLY WITH THIS RESTRICTION MAY RESULT IN DISQUALIFICATION OF THE OFFEROR.

**RFP Response.** Offerors meeting the MQs shall submit their complete proposals by the time specified in the Timetable, in electronic format (i.e.: PDF format) to Cliffwater LLC at: [NMPERA2016infra@cliffwater.com](mailto:NMPERA2016infra@cliffwater.com).

Offerors must also submit a redacted electronic version of their proposal, to be utilized in requests for information under the Inspection of Public Records Act as defined by the New Mexico Attorney General, NMSA 1978, Chapter 14, Article 2.

NO FACSIMILE TRANSMISSIONS OF A PROPOSAL SHALL BE ACCEPTED. NO PROPOSALS SHALL BE SENT DIRECTLY TO PERA.

PERA will require hard copies of the proposal from Offerors selected for oral presentations. (See Parts V and VI, below, for a description of the oral presentations.)

1. **SCOPE OF WORK**

As further discussed in this RFP, PERA requests proposals for discretionary investment management services for a Listed Infrastructure portfolio. Proposed products must be primarily focused on Listed Infrastructure and employ a strategy that is clearly articulated and has been consistently applied over time. PERA’s proposed investment strategy benchmark is the Dow Jones Brookfield Global Infrastructure Index, but PERA may also select any benchmark deemed more appropriate for the proposed product. Listed Infrastructure is a sub-asset class within PERA’s Real Assets allocation.

The proposed products should minimize the use of energy-related master limited partnerships (MLPs), as PERA maintains a separate allocation to MLPs. A proposal for a separately managed account is preferred, but commingled vehicles will also be considered. PERA will allow for long/short products, with reasonable leverage utilized. Additionally, PERA will support the hedging of non-US currency exposure in any products proposed. The Offeror must provide an individual submission for each product proposed.

The Listed Infrastructure product(s) proposed by the Offeror will be referred to, where appropriate, as the “proposed product” in this RFP. The funding for the product selected by PERA will be set at the levels that PERA, at its sole discretion, sees fit. The estimated target mandate size for such services is between $100-200 million. PERA reserves the right to make a single or multiple source awards to manage the proposed product(s).

PERA anticipates that the proposed product(s) under this RFP will be funded with cash. PERA may require the Offeror to transition the portfolio, ask the Offeror to work with a specific transition manager or, alternatively, authorize the Offeror to select an independent transition manager, subject to PERA’s approval. PERA will supply the successful Offeror with a listing of the assets to be transitioned. PERA makes no guarantee to the successful Offerors as to the amount to be funded, the increments of partial funding or the time frame the funding will begin or be completed.

The scope of services defined in the final contract between NM PERA and the Manager will be binding and will supersede this section of the RFP if different from the scope of services defined here.

1. **MINIMUM QUALIFICATIONS**

Each firm must certify that it meets all of the following minimum qualifications as of the date its proposal is submitted to PERA.

FAILURE TO MEET AND CERTIFY THE FOLLOWING SHALL RESULT IN THE REJECTION OF THE PROPOSAL FOR NON-RESPONSIVENESS. PLEASE INCLUDE YOUR CERTIFICATION TO THE BELOW MINIMUM QUALIFICATIONS WITHIN YOUR SUBMISSION OF YOUR ACKNOWLEDGEMENT OF COMPLIANCE AS WELL AS WITH YOUR FINAL RFP RESPONSE.

1. The firm must be an investment advisor registered with the SEC or otherwise exempt from registration. If exempt, the firm must explain the nature of their exemption from registration.
2. The firm must be prepared to submit entire Form ADV, including Part 1 and Part 2 brochures and relevant Schedules, if selected as a semi-finalist.
3. The firm must update or submit all eVestment Alliance data through September 30, 2015 for all products for which they are submitting proposals by the deadline for submission (5PM MT February 2, 2016). If the firm does not already utilize the eVestment Alliance database, they must participate by establishing their firm in the database. EVestment Alliance does not charge investment managers for participating in the database.
4. Assets Under Management - As of the date the firm’s proposal is submitted, the firm must:
   1. Have at least $1 billion in total assets under management for the firm;
   2. Have at least $500 million in assets under management in the proposed Listed Infrastructure product(s);
5. Have at least three major U.S. tax-exempt pension fund clients (public or corporate). This requirement is firm-wide and does not necessarily apply to the proposed product;
   1. Have at least one separately managed portfolio in this product with a least $25 million;
   2. Agree to accept a possible allocation in the amount of $100-200 million or more in the proposed product.
6. The investment professionals (i.e.: portfolio managers, analysts, traders, etc.) must have at least three continuous years of performance history in a Listed Infrastructure strategy as of September 30, 2015.
7. Product must allow redemptions on at least a monthly basis, with no more than 30 day notice effective immediately upon funding.
8. The firm must agree to keep the proposal open for a period of not less than 180 days from the date the proposal is issued.
9. The firm must agree to incorporate the warranties, attached as Appendix “D”, Warranties, into any contract entered into as the result of a contract award made under this RFP. (See Signature Page, Appendix “B”).
10. The firm must agree to submit a fee proposal with the RFP response.
11. **EVALUATION OF PROPOSALS**

PERA may award multiple contracts under this RFP for Listed Infrastructure Management Services as described in Part III, Scope of Work, above. The contract award shall be made to the responsible Offeror(s) whose proposal is most advantageous to PERA, taking into consideration the applicable evaluation factors set forth below. Please note the listing of fees as an evaluation factor does not require PERA to select the Offeror with the lowest fee proposal. In addition, a serious deficiency in the score for any one factor may be grounds for rejection of a proposal regardless of the Offeror’s overall score.

The evaluation factors and assigned points to be applied to the proposals received are as follows:

1. Offeror’s background, stability and general experience at the firm. **(Max. Score 25 Points)**
2. Offeror’s capabilities in research, trading, compliance, reporting, etc. **(Max. Score 20 Points)**
3. Offeror’s investment philosophy and process **(Max. Score 30 Points)**
4. Performance. **(Max. Score 15 Points)** 
   1. Evaluation of performance. Periods to be evaluated will include, but not limited to the 1 year, and 3, 4, 5, and, if available 7 and 10 year annualized periods ending September 30, 2015 and rolling 3 year periods, using quarterly rolls, for periods up to a minimum of 5 years (more if available). Other periods, if information is available, may be evaluated solely at PERA’s discretion.
   2. Other performance criteria, including but not limited to, various return and risk ratios based on other time periods, may be evaluated solely at PERA's discretion.
5. Fees. **(Max. Score 10 Points)**

The evaluation of proposals will be conducted by an evaluation committee appointed by the PERA Board Chair. However, any PERA Board member will be allowed to attend and participate in any proceedings, meetings, and deliberations of the evaluation committee, including but not limited to oral presentations of the short-listed Offerors and preparation of the final evaluation report.

Proposals that are non-responsive because of the failure to meet the minimum qualifications (See Part IV), or otherwise, shall be eliminated from further consideration. The evaluation committee shall rank the proposals for each evaluation factor in accordance with the evaluation criteria and select the highest ranked proposals for a short-list of finalists. Also, at its sole discretion, PERA may at any time during the evaluation process eliminate from further consideration proposals whose performance does not rank favorably relative to others responding to the RFP.

Short-listed Offeror(s) will make oral presentations to the evaluation committee. The evaluation committee shall rank the proposals for each evaluation factor, including the short-listed Offerors’ oral presentations and interviews, in accordance with the evaluation criteria and recommend to the Board the Offeror(s) to be awarded the contract. The final contract award(s) shall be made by the PERA Board, subject to such conditions as the PERA Board deems appropriate. PERA is not obligated to award any contract or fund any mandate described in this RFP.

1. **CONTRACTUAL REQUIREMENTS**

The contract between PERA and the successful Offeror shall contain substantially the same terms and conditions in the sample contract attached to this RFP at Appendix “F”, Form of Professional Service Agreement. The contract shall incorporate a fee schedule in the form prescribed by Appendix “E”, Fee Proposal Form. The contract also shall incorporate the warranties that appear at Appendix “D”. Copies of PERA’s current Investment Policy and Investment Statutes, and Investment Policies and Practices Rule (PERA Rule No. 2.80.300 NMAC), located in Appendix “G”, shall be attached to the contract. While Offerors may suggest additional contractual terms and conditions, PERA will not accept any terms and conditions that change the terms and conditions set forth by PERA in the sample contract attached hereto at Appendices “D”, “F” and “G”. Any additional terms and conditions that PERA may, at PERA’s sole discretion, accept will be incorporated into any final contract. Please note: PERA will not accept substantive changes to the indemnification or jurisdictional terms and conditions of the sample contract.

Pursuant to the terms of PERA’s Investment Policy, the contract(s) between PERA and the successful Offeror(s) for Listed Infrastructure Investment Management Services described in this RFP shall incorporate Investment and Operational Guidelines that set the investment guidelines and administrative requirements for the Listed Infrastructure mandate to be managed by the Offeror.

The term of the contract(s) shall be for eight (8) years.

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors, in accordance with the requirements of the NM PERA Procurement Policy for Investment-Related Services. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations. Furthermore, as a condition of submitting a proposal, all Offerors shall agree to provide the services required by this RFP and to adhere to all the requirements, specifications, terms, and conditions of this RFP. For these reasons, PERA strongly recommends that Offerors review the RFP with their corporate counsel in advance of submitting a proposal. (Also see Part VII, Form of Proposals, below, and the Signature Page located in Appendix “B”.)

If PERA elects to conduct discussions or negotiations with Offerors, PERA may establish a common date for submission of best and final fee offers, if appropriate. Offerors shall bear any and all costs incurred by them in the conduct of any discussions or negotiations, including travel to New Mexico for oral presentations or their costs associated with due diligence visits made by members of the RFP Evaluation Committee. Any additional terms and conditions which may be the subject of negotiation will be discussed only between PERA and the Offeror who suggests them and shall not be deemed an opportunity to amend the Offeror’s proposal in any other respect.

1. **FORM OF PROPOSALS**

Proposals submitted in response to this RFP must be organized and submitted in the format described below, using the applicable forms attached to the RFP and following the instructions in such forms. Only finalists will be required to submit signed hard copy proposals. PERA strongly encourages recyclable submission materials; as such, submissions, to the degree possible, should be printed front and back on standard 8 1/2 x 11 paper, in portrait layout, and placed within three ring binders. Within each section of the proposal, Offeror should address the items in the RFP in the order in which they appear in the RFP. Please include headings and page numbers on all submissions. Furthermore, for each form that is attached to the RFP, as required, each question should be repeated in its entirety before the answer. Proposals should stress completeness, clarity, and succinctness. Also, we request inclusion of Offerors’ most recent marketing presentation and supplemental materials for the proposed product.

Any proposal that does not strictly adhere to the following format, and does not address each specification and requirement within the RFP and the applicable forms may be deemed non-responsive:

1. Each proposal shall contain an index or table of contents near the front of the proposal, listing the materials included in the proposal. Please include headings and page numbers in all deliverables.
2. Offerors shall complete, sign and attach to the proposal a completed and signed Signature Page (Appendix “B”). This page must be signed by a signatory with the authority to bind the Offeror. The Signature Page must contain the following statement: “By signing this Company Questionnaire, through the undersigned representative who has the authority to bind the Offeror, and by submitting a proposal in response to RFP NO. NM INV-001-FY16, Offeror agrees to perform the services required by such RFP and to adhere to all requirements, specifications, terms and conditions of the RFP. Offeror further agrees to be bound by this proposal for a minimum of 180 days from the date the RFP was issued.” Additionally, by signing the Signature Page contained in Appendix “B”, the Offeror agrees to accept and comply with all the terms and conditions of the RFP.

Any proposals not bearing the appropriate signatures on the Signature Page contained in Appendix “B”, referenced above, will not meet the minimum qualification requirements of the RFP and will not be considered further in the evaluation process.

Offerors may also include the following in their proposals:

1. The Offeror may attach such other supplementary material as it sees fit to explain its proposal and any additional contractual terms and conditions that the Offeror may suggest. (See Part VI, above.).
2. The Offeror may request in writing the nondisclosure of confidential information contained in the proposal. Such data shall be clearly marked and identified as “confidential” and shall be easily separable from the proposal in order to facilitate any eventual public inspection of the non-confidential portions of the proposal. After contract award, each proposal, except those portions for which the Offeror has made a valid written request for confidentiality, shall be open to public inspection. PERA reserves the right to review the appropriateness and validity of a request for confidentiality.
3. **REFERENCES TO NEW MEXICO STATUTES AND NM PERA PROCUREMENT POLICY**

The Public Employees Retirement Association of New Mexico (PERA) operates under the authority of the Public Employees Retirement Act, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as amended.

This RFP is governed by the Public Employees Retirement Association Procurement Policy for Investment-Related Services. This RFP may be canceled and any and all proposals may be rejected in whole or in part when it is in the best interests of PERA. This RFP shall not be modified except by written amendment. Proposals received late shall only be considered under very limited circumstances. A proposal may be withdrawn or modified prior to the time and date established above for PERA’s receipt of proposals.

Services requested in this RFP shall conform to PERA’s Investment Policy, and statutory and regulatory investment requirements, as they may be amended from time to time. PERA’s current Investment Policy, investment statutes (NMSA 1978, Sections 10-11-132 and 10-11-133), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), and Investment Policies and Practices Rule (No. 2.80.300 NMAC) are attached hereto as Appendix “G”.

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations.

No written response made by PERA staff to questions asked by the Offerors shall be construed as a modification of the RFP unless PERA formally amends the RFP.

# **APPENDIX A, Acknowledgment Form**

**RFP NO. NM INV-001-FY16**

**Listed Infrastructure**

**ACKNOWLEDGMENT OF MINIMUM QUALIFICATIONS COMPLIANCE**

**AND**

**ACKNOWLEDGMENT OF RECEIPT FORM**

**THE OFFEROR HEREBY ACKNOWLEDGES THAT:**

* It has received a complete copy of the above-referenced RFP for Listed Infrastructure Investment Management Services, which begins with a cover page and ends with Appendix “G”, PERA Investment Policies and Practices Rule, New Mexico PERA Investment Policy, and Investment Statutes.
* It meets all of the minimum qualifications stated below as of September 30, 2015.

In order to certify, the Offeror shall complete, sign and submit this form to Cliffwater LLC, no later than 5PM MT, on January 12, 2016, via email. Only potential Offerors who meet the MQs and return this form by the deadline are entitled to receive copies of PERA’s written responses to Offerors’ written questions concerning this RFP.

**FAILURE TO MEET AND CERTIFY THE FOLLOWING SHALL RESULT IN THE REJECTION OF THE PROPOSAL FOR NON-RESPONSIVENESS. PLEASE INCLUDE YOUR CERTIFICATION TO THE BELOW MINIMUM QUALIFICATIONS WITHIN YOUR SUBMISSION OF YOUR ACKNOWLEDGEMENT OF COMPLIANCE AS WELL AS WITH YOUR FINAL RFP RESPONSE.**

1. The firm must be an investment advisor registered with the SEC or otherwise exempt from registration. If exempt, the firm must explain the nature of their exemption from registration.
2. The firm must be prepared to submit entire Form ADV, including Part 1 and Part 2 brochures and relevant Schedules, if selected as a semi-finalist.
3. The firm must update or submit all eVestment Alliance data through September 30, 2015 for all products for which they are submitting proposals by the deadline for submission (5PM MT February 2, 2016). If the firm does not already utilize the eVestment Alliance database, they must participate by establishing their firm in the database. EVestment Alliance does not charge investment managers for participating in the database.
4. Assets Under Management - As of the date the firm’s proposal is submitted, the firm must:
   1. Have at least $1 billion in total assets under management for the firm;
   2. Have at least $500 million in assets under management in the proposed Listed Infrastructure product(s);

**APPENDIX A, Acknowledgment Form**

**RFP NO. NM INV-001-FY16**

1. Have at least three major U.S. tax-exempt pension fund clients (public or corporate). This requirement is firm-wide and does not necessarily apply to the proposed product;
   1. Have at least one separately managed portfolio in this product with a least $25 million;
   2. Agree to accept a possible allocation in the amount of $100-200 million or more in the proposed product.
2. The investment professionals (i.e.: portfolio managers, analysts, traders, etc.) must have at least three continuous years of performance history in a Listed Infrastructure strategy as of September 30, 2015.
3. Product must allow redemptions on at least a monthly basis, with no more than 30 day notice effective immediately upon funding.
4. The firm must agree to keep the proposal open for a period of not less than 180 days from the date the proposal is issued.
5. The firm must agree to incorporate the warranties, attached as Appendix “D”, Warranties, into any contract entered into as the result of a contract award made under this RFP. (See Signature Page, Appendix “B”).
6. The firm must agree to submit a fee proposal with the RFP response.

**APPENDIX A, Acknowledgment Form**

**RFP NO. NM INV-001-FY16**

RFP#\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ TYPE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FIRM: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

REPRESENTED BY (CONTACT PERSON): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

TITLE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

E-MAIL ADDRESS: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ADDRESS: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

CITY: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FAX NUMBER: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ PHONE NUMBER: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Specific Product Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This page has been signed by an authorized signatory with the authority to certify that the Offeror meets the above-stated minimum qualifications.

SIGNED BY: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name (print): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**SEND AN ELECTRONIC COPY OF THE SIGNED FORM TO:**

[NMPERA2016infra@cliffwater.com](mailto:NMPERA2016infra@cliffwater.com)

[PERA-RFP-LISTEDINFRA@state.nm.us](mailto:PERA-RFP-LISTEDINFRA@state.nm.us)

# **APPENDIX B, Signature Page**

**RFP NO. NM INV-001-FY16**

**SIGNATURE PAGE**

**1. ACKNOWLEDGMENT OF RECEIPT FORM**

In acknowledgement of receipt of this Request for Proposal, the Offeror acknowledges that a complete copy of the RFP for Listed Infrastructure Investment Management Services, beginning with the title page and ending with Appendix “G”, PERA Investment Policies and Practices Rule, New Mexico PERA Investment Policy, and Investment Statutes. This firm intends at this time to respond to RFP NO. NM INV-001-FY16.

**2. MINIMUM QUALIFICATIONS COMPLIANCE**

The Offeror hereby certifies that it meets all of the minimum qualifications detailed in Appendix “A”, Acknowledgment Form. The Offeror has answered all questions and submitted all attachments requested in Appendix “A”, Acknowledgment Form. Offeror agrees to submit Form ADV, Parts I and II if selected as a semi-finalist.

**3. WARRANTIES**

Offeror agrees to the incorporation of the warranties listed in Appendix “D”, Warranties, in any contract entered into with PERA.

**4. FEE PROPOSAL AND COMPLIANCE**

Offeror has completed and provided a fee proposal that conforms to the guidelines provided in Appendix “E”, Fee Proposal Form.

**5. COMPANY QUESTIONNAIRE CERTIFICATION**

The Offeror certifies that their Firm and Product data in the eVestment Alliance database for the proposed product is correct, complete, and current through September 30, 2015. Offeror has completed all questions in Company Questionnaire, Part I. eVestment Alliance data, and Part II. PERA Questions, accurately and completely.

**APPENDIX B, Signature Page**

**RFP NO. NM INV-001-FY16**

FIRM NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

SPECIFIC PRODUCT NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ADDRESS: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

E-MAIL ADDRESS: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

TELEPHONE #: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FACSIMILE #: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FEDERAL EIN # \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

NEW MEXICO TAX # (if any) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

CONTACT PERSON \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This page has been signed by a signatory with the authority to bind the Offeror. By signing this Company Questionnaire, through the undersigned representative who has the authority to bind the Offeror, and by submitting a proposal in response to RFP NO. NM INV-001-FY16, Offeror agrees to perform the services required by such RFP and to adhere to all requirements, specifications, terms and conditions of the RFP. Offeror further agrees to be bound by this proposal for a minimum of 180 days from the date the RFP was issued.

SIGNED BY: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name (print): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

RETURN *ELECTRONIC COPY* OF THIS FORM TOGETHER WITH THE COMPLETE PROPOSAL BY 5PM MT on FEBRUARY 2, 2016 TO:

[NMPERA2016infra@cliffwater.com](mailto:NMPERA2016infra@cliffwater.com)

[PERA-RFP-LISTEDINFRA@state.nm.us](mailto:PERA-RFP-LISTEDINFRA@state.nm.us)

# **APPENDIX C, Company Questionnaire**

**RFP NO. NM INV-001-FY16**

**OFFEROR MUST COMPLETE A SEPARATE QUESTIONNAIRE FOR EACH PROPOSED PRODUCT**

**Instructions: Offerors must complete appendix C in its entirety. The PERA questions are required, in addition to the following Cliffwater, LLC instructions:**

**EVESTMENT ALLIANCE DATABASE**

In addition to the Offeror’s responses to the questions listed below, the Offeror’s product and performance data will be analyzed through the use of a third party database currently utilized by PERA Staff. The database is provided by eVestment Alliance, which can be located on the web at: [www.evestment.com](http://www.evestmentalliance.com).

Populating the eVestment Alliance database with your firm and product information is essential to the completion of the RFP process. If the database is not fully populated, your firm’s response will be considered incomplete and this could be grounds for discontinuing consideration of your firm’s product for this search.

The eVestment Alliance database gathers firm and product data including but not limited to:

* Assets under management;
* Qualitative description of firm and product;
* Investment professionals gained and lost;
* Investment professional tenure, work experience and education;
* Product characteristics;
* Holdings;
* Performance for vehicle recommended;
* Composite summary and performance disclosure.

Please be sure to not leave fields blank. Respond as 0, none, or N/A only when necessary. You will not be contacted by our consultant or the State to fill in missing fields. Use additional comment fields provided to make qualifying notes as applicable.

In the space provided below, please list the name of the product(s), as it (they) will appear in your entry in the eVestment Alliance database.

**SPECIFIC PRODUCT NAME:**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If your firm does not already utilize the eVestment Alliance database, you can participate by following the instructions on eVestment Alliance’s website at [www.evestment.com](http://www.evestmentalliance.com).

**APPENDIX C, Company Questionnaire**

**RFP NO. NM INV-001-FY16**

**PERA QUESTIONS**

1. **COMPANY BACKGROUND AND GENERAL DESCRIPTION**
2. Indicate your firm’s fiduciary classification:

        Bank

        Insurance Company

        Registered Investment Advisor

(Investment Advisors Act of 1940)

        Affiliate of Fiduciary

(Name and Classification):

        Other:

1. Regulatory registrations (please check):

\_\_\_\_ Commodity Pool Operator

\_\_\_\_ Commodity Trading Advisor

\_\_\_\_ Broker Dealer

\_\_\_\_ Futures Commission Merchant

\_\_\_\_ Investment Company

\_\_\_\_ Registered Investment Advisor

(Investment Advisers Act of 1940)

\_\_\_\_ Introducing Broker

\_\_\_\_ Other: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If you checked any of the above, please indicate the regulatory authority with whom you are registered and the date of registration

1. Give a brief history of the firm including:
2. the month and year of SEC 1940 Act registration,
3. The month and year the proposed product was introduced. If inception of proposed product is less than two years as of September 30, 2015, the name, month and year of introduction for the listed infrastructure strategy with at least a two year history.
4. Proposed product an off-shore fund or account? \_\_\_Yes \_\_\_No
5. Proposed product a master trust account? \_\_\_Yes \_\_\_No
6. Describe the legal structure of the proposed product. Will the firm guarantee that the maximum loss an investor can experience is limited to the amount of capital invested in the product?
7. Total # of directors of the offshore fund or account (if applicable)?
8. Total # of independent directors of the offshore fund or account (if applicable)?
9. Describe the ownership of the firm, including but not limited to:
10. ownership structure, including number of direct owners (if applicable),
11. number of shareholders holding greater than 50% of the management company (if applicable),
12. number of controlling parties (if applicable),
13. affiliated companies or joint ventures,
14. if an affiliate, designate percent of parent firm’s total revenue generated by your organization,
15. if the firm is a joint venture partner, identify the percentage of ownership and revenues recognized by each partner to the combined association.
16. Provide a detailed organizational chart showing where this proposed product’s and/or strategy’s professional staff resides in relation to the parent-subsidiary, affiliate, or joint venture entities.
17. Please provide the total number of direct owners in the proposed product and/or strategy.
18. Please provide the names of the following key personnel:

Chief Executive Officer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chief Operating Officer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chief Investment Officer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chief Financial Officer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chief Compliance (Risk) Officer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

General Counsel \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Head of Trading \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Describe the levels (U.S. dollar amounts) of coverage for SEC-required (17g-1) fidelity bonds, errors and omissions coverage and any other fiduciary coverage, which your firm carries. List the insurance carriers supplying the coverage.
2. Over the past five years, has your organization or any of its affiliates or parent, or any officer or principal been involved in any business litigation, regulatory or legal proceedings? Please provide a detailed explanation and indicate the current status of any business litigation, regulatory or legal proceedings relating to your institutional investment management activities. Also, provide complete Form ADV (Parts I and II and accompanying schedules).
3. Has your firm ever been audited or investigated by the SEC or any other regulatory agency? If so, when? What was the outcome of the audit or investigation and what changes, if any, were made as a result?
4. Describe in detail any potential conflicts of interest your firm may have in the management of this account. Include any activities of affiliated or parent organizations, brokerage activities, investment banking activities, or any past or current relationships with Board members and investment staff. Include any other pertinent activities, actions, or relationships not specifically outlined in this question. Disclose any business relationship with Cliffwater LLC.
5. Do any of your principals have business involvements outside of the firm? If so, please describe.
6. Describe all outside marketing/sales services (including product design and development) for which your firm has contracted over the last three years for the marketing of your investment services to the institutional, tax-exempt market. Specify any such arrangements as they relate to the proposed product and/or strategy. Indicate whether the fees paid for such services are charged to client portfolio assets. **It should be noted that under state law, third party marketing fees are required to be disclosed pursuant to NMSA 1978, Section 10-11-133.1.**
7. Describe any material developments in your organization (changes in ownership, personnel, business, etc.) over the past three years in detail.
8. Do you have a plan and arrangements in place for an alternative worksite should your facilities become inoperative because of fire, earthquake, etc.? Specifically, does such plan include the following (Please check if “Yes”):

\_\_\_Computer default system

\_\_\_Incapacitated investment decision maker contingency

\_\_\_Technical failure at Prime Broker’s location

\_\_\_Presence of an in-house computer technician

\_\_\_Back-up systems

\_\_\_Remote access

\_\_\_Internal power generators

\_\_\_Back-up location

1. Are the firm’s computer records backed up daily?
2. If a disaster were to occur, how long would it take for your firm to return to normal?
3. Please indicate the jurisdiction of the firm.
4. Do any of your investors in the proposed product and/or strategy have preferential terms or Most Favored Nation rights, including without limitation, with regard to fees or liquidity provisions?
5. Please provide copies of any side letter agreements in effect.
6. Have any investors in the proposed product and/or strategy been granted rebates?
7. **ASSETS UNDER MANAGEMENT**

**9/30 9/30 9/30 9/30 9/30**

**2011** **2012 2013 2014 2015**

1. (a) Total AUM (all products)

($ millions)

(b) Capital invested in listed

infrastructure strategies

(retail & institutional)

($ millions)

(c) Tax-exempt institutional capital invested in

listed infrastructure strategies($ millions)

(d) Number of Clients

1. Please list the five largest tax-exempt institutional clients currently invested in the firm’s listed infrastructure strategies. Please indicate account type in which the client is invested (commingled fund or separate account) and indicate the client type (e.g. Public, Corporate, etc.).

**(9/30/2015) Account**

**Name** **Client Type** **Capital Invested (Mkt Value) Type\_\_**

1. List each client, capital invested and notional asset amounts, gained in the listed infrastructure strategy over the three-year period ended September 30, 2015. Please include totals.

Name Capital Invested Notional Amount

Xxx xxxx xxxx

Totals Totals

1. List each client, capital invested and notional asset amounts, lost in the listed infrastructure strategy over the three-year period ended September 30, 2015. Please include totals.

Name Capital Invested Notional Amount

Xxx xxxx xxxx

Totals Totals

1. Is the proposed product and/or strategy available as a separate account?

Yes \_\_\_\_ No\_\_\_\_\_

1. If so, what is the minimum separate account size that can be accommodated?
2. Is the proposed product and/or strategy available through a commingled fund?

Yes\_\_\_\_\_ No\_\_\_\_

1. If available, what is the ratio of expenses (other than the management and incentive fee) to NAV? Describe the objectives of your firm with respect to future growth in the proposed product and/or strategy, commenting on:
   1. Additional resources for portfolio management, research, trading, client service and tools/models to enhance the investment process or manage growth; and,
   2. Size limitations with respect to capital invested in the proposed product and/or strategy. How did you arrive at those asset limits?
2. Provide the client name, address, phone number, contact name, title, and account type (e.g. defined benefit, defined contribution, endowment) of three accounts, who are invested in the listed infrastructure strategy that can be contacted as references. Also indicate the length of your relationship and capital invested for each reference.
3. Identify three clients that have terminated your firm for listed infrastructure investment management services over the past three years that can be contacted as references. Provide the firm name, contact person and title, phone number, product name, account value and reason for termination. If they cannot be contacted, explain why.
4. What is the approximate capacity available in the proposed product and/or strategy?
5. What is the projected amount of capital to be raised over the next three years in the proposed product and/or strategy?
6. **PEOPLE/ORGANIZATION**
   * + 1. Describe the structure of the group that manages the proposed product and/or listed infrastructure strategy.
          1. Describe the role of economists, portfolio managers, research analysts, traders, etc.
          2. Who is responsible for investment strategy, portfolio construction, research, trading, etc.?
          3. Provide an organizational chart that diagrams the different functions (research, trading, etc.) dedicated to the proposed product and/or listed infrastructure strategy. Professionals should be identified over their areas of responsibility. Please indicate those individuals who are covered by key man provisions.
       2. Provide a list of the professionals involved in the proposed product and/or listed infrastructure strategy in the manner listed below:

PORTFOLIO MANAGEMENT

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Title/  Responsibilities | Yrs. Exp. | Yrs.  Exp. in  Proposed  Product and/or strategy | Yrs. @  Firm | Degrees/  Designations | Sponsoring  Body/School |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

RESEARCH

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Title/  Responsibilities | Yrs. Exp. | Yrs.  Exp. in  Proposed  Product and/or strategy | Yrs. @  Firm | Degrees/  Designations | Sponsoring  Body/School |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

TRADING

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Title/  Responsibilities | Yrs. Exp. | Yrs.  Exp. in  Proposed  Product and/or strategy | Yrs. @  Firm | Degrees/  Designations | Sponsoring  Body/School |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

* + - 1. Have any of the portfolio managers involved in the proposed product and/or strategy previously managed any other funds? If so, please describe.
      2. Describe your internal training procedures for portfolio managers, traders, and research analysts.
      3. Describe the background of professionals directly involved in the proposed product and/or strategy.
         1. What are the primary criteria for potential hires considered for investment professional positions?
         2. Are they brought in from the outside or promoted to their positions from within the organization?
         3. What sort of ongoing education programs (for example, the CFA program) are encouraged or required?
      4. Provide biographies of one paragraph in length for each of the persons listed in Question C.2.
      5. What percentage of the proposed product’s and/or strategy’s capital is committed by all of the employees of the firm?
      6. Describe the compensation and incentive program for professionals directly involved in the proposed product and/or strategy. How are they evaluated and rewarded? What incentives are provided to attract and retain superior individuals?
         1. Identify the percentage of compensation which is:
    - Base salary
    - Performance bonus
    - Equity incentives
    - Other
      * 1. Do you offer direct ownership, phantom stock, profit sharing, and/or a performance bonus? Who is eligible to participate?
        2. State whether or not each key employee involved in the management of subject product retains an ownership position in the organization.
        3. On what basis are these incentives determined – is compensation tied to success factors such as asset growth, performance, or other factors?
      1. Discuss the causes and impact of any turnover (departures or hiring/promotions) of any professionals directly involved in the proposed product and/or strategy you have experienced in the past five years. Indicate when and why any professional directly involved in the proposed product and/or strategy left or joined the firm in the past five years. What were/are their job responsibilities? For personnel who have left, indicate job titles and years with the firm and who replaced them.

JOINED

|  |  |  |
| --- | --- | --- |
| Date | Name/Title | Strategy or Product Responsibility |
|  |  |  |
|  |  |  |
|  |  |  |

DEPARTED

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Name/Title | Responsibilities | Yrs. in Proposed Product and/or Strategy | Yrs.@ Firm | Reason for Leaving | Replaced by  (name/title) |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

1. **PHILOSOPHY/PROCESS**
2. What is your expected annualized return, risk, and dividend yield for the proposed product and/or strategy?
3. Describe your firm’s investment philosophy for the proposed product and/or strategy.
4. How would you characterize your strategy (qualitative, quantitative, technical, etc.)?
5. What market anomalies or inefficiencies are you trying to capture?
6. Why do you believe this philosophy will be successful in the future? Provide any evidence or research that supports this belief.
7. How has this philosophy changed over time?
8. In what market environments would you expect your approach to out/underperform relative to a similar listed infrastructure strategy?
9. Please check all of the underlying strategies that the proposed product and/or strategy employs:

\_\_\_Special Situations \_\_\_Short Bias (or Short Only)

\_\_\_Convertible Arbitrage \_\_\_Domestic Long/Short Equity

\_\_\_Global Macro \_\_\_Global Long/Short Equity

\_\_\_Merger Arbitrage \_\_\_Emerging Markets Equity

\_\_\_Statistical Arbitrage \_\_\_Credit Arbitrage

\_\_\_Quantitative Long/Short \_\_\_Even Driven

\_\_\_Long Only Equities \_\_\_Distressed Securities

\_\_\_Capital Structure Arbitrage \_\_\_Commodities

\_\_\_Other (Explain)

1. Describe the firm’s strategy and process.
   1. Are you seeking unique sources of information?
   2. Are you applying unique methods to process the information?
   3. What is the time horizon for your view of a particular investment?
   4. What approaches are used in evaluating relative valuations?
   5. What percentage of the investment process is driven by top down analysis? Bottom up analysis?
   6. How many unique sources of alpha are used within this product and/or strategy?
2. Describe your portfolio construction process.
   1. What specific factors are integral to the portfolio construction process? What is the relative importance of these factors?
   2. Discuss the quantitative and qualitative processes utilized.
   3. What latitude is given to portfolio managers within the proposed product and/or strategy team? Are portfolio buy/sell decisions made on a team basis or by an individual portfolio manager?
   4. In which countries and/or markets do you invest?
   5. What exchanges are utilized?
3. Describe your firm’s competitive advantage. How sustainable is this competitive advantage? Why does your firm believe you offer a superior service in this style of investing versus your peers?
4. Please comment on the following proposed product and/or strategy features (if applicable):
   1. Lock-up period;
   2. Minimum and maximum subscription or account size;
   3. Frequency of allowable investor redemptions,
   4. Required notice period for redemption requests,
   5. Is there an advisory committee? If so, please describe the composition.
5. Please articulate what makes your information gathering process unique relative to other strategies that rely on quantitative models or fundamental processes which are likely accessing the same data sources. This discussion can include your approach to warehousing, data scrubbing, additional processing, incorporation of qualitative signals, etc.
6. How do you define the investable listed infrastructure universe for your strategy?
7. What are the permissible investments for this strategy?
8. What criteria do you use to determine if a specific security is included in the investible universe?
9. Are MLPs included in your investible universe for this strategy? What percentage of the portfolio is typically allocated to MLPs? Please provide a list of MLP securities held in the proposed product/strategy as of September 30, 2015.
10. Please provide the following as applicable to the proposed product:
    1. Number of securities in the investment universe
    2. Number of securities covered by the investment team
    3. Number of securities on your approved/buy list
    4. Target number of securities in the product
    5. Current number of securities in the product
    6. Minimum number of securities in the product over the last 3 years
    7. Maximum number of securities in the product over the last 3 years
11. Please explain how an allocation to listed infrastructure would fit into the overall asset allocation of a large institutional investor with a well-diversified portfolio. What are the primary benefits and risks of adding listed infrastructure to a well-diversified portfolio?
12. Please explain how an allocation to listed infrastructure would fit into a portfolio with an existing allocation to unlisted (e.g. private) infrastructure.
13. What are the greatest risks inherent in the listed infrastructure asset class?
14. What are your philosophies/strategies for individual market sectors within the listed infrastructure universe?
15. What is the current cash position of the proposed product? What is the maximum allowable cash position?
16. Describe how portfolios are constructed and specify any circumstances under which the firm would deviate from the portfolio construction process.
17. How has the proposed product and/or strategy changed in the past five years? Describe the future objectives of your firm with respect to future growth in the product and/or strategy, commenting on:
18. Additional resources for portfolio management, research, trading, client service and tools / models to enhance the investment process or manage growth; and
19. Size limitations with respect to capital invested in the proposed product and/or strategy. How did you arrive at those asset limits?
20. Explain why this proposed product and/or strategy should add alpha. Is the value added coming from stock selection or another source?
21. What is the internal benchmark typically used for the proposed product? Why do you believe that benchmark is most appropriate for your product?
22. What is your expected active return (alpha)? What is the expected tracking error of this product and/or strategy?
23. Regarding the investment process:
    1. explain its shortcomings or limitations;
    2. describe the market environments in which your product and/or strategy will have difficulty outperforming;
    3. what would cause you to the reevaluate the process;
    4. explain any enhancements you have made, and/or are being worked on but not yet implemented, to the investment process in the last five years.
24. Does your product and/or strategy perform differently in periods of high market volatility versus periods of low volatility? If so, please explain how and why.
25. Please describe how your product has performed or is expected to perform under various inflation environments.
26. Can shorting strategies be utilized in the proposed product? If so, describe the approach to shorting securities (i.e. hedging, alpha generation) and if there are limits on the amount of shorting that can be done within the proposed product.
27. What is the proposed product’s and/or strategy’s most important characteristic, skill, or resource which will allow you to add value to the PERA account?
28. To what extent is currency hedging utilized in the proposed product?
29. Are futures contracts utilized in the proposed product/and or strategy? If so, are they used for speculative and/or hedging purposes? What percentage of your future positions are US vs. foreign exposure?
30. Are option contracts utilized in the proposed product/and or strategy? If so, are they used for speculative and/or hedging purposes? What percentage of your option exposure is exchange listed vs. over-the-counter?
31. Are swaps utilized in the proposed product and/or strategy? If so, please describe the types of swaps utilized (i.e. total return, equity, interest rate, commodity, asset, volatility, etc.).

NOTE: All potential candidates should review PERA’s Investment Policy Statement (“Policy”), attached as Exhibit G, and after reviewing the foregoing, communicate any concerns regarding such Policy to PERA. It should be noted that PERA will designate these listed infrastructure investment management services as Alternative Investment Strategies within the context of the Policy. It should also be noted that swaps are specifically prohibited by the Derivatives Policy Statement unless the swaps are utilized as part of a commingled fund.

1. **RISK MANAGEMENT**
2. Describe your risk management process:

Which of the following risks are material to the proposed product and/or strategy?

Business risk

Operational leverage risk

Financial leverage risk

Liquidity risk

Interest rate risk

Commodity price risk

Currency risk

Regulatory risk

Valuation risk

Fraud/accounting risk

Legal risk

Litigation risk

Managerial risk

Technology risk

Systematic risk

Basis (spread) risk

Equity market risk

Other: \_\_\_\_\_\_\_\_\_\_\_\_

How are these risks managed?

How are these risks measured?

1. Does the firm have a risk committee? If so, please describe its composition. Who is primarily responsible for risk management? If the person responsible for risk is also the Chief Investment Officer or another investment person, please explain how the risk function can remain independent.
2. Does the firm employ an independent risk advisor?
3. Regarding position-level risk calculations, check those that you employ:

\_\_\_Value at Risk analysis

\_\_\_Capital at Risk analysis

\_\_\_Back-testing analysis

\_\_\_Formalized risk limits

1. If you employ formalized risk limits, please comment on the following concentration limits:
   1. Geographic
   2. Sector
   3. Issuer
2. What is the maximum amount of capital you risk at the position level in the proposed product and/or strategy?
3. What is the maximum amount of capital you risk at the portfolio level in the proposed product and/or strategy?
4. Does your firm conduct scenario analysis with regards to the proposed product and/or strategy?
5. Does your firm conduct correlation analysis at the position level in the proposed product and/or strategy?
6. Do your firm back-test your risk models with regards to the proposed product and/or strategy?
7. How many days would it take to liquidate 100% of the positions in the proposed product and/or strategy (at less than a 5% markdown)?
8. Does your firm have written stop loss limits? If so, what is the stop loss in both percentage and dollar terms?
9. Describe your risk management systems / technology (e.g. in-house vs. purchased systems). How are they used?
10. Describe how risk is managed on an ex-ante basis? Are all active risks allocated within a proactive risk budgeting framework? If so, please describe the process. Please also describe how performance attribution, on an ex-post basis, is used to monitor active risk decisions.

1. What are your policies for managing counterparty risk? Do you utilize any of the following when assessing counterparty risk: formal concentration limits, regular on-site due diligence or financial statement review? If your firm trades in OTC instruments, how many counterparties do you utilize? Please ensure your answer also addresses diversification of counterparty risk and credit requirements of counterparties. **(Note: Please review Appendix G, PERA’s Investment Policy Statement, for specific requirements regarding counterparty risk and credit requirements of counterparties.)**
2. **RESOURCES/RESEARCH**
   * + 1. If you have internal research capability that is dedicated to the proposed product and/or strategy, describe the research process.
   1. What percentage of the research effort is conducted internally?
   2. Where is research carried out?
   3. What are the sources of research?
   4. What are the outputs of the research?
   5. How is this information incorporated into the portfolio construction process?
   6. What percentage of your research staff is dedicated to the proposed product and/or strategy?
      * 1. If you use external research in the management of the proposed product and/or strategy, describe the external research.
3. What are the sources of external research?
4. What specific research is acquired from external sources?
5. How is this information incorporated in the portfolio construction process?
   * + 1. Describe the quantitative models and tools you utilize for research, portfolio construction and trading. What enhancements are being contemplated?
       2. What resource constraints exist within the firm? What is the basis for obtaining additional resources to support each function for this particular proposed product and/or strategy?
6. **TRADING**
   * + 1. Provide a description of your trading platform, including systems (proprietary and off-the-shelf) for execution and processing.
       2. How many traders are employed by your firm in aggregate and how many are dedicated to the proposed product and/or strategy and what is their experience?
       3. What steps have you taken to automate the trade flow process? What areas are still handled manually?
       4. How do you leverage your infrastructure to ensure firm-wide collaboration in execution (broker/dealer relationships) and capital market conditions (liquidity)? How does your firm manage and monitor market liquidity?
       5. Describe how you measure trading costs.
       6. What is the average annual turnover in the proposed product and/or strategy?
       7. What is the average trading commission per share for your tax-exempt clients?
       8. Discuss your internal monitoring process for final price determination and trade order management. Do you have dedicated committees overseeing these functions? If so, please list the members.
       9. Is there a single person or persons with sole authorization to place orders on behalf of the proposed product and/or strategy? If yes, how many people are authorized?
       10. Are the following functions allocated to the back office (Please check if “Yes”):

\_\_Clearing and settlement

\_\_Accounting and records

\_\_Trade reconciliations

* + - 1. What processes do you have in place for ensuring pre- and post-trade guideline compliance? What functions are automated? What process do you have in place for human verification? Who signs off on final trading?
      2. Please describe the oversight procedures that would minimize the risk of traders acting outside of their given latitude in executing trades.
      3. How often is the trade reconciliation process performed (i.e. Daily, Weekly, Monthly, or Other)? How often are cash positions reconciled? How often are non-cash positions reconciled?
      4. Is trade reconciliation segregated from the trading function?
      5. Does your firm maintain reconciliation reports?
      6. When are trades allocated to accounts? (i.e. End of trading day, immediately after execution, or prior to or at the time of order entry)
      7. Is judgment required to mark your book?
      8. Have there ever been any problems determining the NAV of your firm’s products?
      9. Are trades allocated among different products and/or strategies?
      10. Do you have a written trade allocation policy? If so, please provide.
      11. Does the firm have a written policy governing employee personal account trading? If yes, does such policy restrict trading in securities owned by the firm’s products and/or strategies? Who monitors such activity at your firm? How often does such monitoring occur?
      12. What is the average daily trade volume in number of tickets for the proposed product and/or strategy?
      13. If you have soft dollar relationships with broker-dealers, please disclose the following:
  1. Soft dollar policy and when last reviewed.
  2. % of trades executed tied to soft dollar relationships.
  3. List of resources funded by soft dollars that would normally be funded with hard dollars.
  4. Are all such dollar arrangements disclosed in the Offering Memorandum and/or Form ADV?

1. **PERFORMANCE/PRICING**
   * + 1. If applicable, what is the most appropriate measure of excess return for the proposed product and/or strategy? How is this determined?
       2. Describe how you analyze and evaluate the performance of the proposed product and/or strategy. Include a discussion of your performance attribution analysis.
       3. Describe how you conduct performance attribution analysis, indicating any models or tools used.
       4. How do you incorporate the results of the performance attribution analysis in the management of the proposed product and/or strategy?
       5. Please elaborate on the returns for this proposed product and/or strategy over the past five years. Describe any periods of exceptionally strong or weak returns; any reasons for exceptionally high or low volatility.
       6. Would full transparency of positions and portfolio holdings be available to PERA, should the proposed product and/or strategy be selected? If no, please describe what type of information would be provided. Would top positions be provided? If so, how many top positions would be provided and would both the name and size of position be provided for each or in aggregate?
       7. If your composite complies with Global Investment Performance Standards (“GIPS”), include a copy of your GIPS report disclosure that you include in your marketing presentations. Reference the Global Investment Performance Standards report located on CFA Institute’s website at [www.cfainstitute.org](http://www.cfainstitute.org).
       8. If the proposed product’s and/or strategy’s composite does not comply with GIPS, provide a brief description on why the composite does not comply with GIPS.
       9. Consistent with Section 4.B. – Disclosures Recommendations of the GIPS, please respond to the following requests:
2. Portfolio valuation sources and methods used by the firm. Please provide a copy of the firm’s valuation procedures.
3. Any significant events within the firm (such as ownership or personnel changes) that would help a prospective client interpret the performance record.
   * + 1. If applicable, list the largest withdrawal from the proposed product and/or strategy including the date, % of capital invested and the reason for the withdrawal.
       2. Who internally prices the proposed product and/or strategy? (CFO, Controller, Internal Accountant or Other?)
       3. Who internally calculates the NAV of the proposed product and/or strategy: the CFO, Controller, Internal Accountant or Other?
       4. How often is the proposed product and/or strategy priced/reconciled to the custodian? (i.e. daily, weekly, monthly, other) Is a signoff required and documented on the pricing/reconciliation review? In the case of a pricing dispute, does your firm have the authority to override the administrator’s mark?
       5. Does an outside vendor price the exchange traded portion of the proposed product and/or strategy?
       6. Identify the name of your external auditor. Does there exist a prior relationship between your firm, and/or any of its principals, and the external auditor? Does your firm suggest or refer the auditor to clients?
       7. Other than as part of the year-end audit, how often is the proposed product and/or strategy priced by an independent third party? Are intermediate estimates available?
       8. Does the proposed product trade in non-exchange traded positions? If yes, do you use internal pricing models or an external valuation service?
       9. Does the proposed product trade options? If yes, do you use the Black-Scholes pricing model or other internal pricing model?
       10. Who performs the day-to-day accounting functions? (CFO, Controller, internal fund accountant, third party or other?)
       11. How frequently may an investor receive an estimated NAV for the proposed product and/or strategy (i.e. daily, weekly, monthly, or other)?
       12. How long after the end of each month does it take to produce a final NAV?
       13. Are the assets of the proposed product and/or strategy held in the name of the fund at the Prime Broker?
       14. Are all or any of the assets (including cash) segregated from the Prime Broker’s assets?
       15. Can the assets of the proposed product and/or strategy be pledged or in any other manner used to support another affiliated entity’s liabilities?
       16. Does the proposed product and/or strategy or any affiliate ever take “custody” of client assets?
       17. Does the Prime Broker provide trade exception reports on a client website?
       18. Does the Prime Broker conduct background checks on clients?
       19. Does the Prime Broker provide research to your firm in addition to execution and trading?
4. **FEE PROPOSAL**

Once a manager has been selected, negotiations of the fee may become necessary in order to account for the size of funding, the increments of funding, and any clarification. In no case will the negotiations result in a fee that is higher than the fee contained in the proposal.

* + - 1. What are your proposed fee schedules for the proposed product and/or strategy based upon both a $100 million and a $200 million notional account? List separate schedules for commingled/separate account management. Include custody and all additional charges where appropriate.
      2. Do you offer alternative fee arrangements (flat fees or performance fees)? Please describe such arrangements.
      3. Is there any fee recapture or “high watermark”?

1. **COMPLIANCE**
   * + 1. Please provide an organizational chart showing where your compliance staff resides in relation to the portfolio management staff.
       2. Who is the primary person responsible for compliance issues and whom does he/she directly report to?
       3. Does your firm maintain a code of ethics and/or a written compliance manual? If so, has either/or been distributed to all employees?
       4. Does your firm have regular compliance monitoring programs? If so, please describe.
       5. What are the compliance policies in place with respect to investment professionals (i.e.: guidelines, procedures, ownership and trading personal assets and accounts, etc.)?
       6. Does the firm have a Drug Testing Policy? If so, please provide. If not, how does the firm monitor this potential issue?
       7. Does the firm have a Diversity Policy? If so, please provide. If not, how does the firm discourage discrimination and promote diversity?
       8. Does the firm have an ESG (Environmental Social Governance) Policy? If so, please provide. Please explain how the firm follows this policy and the practices pursued. Is the firm a signatory of the United Nations’ PRI (Principles for Responsible Investing)?
       9. Does your firm have any arrangements, either verbal or written, where it is paid cash or receives some other economic benefit from a non-client in connection with giving advice to clients?
       10. Provide copies of the firm’s most recent audited financial statements related to the proposed product and/or strategy and auditor management letter.
       11. Have you ever violated a client guideline? If so, please describe the violation and the resolution.
       12. How many signatures are required for transfer of funds at your firm? Please indicate the names of authorized signers. Which of the following types of transfers require signature? (Please check if required)

\_\_\_Purchase of securities

\_\_\_Sales of securities

\_\_\_Shorting of securities

\_\_\_Management expenses

\_\_\_Service Provider fees

\_\_\_Petty cash

\_\_\_Other: Please describe\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. **CLIENT SERVICE** 
   * + 1. Which of your firm’s offices would service this account? What services would specifically be provided by which office?
       2. Who will be the client service officer? How often could the person be available for client meetings? How often could the portfolio manager, chief investment officer and/or firm president be available for client meetings?
       3. Please provide samples of client reports and indicate their frequency. What other communication is provided to clients (include descriptions and or samples of newsletters, research, seminars, etc.)?
2. **REFERENCES**

Please provide references to the following (if applicable):

Accounting firm (Both onshore and offshore, if applicable)

Prime broker

Legal counsel (Both onshore and offshore, if applicable)

Administrator (Both onshore and offshore, if applicable)

1. **SAMPLE PORTFOLIO**

Please submit a sample portfolio (preferably an actual portfolio), which would reflect the investment style of the proposed product and/or strategy for this account.

1. **EXHIBITS** 
   * + - 1. **Investment Process Flow Chart**

Illustrate the investment process in a flow chart identifying the decision-making steps, decision makers and outcomes.

* + - * 1. **Trading Process Flow Chart**

Provide an organizational chart of your trading functions. Provide a process flow diagram between the portfolio management groups entering a trade order to final implementation in client portfolios.

* + - * 1. **Performance**

Provide performance on a quarterly and annual basis for the history of the proposed product and/or strategy.

* + - * 1. **Gift Reporting Confirmation**

Provide acknowledgement of compliance with gift and campaign contribution restrictions to retirement board members and employees within the last twelve months as required by NMSA 1978, Section 10-11-130.1 (1999).

# **APPENDIX D, Warranties**

**RFP NO. NM INV-001-FY16**

**WARRANTIES**

**LISTED INFRASTRUCTURE**

**INVESTMENT MANAGEMENT SERVICES**

Offeror agrees to the incorporation of the following warranties in any contract entered into with PERA:

1. Offeror warrants that it is registered as an investment advisor under the Investment Advisors Act of 1940 and that it shall maintain such registration at all times during the term of the contract (unless exempt and explanation of exemption is attached).
2. Offeror warrants that it meets or will meet before the award of a contract the bonding requirement provided by Section 412 of the Employment Retirement Income Security Act of 1974 (ERISA) or that it carries at least an equivalent fidelity bond applicable to Contractor’s actions under the Contract (unless exempt, and explanation of exemption is attached).
3. Offeror warrants that it will not delegate its fiduciary responsibilities assumed pursuant to the Contract.
4. Offeror warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations, required by a government or governmental authority, including the State of New Mexico, for acts contemplated by the Contract.

OFFEROR NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature: Date:

Printed Name & Title:

# **APPENDIX E, Fee Proposal**

**RFP NO. NM INV-001-FY16**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO**

**FEE PROPOSAL FOR**

**LISTED INFRASTRUCTURE**

**INVESTMENT MANAGEMENT SERVICES**

**FIRM NAME:**

**A. PROPOSED FEES**

New Mexico PERA historically utilized performance fees for all active investment managers, however, the proposal for an asset based fee will also be considered. To submit a performance based fee, the Offeror must structure the proposal following the format in Appendix “E”, Fee Proposal Form.

**PREFERENCE:**

Once the manager has been selected, refinements to the fee may be necessary to determine the size of the funding increments, the timing of the funding and benchmark clarification. In no case will the refinement result in a fee that is higher than the fee contained in the proposal.

**B. PERFORMANCE FEES**

The performance fee you propose will be used in the formula described below.

I. Annual fee = BF + PF

II. PF = (NF - BF)/ (RER) x (PR - MR)

III. Maximum Fee = BF + PF = 2(NF - BF) + BF

(The Maximum Fee should be symmetrically balanced, i.e., the sum of the BF and the PF should equal the BF plus two times the sum of the NF minus the BF. In no event can the MF (PF plus the BF) exceed the BF plus two times the sum of the NF minus the BF)

Where:

BF = Base Fee, a substantial discount from the normal fee

PF = Performance Fee

NF = Normal Fee, manager's standard fee schedule for public fund

RER = Required Excess Return, the premium to be earned above the benchmark or market rate of return to earn the normal fee

PR = Portfolio Return

MR = Benchmark, the market or other index return which represents the minimum performance standard

For the initial three quarters, the manager will receive a fee equal to the Base Fee. After the end of the fourth quarter under management, an annualized fee calculation will be computed to award a performance fee due to the initial twelve-month period. For the fifth through twelfth quarters, the annualized performance fee calculation will be made each quarter on a cumulative, annualized, basis. Thereafter, the performance fee calculation will be based on the cumulative, annualized returns for the immediately preceding twelve quarters.

**Please include below your best and final offer for the four components of the performance based fee:**

Base Fee %

Normal Fee %

Maximum Fee \_\_\_\_\_\_\_\_\_\_\_\_%

Required Excess Return %

1. **BENCHMARK**

The Benchmark will be as follows: Dow Jones Brookfield Global Infrastructure Index; although PERA may, at its sole discretion, decide to use a more appropriate benchmark.

1. **ASSET BASED FEE**
   1. **Please include below your best and final offer for an asset based fee. Include the total basis points charged for $100-200 million separate account as well as the tiered fee structure. Include the total basis points charged for $100-200 million invested in your commingled fund, if applicable, as well as the tiered fee structure.**
   2. **Please indicate if this is reduced from your standard pricing.**

**(Yes, Reduced / No, Not Reduced).**

# **APPENDIX F, Sample Professional Service Agreement**

**RFP NO. NM INV-001-FY16**

**Agreement No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**OF NEW MEXICO**

**PROFESSIONAL SERVICES AGREEMENT**

***(SAMPLE)***

This Professional Services Agreement (hereinafter referred to as the “Agreement”) is made and entered into by and between the Public Employees Retirement Association of New Mexico (hereinafter referred to as “PERA”) and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, (hereinafter referred to as "Contractor").

The Parties hereby agree as follows:

**1. SCOPE OF WORK**

**A. Investment Management Services**

The Contractor shall provide PERA with investment management services for an International (Non-U.S.) Small Cap Equity portfolio, as further described in this Agreement. Contractor shall provide such investment management services with respect to the securities and other assets held in the Contractor’s Assigned Account (“Account”) and all other assets that may be added thereto from time to time. Contractor shall maintain a separate account for the International Small Cap Equity assets. The services shall be provided in accordance with the terms and conditions of this Agreement, the rules, objectives, and guidelines established by PERA, PERA’s Investment Policy, the statutory and other legal limitations imposed on PERA, and specific directives or instructions issued by PERA to the Contractor, including, but not limited to, the Investment and Operational Guidelines, attached hereto as Exhibit A (“Exhibit A”), and the PERA Proxy Voting Policy, attached hereto as Exhibit B. Under no circumstances is the Contractor permitted to have custody of PERA assets under this Agreement.

1. The Contractor’s Account shall include those specific assets initially allocated by PERA, at PERA’s sole discretion, when the Contractor commences services under this Agreement, assets that accrue from the activity of those assets initially allocated, and from the acquisition, addition or transfer of other assets. PERA may, at any time, and upon notification to the Contractor, transfer or remove any and all assets from the Account or augment the Account with additional assets. Following such transfer or removal, Contractor shall have no authority to act with respect to assets transferred or removed. The Contractor shall have no investment or other responsibility or authority with respect to those assets that are owned by PERA and are not part of the Account. PERA will provide the Contractor with at least five business days' prior written notice of any additions to or withdrawals or transfers from the Account and shall instruct PERA’s custodial bank The Bank of New York Mellon (“Custodial Bank”) to provide the Contractor with notification of any such additions or withdrawals promptly after such additions or withdrawals are made. Any additions to the Account are subject to acceptance by the Adviser in its discretion within such prior notice period.

2. PERA warrants that it has full authority to authorize the Contractor, and PERA hereby authorizes the Contractor on behalf of PERA to issue instructions to brokers, dealers and other financial intermediaries to purchase or sell securities and other financial instruments (collectively, “securities”), which purchases or sales shall conform to federal and New Mexico law, including, but not limited to, NMSA 1978,Section 10-11-132, as it may be amended from time to time, the PERA Investment Policy in effect at the time of the purchase or sale, PERA rules in effect at the time of the purchase or sale, including, but not limited to, the PERA Rule on best execution of trades, Rule 2.80.300 NMAC, and any objectives, guidelines, directives or instructions issued by PERA to the Contractor and in effect at the time of the purchase or sale, including, but not limited to, the Investment and Operational Guidelines, Exhibit A, and the PERA Proxy Voting Policy, Exhibit B. Securities purchased shall be held in the name of PERA in the Contractor’s Account by the Custodial Bank. The Contractor acknowledges its responsibility to purchase and sell securities in accordance with this Agreement and in accordance with fiduciary obligations owed to PERA.

3. The Contractor shall have full discretion to make sales and purchases of securities under this Agreement, provided that such sales and purchases conform to federal and New Mexico law, including, but not limited to, NMSA 1978, Section 10-11-132, as it may be amended from time to time, the PERA Investment Policy in effect at the time of the purchase or sale, PERA rules in effect at the time of the purchase or sale, and any objectives, guidelines, directives or instructions issued by PERA to the Contractor and in effect at the time of the purchase or sale, including, but not limited to, the Investment and Operational Guidelines, Exhibit A, and the PERA Proxy Voting Policy, Exhibit B.

4. PERA may request that any transaction made by the Contractor in which the market value of the securities sold produces a loss must be accompanied by a statement reciting the loss, the amount of the loss, detailed reasons for the sale, and such other information as PERA requests, including data the Contractor has to support its decisions. Gains and losses shall be computed based on PERA’s current average cost of the individual security against the net principal proceeds of the security sold. For the purposes of this Agreement, “market value” shall be determined through PERA’s Custodial Bank or in accordance with an exchange or pricing service designated by PERA. In the event an asset is listed on multiple exchanges or pricing services at differing closing prices, PERA, in its sole discretion, shall determine which exchange price shall be used.

5. With regard to the services provided under this Agreement, the Contractor holds itself out as an expert in the making and handling of investments for large trust funds. The Contractor represents itself as being possessed of greater knowledge and skill than the average person in the making and handling of investments for large trust funds. Accordingly, the Contractor acknowledges and agrees that it is under a duty to perform its services under this Agreement to the standard of care, diligence and skill a reasonably prudent person familiar with such matters would exercise under the circumstances. The Contractor further acknowledges that, in performing its duties under this Agreement, it is a fiduciary to PERA and shall at all times act in a fiduciary capacity to PERA and the Account. Contractor shall be liable to PERA for damages arising out of Contractor’s purchase or sale of PERA securities or other investment decisions, including, but not limited to, proxy voting, that are not made according to the provisions contained in this Agreement or according to the standard of care set forth in this Paragraph 1(A)(5).

6. PERA shall furnish monthly asset statements to the Contractor depicting the current average cost, the number of units being held and the description of each asset being held in the Contractor’s Account. Contractor shall reconcile the asset statement and provide PERA with a list of discrepancies within 10 working days from the date of receipt of such listing.

7. The Contractor shall provide to PERA in writing monthly, quarterly, and annual market values of the assets under Contractor’s management, including statements setting forth both the percentage appreciation or depreciation of assets during the pertinent reporting period. The Contractor shall also provide such other oral or written reports as are requested by PERA.

8. At such times as directed by PERA, Contractor shall, at Contractor’s sole expense, have a representative attend periodic meetings of the PERA Board or the PERA Investment Committee at the offices of PERA or such other location designated by PERA. The Contractor shall report to PERA on all matters that represent significant changes in economic forecasts, investment outlook, industry emphasis, and any other matters of a general or specific nature as reasonably requested by PERA

9. PERA shall furnish the Contractor such evidence of authority of the persons authorized to act on behalf of PERA, together with their specimen signatures, as Contractor may reasonably request.

10. The Contractor shall provide to PERA at the inception of this Agreement, a copy of the Contractor’s proxy voting guidelines. The Contractor shall vote all proxies on behalf of PERA and shall keep accurate records of its votes. The Contractor shall report in writing all proxy actions and reasons for such actions that differ from Contractor’s proxy voting guidelines. The Contractor shall follow at all times the findings and recommendations adopted by the PERA Board in the PERA Proxy Voting Policy; Exhibit B. The PERA Board shall promptly provide any amendments to the PERA Proxy Voting Policy to the Contractor for its review and Contractor shall promptly notify PERA as to whether the Contractor can implement or comply with such amendments.

11. The Contractor warrants that it has a positive net worth at the effective date of this Agreement and agrees that it shall maintain a positive net worth throughout the term of this Agreement or any extension thereof. Furthermore, the Contractor shall notify PERA immediately, in writing, of any material, adverse change in Contractor’s net worth.

12. Contractor agrees to provide PERA representatives with access, at reasonable times and intervals, to Contractor’s operational headquarters or such other offices where Contractor services PERA’s Account for the purpose of making site visits and inspections.

13. Contractor agrees that it will notify PERA of any changes in the current ownership of the Contractor such that Contractor becomes a fifty percent or more subsidiary of another firm or person within a reasonable time after such change.

14. PERA hereby acknowledges its receipt of a copy of Part II of the Contractor’s Form ADV at least 48 hours prior to its entering into this Agreement.

**2. COMPENSATION**

**A. Management Fee and Conditions of Payment**

For the investment management services rendered by the Contractor to PERA under this Agreement, PERA shall pay the Contractor a quarterly fee computed in accordance with the Management Fee Agreement attached hereto as Exhibit C (“Exhibit C”). No fee shall be payable or calculated for any calendar quarter or other period, if appropriate, until the Contractor has rendered the services for such calendar quarter or other period. The Contractor’s fee shall be calculated and payable quarterly in arrears. All requests for payment that the Contractor submits to PERA shall include a description of the assets in the Contractor’s Account for the applicable period and the average of the “market value of account” for the applicable valuation dates in the manner described by Exhibit C for the calculation of fees. The "market value of account" is defined as the sum of any cash balances and receivables (cash or the value, as PERA determines, of securities) due as of the valuation date from brokers or dealers, and the value, as determined by PERA, of all securities in the “Account”, but shall not include monies intended for investment pursuant to the Agreement but not yet received by the Contractor. All securities shall be valued by PERA in its sole discretion. In the event of a discrepancy between PERA and the Contractor as to “market value of account”, the “market value of account” as determined by PERA shall prevail. The Contractor shall provide to PERA a preliminary reconciliation of market values of securities. The Contractor shall not submit a request to PERA for payment until PERA has reviewed and accepted the Contractor’s preliminary reconciliation for the purpose of calculating the average of the “market value of account” for the applicable valuation dates and the performance fee, if any, has been calculated by PERA

or its outside investment measurement service. The average of the “market value of account” accepted by PERA for the applicable period shall be included in any request for payment. Payments shall be made no later than three months after the end of the period for which management services have been rendered or three months after PERA’s receipt of the bill containing the average of the “market value of account” accepted by PERA for the applicable period, whichever is later.

To the extent that investment in open-end investment companies is permitted under PERA’s Investment Policy and the guidelines attached as Exhibit A, to the extent that all or any portion of the assets of the Account are invested in one or more open-end investment companies for which the Contractor or its affiliate acts as investment adviser and for which certain affiliates of the Contractor act as shareholder servicing agent and as distributor, the management fee set forth in Appendix C hereto shall be waived in its entirety or prorated.

The Contractor hereby waives any late payment charges on billings, or interest on billings, that may be assessable.

**B. Payment of Taxes**

Contractor shall pay all state and federal taxes assessed on the compensation received under this Agreement and shall identify and pay those taxes under the Contractor’s federal and state identification number(s).

**C. Allocation of Charges and Expenses.**

The Contractor shall furnish at its own expense investment advisory and administrative services, office space, equipment and clerical personnel necessary for serving as Contractor to the Account, and investment advisory facilities and executive and supervisory personnel for managing the investments and effecting the portfolio transactions of PERA. PERA will pay all of its own expenses, including without limitation: governmental fees; interest charges; taxes; fees and expenses of PERA's independent auditors and legal counsel; brokerage and other expenses connected with the execution, recording and settlement of portfolio security transactions; insurance premiums; and fees and expenses of the Custodial Bank for all services to PERA, including safekeeping of funds and securities and maintaining required books and accounts.

**3. TERM**

The initial term of the Agreement shall be for a period of eight (8) years commencing upon the signature of the parties. Furthermore, at any time during the initial term of this Agreement or any extension of the term of the Agreement, this Agreement is subject to early termination or termination for lack of appropriations in accordance with Paragraph 4(A) or Paragraph 4(B) of the Agreement.

**4. TERMINATION**

**A. Early Termination**

Notwithstanding any other provision of this Agreement, this Agreement may be terminated by either party by delivering to the other party notice of the intent to terminate at least thirty (30) days prior to the intended date of termination. In the event the termination date does not coincide with the last day of a quarter, the Contractor shall be entitled to a prorated portion of the fee for the quarter during which termination occurs. By such termination, neither PERA nor the Contractor may nullify obligations, if any, already incurred for performance or failure to perform prior to the date of termination. Termination under this Paragraph 4(A) may be made with or without cause. **THIS PROVISION IS NOT EXCLUSIVE AND DOES NOT CONSTITUTE A WAIVER OF ANY OTHER LEGAL RIGHTS AND REMEDIES AFFORDED EITHER PARTY IN SUCH CIRCUMSTANCES AS THE OTHER PARTY’S DEFAULT OR BREACH OF CONTRACT.**

**B. Termination for Lack of Appropriations**

The terms of this Agreement are contingent upon sufficient authorizations and appropriations being or having been made by the New Mexico Legislature for the performance of this Agreement. If sufficient authorizations and appropriations are not or have not been made by the New Mexico Legislature, or are discontinued by the New Mexico Legislature, this Agreement shall terminate upon written notice being given by PERA to the Contractor. PERA's decision as to whether sufficient authorizations or appropriations are or have been made, or are or have been discontinued, shall be accepted by the Contractor and shall be final.

**5. PRODUCT OF SERVICES; COPYRIGHT**

All materials developed or acquired by the Contractor under this Agreement shall become the property of the State of New Mexico and shall be delivered to PERA no later than the termination date of this Agreement. Nothing produced, in whole or in part, by the Contractor under this Agreement shall be the subject of an application for copyright by or on behalf of the Contractor.

**6. INDEMNIFICATION**

In addition to the Contractor’s liability as provided for in Paragraph 1(A)(5) of this Agreement, the Contractor shall indemnify, defend, and hold harmless PERA, the PERA Board, and their officers and employees from and against any and all claims, demands, liability, suits, causes of action, losses, damages, fines, fees, attorneys fees, penalties, costs, expenses, injuries to property, judgments (including defense costs and attorneys fees) that occur or arise out of or in connection with: (1)the Contractor’s material failure to perform under any provision of this Agreement; (2) the Contractor’s material breach of any term, condition, warranty or representation contained in this Agreement; (3) the Contractor’s provision of services that are not in accordance with any applicable law, rule, regulation, or provision of this Agreement; (4) Contractor’s failure to perform in accordance with the standard of care contained in Paragraph 1(A)(5) of this Agreement; or (5) any error, omission, fraud, embezzlement, theft or gross negligence of the Contractor. It is understood, however, that the Contractor’s obligations under this Paragraph do not extend to liabilities resulting from causes beyond the control and without the fault or negligence of the Contractor, including acts of God, war or civil commotion, fire, earthquake, or other natural disaster, and unforeseeable acts of any federal, state, or local government or agency thereof.

**7. ASSIGNMENT**

The Contractor shall not assign nor transfer any interest in this Agreement or assign any claims for money due or to become due under this Agreement without prior, written approval from PERA. No such assignment or transfer shall relieve the Contractor from its obligations and liabilities under this Agreement.

**8. SUBCONTRACTING:**

The Contractor shall not subcontract any portion of the services to be performed under this Agreement without prior, written approval of PERA. No such subcontracting shall relieve the Contractor from its obligations and liabilities under this Agreement.

**9. STATUS OF CONTRACTOR**

Notwithstanding any other provisions of this Agreement, the Contractor, and its agents and employees, are independent contractors performing professional services for PERA and are not employees of PERA or the State of New Mexico. The Contractor, including its agents and employees, shall not, by virtue of this Agreement, accrue leave, retirement, insurance, bonding, use of state vehicles, or any other benefits afforded to employees of the State of New Mexico. The Contractor acknowledges that all sums received under the terms of the Agreement are reportable by it for income tax purposes as self-employment or business income.

**10. RECORDS AND AUDITS**

The Contractor shall maintain such detailed records as may be necessary to demonstrate its performance of the duties required by this Agreement, including the date, time and nature of services rendered. These records shall be maintained for a period of three years from the date of the final payment under this Agreement and shall be subject to inspection by PERA, the New Mexico Department of Finance and Administration, and the New Mexico State Auditor. PERA, the New Mexico Department of Finance and Administration, and the New Mexico State Auditor shall have the right to audit any billings or examine any records maintained pursuant to this Agreement both before and after payment. Payment under this Agreement shall not foreclose the right of PERA to recover excessive and/or illegal payments.

**11. CONFIDENTIALITY**

Any information provided to or developed by the Contractor in the performance of this Agreement shall be kept confidential and shall not be made available to any individual or organization by the Contractor without the prior written approval of PERA except as may otherwise be required by law.

**12. RELEASE**

The Contractor’s acceptance of final payment of the amount due under this Agreement shall operate as a release of PERA, its officers and employees, and the State of New Mexico from all liabilities, claims and obligations whatsoever arising from or under this Agreement. The Contractor agrees not to purport to bind the State of New Mexico to any obligation not assumed within the terms of this Agreement by the State of New Mexico, unless the Contractor has express written authority to do so, and then only within the strict limits of that authority.

**13. CONFLICT OF INTEREST**

The Contractor warrants that it presently has no interest and shall not acquire any interest, direct or indirect, that would conflict in any manner or degree with the performance of services required under this Agreement. With respect to either Account, the Contractor shall not engage in transactions with either itself, including any affiliates or parent companies of the Contractor, or other firms that provide investment management services to PERA except upon prior written approval of PERA. The Contractor certifies that the requirements of the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 to 10-16-18, regarding contracting with a public officer or state employee, have been followed, if applicable.

**14. MERGER; SCOPE OF AGREEMENT:**

This Agreement incorporates all the agreements, covenants and understandings between the parties concerning the subject matter hereof, and all such agreements, covenants and understandings have been merged into this Agreement. No prior agreement or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in this Agreement.

This Agreement incorporates by reference the following Exhibits, which are attached to this Agreement:

1. Exhibit A: The Investment and Operational Guidelines that govern the Contractor’s

services under this Agreement;

2. Exhibit B: The current PERA Proxy Voting Policy;

3. Exhibit C: The Management Fee Agreement that governs the Contractor’s

services under this Agreement;

4. Exhibit D: The current PERA Investment Policy; and

5. Exhibit E: The Contractor’s Warranties to PERA.

Contractor also acknowledges receipt of the current PERA Rule 2.80.300 NMAC. Contractor shall abide by the terms of the PERA Investment Policy as they may be amended by the PERA Board from time to time. In the event that the PERA Board amends the PERA Investment Policy or the PERA Rule 2.80.300 NMAC, PERA shall provide the Contractor with any such amendments, and the Contractor shall be bound to follow such amendments to the PERA Investment Policy, or the PERA Rule 2.80.300 NMAC, without the need to amend this Agreement. PERA also shall provide Contractor with any amendment to NMSA 1978, Sections 10-11-132 and 10-11-133 and the Uniform Prudent Investor Act, as adopted by New Mexico.

Contractor understands that the PERA Investment Policy, Exhibit D, is a general Policy governing all of PERA’s investments while this Agreement and the Investment and Operational Guidelines for this Agreement, Exhibit A, are specific to the particular investment management services that the Contractor provides for PERA. In the event of a conflict between the terms of the Investment and Operational Guidelines and the terms of the Investment Policy, the terms of the Investment and Operational Guidelines shall apply. Appendix A to the PERA Investment Policy, Exhibit D, sets forth the provisions of NMSA 1978, Section 10-11-132, which governs all of PERA’s investments. In the event of a conflict between the types of investments permitted by the PERA Investment Policy, Exhibit D, and the types of investments permitted by the Investment and Operational Guidelines, Exhibit A; the terms and restrictions of the Investment and Operational Guidelines, Exhibit A, shall apply in determining the types of the Contractor’s authorized investments; provided, however, that in making the types of investments authorized by Exhibit A, the Contractor shall at no time make any investment prohibited by NMSA 1978, Section 10-11-132, as amended, or by the provisions of Exhibit D; for greater clarity, as of the date of this Agreement, there are no prohibitions on investments in NMSA 1978, Section 10-11-132, or in Exhibit D that are not also included in Exhibit A.

**15. WAIVER**

No waiver of any of the terms or conditions hereof or any breach of this Agreement shall be held to be a waiver of any other or any subsequent breach; nor shall any waiver of any of the terms of this Agreement be valid, alleged, or binding unless the same shall be in writing and signed by the party alleged to have granted the waiver.

**16. EQUAL OPPORTUNITY COMPLIANCE**

The Contractor agrees to abide by all applicable federal and state laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, pertaining to equal employment opportunity. In accordance with all such laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, the Contractor agrees to assure that no person in the United States shall, on the grounds of race, color, national origin, sex, sexual preference, age or handicap, be excluded from employment with or participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity performed under this Agreement. If Contractor is found not to be in compliance with these requirements during the life of this Agreement, Contractor agrees to take appropriate steps to correct these deficiencies.

**17. AMENDMENTS**

This Agreement shall not be altered, changed, or amended except by an instrument in writing executed by the parties hereto.

**18. GRATUITIES AND CAMPAIGN CONTRIBUTIONS**

The Contractor and its officers and employees are prohibited from soliciting or receiving campaign contributions, for or on behalf of any PERA Board member, candidate for PERA Board member, or any political candidate in the State of New Mexico, from any investment company or brokerage firm, including its officers and employees, which has engaged in any financial transaction with PERA within the preceding twelve (12) months prior to the solicitation or receipt of the contribution or which reasonably expects within the next twelve (12) months to engage in financial transactions with the PERA. In addition, the Contractor shall comply with the prohibitions and restrictions upon making campaign contributions to PERA Board members and candidates for the position of PERA Board member, and giving gratuities to PERA Board members and PERA employees, contained in NMSA 1978, Section 10-11-130.1. The Contractor shall annually certify to PERA compliance with NMSA 1978, Sections 10-16-130.1, regarding restrictions on gratuities to PERA Board members and PERA employees.

Violation of this Paragraph constitutes a breach by the Contractor of its Agreement with PERA.

**19. APPLICABLE LAW**

This Agreement shall be governed by the laws of the State of New Mexico. Notwithstanding any other provision of this Agreement, in the event of a lawsuit involving this Agreement, venue shall be proper only in a New Mexico court of competent jurisdiction. By execution of this Agreement, Contractor acknowledges and agrees to the jurisdiction of the courts of the State of New Mexico over such lawsuits.

**20. NOTICE OF PENALTIES**

New Mexico criminal statutes impose felony penalties for bribes, gratuities and kick-backs.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the last signature below.

**PUBLIC EMPLOYEES RETIREMENT**

**ASSOCIATION OF NEW MEXICO**

By: Date:

WAYNE PROPST

Executive Director

**CONTRACTOR NAME**

By: Date:

Title

APPROVED AS TO FORM AND LEGAL SUFFICIENCY

By: Date:

SUSAN G. PITTARD

Special Assistant Attorney General

Services performed by Contractor are performed out-of-state and therefore, Contractor is not required to be registered with the Taxation & Revenue Department of the State of New Mexico to pay gross receipt and compensating taxes.

STATE OF NEW MEXICO

TAXATION & REVENUE DEPARTMENT

By: Date:

# **APPENDIX G, Investment Policies**

**RFP NO. NM INV-001-FY16**

**Rule 300: Investment Policies and Practices**

**TITLE 2 PUBLIC FINANCE**

**CHAPTER 80 PUBLIC EMPLOYEES RETIREMENT**

**PART 300 INVESTMENT POLICIES AND PRACTICES**

2.80.300.1 ISSUING AGENCY: Public Employees Retirement Association, P. O. Box 2123, Santa Fe, New Mexico 87504-2123

[10-15-97; 2.80.300.1 NMAC – Rn, 2 NMAC 80.300.1, 12-28-00]

2.80.300.2 SCOPE: This rule applies to the Public Employees Retirement Board and its investment managers and brokerage firms.

[10-15-97; 2.80.300.2 NMAC – Rn, 2 NMAC 80.300.2, 12-28-00]

2.80.300.3 STATUTORY AUTHORITY: This rule is authorized by NMSA 1978, Sections 10-1-130, 10-11-132 and 10-11-133, as amended.

[10-15-97; 2.80.300.3 NMAC – Rn, 2 NMAC 80.300.3, 12-28-00]

2.80.300.4 DURATION: Permanent.

[10-15-97; 2.80.300.4 NMAC – Rn, 2 NMAC 80.300.4, 12-28-00]

2.80.300.5 EFFECTIVE DATE: May 4, 1994 unless a different date is cited at the end of a Section.

[10-15-97; 2.80.300.5 NMAC – Rn, 2 NMAC 80.300.5, 12-28-00]

2.80.300.6 OBJECTIVE: The objective of this rule is to set the Public Employees Retirement Board’s investment policy for investments of funds under NMSA 1978, Sections 10-11-132 and 10-11-133, as amended.

[10-15-97; 2.80.300.6 NMAC – A, 2 NMAC 80.300.6, 12-28-00; A, 8-15-01]

2.80.300.7 DEFINITIONS:[Reserved]

[2.80.300.7 NMAC – A, 2 NMAC 80.300.7, 12-28-00]

2.80.300.8-9 [Reserved]

2.80.300.10 INVESTMENT COMMITTEE: [Reserved]

[2.80.300.10 NMAC – A, 2 NMAC 80.300.10, 12-28-00]

2.80.300.11-19 [Reserved]

2.80.300.20 MANAGEMENT AND PHILOSOPHY: [Reserved]

[2.80.300.20 NMAC – A, 2 NMAC 80.300.20, 12-28-00]

2.80.300.21-29 [Reserved]

2.80.300.30 BEST EXECUTION AND BEST PRICE

A. Statement of Policy: The New Mexico Public Employees Retirement Board adopts the following statement as its policy with respect to securities transactions of the PERA investment funds.

(1) The Board serves as trustee of the retirement funds created under the Public Employees Retirement Act, NMSA 1978, Section 10-11-1 et seq.; the Judicial Retirement Act, NMSA 1978, Section 10-12B-1 et seq.; the Magistrate Retirement Act, NMSA 1978, Section 10-12C-1 et seq.; and the Volunteer Firefighters Retirement Act, NMSA 1978, Section 10-11A-1 et seq.

(2) As trustee of these funds, the Board has a fiduciary responsibility to invest these funds solely in the interest of participants and beneficiaries and exclusively to provide benefits to these participants and beneficiaries and to pay reasonable administrative costs. The Board also has a fiduciary obligation to give primacy to the preservation of trust funds and to insure the procurement of a reasonable income while avoiding undue investment risks.

(3) The Board has delegated the investment of the funds under its jurisdiction to external investment managers except for a small number of accounts that are invested directly by the PERA Investment Division.

(4) By contractual agreement, the Board has delegated to its investment managers full discretion with regard to securities transactions so long as they conform to New Mexico State statutes, the PERA Investment Policy and the specific PERA investment objectives and guidelines for each particular investment portfolio.

(5) Both by contract and by virtue of common law trust principles, the investment managers serve as fiduciaries to PERA and must at all times act in a fiduciary capacity to PERA and the investment accounts assigned to them.

(6) As fiduciaries of the funds, both the Board and its investment managers are obligated to require that all securities transactions be made on the basis of best execution under the circumstances at the lowest available price.

(7) The Board's policy is that all securities transactions shall be executed on the basis of best execution under the circumstances at the lowest available price and that all investment decisions shall be made solely for the benefit of fund participants and their beneficiaries.

B. [Reserved]

[10-15-97; 2.80.300.30 NMAC – A, 2 NMAC 80.300.30, 12-28-00; A, 8-15-01]

**HISTORY of 2.80.300 NMAC:**

Pre-NMAC History: The material in this Part was derived from the previously filed with the State Records Center & Archives under: Rule 300.00, Investment Policies and Practices, filed on 10-4-79; PERA Rule 300.00, Investment Policies and Practices, filed on 11-19-81; PERA Rule 300, Investment Policies and Practices, filed on 7-1-91; PERA Rule 300, Investment Policies and Practices, filed on 5-4-94.

## **THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**of**

**NEW MEXICO**



**INVESTMENT POLICY**

Adopted by the Board of Trustees

August 30, 2007

Revised

August 28, 2014

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**THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**INVESTMENT POLICY**

**INTRODUCTION**

**A. Statutory Authority**

The Public Employees Retirement Association of New Mexico (PERA), created by law in 1947, is the entity established for the purpose of administering the provisions of the Public Employees Retirement Act of New Mexico, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-8, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as well as other federal and State laws relating to the public employees retirement system in the State of New Mexico. As of September 2014, PERA administers thirty-one retirement plans under a defined benefit structure covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators.

**B. Standards of Care**

**Uniform Prudent Investor Act**

The Uniform Prudent Investor Act (UPIA) [[45-7-601](http://198.187.128.12/newmexico/lpext.dll?f=FifLink&t=document-frame.htm&l=jump&iid=5f567051.35d55c0e.0.0&nid=e44f#JD_45-7-601) to [45-7-612](http://198.187.128.12/newmexico/lpext.dll?f=FifLink&t=document-frame.htm&l=jump&iid=5f567051.35d55c0e.0.0&nid=e465#JD_45-7-612) NMSA 1978] and Section 10-11-132 and 10-11-133 NMSA, 1978 govern NM PERA investments. In summary, the UPIA states that all persons responsible in making investment decisions for the Public Employees Retirement Fund (Fund) shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The statutes are the foundation for the PERA Policy. The Board adopts the following guiding principles for investment activity:

1. Preserve the long-term principal of the Fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of PERA members, retirees and beneficiaries.
4. Maintain sufficient liquidity to meet PERA’s obligations.

**C. Ethics and Conflicts of Interest**

Trustees and Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions as addressed in Section III of the Board Policy and Procedures.

**STATEMENT OF PURPOSE**

**A. Mission Statement**

Public Employees Retirement Association of New Mexico (PERA) is governed by the Public Employees Retirement Board (Board). The Board has a fiduciary responsibility to the Retirement Fund’s (Fund) members, retirees and beneficiaries. To acknowledge this responsibility, the Board has accepted the following as their Mission Statement:

*The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to Association members.*

**B. Purpose of the Investment Policy**

The purpose of the Investment Policy (Policy) is to delineate the investment philosophy, objectives, guidelines and practices of PERA and has been developed as a reference point for the management of PERA’s assets. The Policy is intended to capture investment opportunities while providing parameters that ensure prudence and care in the execution of the investment program.

No investment or action pursuant to an investment may be taken unless permitted by this Policy or by action of the Board. Deviation from this Policy is not permitted without explicit written permission from the Board.

The Policy provides guidance for fiduciaries which include PERA’s Board, Staff, investment consultants, investment managers, and custodians. It is the intent of the Policy to provide the foundation for management of the PERA’s assets in a prudent manner including the standards and disciplines by which the Board can evaluate Staff, investment consultants, investment managers and custodians.

**INVESTMENT PHILOSOPHY**

**A. Primary Objective**

The Fund’s primary objective is to prudently invest assets in order to meet statutory obligations to its members. The Funds’ assets will be managed in a manner that reflects both the Funds’ unique liabilities and funding resources, incorporating accepted investment theory, prudent levels of risk and reliable, empirical evidence. Specifically, the Board has adopted the following principles:

* Strategic asset allocation is the most significant factor influencing long-term investment performance and asset volatility. The asset allocation targets adopted by the Board shall adhere to the guidelines contained in this Policy.
* Risk is an unavoidable component of investing and is a major factor that shall be taken into account in assessing investment policy and strategy. In evaluating specific investments, both the risks associated with that investment as well as the impact of the investment to the overall portfolio shall be considered.
* Diversification both by and within asset classes is the Fund’s primary risk control element. Other risk control measures shall be implemented where appropriate.
* The Fund’s liabilities are long-term and the investment strategy must therefore be long-term in nature.
* Sufficient liquidity will be maintained to meet the anticipated cash flow requirements of the Fund.

**B. Return**

In order to meet the Fund’s objective, the Board strives to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Due to the long-term nature of the PERA’s pension obligations and the inherent risks in short-term tactical investing, the Board must maintain a long-term perspective in formulating and implementing its investment policy, and in evaluating its investment performance. As such, the Board: (1) seeks to adopt a long-term rate of return goal commensurate with the actuarial assumed rate of return, (2) adopts an allocation policy that seeks to meet the rate of return goal over long periods of time, while minimizing volatility (risk) and (3) strives to minimize the costs associated with implementation of the asset allocation through efficient use of internal and/or external resources.

Investment performance is measured by three integrated long-term objectives in the following order of importance:

1. The actuarial assumed target rate of return is the key actuarial assumption affecting future funding rates and payment of pension obligations. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates. The Board seeks to have long-term investment performance that will meet or exceed its actuarial assumed rate of return while managing risk.
2. The Policy benchmark is calculated by applying the investment performance of the asset class benchmarks to the Fund’s asset allocation targets. The Policy benchmark permits the Board to compare the Fund’s actual performance to a total fund benchmark *(Section VI. A. Performance Benchmarks, Total Fund Benchmark)* and to measure the contribution of active investment management and policy adherence.
3. While the Board recognizes that other funds may have investment objectives and risk tolerances that differ substantially from PERA’s, the Board will compare its total risk-adjusted fund performance to appropriate public plan sponsor comparison universes. A universe comparison permits the Board to compare its performance to large statewide public and other pension plans.

**C. Risk**

The investment risk philosophy for the Fund is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

1. Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk taking is a necessary element of long-term investing.
2. Risk can be mitigated through diversification of asset classes and investment approaches, as well as diversification of individual securities.
3. The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes.
4. Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes or implementation strategies are unlikely to be rewarded.

Given these principles, the Board has established a long-term asset allocation policy that balances the returns intended to fund PERA’s objectives and the risk level that is appropriate under existing and anticipated circumstances.  In determining the returns sought, the Board takes into account the benefit levels and structure of the plans supported by the Fund. The Board will periodically conduct an asset/liability study to determine the extent to which the long-term asset allocation is consistent with the liabilities of the retirement plans.  In determining what the Board believes is a prudent level of risk assumed in pursuit of those returns, the Board will consider total fund risk, the Fund’s expected volatility, liquidity, and general sensitivity to the overall asset allocation and to equity, bond and other major assets classes utilized by the Fund.  The Board will regularly measure and monitor Fund risks in its management of the Fund.

Investments shall be made to preserve and protect the long term investment results and benefits of the Fund.

**D. Diversification**

In order to achieve the actuarial assumed rate of return, the Board will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. Investors generally diversify their portfolios along the following lines: asset classifications (stocks, bonds, real estate, real assets, hedge funds. private equity, short-term investments, etc.), geography, industries, and maturity sectors. Other considerations in asset allocation modeling should take into account the purpose of the Fund, the size and financial condition of the Fund, and general business conditions. The factors mentioned here are not intended to be limiting; rather, they are outlined as a general indication of the importance of diversification to proper asset allocation. Under such an allocation, PERA's assets may be invested by some combination of active and passive managers. The Board will determine the proper allocation among asset classes and investment managers, based on advice and analysis provided by Staff and/or Consultants.

**ROLES AND RESPONSIBILITIES / DELEGATION OF AUTHORITY**

The Board relies on both internal Staff and external contractors in order to properly administer the Fund and implement its investment strategies. Because of the number of parties involved, their roles as fiduciariesmust be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

**A. Board of Trustees**

The primary fiduciary responsibility of the Board is to ensure prudent investment and expenditure of the Fund’s assets. It is the responsibility of the Board to administer the investments of PERA at reasonable cost, being careful to avoid diminishing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to PERA. The Board shall operate the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets. The Board is responsible for establishing and maintaining all policies and guidelines by which the Fund is managed, and by which the Board operates. The Board shall meet to execute its duties on a quarterly basis or more frequently if appropriate.

**B. Investment Committee**

To assist the Board in carrying out its duties, it has established an Investment Committee (Committee).

Through New Mexico Administrative Code Rules (NMAC), the Board establishes the Committee and the Board Chair appoints the members of the Committee as well as the Committee Chair. The Committee makes recommendations to the Board on investment actions including, but not limited to: all Board approved policies related to the investment program including investment policy, re-balancing, and manager hiring, monitoring and termination; asset allocation targets and ranges; asset class structure; performance benchmarks; securities lending program; trade cost analysis; investment manager relationships; and consulting relationships.

The Committee meets prior to the regular meeting of the Board to address overall investment activities. Staff and Consultant(s) brief the Committee on any topics or issues pertinent to PERA’s investment operations, and make recommendations to the Committee for appropriate courses of action. The Committee Chair shall have the duty and the authority to set Committee meeting agendas and request specific analysis and reports from the Staff and Consultants.

**C. Executive Director**

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering the operations of PERA under broad policy guidance and direction from the Board. The Director, with assistance of Staff (his/her designee), monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and Committee Chairs; studies, recommends, and implements policy and operational procedures that will enhance the investment program of PERA; and ensures that proper internal controls are developed to safeguard the assets of PERA. In fulfilling these investment responsibilities, the Director relies heavily on the Investment Staff and Consultant(s).

**D. Chief Investment Officer and Investment Staff**

The Internal Investment Staff (Staff) reports directly to the Chief Investment Officer (CIO) who in turn reports to the Director. The CIO has primary responsibility for the implementation of the investment program. The CIO, with the assistance of Staff, has the responsibility and authority to assist the Board and its committees in establishing investment and administrative policy, to implement the policies and programs established by the Board, to report to the Board and Legislature on the status of the Fund and the operations of PERA, and to carry out such other duties the Board or Committee shall delegate to him/her.

The Staff exercises the same fiduciary responsibility under applicable law as the Board. The CIO and the Staff shall manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, report on the progress of the Fund in meeting its investment objectives, and compare the performance of the portfolio to established benchmarks.

**E. General Counsel and Office of General Counsel Staff**

The internal Office of General Counsel staff (OGC staff) reports directly to the General Counsel who in turn reports directly to the Director. The General Counsel is primarily responsible for legal compliance of the investment program and advises the Board on investment-related legal matters. The General Counsel, with the assistance of OGC staff, coordinates legal due diligence by external legal counsel for alternative investments, including transactional, regulatory and federal tax matters. OGC staff exercise the same fiduciary responsibility under applicable law as the Board.

**F. Investment Consultant(s)**

The Consultant(s) is hired by the Board, reports directly to the Board and is directly accountable to the Board. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting. InvestmentConsultants agree to indemnify PERA as fiduciaries as provided in their Professional Services Agreement and will discharge their duties with respect to the Fund solely in the interest of the PERA membership and benefit recipients with the care, skill, prudence, and diligence under the circumstances then prevailing.

The Consultant’s duty is to work with the Board, Committee and its Chair, and Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund’s goals, structure, performance and managers. In the course of the Consultant’s normal functions, the Consultant will work directly with the Staff to review asset allocations and performance, and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with external investment manager selection and will promptly inform PERA and discuss the impact of material changes taking place within any current Manager’s organization or investment process.

**G. External Investment Managers**

The external Investment Managers (Managers) are selected by, and serve at the pleasure of, the Board. Each investment manager shall be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and operate under a formal contract that sets investment guidelines and administrative requirements and defines responsibilities and performance expectations for management of each mandate. Full discretion, consistent with this policy and contractual guidelines, is granted to all investment managers. Managers will provide performance reporting to the Staff utilizing standardized reporting formats and at intervals specified by Staff.

**H. External Legal Counsel**

Outside Legal Counsel agree to indemnify PERA as provided in their Professional Services Agreement and discharge their duties with respect to this fund solely in the interests of the PERA membership and benefit recipients with the care, skill, prudence and diligence under the circumstances prevailing. Qualified Legal Counsel include those professionals with the background, expertise and demonstrated success as legal counsel for public funds and large institutional clients regarding alternative investments, including, but not limited to, private equity, hedge funds, real estate and real assets.

**ASSET ALLOCATION**

**A. Strategic Asset Allocation Targets**

The Board recognizes that over the long-term, asset allocation is the single greatest determinant of return and risk to the Fund. The Fund’s asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Fund’s objectives at a controlled level of risk that is acceptable to the Board. In establishing its risk tolerance, the Board will consider its ability to withstand short- and intermediate-term volatility in investment performance and fluctuations in financial condition of the Fund. In determining the appropriate strategic allocation among these asset classes, the Board, with assistance from Staff and Consultants will examine the historical and projected risk and return of the approved asset classes as well as the correlation among these asset classes. The Board will also consider the expected effect of investment performance on the obligations of the Fund. Based on its determination of the appropriate risk tolerance for PERA, and its long-term return expectations, the Board has chosen the following Strategic Asset Allocation Target:

|  |  |
| --- | --- |
| **Asset Class** | **Strategic Asset Allocation Target** |
| Domestic Equity1 | 21.1% |
| International Equity1 | 24.8% |
| Core and Global Fixed Income1 | 26.1% |
| Fixed Income Plus1 | 5.0% |
| Private Equity2 | 7.0% |
| Absolute Return2 | 4.0% |
| Real Estate2 | 5.0% |
| Real Assets2 | 7.0% |

1 These allocations may be referred to as Traditional Assets

2 These allocations may be referred to as Alternative Assets

The Board recognizes that the long-term target allocation may take an extended period to implement. Staff and the Consultants will provide the Board with regular updates on the progress towards the targeted asset allocation of the Fund as a whole and the component asset classes. The Board will prudently monitor this progress and the Fund’s performance through any implementation period.

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the Fund’s long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets. Recognizing that the long-term target allocation to alternative asset classes may take several years to implement prudently, the Board will work with Staff and Consultants to set interim asset allocation targets and alternative asset funding guidelines to be utilized until the alternative asset classes are fully funded.

**B. Re-Balancing Strategy**

Re-balancing is the term that describes the periodic movement of funds from one asset or asset class to another for the purpose of realigning the assets with the asset allocation target. A re-balancing strategy is an important element of asset allocation policy.

The Board has chosen to adopt a re-balancing policy that is governed by allocation ranges rather than time periods. Upper and lower allocation limits have been established for each asset class. The ranges, specified in the table below, are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. Staff reviews the Fund’s allocation on an ongoing basis. When the allocation to all asset classes remains within these limits, Staff will use cash flow to maintain the overall allocation as closely as possible to the target.

**Strategic Asset Allocation and Re-Balancing Ranges**

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class** | **Lower Limit** | **Strategic Asset Allocation Target** | **Upper Limit** |
| Domestic Equity | 16.1% | 21.1% | 26.1% |
| International Equity | 19.8% | 24.8% | 29.8% |
| Core and Global Fixed Income | 23.1% | 26.1% | 29.1% |
| Fixed Income Plus | 3.0% | 5.0% | 7.0% |
| Private Equity | 5.0% | 7.0% | 9.0% |
| Absolute Return | 2.0% | 4.0% | 6.0% |
| Real Estate | 3.0% | 5.0% | 7.0% |
| Real Assets | 5.0% | 7.0% | 9.0% |

When any one of the public market asset classes breaches an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation target range within ninety (90) days. Recognizing that it may be impractical or costly to reallocate illiquid alternative assets, if an alternative asset class breaches an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs. The Board has authorized the CIO and Staff to re-balance the portfolio in accordance with policy guidelines on an on-going basis. The goal in implementing the re-balancing policy is to minimize transaction costs, market impact, and opportunity costs. Staff will prioritize the re-balancing strategies and methods employed based on the circumstances at the time, and Staff will report the results of re-balancing activity to the Committee and the Board at the next regular meeting. The re-balancing program may be implemented through the use of the cash overlay program (see *Section VIII. Investment Guidelines, A. Permitted Investments, Borrowing and Use of Derivatives*). Staff will review the current and target allocations with the Committee and Board on a monthly basis.

The Board reserves to itself the authority to suspend or otherwise delay its basic re-balancing policy. Such action shall require approval by a majority of the Board members present at the time of the voting and must be reaffirmed via the same process quarterly. Absent reaffirmation, the Board’s re-balancing policy will be automatically reinstated.

**PERFORMANCE BENCHMARKS**

**A. Total Fund Benchmark**

As stated in *Section III. Investment Objectives*, an important return objective to be considered when evaluating the Fund’s performance is measured by applying the investment performance of the asset class benchmarks to the Fund’s Strategic Asset Allocation target (Policy Index). The Policy Index permits the Board to compare the Fund’s actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence. The Board has selected the following Policy Index:

|  |  |  |
| --- | --- | --- |
| **Asset Class** | **Policy Index** | **Strategic Asset**  **Allocation Target** |
| Domestic Equity | Russell 3000 Index | 21.1% |
| International Equity | MSCI All Country Ex US Investable Market Index | 24.8% |
| Core and Global Fixed Income | 85% Barclays US Aggregate Index, 15% Barclays Multiverse Index | 26.1% |
| Fixed Income Plus | 25% Barclays Global High Yield Index  25% Citigroup Global Markets Bankrupt/Defaulted Debt Index  25% Barclays Global High Yield + 2%  12.5% J.P. Morgan GBI Emerging Market Diversified Index (LC)  12.5% J.P. Morgan GBI Emerging Market Diversified Index ($) | 5.0% |
| Private Equity | Russell 3000 Index + 3% | 7.0% |
| Absolute Return | LIBOR + 5% | 4.0% |
| Real Estate | NCREIF Property Index + 2% | 5.0% |
| Real Assets | CPI + 5% | 7.0% |

**B. Mandate-Level Benchmarks**

Individual managers will be evaluated using the following standards:

1. Against appropriate market indices on a nominal and risk-adjusted basis;
2. Against peers within their style group;
3. Based on adherence to their stated investment philosophy and style; and
4. Based on adherence to this Policy and the guidelines established in their contract.

The Board will work with Staff and the Consultants to identify appropriate sub-asset class benchmarks. The appropriateness of these benchmarks will be reviewed by the Board on a regular basis.

**EXTERNAL INVESTMENT MANAGEMENT OF TRADITIONAL ASSET CLASSES**

In order to maintain continuity and the level of expertise required, the Fund’s assets, excluding the PERA building, shall be 100% externally managed by investment professionals registered under the Investment Advisors Act of 1940 (or appropriately exempt from registration). The Board has elected to utilize a combination of active and passive management, to be implemented entirely by external investment managers. The Board will formally evaluate on a regular basis certain strategic decisions regarding the portfolio structure. The major types of strategic decisions include but are not limited to:

1. The passive vs. active management mix;
2. Any strategic overweights/underweights based on market capitalization, investment style, sector allocation or other factors.

**A. Search and Selection**

The Board has established the following objectives for hiring external investment managers for Traditional Assets. In establishing these objectives, it is the Board’s intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to hire a manager will be based on one or more of the following circumstances:

1. Identification of a new asset class or strategy which has been approved in advance by the Board;
2. A need for enhancing diversification by style, method, or other factor, within an existing asset class;
3. A need to replace an investment manager that the Board intends to terminate;
4. A need to retain additional managers in order to reach an asset class target and avoid excessive manager concentration.

The selection of new investment managers will adhere to a consistent merit-based procurement process to ensure an open and competitive manager universe, proper evaluation and due diligence of all candidates, and selection. The evaluation process will follow the PERA of New Mexico Procurement Policy for Investment-Related Services. All efforts should be conducted in an open, competitive and transparent environment in order to assure that qualified service providers are identified, that the objectives for the manager’s mandate are clearly articulated, and that pricing is at market.

**B. Monitoring and Evaluation**

Manager retention decisions have the same potential impact on returns as manager selection decisions and should be afforded the same degree of attention. The Board recognizes the discipline necessary to maintain a long-term focus on the Fund and has designated the following framework for identification of existing and potential problems; it outlines how and when PERA should address specific issues and events thereby avoiding untimely or ad-hoc decisions that may adversely impact Fund returns. This Policy will apply to all of PERA’s external managers, except where otherwise noted, and is intended to accomplish these objectives:

1. Foster a long-term approach to manager evaluation;
2. Provide a logical and statistically valid framework for manager evaluation;
3. Promote timely responses to actual and potential performance issues;
4. Provide flexibility to allow application across all asset classes, management styles, and market environments.

**Monitoring and Evaluation Process continued**

The framework for retention analysis relies on a formal performance reporting process that includes:

* Monthly performance reports from Custodian *(Section X. A. Custodian)* and Consultant to Staff. These reports will detail overall performance of the Fund and the performance of individual managers.
* Quarterly performance reports from the investment managers to Staff.
* Regular quarterly reports from Staff and Consultant to the Committee at regular Committee meetings.

The formal performance reports per Section XI of this Policy are supplemented by qualitative analysis generated in the course of regular, on-going contact between the investment managers, Staff and the Consultant.

**C. Watch List**

A manager retention decision is very important to the continued success of a pension fund’s investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests with the Board following consultation with Staff and/or the Consultant.

**Quantitative Factors Resulting in Watch List Additions**

A number of factors may contribute to a manager’s over- or under-performance at any given time such as - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represent guidelines to be used in making a recommendation to the Board with regards to placing a traditional asset class manager on the Watch List:

|  |  |
| --- | --- |
| Test 1 | If the manager’s rolling, three-year return (net of fees) falls below the rolling, three-year benchmark return for three (3) consecutive quarters. |
| Test 2 | If the manager’s rolling, three-year return (gross of fees) for three (3) consecutive quarters ranks in the bottom third of the Consultant’s peer group universe. |

The quantitative guidelines above refer to a minimum time frame of three (3) years, which is preferred, but not required for inclusion on the Watch List. If a negative performance trend for a manager with less than a three year track record with PERA becomes of concern to Staff, Consultant and/or the Board, Staff will ask the Consultant to conduct a “look back” review of the manager’s strategy using longer-term composite information. The strategy will be put through the same tests as stated in the above guidelines.

The Committee can make a recommendation to the Board to place a manager on the Watch List based on the quantitative criteria. The Board may place the manager on the watch list at any time.

Once a manager is placed on a Watch List, the Committee will be notified by Consultant and/or Staff and performance will be closely monitored and scrutinized. All of the qualitative criteria should be reviewed along with an explanation of the underperformance from the manager. Additional actions could include Staff meetings with the manager and a formal re-interview of the manager by the Board. A recommendation from Staff and Consultant to terminate or retain the manager must be made to the Committee at the meeting following inclusion on the Watch List. The manager will remain on the Watch List pending a recommendation to the Committee by Staff and Consultant as to the manager’s ongoing relationship.

Expectations will be established by Consultant and/or Staff on a case-by-case basis specific to the manager for recommendation to the Committee for removal from the Watch List. Failure to achieve these expectations shall result in termination. Generally, one period of a rolling, three (3) year return above the benchmark or above the bottom third of the Consultant’s peer group universe following placement on the Watch List will be required for a manager’s removal from the Watch List.

**Qualitative Factors Resulting in Watch List Additions**

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the manager to the Watch List. Examples include, but are not limited to, these events:

* Violation of investment guidelines;
* Deviation from stated investment style and/ or shifts in the firm’s philosophy or process;
* Turnover of one or more key personnel;
* Change in firm ownership or structure;
* Significant loss of clients and/or assets under management;
* Significant and persistent lack of responsiveness to client requests;
* Litigation;
* Failure to disclose significant information, including potential conflicts of interest;
* Chronic violations of PERA’s Policy;
* Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

Should any of these events occur, the recommended courses of action are similar to those contained in the preceding section (*Quantitative Factors Resulting in Watch List Additions*). After an assessment of the nature of the problem or potential problem, the Committee should then make a determination as to the appropriate course of action at the meeting after notification. Possible responses include, but are not limited to, the following:

* No action;
* Placement on Watch List;
* Immediate Staff meetings with the manager;
* Formal re-interview of the manager by the Board;
* Initiation of a comprehensive review;
* Termination.

Additions and removals from the Watch List will be treated on a case-by-case basis by the Board, Staff and Consultant.

If an issue is considered serious enough, a special meeting of the Committee and/or Board may be requested by the Executive Director, based on recommendations by the CIO and/or Consultant.

**D. Termination**

From time to time it will be necessary for the Board to terminate a contractual relationship with an Investment Manager. These actions must be viewed in the context of a business decision. Due to the sensitivity of this issue, the Board has established the following guidelines to assist in making these termination decisions. In establishing these guidelines, it is the Board’s intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to terminate a manager may be based on one or more but not limited to, the following primary criteria:

1. Significant changes in firm ownership and/or structure
2. Loss of one or more key personnel
3. Significant loss of clients and/or assets under management
4. Shifts in the firm’s philosophy or process
5. Significant and persistent lack of responsiveness to client requests
6. Changes in PERA’s investment strategy eliminating the need for a particular style or strategy
7. Chronic violations of PERA’s Policy
8. Investment performance that has fallen below Policy expectations
9. Identification of a new asset class or strategy which has been approved in advance by the Board
10. A need for diversification of styles within an existing asset class
11. Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

According to provisions of the Professional Services Agreement (PSA) used by PERA, the Board may terminate an investment manager at any time with thirty (30) days’ notice. An investment manager does not have to be on the Watch List in order to be terminated.

Prior to the termination decision, the primary and other relevant considerations shall be identified and documented in Committee and Board minutes and supporting documents. It is the Board’s intent to have a plan in place before termination of any manager including embracing the Request for Proposal process for traditional manager additions and replacements.

**INVESTMENT GUIDELINES**

The Board may invest and reinvest the funds in the following classes of securities and investment activities as long as such investments comply with the UPIA. Fund of Fund strategies are allowable in any of the asset classes. All investments are subject to approval of the Board and satisfactory legal review of applicable contractual terms and conditions.[[1]](#footnote-1)1

**A. Permitted Investments**

**Public Equity**

The objective of public equity investments, both domestic and international, is to provide the Fund with capital appreciation and current income. This is a traditional approach for the Fund to meet its total return goals. Along with this exposure to economic growth comes increased price volatility and the risk of loss.

Public equity investments may include:

* Preferred stock, common stock, initial public offerings, securities of foreign issuers listed on U.S. Exchanges, and any security convertible to common stock or American Depository Receipts (ADRs) that are registered by the U.S. Securities and Exchange Commission (SEC) of any corporation whose securities are listed on at least one U.S. stock exchange that has been approved by or is controlled by the SEC or on the National Association of Securities Dealers (NASD). Global mandates may be considered. The Fund’s investment managers may also use derivative investments such as futures and options to implement investment strategies in a low cost, efficient manner or to construct portfolios with risk and return characteristics that cannot be created with cash market securities.
* Preferred stock, common stock, and convertible issues of any non-U.S. Corporation; which may be denominated in non-U.S. dollars, provided that the securities are traded on one or more national stock exchanges or included in a nationally recognized list of stocks; and provided that the funds of which the Board is trustee shall not be invested in more than ten percent of the voting stock of any company.

**Core and Global Fixed Income**

The objective of core and global fixed income is to provide diversification, a dependable source of current income and downside protection. Like public equities, this is a traditional approach for the Fund to meet its total return goals. Compared to public equities, core and global fixed income has lower expected volatility and a greater expectation for the preservation of capital.

Core and global fixed income securities may include:

* Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest. Global mandates may be considered.
* Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).
* Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
* Debt obligations of non-U.S. governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating (unless otherwise approved by the Board) of any corporation organized outside of the U.S.. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
* Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board).
* The Fund’s investment managers may also use derivative investments such as futures, options, swaps and forwards to implement investment strategies in a low cost, efficient manner or to construct portfolios with risk and return characteristics that cannot be created with cash market securities.

**Fixed Income Plus**

The objective of fixed income plus investments is to deliver positive returns over a complete market cycle while maintaining sufficient liquidity. The focus of these investments is the generation of current income and total return with a strong focus on preservation of capital. Fixed income plus investments have the potential to be more volatile than the core and global fixed income allocation. The strategies may have similar characteristics to some absolute return (hedge fund) strategies, but typically have greater liquidity and, unlike some absolute return managers, these managers typically utilize lower levels of leverage, shorting, and derivatives.

Fixed income plus investments include similar types of securities as those in the core and global fixed income allocation. At the time of purchase, however, the fixed income plus investments may have different credit characteristics than those in the core and global fixed income allocation.

Fixed Income Plus investment may include:

* Global high yield bonds, bank loans, and structured credit.
* Mezzanine debt which is a portion of the capital structure below senior debt but above equity.
* Emerging market debt on a hedged or unhedged basis.
* Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.
* Opportunistic credit strategies that typically invest in a combination of high yield bonds, bank loans and structured credit products.
* Unconstrained bond strategies that provide significant flexibility to manage duration positioning and exposure to credit spreads.

Fixed income plus, core and global fixed income and public equities are herein referred to as Traditional Assets.

**Real Estate**

The objective of the real estate allocation is to generate current income and provide capital appreciation. In addition to providing the Fund with the benefits of diversification, these investments also provide a hedge against inflation.

Real estate investments may include:

* Real Estate Investment Trusts (REITS), including equity investments in publicly traded securities of a company dedicated to owning, and/or, operating income-producing real estate, including but not limited to apartments, shopping centers, offices and warehouses.
* Real Estate Partnerships, including investments in private vehicles through limited partnerships or limited liability companies that have an ownership interest in direct real estate properties, whether income-producing or non-income producing. In addition to “core” strategies, the real estate investment strategies may include “value added” strategies, which derive their return from both income and appreciation, and “opportunistic,” which derive their return primarily through appreciation.

**Real Assets**

The objective of the real assets allocation is to generate current income and provide capital appreciation. In addition to providing the Fund with the benefits of diversification, these investments also provide a hedge against inflation.

Real assets investments may include:

* Inflation-indexed bonds, including investments in actively or passively managed investment vehicles. Treasury Inflation Protected Securities (TIPS) are an example of inflation-indexed bonds.
* Infrastructure Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in physical structures, facilities or systems that provide essential services to a community. Transportation, water and power delivery, waste disposal, communication, healthcare, education and safety are investment examples.
* Agriculture and Farmland Partnerships, including but not limited to limited partnerships or limited liability companies that are involved in the acquisition and management of farmland primarily for crop production. Other agriculture investment may include storage, transport, irrigation, and bio technology.
* Commodities, including but not limited to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities like the Goldman Sachs Commodity Index (GSCI) or Dow Jones – AIG Commodity Index (DJ-AIGCI). Commodities may be used as an overlay strategy on TIPS or other publicly traded instruments.
* Master Limited Partnerships (MLPs), including equity investments in publically traded partnerships dedicated to owning and/or operating businesses involved in the production, processing, or transportation of oil, natural gas, coal, timber, or other depletable resources.
* Timber Partnerships, including but not limited to, investments in limited partnerships or limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing timber.
* Natural Resource Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in energy-related businesses or businesses involved in the mining and/or processing of metals and other resources. Energy-related investments may include those across the industry spectrum from upstream (exploration and production), to midstream (processing and transportation), to downstream (refining and distribution) and energy services.

**Absolute Return (Hedge Funds)**

The objective of the absolute return allocation is to provide superior risk-adjusted returns, exhibit low correlation, or both compared to Traditional Assets. These investment strategies are designed to deliver positive absolute returns over a complete market cycle. Absolute return managers invest primarily in publicly traded securities and derivatives and use long and short positions and leverage, within limits as specified in each fund’s governing documents, to reduce market exposure in order to profit from security selection.

Absolute return investments may include:

* Portable alpha strategies such as equity portable alpha, fixed income arbitrage, and convertible bond arbitrage.
* Credit strategies that typically invest in high yield bonds, bank loans and structured credit products.
* Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.
* Event Driven strategies that take advantage of transaction announcements and other one-time events, including merger arbitrage, spin-offs and restructurings.
* Equity long/short strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.
* Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies.
* Multi-strategy hedge funds that invest using a combination of previously described strategies.

The Board may retain hedge fund managers as an implementation-level decision within other asset categories.

**Private Equity**

The objective of the private equity allocation is to capture a premium from making long-term, illiquid investments in predominantly non-publicly traded equity securities. Private equity managers typically have concentrated portfolios and generate returns by making operational changes to the acquired businesses and often employ leverage to generate superior returns. Private equity managers provide capital for company start-up, expansion, buyout/acquisition, recapitalization, debt financing (either distressed debt or mezzanine financing), or other business purposes.

Private equity investments are typically made into limited partnership vehicles and may include:

* Buyouts, including investments in acquisitions, growth equity, recovery investments, subordinated debt, and special situations, which represent a diversified strategy across many sub-categories. Investments shall be made across the market capitalization spectrum and involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company. Investments may be made in companies that are either U.S. or non-U.S. domiciled.
* Venture Capital, including investments in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage. Investments may be made in companies that are either U.S. or non-U.S. domiciled.
* Distressed Debt, including investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

**Operating Cash Management**

For cash management, the Board may utilize the services of the State Treasurer for overnight investment of short-term assets. The Board may also utilize a separate or commingled short-term investment fund (“STIF”) approved by the Board and administered by the Custody Bank. PERA can only utilize STIF accounts that invest in those securities authorized by PERA’s statutes, Policy and investment guidelines. Investment managers shall invest all cash in PERA’s approved STIF funds.

**Currency**

Active currency strategies which do not necessarily hedge existing international holdings, but instead, seek absolute return which may include leverage, cross-hedging, emerging markets, and interest rate futures are allowable.

**Repurchase Agreements**

Contracts for the purchase of specific securities and subsequent resale at a specified date and price in the future, of duration not to exceed one year. No such contract shall be entered into unless the contract is fully secured by obligations of the United States, or other securities backed by the United States, having a market value of at least one hundred two percent of the amount of the contract. With respect to the Custodial Bank agreement, tri-party repurchase agreements are proper investments under this Policy. No such contract shall be entered into unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars ($500,000,000).

**Mutual Funds and Commingled Investments**

Mutual funds or other similar commingled investments as an alternative to investing in separately managed portfolios of stocks and bonds. Such investments may be in stocks or shares of a diversified investment company or mutual fund registered under the Federal Investment Company Act of 1940, provided that the investment company has total assets under management of at least one hundred million dollars ($100,000,000); individual, common or collective trust funds of banks or trust companies, provided that the investment company has assets under management of at least one hundred million dollars ($100,000,000); provided that the board may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments.

**Exchange Traded Funds (ETFs)**

The investment managers whose account is structured as a separate account shall limit their use of ETFs to those situations where a comparable investment yielding comparable investment results cannot be obtained on a separately managed basis except as provided in their governing documents or PSA and will be subject to review by Staff and Consultant.

**Borrowing and Use of Derivatives**

* **Leverage**.  Leverage used with any investment strategy will be consistent with the discipline for which the Board hired the investment manager. Use of leverage will be controlled as appropriate in each manager’s respective governing documents and will be subject to review by Staff and Consultant.
* **Authorized Uses of Derivatives**.  Investment managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls, or trade in futures contracts, unless specified in the governing documents entered into by PERA and the investment manager.

1. Staff, in consultation with the investment consultants, has the ability to equitize cash through the use of futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of reducing cash “drag.”

2. Staff, in consultation with the investment consultants, has the ability to use futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of re-balancing to long-term policy allocation targets.

3. Staff, in consultation with the investment consultants, has the ability to use futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of implementing the overlay component of a portable alpha program.

* **Compliance and Reporting**.  Each traditional asset investment manager is required to report to the Board the market value of derivatives exposure in the portfolio, both quarterly and annually.  Each separate account investment manager is required to report to the Board in their quarterly and annual report the market value of ETFs, commingled funds and mutual funds if these investments are contained in the portfolio. The Consultant shall provide Staff, at least annually, an estimate of the market value of derivatives exposure and an estimate of the leverage within the alternative assets.

**B. Prohibited Investments**

Per UPIA guidelines, the Board, all investment managers, and Staff are expected to perform their fiduciary duties as a prudent investor would and to conform to all applicable federal and state statutes governing the investment of retirement funds. The following investments are prohibited:

* Investments precluded by law or regulation.
* Transactions that involve a broker acting as a “principal” where such broker is also the investment manager who is making the transaction are prohibited unless otherwise approved in each manager’s respective PSA.
* Any other investments as specified in each manager’s respective PSA.

**C. Diversification**

* Portfolios managed on behalf of PERA should not hold more than 10% of the outstanding securities of any single issuer, unless specified in their governing documents.
* Individual manager diversification will be addressed in each manager’s respective PSA.
* Refer to *Section III.D. Investment Objectives, Diversification*.

**ALTERNATIVE ASSET PROGRAM**

**A. Asset Allocation**

The CIO and Consultant shall aggregate investment vehicle data within each alternative investment asset class and perform analysis on each aggregate portfolio, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification within the specific alternative investment class.

**B. Search and Selection**

The Alternative Investment approval process is a thorough and comprehensive process that considers each individual investment. The Committee reviews Staff’s and the Consultant’s due diligence report for each recommended alternative investment. Each recommendation is presented to the Committee for its consideration to recommend to the Board. The Board reviews these same written reports for alternative investments recommended by the Committee, with the Board having final authority to approve each investment recommendation. The General Counsel and External Legal Counsel review the legal documents for all approved alternative investments. All investments are subject to satisfactory legal review.

Staff and the Consultant will provide the Board with a proposed private asset commitment budget and action plan for each calendar year. The purpose of this plan is to provide PERA with an outlook for the assets that constitute the private asset program as well as an overview of the specific investment objectives and goals for PERA for the upcoming year.

**C. Due Diligence**

The Staff and Consultant will also conduct due diligence with the respective alternative investment managers to understand the underlying drivers of performance and risks associated with the managers’ strategies. Additionally, the Staff and Consultant shall conduct portfolio reviews and on-site due diligence as necessary. Site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. The Staff and Consultant shall provide the Board with regular performance reports and advise the Board of other matters, including providing redemption recommendations, as appropriate.

**D. Placement Fees**

PERA shall not invest with any investment manager, other than with managers of publicly traded equities or publicly traded fixed-income securities, unless the investment manager discloses the identity of any third-party marketer who rendered services on behalf of such investment manager in obtaining the investment and also discloses the amount of any fee, commission or retainer paid to the third-party marketer for the services rendered. “Third-party marketer” means a person who, on behalf of an investment fund manager or other person seeking an investment from the fund and under a written or implied agreement, receives a fee, commission or retainer for such services from the person seeking an investment from the fund. PERA Staff and/or Consultant will review affected managers on an annual basis.

**E. Monitoring**

These requirements shall apply to the Real Assets and Real Estate, Absolute Return, and Private Equity Programs. Through the monitoring process, Staff and Consultant will extend the initial due diligence into monthly performance reports, quarterly portfolio reports and annual reviews. This monitoring process regularly seeks to determine whether the investment is meeting the specific alternative investment asset class objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process should disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which PERA is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

* Compliance with reporting and valuation requirements;
* Continuity of investment philosophy and process;
* Stability of personnel and organization; and
* Performance and risk management.

The Consultant will place an alternative investment on its Watch List if serious concerns exist. The Consultant provides Staff with a Watch List report for each investment on the Consultant’s Watch List. The Consultant reports all Watch List investments to the Committee and provides the Committee with frequent updates on all Watch List investments. A Watch List designation is not a prerequisite for redemptions.

**SAFEKEEPING AND CUSTODY**

**A. Custodian**

The Custodian holds assets directly, through its agents, its sub-custodians, or designated clearing systems, assets. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers of traditional assets must reconcile their values to those of the Custodian. Alternative investment managers will provide PERA’s capital account statements to the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Board may opt to designate other duties to the Custodian as stipulated in its agreement. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement.

**B. Securities Lending**

The Board may authorize a securities lending program for all or any portion of the assets held as investments by PERA. The lending of securities may be accomplished by the Board contracting with one or more designated agents that are experienced in providing securities lending services. Securities may only be loaned by the designated agent(s) through the entering of contracts for the temporary exchange of securities for the use by broker-dealers, banks or other recognized institutional investors, for periods not to exceed one year, for a specified fee or consideration. Each contract must be fully secured by collateral in the form of cash or U.S. government or government agency securities of at least one hundred and two percent of the market value plus accrued interest for domestic securities and of at least one hundred and five percent of the market value of the securities plus accrued interest for international securities. All international loans and proceeds shall be negotiated and settled in U.S. dollars.

**C. Transition Management**

Transitions are an important and inevitable element of portfolio management. The optimal method to use in executing a transition may vary significantly from one transition to another based on the types of assets involved and the timeframe in question. PERA’s general objective in a manager transition is to implement the change in a cost-effective, timely manner while maintaining the appropriate market exposure. It is imperative to note that the cost of transition is not commissions alone, but also bid/ask spread, market impact and opportunity cost. The market impact cost is the effect trading will have on the market price of the shares being traded. The opportunity cost, sometimes referred to as implementation shortfall, is the cost of market movements over the time it takes to trade. Efforts should be made to minimize the total cost rather than any single cost component.

**D. Class Actions**

When the Fund has sustained investment losses that may be recoverable through class action securities litigation, the Fund will participate as a member of the class. In accordance with industry practice, the Fund’s Custodian is responsible for filing all claims and other documents on behalf of the Fund to ensure that the Fund receives its pro rata share of any recovery.

Investment staff will monitor the Custodian’s compliance with its class action procedures. Staff will forward all notices and information concerning potential or pending class action litigation that are received in the Fund’s offices to the Custodian for research. Staff will report periodically to the Board on recoveries realized as a result of class action participation.

It is Board’s policy not to serve as a lead plaintiff in securities class action litigation unless PERA is among the largest shareholders of the defendant issuer and service as a lead plaintiff is determined to be in the best interest of the Fund. The Board’s decision to pursue active involvement will be made in consultation with the Executive Director, Staff, General Counsel’s Office and such other professional advisors as the Board deems appropriate.

**REPORTING REQUIREMENTS**

**A. External Managers for Traditional Assets**

Within thirty days after the close of every fiscal year, each investment manager of traditional assets must certify that its internal portfolio accounting statements reconcile with those of PERA for the year just ended. The certified portfolio detail must be reported to PERA by July 31 of each year. If reconciliation cannot be completed within the designated period, a list of discrepancies must be provided along with an explanation of how they shall be resolved.

An investment manager of traditional assets under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custodian and the market values as shown on the monthly report of the investment manager’s records and report such to PERA staff on a monthly basis not later than 30 days after month end. In the event of a disagreement between PERA and the investment manager as to the market value of securities or the “market value of account” for the purposes of any fee agreement, the market value of securities or “market value of account” as determined by PERA shall prevail.

The Board reviews the investment performance of the managers against their stated objectives, both gross and net of fees, at least quarterly. At the sole discretion of the Board, each investment manager may be expected to meet with the Board at least annually to review its portfolio and investment results in the context of this Policy.

An investment manager under contract must report to PERA, as soon as administratively possible, if at any time there is:

* A change in investment philosophy;
* A loss of one or more key professionals;
* A new portfolio manager on PERA’s account;
* A change in ownership structure of its firm;
* Any occurrence which might potentially impact the management, professionalism, integrity or financial position of the management firm.

Each investment manager is required to report to the Board the market value of derivatives exposure in the portfolio, both quarterly and annually. Each separate account investment manager is required to report to the Board in their quarterly and annual reports the market value of ETFs, commingled funds, mutual funds and currency hedges if contained in their portfolio.

**B. External Managers for Alternative Assets**

Alternative investment managers will provide PERA’s capital account statements to the Custodian. The CIO and Consultant shall provide the Board with regular performance reports and advise the Board of other matters as appropriate. Additional guidelines are included in *Section IX.E. Alternative Asset Program, Monitoring.*

**C. Custodian**

The Custodian will***,*** as directed by Staff, provide periodic performance reports to Staff and Consultant.  These reports shall detail the individual performance of managers and the overall performance of the Fund.

**D. Consultant(s)**

The Consultant(s) will provide performance reports to Staff andthe Board at its regular meetings**.** In preparing these reports, the Consultant will rely upon asset values and performance calculations reported by the Custodian.

**E. Staff**

Staff will be responsible for ensuring that performance reports are received in a timely manner from these parties and will provide continual supervision of external performance reporting on the portfolio.  Staff will work with the Consultant to complete a detailed performance measurement report on a quarterly basis.  The executive summary will, at a minimum, include information for the most recently available one, three, and five year periods.

**REVIEW AND APPROVAL OF INVESTMENT POLICY**

The Board shall review the Policy from time-to-time to determine if modifications are necessary or desirable but will delegate Staff to review the Policy on an annual basis. Staff will recommend modifications as warranted. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

Modifications may occur due to:

* Operational problems that become apparent during the investment management process;
* Changes in economic prospects, Fund characteristics, the development of new investment instruments or strategies, or sponsoring employer organizations;
* Changes in the strategic asset allocation; and,
* Other causes as determined by the Board.

By signing this Statement of Investment Policy the Board through its Chair, indicates its agreement therewith.

Adopted: June 25, 1992

Amended: September 14, 1993

Amended: April 28, 1994

Amended: September 28, 1995

Amended: January 29, 1998

Amended: March 23, 1998

Amended: January 27, 2000

Amended: September 26, 2002

Amended: July 31, 2003

Amended: October 31, 2003

Amended: July 1, 2005

Amended: September 28, 2005

Amended: December 29, 2005

Amended: July 27, 2006

Amended: August 31, 2006

Amended: September 28, 2006

Amended: June 1, 2007

Amended: August 30, 2007

Amended: July 31, 2008

Amended: June 24, 2010

Amended: November 29, 2012

Amended: August 28, 2014



Patricia French, Chairperson

Public Employees Retirement Association of New Mexico

**Public Employees Retirement Association**

**Procurement Policy for Investment-Related Services**

1. **Scope**

Pursuant to NMSA 1978, Section 13-1-98(Y) (2005) the Public Employees Retirement Association (“PERA”) is exempt from the Procurement Code (NMSA 1978, Sections 13-1-1 et. seq.) for all contracts for investment advisory services, investment management services or other investment-related services. This Procurement Policy for Investment-Related Services (“Policy”) sets out the procedures and guidelines by which PERA shall procure investment related services.

2. **Purposes**

The purposes of this Policy are: 1) to provide an open and fair competitive process to acquire competent and qualified investment-related services; 2) to allow PERA to respond to unacceptable performance and market changes in a flexible, efficient and timely manner; and 3) to comply with all relevant laws, statutes and ethical codes of conduct.

3. **Statutory and Rule References**

PERA operates under the authority of the Public Employees Retirement Act, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as amended.

Members of the Public Employees Retirement Board (“Board”) and PERA staff members are subject to the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 et. seq. PERA’s Board Policies and Procedures apply to the procurement of investment-related services.

4. **Application**

This Policy applies to the procurement of the investment-related services and investment-related legal services for alternative investments entered into by the PERA Board, as delegated to the Investment Division and Office of General Counsel of PERA, including investment adviser, investment manager and investment-related services. This Policy shall not apply to the procurement of tangible goods and services purchased through State of New Mexico statewide purchasing agreements or otherwise required for the administration of the Investment Division.

5. **Definitions**

a. “alternative investments” are defined as a category of assets, often less liquid than traditional stocks and bonds, but designed to provide higher risk-adjusted returns and/or enhanced diversification when compared to traditional asset classes. Alternative investments include, but are not limited to, private equity, absolute return, real assets and real estate.

b. “corrupt practice” is defined as offering, giving, soliciting or receiving anything of value to influence the action of a public official or employee, or threatening injury or harm to any person or their property, position or reputation in connection with any procurement in order to obtain or retain business or any other advantage in the conduct of business.

c. “incumbent provider” means a current contractor providing investment-related services under a professional services agreement with the PERA Board through the PERA Investment Division.

d. “Investments Director” means the Director of the Public Employees Retirement Association Investments Division or his or her designee, or, in the event of a vacancy, the individual designated as Acting Director.

e. “emergency” means unexpected circumstance(s) that require a rapid decision to prevent a significant financial loss to the PERA Fund where the normal processes required in this Policy would not prevent or avoid such loss. Poor performance by a contractor is not to be considered an “emergency.” By way of example, “emergency” can include, although it is not limited to, the departure of a portfolio manager or other key personnel from a contractor firm without notice, SEC investigation or action against a contractor firm or individuals within the firm, or a contractor firm’s unexpected loss of its organizational capabilities.

f. “fraudulent practice” means misrepresenting any fact in order to influence any procurement.

g. “offeror” means any person or persons responding to a Request for Proposal or a Request for Information.

h. “PERA” means the Public Employees Retirement Association.

i. “procurement manager” means the Investments Director or his or her designee.

j. “runner(s)-up means one or more RFP offeror not initially selected for award but qualified for award by meeting or complying with all mandatory criteria and formally designated as runner(s)-up by the evaluation committee based on points awarded.

k. “small purchase” means the procurement of investment-related services for flat-fee compensation that does not exceed fifty-thousand dollars ($50,000.00). For purposes of this Policy, “small purchase” procurement includes professional services or investment-related services or tangible property but does not include performance-fee compensation contracts for investment management services.

l. “traditional assets” means public equities, core and global fixed income and fixed income plus asset classes. These asset classes tend to have a ready liquidity and trade with great frequency and at high volumes on organized exchanges and through qualified markets. The inclusion as a traditional asset category is determined by the PERA Board and received as part of the Investment Policy Statement (“IPS”). By definition, the traditional asset category specifically excludes private equity, absolute return, real estate and real assets.

6. **Request for Information or Request for Proposals Process Required: Exceptions**

All procurement of PERA investment services in traditional assets by the Investment Division shall be achieved by a competitive Request for Information process (“RFI”) or Request for Proposals process (“RFP”) in accordance with this Policy, except under the following circumstances:

a. A supermajority (9 of the 12 members) of the PERA Board votes that an incumbent provider, currently providing satisfactory service under a contract for a given mandate that is the result of an RFP, should be given the opportunity to negotiate a new contract in connection with the expiring term of the current contract for the same or substantially similar mandate on the equivalent or better terms to PERA. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed eight (8) years without being competitively bid through an RFI or RFP process. This exemption shall be exercised by PERA at least thirty (30) days prior to the expiring term of the current contract;

b. After termination of an investment manager contract for performance reasons, a supermajority (9 of the 12 members) of the PERA Board votes that it is necessary to transition the assets subject to the terminated contract to another incumbent provider who 1) is currently providing any investment management services under a contact that is the result of an RFI or RFP process; and 2) is qualified to serve as a replacement for the asset class under consideration. A new or amended contract should be negotiated in connection with the transitioning of assets on the equivalent or better terms to PERA. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed eight (8) years without being competitively bid through an RFI or RFP process.

c. A supermajority (9 of the 12 members) of the PERA Board votes that an incumbent provider currently providing satisfactory service under a contract that is the result of an RFI or RFP process, should be given the opportunity to negotiate a new or amended contract in connection with the provision of new services or a new mandate not provided by that incumbent under the existing contract. In no event, however, shall the term of the contract awarded under this subsection exceed eight (8) years without being competitively bid.

d. The procurement is a small purchase procurement as defined in this policy;

e. The procurement is an alternative investment as defined in this policy; or

f. The procurement is an emergency procurement as defined in this policy. Performance under any contract awarded under this subsection shall be reviewed by the Board within twelve (12) months. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed two (2) years without being competitively bid.

7. **Selection of Alternative Investments**

The PERA Board is responsible for the selection of alternative investments. For purposes of this policy, “alternative investments” are defined as provided in Section 5 of this policy and are drawn from one of the following categories:

* Private equity-investments in businesses made through means other than through traditional assets such as buyout investments and venture capital.
* Absolute Return (Hedge Funds) – investment strategies with the goal of achieving positive returns with a degree of independence from movements in financial markets and independent of traditional performance benchmarks.
* Real assets – investments in assets, other than traditional assets, that have a return linked to inflation, such as timber, energy-related investments and other commodity-based investments.
* Real estate – investments in assets, other than traditional assets, that invest in properties directly or private securities of companies that invest in properties directly.

Alternative investments are typically made through an interest in a limited partnership but also may be made through another vehicle (e.g., separate account, commingled fund, offshore entity, etc.), as appropriate for the individual investment.

The Board shall select alternative investments that enable PERA to meet its long-term return objectives set forth for the respective asset classes from recommendations made by Staff and its Alternative Investment Consultant acting in its capacity as a fiduciary.

The Alternative Investment Consultant(s) shall, at a minimum, consider the following criteria when recommending alternative investments:

Firm organization and stability;

Quality and stability of the investment team;

Proposed investment strategy;

Investment track record; and

Legal and economic terms governing the investment.

Consistently applying the investment criteria listed above, the Alternative Investment Consultant(s) shall review and analyze the most appropriate investments from a comprehensive universe of investment opportunities. Those investments that meet the criteria above shall be subject to an extensive due diligence analysis by Staff and the Alternative Investment Consultant(s) resulting in a written due diligence report and recommendation(s) that shall be reviewed by the Investment Committee for completeness and rationale. Staff and the Alternative Investments Consultant(s) shall, prepare and present to the Board a written recommendation to invest for the Board’s evaluation and final approval. All Board decisions on recommendations to invest shall be subject to satisfactory review by PERA’s Office of General Counsel or its designated outside counsel, who shall review and approve investment partnership documents for legal sufficiency and consistency with PERA’s internal policies and procedures for alternative investments.

The Director of Investments, the Alternative Investment Consultant(s) and the Board shall be disciplined in applying investment criteria. If investments in a particular sub-market (i.e. early-stage venture capital) cannot be found that meet the Board’s criteria for quality, expected return, and risk, investments in such sub-market should be de-emphasized until market conditions improve. The Director of Investments, the Alternative Investment Consultant(s) and the Board shall not make alternative investments solely for diversification purposes.

8. **Public Notice**

Notice of an RFP shall be published at least twenty-one (21) calendar days prior to the date set for opening of responses. All notices referred to in this policy may be published or furnished electronically, in print, or both at the Investment Director’s discretion. Notice shall be published in a commercially reasonable way and shall be posted on PERA’s website. Notice may be published in newspapers and/or trade journals in this or any other state, and may be made in any way likely to notify prospective offerors. PERA may also provide notice to persons or businesses identified through independent investment services data bases.

9. **Procurement Method**

The Board is responsible for determining the procurement method for each investment. The Investment Director with input from PERA’s investment consultant(s) shall recommend a procurement method to the Investment Committee of the PERA Board. When making a determination regarding the appropriate procurement method, the Board may consider among other things: 1) the number of service providers that could provide the service(s); 2) the mandate being considered for procurement; and 3) advancements in interest-based or analytic software and comprehensive databases (as defined in Section 11, Selection Criteria). Investment staff shall maintain written documentation of each procurement.

At its discretion, the Board may select one of the following processes for procurement to accomplish the goal of an open and fair competitive process to obtain qualified investment-related services:

a. Request for Proposals

All RFP’s shall be issued by the Investment Director, or in the case of investment-related legal services for alternative investments, by the Office of General Counsel upon approval by the PERA Board, and shall contain:

i. Specifications of the services to be procured including clearly identified “mandatory” and “preferred” (discretionary) criteria and/or minimum mandatory qualifications for prospective offerors;

ii. The proposed term of the anticipated contract, not to exceed eight (8) years;

iii. Description of any mandatory contract terms including but not limited to a term stating that the contractor accepts fiduciary status with respect to assets managed on behalf of PERA;

iv. The anticipated compensation formula for the services to be procured;

v. The location and method where responses shall be delivered and a secure method of receipt and safeguarding of the proposals. Each RFP shall state that PERA shall have no responsibility or obligation to accept incorrectly delivered proposals or to provide for redelivery of incorrectly sent proposals;

vi. The deadline for receipt of proposals including the calendar date and the time. Deadlines may only be extended by the Board on the request of the Investment Director, for good cause shown. Any extension must be requested and approved, with notice given to prospective offerors, prior to the original deadline;

vii. A proposal cover sheet, to be completed and signed by the offeror and submitted in original form;

viii. Description of a formal question and answer process;

ix. The relative weight to be given to the selection criteria and/or qualifications in the evaluation of the responses;

x. The date, time and location where responses will be reviewed;

xi. Notice of all applicable statutes, rules and policies; and

xii. Any other information the Investment Director or the Office of General Counsel believes will be useful in procuring the services sought to be procured.

RFP’s may be modified or amended prior to the recommendation for contract award for the limited purposes of:

i. clarifying or correcting errors or defects; or

ii. modifying the schedule for the submission of responses and the deadline for receipt of responses;

The requirement for notice of amendment of an RFP shall:

i. be the same as for the initial RFP if it occurs before the deadline for receipt of responses; and

ii. be achieved by written notice to all offerors if it occurs after the deadline for receipt of responses.

b. Request for Information (“RFI”) with Negotiated Price

All RFIs shall be issued by the Investment Director, or in the case of investment-related legal services for alternative investments, by the Office of General Counsel, upon approval by the PERA Board.

i. The Investment Director may identify independent firms having experience, knowledge with regard to specific services or list of service providers, best suited to accomplish the PERA Board’s objective;

ii. Analytical software and comprehensive databases will be used in an unbiased and fair manner to research, evaluate and compare potential service providers;

iii. Identified offers may reply to the RFI by submitting information about the services they can supply and the price at which those services would be provided;

iv. Once identified, the evaluation committee may review proposals and negotiate with one or more of the potential service providers to obtain the highest quality of services at the most reasonable price.

10. **Sufficiency of Responses; Receipt, Acceptance and Rejection**

a. Proposals received after the deadline will be rejected.

b. Timely responses meeting all mandatory requirements shall be accepted for consideration without the opportunity for correction or modification.

c. Responses must include an original proposal cover sheet, which has been fully completed, and signed. Responses provided electronically shall simultaneously provide a fully completed, signed original proposal cover sheet on or before the deadline for responses to the RFP. Failure to provide this original document will be cause for rejection of the proposal.

d. Telephone and other types of inquiries concerning the proposal, outside the formal question and answer process, shall be discouraged.

e. Successful offerors and runners up will meet or comply with all “mandatory” criteria and/or qualifications. Failure to meet or comply with the mandatory criteria, requirements and/or qualifications shall be cause for rejection of the proposal.

11. **Selection Criteria**

The selection criteria to be used in selecting successful offerors will be fully and specifically described in each RFP. PERA may utilize internet-based or analytic software applications and comprehensive databases to research, evaluate, compare and select investment products across asset classes and vehicle types.

12. **Evaluation Process**

a. The PERA Board Chair, with the advice of the Investment Committee Chair, shall appoint an evaluation committee for each RFI or RFP. The size of the evaluation committee is at the discretion of the Board Chair with the advice of the Investment Director. The evaluation committee may include members of the Board, the Executive Director and PERA staff.

b. The evaluation committee in whole or in part may, in its sole discretion, conduct interviews, discussions or negotiation with some or all offerors whose proposals have been accepted for the purpose of clarifying the terms of the proposals.

c. The evaluation committee may, but need not, provide the opportunity for offerors who have participated in interviews, discussions or negotiations to submit best and final offers.

d. There is no right to interviews, discussions, negotiations or the opportunity for best and final offers and the evaluation committee may recommend contract awards without conducting interviews, discussion or negotiations and without providing the opportunity for best and final offers.

e. The evaluation committee shall create a record, including but not limited to uniform scoring sheets, showing the basis for its recommendation to the Board and shall prepare a written report culminating with its designation of a runner-up and its recommendation to the Board of the successful offeror(s). The Investment Director shall retain the scoring sheets and evaluation committee report for at least the stated term of the resulting contract.

f. Screening may include the opportunity for an offeror to receive a point score for a variety of factors including but not limited to the offeror’s business approach and methodology, consistency of key personnel philosophy and process, references, experience with the asset class under consideration, verified or verifiable performance and portfolio data of a sufficient duration to include a variety of economic and market environments, and a history of consistently strong and successful performance versus peers and relevant benchmarks.

g. The evaluation committee shall make a selection recommendation to the Board. The Board shall select the successful offeror(s) under the RFI or RFP process.

13. **Award**

a. Following a vote by the Board, successful offeror(s) shall be promptly notified in writing of the award, subject to due diligence and successful contract negotiations conducted by the Investment Director.

b. Contracts may be awarded to more than one successful offeror as a result of a single RFI or RFP process.

c. Contracts may be awarded to one or more offeror(s) designated as runner(s)-up by the evaluation committee within two (2) years of the initial deadline set for receipt of RFP or RFI responses subject to due diligence and successful contract negotiations conducted by the Investment Director.

14. **Public Access**

After award, any written determination of award, any evaluation committee report and all proposals may be subject to public inspection in accordance with applicable public record laws including the New Mexico Inspection of Public Records Act, NMSA 1978, Sections 14-2-1 et. seq. Any material claimed to be privileged, confidential and proprietary or trade secret material must be clearly designated as such in advance and provided on separate pages.

15. **Protest Procedure**

PERA’s procurement of the investment-related services is exempt from the New Mexico Procurement Code (NMSA 1978 Sections 12-1-1 et. seq.) and offerors have no access to the protest procedures set out in the New Mexico Procurement Code (NMSA 1978, Sections 13-1-172 through 176) or related options of the New Mexico Administrative Code involving investment-related services procurement. As a trust fund, PERA has no authority to award money damages, costs or attorney fees. In the interest of providing a fair, open and competitive procurement process for investment-related services the following protest procedure is provided.

a. An offeror who is not awarded an investment-related services contract may file a Notice of Protest with PERA.

b. A Notice of Protest must be in writing and received or post-marked within ten (10) calendar days of the notice of award by the Board that gives rise to the protest.

c. A Notice of Protest shall state the full factual basis for the protest.

d. A Notice of Protest shall be sent or delivered to: PERA Office of General Counsel (Attention: Award of Contract Protest), P.O. Box 2123, 33 Plaza La Prensa, Santa Fe, New Mexico 87504.

e. The filing and receipt of a Notice of Protest shall not stop or delay the execution of an investment-related services contract between PERA and the successful offeror.

f. The PERA General Counsel or his or her designee shall conduct an interview with the protestor, either in person or telephonically and may, in his or her sole discretion, conduct interviews with others who have or may have information relating to the award and/or the protest.

g. The PERA General Counsel shall promptly issue a written recommendation to the Board. The written recommendation shall state whether or not the General Counsel recommends that the contract whose award gave rise to the protest process should be terminated, and whether or not the General Counsel recommends an alternative contract award to the protester or whether the RFI or RFP should be cancelled and competitively rebid. The written recommendation shall state the full factual basis for the recommendation.

h. The PERA Office of General Counsel shall mail the written recommendation to the protestor and shall provide written notice of the scheduled Board vote on the recommendation.

i. The Board shall vote on the recommendation at its first normally scheduled meeting following the issuance of the written recommendation.

j. The Office of General Counsel shall notify the protestor, in writing, of the Board vote.

16. **Emergency and Small Procurements**

In the case of emergency and small purchase procurements, as defined in this Policy, the Investment Director may, with the prior approval of the Board, pre-select or invite a provider of investment-related services to present an offer. The Investment Director, in his or her discretion, may negotiate a contract with that provider if the offer is deemed acceptable and subject to the following conditions:

a. The small purchase procurement for investment-related professional services must have a value not exceeding fifty thousand dollars ($50,000.00), excluding applicable state and local gross receipts taxes in accordance with applicable professional services contract procedures promulgated by the department of finance and administration.

b. Notwithstanding the requirements of subsection a, the Investment Director may procure investment-related tangible property or services having a value of not more than fifty thousand dollars $50,000.00) by issuing a direct purchase order to a contractor based upon the best obtainable price.

c. Procurements shall not be artificially divided to fall within the small purchase procurement exemption.

d. Performance under emergency procurements shall be reviewed by the Board within twelve (12) months of the effective date of the emergency contract.

17. **Research and Information**

At any time and irrespective of any existing contracts, PERA may conduct independent research or may issue an informal request for information to survey the marketplace about the availability, quality and price of investment-related services.

18. **Penalties for Corrupt and Fraudulent Practices**

Felony penalties are imposed for fraud, bribes, gratuities and kickbacks in violation of the Criminal Code, NMSA 1978, Sections 30-16-1 et. seq.

Civil penalties are imposed for violation of the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 et. seq.

Civil penalties are imposed for antitrust violations of the Trade Practices and Regulation Act, NMSA 1978, Sections 57-1-1 and 6 et. seq.

Upon discovery of any corrupt or fraudulent practice as defined in this Policy, the Board may reject a proposal, reject a recommendation for an award or declare an individual or firm ineligible for a stated period of time or the Board may impose any combination of these measures.

19. **Ethical Disclosures and Conflicts of Interest**

Members of the Public Employees Retirement Board and PERA staff members are subject to NMSA 1978, Section 10-11-130.1, which prohibits acceptance of anything of value directly or indirectly from a person or organization that has a current contract with PERA, is a potential bidder, offeror or contractor of services to PERA, or is authorized to invest public funds pursuant to state or federal law. For purposes of this Policy, potential bidder means any person or entity that may provide services to PERA within the next twelve months.

All offerors or incumbent providers are required to disclose any interest, direct or indirect, which would conflict in any manner or degree with the performance or services required under any contract with PERA. Offerors and incumbent providers shall certify that the requirements of the Governmental Conduct Act, NMSA 1978, Section 10-1G-1 et. seq. regarding contracting with a public officer or state employee have been followed.

**SIGNATURES**

By signing this Procurement Policy for Investment-Related Services, the Board through its Chair, indicates its agreement therewith.

Adopted: January 26, 2006

Amended: August 31, 2006

Amended: November 30, 2006

Amended: October 30, 2014

By:

Patricia (Patty) French, PERA Board Chair

**Uniform Prudent Investor Act (UPIA)**

West's New Mexico Statutes Annotated Currentness

Chapter 45. Uniform Probate Code

[ Article 7.](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=PRT_008974016+%25+CI_REFS+%28CI_DISP+%2F2+CI_TABLE%29+%28CI_MISC+%2F2+CI_TABLE%29&FindType=l&JH=Article+7.+Trust+Administration&JL=2&JO=NM+ST+s+45-7-601&SR=SB) Trust Administration

 Part 6. Uniform Prudent Investor Act [(Refs & Annos)](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=lk%28NMSTC45ART7PT6R%29&FindType=l)

[**§ 45-7-601. Short title**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-601%29&FindType=l)

Sections 45-7-601 through [45-7-612 NMSA 1978](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=1000036&DocName=NMSTS45-7-612&FindType=L) may be cited as the "Uniform Prudent Investor Act.”

[**§ 45-7-602. Prudent investor rule**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-602%29&FindType=l)

A. Except as otherwise provided in Subsection B of this section, a trustee who invests and manages trust assets owes a duty to the beneficiaries of the trust to comply with the prudent investor rule set forth in the Uniform Prudent Investor Act.

B. The prudent investor rule, a default rule, may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

[**§ 45-7-603. Standard of care; portfolio strategy; risk and return objectives**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-603%29&FindType=l)

A. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.

B. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

C. Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:

(1) general economic conditions;

(2) the possible effect of inflation or deflation;

(3) the expected tax consequences of investment decisions or strategies;

(4) the role that each investment or course of action plays within the overall trust portfolio, which may include financial assets, interest in closely held enterprises, tangible and intangible personal property and real property;

(5) the expected total return from income and the appreciation of capital;

(6) other resources of the beneficiaries;

(7) needs for liquidity, regularity of income and preservation or appreciation of capital; and

(8) an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

D. A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

E. A trustee may invest in any kind of property or type of investment consistent with the standards of the Uniform Prudent Investor Act.

F. A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

[**§ 45-7-604. Diversification**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-604%29&FindType=l)

A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.

[**§ 45-7-605. Duties at inception of trusteeship**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-605%29&FindType=l)

Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, distribution requirements and other circumstances of the trust, and with the requirements of the Uniform Prudent Investor Act.

[**§ 45-7-606. Loyalty**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-606%29&FindType=l)

A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

[**§ 45-7-607. Impartiality**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-607%29&FindType=l)

If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

[**§ 45-7-608. Investment costs**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-608%29&FindType=l)

In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust and the skills of the trustee.

[**§ 45-7-609. Reviewing compliance**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-609%29&FindType=l)

Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee's decision or action and not by hindsight.

[**§ 45-7-610. Delegation of investment and management functions**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-610%29&FindType=l)

A. A trustee may delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances. The trustee shall exercise reasonable care, skill and caution in:

(1) selecting an agent;

(2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and

(3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

B. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

C. A trustee who complies with the requirements of Subsection A of this section is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

D. By accepting the delegation of a trust function from the trustee of a trust that is subject to the law of this state, an agent submits to the jurisdiction of the courts of this state.

[**§ 45-7-611. Language invoking standard**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-611%29&FindType=l)

The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorizes any investment or strategy permitted under the Uniform Prudent Investor Act: "investments permissible by law for investment of trust funds,” "legal investments,” "authorized investments,” "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital,” "prudent man rule,” "prudent trustee rule,” "prudent person rule" and "prudent investor rule.”

[**§ 45-7-612. Application to existing trusts**](http://www.westlaw.com/Find/Default.wl?rs=dfa1.0&vr=2.0&DB=NM-ST-ANN&DocName=LK%28NMSTS45-7-612%29&FindType=l)

The Uniform Prudent Investor Act applies to trusts existing on and created after its effective date. As applied to trusts existing on its effective date, the Uniform Prudent Investor Act governs only decisions or actions occurring after that date.

Current through the Second Regular Session of the 47th Legislature (2006)

END OF DOCUMENT

**New Mexico Statutes 10-11-132 and 10-11-133**

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

**§ 10-11-132. Investment of funds; prudent investor standard; indemnification of board members**

The funds created by the state retirement system acts are trust funds of which the retirement board is trustee. Members of the retirement board jointly and individually shall be indemnified by the state from the funds administered by the retirement board from all claims, demands, suits, actions, damages, judgments, costs, charges and expenses, including court costs and attorney fees and against all liability losses and damages of any nature that members shall or may sustain by reason of any decision made in the performance of their duties pursuant to the state retirement system acts. The retirement board shall invest and reinvest the funds in accordance with the Uniform Prudent Investor Act.

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

**§ 10-11-133. Investment of funds; prudent investor standard; conditions**

A. Commissions paid for the purchase and sale of any security shall not exceed brokerage rates prescribed and approved by stock exchanges that have been approved by or are under the control of the United States Securities and Exchange Commission or by industry practice.

B. The retirement board shall invest and manage the funds administered by the retirement board in accordance with the Uniform Prudent Investor Act.

C. The retirement board shall provide quarterly performance reports to the legislative finance committee and the department of finance and administration. Annually, the retirement board shall ratify and provide its written investment policy, including any amendments, to the legislative finance committee and the department of finance and administration.

D. Securities purchased with money from or held for any fund administered by the retirement board and for which the retirement board is trustee shall be in the custody of the state treasurer who shall, at the direction of the retirement board, deposit with a bank or trust company the securities for safekeeping or servicing.

E. The retirement board may consult with the state investment council or state investment officer and request information or advice with respect to the retirement board's overall investment policy, may utilize the services of the state investment council and state investment officer and may act on their advice concerning the Policy. The state investment council and state investment officer shall render investment services to the retirement board without expense to the retirement board. The retirement board may also employ the investment management services and related management services of a trust company or national bank exercising trust powers or of an investment counseling firm or brokers for the purchase and sale of securities, commission recapture and transitioning services and may pay reasonable compensation for such services from funds administered by the retirement board. The terms of any such investment management services contract shall incorporate the statutory requirements for investment of funds under the retirement board's jurisdiction.

F. Except as provided in the Public Employees Retirement Act, a member of the retirement board, employee of the retirement board or any person connected with the retirement board in any manner shall not:

(1) have any direct or indirect interest in the gains or profits of any investment made by the retirement board;

(2) receive any direct or indirect pay or emolument for services provided to the retirement board or the association;

(3) directly or indirectly, for the member, employee or person, for themselves or as agent or partner of others, borrow any of the funds or deposits of the association or in any manner use them except to make current and necessary payments authorized by the retirement board; or

(4) become an endorser or surety or become in any manner an obligor for money of the retirement board loaned or borrowed.

1. 1 Investments listed here are for general information purposes only. Each manager retained by the Board will be given specific guidelines with regard to permissible investments relevant to their role. [↑](#footnote-ref-1)