



## INVESTMENT COMMITTEE MEETING

Meeting via Zoom

May 21, 2021 at 8:30 AM MT

### COMMITTEE MEMBERS

Steve Neel, Chair  
Paula Fisher, Vice-Chair  
Lawrence Davis  
Loretta Naranjo-Lopez  
Diana Rosales-Ortiz

### AGENDA

1. Roll Call
2. Approval of Agenda
3. New Business

| ITEM |  | PRESENTER  |
|------|--|--|
| A    | <u>Information Item:</u> <ul style="list-style-type: none"><li>• Departure Event: Chief Investment Officer (Transition Plan)</li></ul> | <p>Greg Trujillo,<br/>Acting Executive Director</p> <p>Kristin Varela,<br/>Deputy Chief Investment Officer</p> |

### 4. Adjournment

Any person with a disability who needs a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing or meeting, please contact Trish Winter at (505) 476-9305 at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats. Please contact Trish Winter if a summary or other type of accessible format is needed.



# Departure Event: Chief Investment Officer

*May 2021*

Kristin Varela, Deputy Chief Investment Officer

# PERA Investment Staff

*Change: NONE*

- Assist the Board in establishing investment and administrative policy
- Monitor and report on total Fund and its component parts
- Conduct searches for consultants and investment managers, including evaluation and implementation, contract negotiation, and due diligence
- Oversight of the daily administration of investment activities, cash management, risk management, custodial operations, and compliance
- Reporting to Investment Committee and Board on allocations, returns, cash flow projections, rebalancing, securities lending, and other significant investment transactions

# Key Strategic Goals

*Change: NONE*

1. Sustain the Trust Fund for current and future retirees
  - A. Work towards 30-year funding period of unfunded actuarial accrued liability
2. Set Strategic asset allocation to meet the actuarial assumed return over the long-run
  - A. Meet assumed actuarial return within prudent risk parameters
  - B. Maintain sufficient liquidity to meet PERA's obligations
3. Produce returns that meet or exceed benchmarks
  - A. Meet or exceed the Policy Index over the long-term
  - B. Meet or exceed the Reference Portfolio over the long-term
4. Be cost-efficient
  - A. Achieve a total investment cost at or below the benchmark cost relative to peers adjusted for fund size, allocations, and strategy.

*NOTE: Objectives are set in PERA's 5-Year Strategic Plan (2018-2023), PERA's performance measures reviewed and monitored by Legislative Finance Committee (LFC) and Department of Finance & Administration (DFA), and PERA's Investment Policy Statement*

# Investment Philosophy

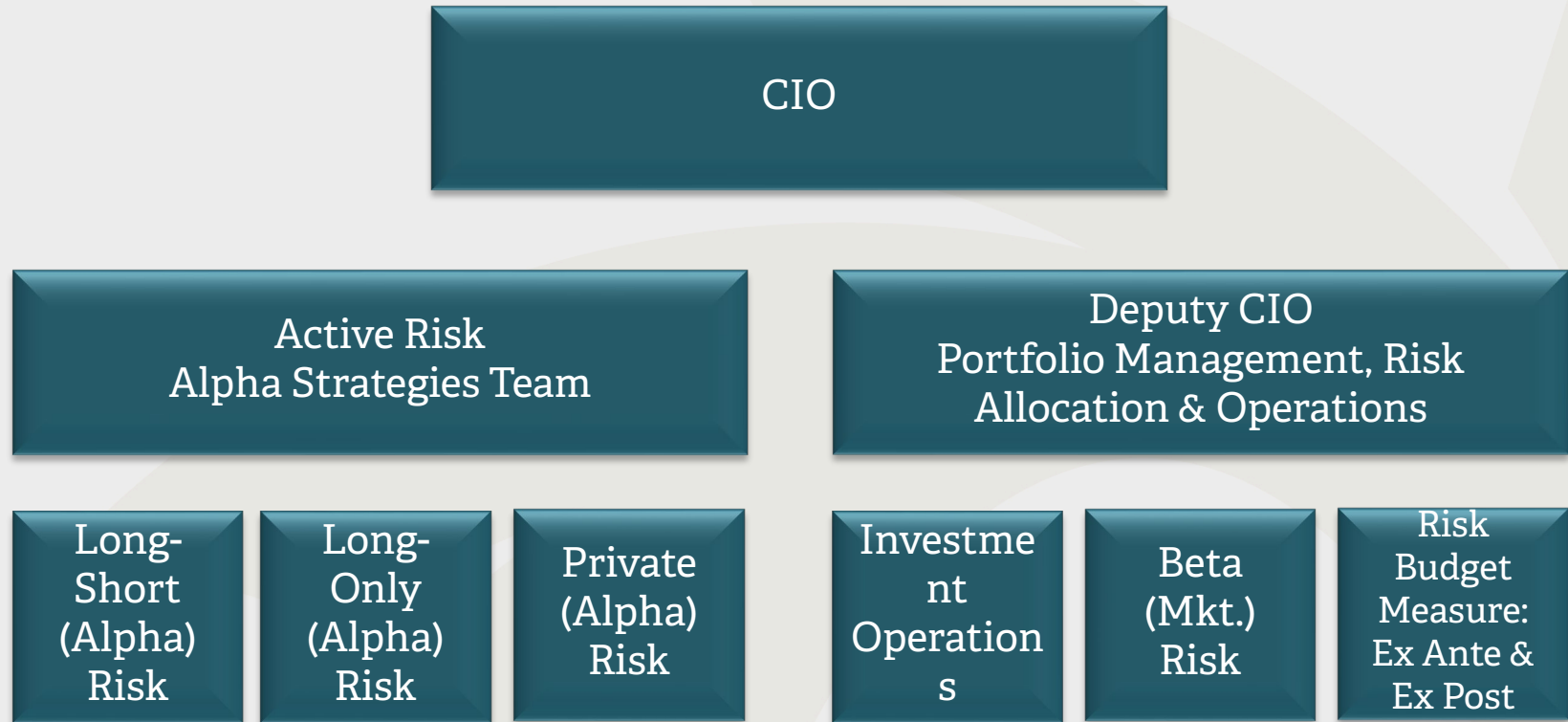
*Change: NONE*

- Achieve a steady, compounding return that minimizes uncompensated risk
- Focus on allocating risk
- Separate Alpha and Beta
  - Manage building blocks of return: *Total Return = Cash + Beta + Alpha*
  - Seek risk balance
  - Set active management strategy & budget
- Effectively manage costs
  - Low-cost implementation of Beta
  - Capture majority of gross value add for Alpha (60-70%)
  - Ensure an alignment of interest between the manager and PERA
- Institute comprehensive risk management
  - Identify and attribute underlying risk factors in public and private markets
- Keep long term view
  - Value added relative to Benchmarks & Reference Portfolio over cycle

NOTE: Adapted from McKinsey & Co, Best Practice and Next Practice in Institutional Investing Research Project

# Functional Organization

*Change: NONE*



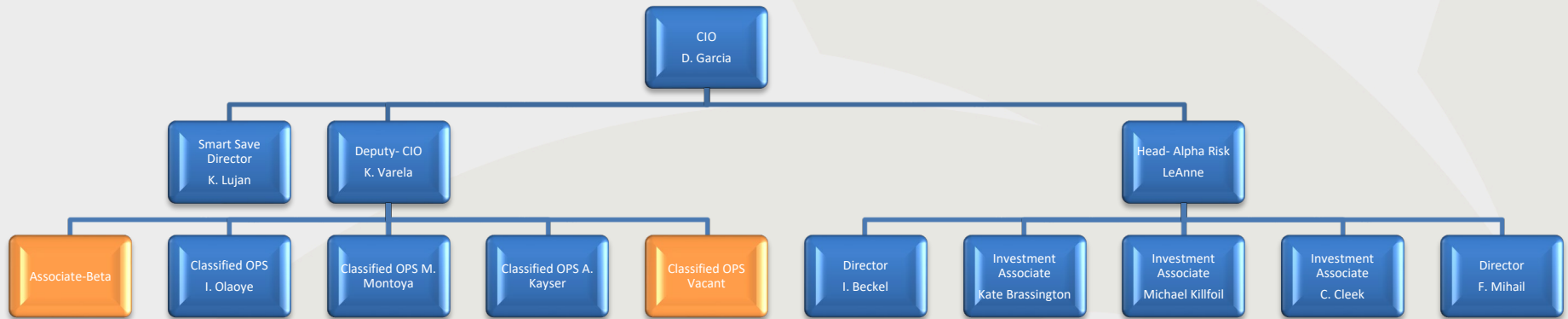
# PERA Investment Team:

*Change: None*

|                        | Role   | Responsibility  | Evaluation  |
|------------------------|--|---|---|
| Beta & Risk Allocation | Controls beta exposures via overlays, risk and sets long term policy allocations. Designs risk budgets and evaluates results. Serves as quantitative analytics arm of CIO/Team. Strategic innovators and entrepreneurs. Portfolio construction and exposure experts. Slice and dice risk | <ul style="list-style-type: none"><li>• Beta (Market) Risk Budget</li><li>• Risk Balance</li><li>• Overlays</li><li>• Risk &amp; Attribution framework</li></ul>  | <ul style="list-style-type: none"><li>• Produce Beta (Market) portfolio with Sharpe Ratio &gt; Reference Portfolio</li></ul>  |
| Alpha Strategies       | Alpha Seekers. Searching for unique skill everywhere. Align alpha split. Agile. Entrepreneurial. Unconstrained opportunity set: liquid/illiquid, global geography, multi-asset, long/short, tactical.  | <ul style="list-style-type: none"><li>• Active Risk/Alpha Implementation</li><li>• Structure Risk Budget</li><li>• Illiquid Risk Budget</li><li>• Selection Risk Budget</li><li>• Ensure low to no correlation with Beta (Market) Risk Budget</li></ul> | <ul style="list-style-type: none"><li>• Meet and exceed long-term (5-10 year) targets for Structure, Illiquid, and Selection Active Risk.</li><li>• Alpha Split &gt;60%</li></ul> |
| Operations             | Nerve center and spine of the entire Investment Team. Problem solving experts. Ensuring best practices in operational due diligence, accounting methods and controls, and day-to-day administration. Searching & stamping out operational risk across the portfolio                      | <ul style="list-style-type: none"><li>• Minimize operational risk &amp; support all administrative functions of the Alpha and Beta Teams to meet objectives.</li></ul>  | <ul style="list-style-type: none"><li>• Comparison to industry best practices via CEM &amp; other providers</li><li>• Annual audit results (internal &amp; external)</li></ul>    |

# PERA Investment Team:

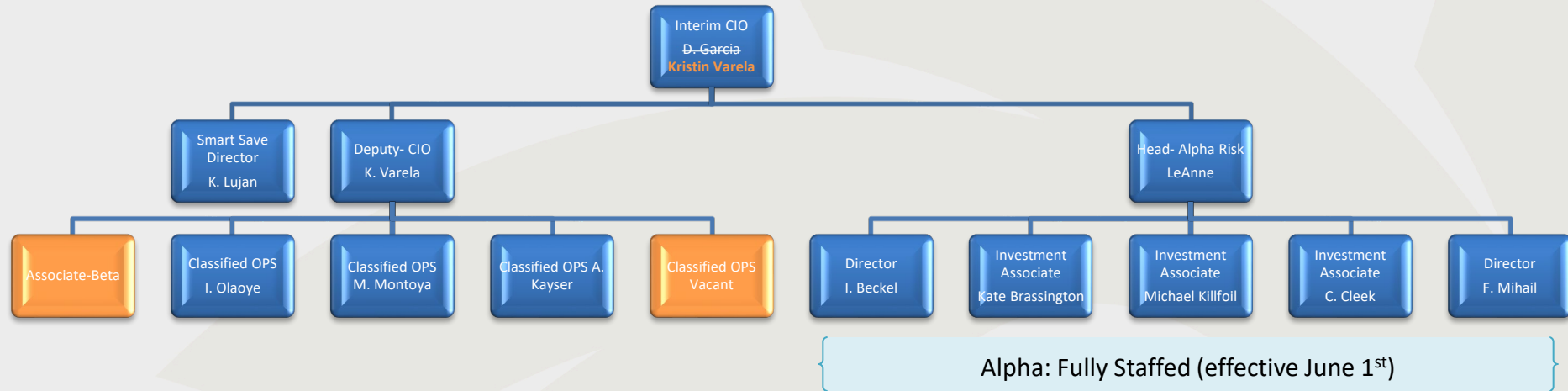
*Current (until June 4, 2021)*





# PERA Investment Team:

*Interim (effective June 5, 2021)*



# Departure Planning:

## *Deputy CIO Initiatives*

- Focus on Staff retention and reiteration of importance of mission  
Goal: Fill vacant positions and maintain current Investment staff. Continued concentration on meaningful and challenging work, for fair compensation
- Serve as Interim CIO & Chair of PRISM  
Goal: Continuity of team, strategy and day-to-day operations, including IC reporting
- Assist Board in researching and implementing potential enhancements to governance model  
Goal: Guide the governance model toward a more evenly distributed model of authority
- Assist Board in expansion of reporting, transparency, and ongoing communications  
Goal: Rebuild trust in investment strategy, fund results, consultants, and staff. Overall improved Board relations
- Monitor portfolio for identified areas of excess risk and/or governance breaches  
Goal: Communicate complex investment implementation choices and draft course-correction planning, for potential execution, when necessary
- Continue Total Fund targeted risk education  
Goal: Utilize this time to understand the current and potential risks in the portfolio and consider alternatives for increasing return
- Continued managerial oversight of Beta & Risk & Operational Alpha teams

# Departure Planning:

## *Head of Alpha*

- Serve as Deputy to Interim CIO  
Goal: Implementation of prudent checks and balances and seamless succession planning in the case of an unforeseen departure event
- Assume responsibility for the manager selection, monitoring, and administration of the Real Assets portfolio  
Goal: Separation of duties and required offloading of DCIO responsibilities.  
Full support of newly hired Investment Associates
- Lead the culture and staffing initiatives  
Goal: Continuation of successful recruiting initiatives
- Continued managerial oversight of Alpha team
- Participation and contribution in strategic planning and research initiatives as stated in previous slide

# Departure Planning:

## *Executive Director*

- Maintain managerial oversight of Interim-CIO
- Participate and contribute to investment strategy and process oversight
- Support Investment staff through transition
- Launch search for permanent CIO. Possible engagement of an Executive Search Firm.

Goal: Seek a candidate that is familiar with the established philosophy, investment approach and process. Encourage continuity, where prudent, to ensure the cost of turnover is reasonable and in the best interest of the mission

- Participation and contribution in strategic planning and research initiatives as stated in previous slide, as available

# Departure Planning:

## *Other Considerations*

- May 27<sup>th</sup> Investment Committee
  - Before Board meeting
  - Reporting - complete quarterly performance review, as well as all Q1 housekeeping items
  - Education topics – Overlay Programs, Benchmarking, Risk Reduction Asset Class Review
- Returning to Office – plan re-entry to office for Investment Staff
- Consultant coverage – evaluation of the current coverage and required reporting

# PERA Investment Team:

| Investment Management                             | Degree, Certification, Award   | Industry Experience | PERA Experience | PERA Focus                              |
|---|--|---------------------|-----------------|---|
| Kristin Varela<br>Deputy Chief Investment Officer | B.B.A., Finance, New Mexico Highlands University<br>2017 40 under 40 List , Chief Investment Officer   | 13y.                | 7y.             | Real Assets Alpha<br>Total Fund Beta    |
| LeAnne Larrañaga-Ruffy<br>Head of Alpha           | B.S., Agriculture Business, Economics, New Mexico State University<br>2016 Investor Intelligence Award, Private Equity<br>2020 Top 30 Pension Private Equity Investor, Trusted Insight | 20y.                | 10y.            | Global Equity Alpha<br>Total Fund Alpha |
| Frank Mihail<br>Director                          | M.B.A., Finance, Real Estate, UCLA Anderson School of Management<br>CFA Charterholder<br>CAIA Charterholder  | 10y.                | 3y.             | Risk Reduction Alpha                    |
| Isaac Beckel<br>Director                          | B.B.A., Financial Markets, Pol. Science, University of Minnesota Duluth<br>CFA Charterholder<br>CAIA Charterholder   | 7y.                 | 2y.             | Credit Oriented Alpha                   |
| Michael Killfoil<br>Investment Associate          | B.B.A., Finance, The University of Texas at Austin<br>CFA Charterholder<br>CIPM Certificant  | 22y.                | < 1m            | Real Assets Alpha                       |
| Katharine Brassington<br>Investment Associate     | B.S., Accounting, Pepperdine University<br>CPA License   | 9y.                 | < 1m            | Private Equity Alpha                    |
| Clayton Cleek<br>Investment Associate             | B.A., History, Texas A&M University<br>CFA Charterholder   | 9y.                 | June 1, 2021    | Public Equity Alpha                     |

# PERA Investment Team:

| Investment Operations                             | Degree, Certification, Award                     | Industry Experience | PERA Experience | PERA Specialty                |
|---|--|---------------------|-----------------|-------------------------------|
| Isaac Olaoye<br>Title: Investment Accountant      | M. Acct., University of New Mexico               | 19y.                | 4y.             | Investment Accounting         |
| Mark Montoya<br>Title: Investment Account Manager | B.B.A., Finance, New Mexico Highlands University | 15y.                | 7y.             | Investment Account Management |
| Aaron Kayser<br>Title: Investment Administrator   | M. Acct., New Mexico State University            | 9y.                 | 2y.             | Investment Administration     |

| Deferred Compensation                                   | Degree, Certification, Award                        | Industry Experience | PERA Experience | PERA Specialty |
|---|---|---------------------|-----------------|----------------|
| Karyn Lujan<br>Title: Defined Contribution Plan Manager | B.A., Public Relations, New Mexico State University | 22y.                | 6y.             | SmartSave 457B |