

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING
January 30, 2020

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

2. & 3. Roll Call

Roll call followed the Pledge of Allegiance and indicated a quorum with the following members present:

Members Present:

John Melia - Municipal, Vice Chair
Lawrence Davis - Municipal
Tim Eichenberg - *Ex-officio*
Paula Fisher - State [9:25 arrival]
Patricia French - Municipal
Dan Mayfield - Retiree [9:20 departure]
Steve Neel - State
Loretta Naranjo Lopez - Retiree
Shirley Ragin - County
David Roybal - State

Member(s) Absent:

Maggie Toulouse Oliver - *Ex-officio*
Claudia Armijo - State

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Dominic Garcia, Chief Investment Officer
Greg Trujillo, Deputy Executive Director
Renada Peery-Galon, Administrator Services Director
Trish Winter, Executive Assistant
Karyn Lujan, SmartSave Plan Manager
Anna Williams, Chief Financial Officer
Misty Schoeppner, Deputy General Counsel
Geraldine Garduño, Assistant General Counsel
LeAnne Larrañaga-Ruffy, Director of Equity

Others Present:

Tom Toth, Wilshire
Bard Berls, Eide Bailly
Thomas Rey, CliftonLarsonAllen
Cholla Khoury, NM Office of Attorney General
Marah deMeule, NM Office of the Attorney General
Lenora Chavez, Retiree
Joseph E. Montoya, Retiree

4. Approval of Agenda

Mr. Mayfield moved to approve the agenda as published. Mr. Neel seconded and the motion passed without opposition. [Ms. Fisher was not present for this action.]

5. Approval of Consent Agenda

[*Exhibit 1: Agenda*]

Mr. Davis moved to approve and Mr. Mayfield seconded.

Ms. Naranjo Lopez requested amending the Consent Agenda as follows:

Approval of Minutes: December 10, 2019, the legal term on page 2, third paragraph is aided and abetted. Attachment of two exhibits – a statement from Claudia Armijo, dated October 25, 2019 [*Exhibit 2*] and a statement from Joan Marentes [*Exhibit 3*]. Ms. Naranjo Lopez said Ms. Armijo’s statement contradicts statements offered by several Board members. Further, she requested amendment to the October 31, 2019 Board minutes to include that Ms. Armijo said she thought Mr. Neel was going to punch her. She then read the statements [*Exhibits 2 and 3*] in their entirety.

Ms. Naranjo Lopez advised the Board that the October 8th incident is still being investigated. She stated that she “condemns Reed Smith for condoning violence against women” and said that they were behind the affidavits as well as a position in the *Pension & Investment* magazine article.

The amendments did not receive a second.

The consent agenda was approved as published with Ms. Naranjo Lopez voting against. [Ms. Fisher was not present for this action.]

6. New Business

A. Election of 2020 Board Officers

1. Board Chair Nominees Presentation of Goals & Priorities

Mr. Melia said Ms. Armijo, the other nominee for Chair, has withdrawn from consideration. He opened the floor for additional nominations and none were offered.

Observing there were no other nominations and John Melia was the sole candidate, Mr. Mayfield moved to elect Mr. Melia by acclamation. Mr. Neel seconded.

Ms. Naranjo Lopez asked how Mr. Melia could serve as an effective Board Chair since he has already violated Board procedures when he traveled without authorization, adding that that he was not held accountable for this action while minority women have been. She also raised concerns regarding the governor’s appointments to the Solvency Task Force. He offered to respond to her concerns off

line.

Ms. Naranjo Lopez nominated Tim Eichenberg. Mr. Eichenberg said he was flattered but did not have the time to serve in that capacity.

There were no other nominations and the nominations were closed.

The motion to declare John Melia the Board Chair passed by majority voice vote with Ms. Naranjo Lopez voting against and Ms. French recusing herself. [Ms. Fisher was not present for this action.]

Mr. Melia thanked the Board for their confidence and said there is a lot to do this year. He hoped to weed out the distractions and stay focused on that work. His goals included promoting honesty, fairness and providing an opportunity for discussion. Sticking to the procedures and treating each other with respect will take the Board a long way. Board members were asked to email their preferences for committee appointments to him as soon as possible and he would work with the new vice chair on that task.

Ms. French said she recused herself because a vote was called before Mr. Melia shared his goals and objectives as shown on the agenda.

2. Vice Chair Nominee Presentation of Goals & Priorities

Chair Melia said at the last meeting there were two nominees: Mr. Roybal and Ms. Armijo. Ms. Armijo has withdrawn herself from consideration.

The Chair opened the floor for further nominations. There were no other nominations.

Ms. Naranjo Lopez asked Mr. Roybal how he could be an effective Board Vice Chair when the governor has interfered in the role of this Board.

Mr. Neel moved to declare David Roybal vice chair and Mr. Davis seconded.

Mr. Roybal said when he was nominated at the previous meeting he mentioned his goals and priorities and he thanked Mr. Davis for the nomination. His first focus will be on respect – respect to the Board members and PERA membership. He wants to honor the diversity of the Board, collaborate and work together. Transparency is very important and he supported public outreach to educate the membership. With the new year, he wanted the PERA Board to succeed and move forward.

The motion passed by majority voice vote with Ms. French and Ms. Naranjo Lopez voting against. [Ms. Fisher was not present for this action and arrived shortly thereafter.]

[Mr. Mayfield excused himself from the remainder of the meeting.]

B. Presentation of Released FY 19 Audit Reports

1. FY19 Audit Report – CliftonLarsonAllen

Thomas Rey, CliftonLarsonAllen, presented the June 30, 2019 financial statement audit. This

is neither a performance nor an internal control audit. He outlined the auditor's responsibilities which are solely to express an opinion on the financial statements which requires that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. He identified the preliminary field work and the critical audit areas of investments, contributions, benefit payments and actuarial information.

Mr. Rey provided a breakdown of the critical audit areas. The first three areas – investments, contributions, benefit payments – go through a two-phased process of understanding the internal controls and substantive procedures. With the establishment of GASB 67, the audit became more critical and this audit focuses on the accounting valuation. The actuaries are evaluated on competence, capabilities and objectivity of the specialist. Confirmation of the actuaries' independence, accreditation and prior work is considered. He discussed how they do that by reviewing a series of components and testing of the census data.

Mr. Rey stated that their independent auditors' report resulted in an unmodified/clean audit opinion. He reviewed the remaining results that were met in accordance with auditing standards. There were no material weaknesses or significant deficiencies identified. There was one finding noted under compliance and other matters and that related to the Board not approving and submitting its operations budget for FY2020 by the statutory deadline of May 1, 2019.

Mr. Rey said management was very cooperative and professional during the audit process. He highlighted that the fund had \$16.3 billion as of June 30, 2019. As a mature plan, PERA's investments are very important which resulted in \$300 million gain during the year. Benefit payments outpace the statutory contribution levels. He displayed tables showing the investment income for the defined benefits for FY19 and the net pension liabilities for the funds.

Ms. Naranjo Lopez stated that the public companies have to rotate auditors every four years and she asked why other auditors don't have a chance to look at New Mexico PERA books and records and actually audit the investment manager and investment staff to show if they are qualified to do the job.

Anna Williams, PERA Chief Financial Officer, said the auditors are rotated every six years for this audit and they are approved by OSA.

Mr. Rey explained that they read PERA's entire CAFR – statistical and actuarial sections – to ensure nothing contradicts the financial section that they render an opinion on.

As far as valuation of alternative investments, Mr. Ray said they take the entire portfolio and carve out anything that is not held in custody which is roughly 30 percent of the portfolio. That section is audited separately. Confirming with the investment staff on due diligence. He noted that they have access to any SAS70 (Statement on Auditing Standards) for any service provider.

Mr. Ray said the majority of their audit hours are spent on the investment portfolio itself auditing the non-custodial dollars. They conduct testing of the benefit payment process and actuarial evaluations. The risk assessment is derived from the other reviews. He repeated that the audit was an opinion on the financial statement.

The entrance conference was attended by the auditors and staff, stated Ms. Williams.

Mr. Ray said his firm has been conducting this audit for PERA for four years.

Mr. Eichenberg noted that in January of 2019 there was a claim sent to the Attorney General against management of the operation that oversees the fund. He asked whether the auditors conducted due diligence on that issue. Mr. Ray said they were aware of it and read the letters and considered the issue as part of the risk assessment. Ms. Williams said she forwarded the results of the OSA and OAG to the auditor.

Mr. Eichenberg asked who brought the claim to their attention and Mr. Ray said they were aware of the issue via the press and staff. Mr. Eichenberg noted that this issue came up in June 2019 when CliftonLarsonAllen was the auditor and he asked whether they were aware of it at that time for the 18/19 audit. Mr. Ray said the firm reviews all the Board minutes.

Mr. Eichenberg asked why it was not noted in the audit as materiality in the operation that oversees the fund. Mr. Ray responded they review the materials and did not find any impact to the financial statements. Had the audit been internal control or governance it would have been included in the report.

Ms. French said she would review her records to determine if there was a finding in the past when staff turned in a budget without the Board's approval. Ms. Williams said that was brought to the auditor's attention and because it was signed and submitted it was found not to be a violation of the statute. Ms. French asked whether the information was from the Board or by the Board attorney and she asked staff to review that.

Mr. Davis congratulated staff on a good audit that resulted in no material findings and an unmodified clean opinion.

Ms. Naranjo Lopez said she had concerns with the audit because no changes are recommended to the judicial and magistrate plans. It concerned her that certain groups are treated differently and more investigation is necessary.

There were no further questions or concerns raised.

B. FY19 457(b) Audit Report – Eide Bailly

Karyn Lujan, SmartSave Plan Manager, reminded the Board that when this audit was conducted the assets of the fund were in the custody of Nationwide.

Brad Berls, Eide Bailly, said this audit rolls into the CAFR as one column; however, this is the separate report that identifies the audit. Overall, the audit was successful with an unmodified opinion. The majority of the activity is performed by Nationwide with oversight by Ms. Lujan. The majority of the net change in the plan position was a result of investment income. An analysis of the plan expenses was conducted and overall, PERA is in line with the industry. Contributions can fluctuate as participants require additional money. The investment options show that the majority of the participants are in "plain vanilla" instruments, followed by the stable value option.

Mr. Berls said there were no internal control issues noted that would rise to the level of a modification to their opinion. He said there were no disagreements with management, no journal

entries or findings regarding that.

In the future, Mr. Berls said GASB 84 may have some impact on how it relates to the 457 plan and a new reporting model is expected mid-2021.

Mr. Berls said CliftonLarsonAllen has been conducting this audit for the last six year and this is their final audit. He thanked staff and Nationwide for their assistance in making this a successful audit.

Ms. French asked Ms. Lujan about any feedback she has received regarding the transition to Voya. Ms. Lujan said the participant feedback has varied – the change to the automated electronic system and new features has taken some adjustment.

Ms. French offered that she has not received any positive feedback on the change. Ms. Lujan requested that she forward negative feedback to her and she will talk to Voya.

Mr. Davis noted that the investment allocation chosen by participants' pie chart did not add up to 100 percent. Mr. Berls apologized and said it was an entry error and he would correct it.

Executive Session – Board will recess to Executive Session pursuant to NMSA 1978, Section 10-15-1(H)(3)

Mr. Neel moved to go into executive session according to the agenda caption above. Mr. Davis seconded. The motion passed by roll call vote as follows:

Chair Melia	Aye
Ms. Armijo	Absent
Mr. Neel	Aye
Mr. Roybal	Aye
Ms. Fisher	Aye
Ms. French	Aye
Mr. Davis	Aye
Ms. Ragin	Aye
Ms. Naranjo Lopez	Aye
Mr. Mayfield	Absent
Ms. Toulouse Oliver	Absent
Mr. Eichenberg	Aye

[Marah deMuel, Assistanat Attorney General, met with the Board in executive session from 10:25 a.m. to 11:20 a.m.]

Mr. Neel moved to come out of executive session and Mr. Davis seconded. The motion passed by roll call vote as follows:

Chair Melia	Aye
Ms. Armijo	Absent
Mr. Neel	Aye
Mr. Roybal	Aye
Ms. Fisher	Not Present for the vote
Ms. French	Aye
Mr. Davis	Aye
Ms. Ragin	Aye

Ms. Naranjo Lopez Aye
Mr. Mayfield Absent
Ms. Toulouse Oliver Absent
Mr. Eichenberg Not Present for the vote

Administrative Appeal- Final Review

C. 1. Judanna A. Duran-Ortega; PERA ID #612065

Mr. Davis moved that in the matter of the appeal of Judanna A. Duran-Ortega, PERA ID 612065, the Board adopt the Hearing Officer’s recommended findings of fact and conclusions of law, approve the Hearing Officer’s recommended decision and award the claimant a refund of Ms. Duran-Ortega’s member contribution plus interest. Mr. Neel seconded and the motion passed by majority [5-2] voice vote with Members Ragin, Neel, Davis, Roybal and Melia voting aye and Members Naranjo Lopez and French voting against. [Ms. Fisher and Mr. Eichenberg were not present for this action.]

D. Revised Resolution No. 20-04 Calling for Nominations of State, Municipal and Retired Member Positions for a Four-Year Term

Susan Pittard, Chief of Staff/General Counsel, said the resolution has been corrected to conform to the appropriate timeline reflected in Resolution 20-03 which changed the annual meeting date to October 29, 2020.

Ms. French moved to approve Resolution 20-04. Mr. Roybal seconded and the motion passed by unanimous voice vote.

Mr. Eichenberg said he is only available for PERA’s Board meeting when there are five Thursdays within the month. He asked that the Board consider changing the meeting date for him so he could participate. Chair Melia offered to look into his request.

E. Approval of General Investment Consultant RFP Committee

Ms. Larrañaga-Ruffy presented the recommendation from the evaluation committee.

Speaking as a member of the evaluation committee, Mr. Neel said he attended the onsite visit with Wilshire and found the process of vetting and conducting due diligence at Wilshire was robust. Wilshire’s data/information advantage is impressive. The firm’s ability to drill down to a portfolio company level boosted transparency in the private market. He said he was firmly in support of moving forward with Wilshire.

Ms. French said she too served on the evaluation committee and participated in the onsite due diligence. She stated she was very impressed with their presentation and security and added that their technology is top-notch.

For the record, Ms. Naranjo Lopez stated that, “Wilshire breaks the law by conducting activities that require security licenses, brokerage and investment advisory services ... I object on this criminal conduct.” She said PERA staff should be doing the services that Wilshire provides and asked to review the fees Wilshire has charged.

Ms. Larrañaga-Ruffy said the fee information can be provided.

Ms. French moved to approve the general investment consultant RFP and that Wilshire be selected as the general consultant. Mr. Neel seconded. The motion passed by majority [8-1] voice vote with Ms. Naranjo Lopez casting the sole nay vote.

F. Securities Litigation Update, Energy Transfer, Ltd.

Ms. Pittard introduced Cholla Khoury, Director of Consumer and Environmental Protection at the AG's Office, present to provide an update regarding a pending securities litigation case.

Ms. Khoury said she does plaintiffs' work on behalf of the state. For PERA she monitors alleged security fraud across the country and double-checks that with PERA and other state investment holdings to make sure that New Mexico funds have not been defrauded. When allegations that cause concern and potentially have a loss for a New Mexico fund, the fund is contacted and options are explored. Those options include appointment as lead plaintiff on those cases. Energy Transfer, Ltd., is one of those cases where the potential fraud alert was flagged and Ms. Pittard was contacted.

Ms. Khoury said the public allegations are that an investigation was initiated into Energy Transfer for corruption with regard to a pipeline project in Pennsylvania. PERA has holdings in this stock which triggered the analysis. The unrealized and realized losses based on that potential fraud were significant to PERA. Following the evaluation, the AG recommended that PERA seek lead plaintiff status in that litigation. The application was submitted and at this point no lead plaintiff status has been appointed.

Ms. Khoury said her office is committed to providing top-notch legal counsel and to make this as little of burden on PERA as possible.

Ms. Pittard reminded the Board that the AG Office contracts with a bench of security litigation law firms that monitor PERA's portfolio. She said there is no cost to PERA to move forward and file for lead plaintiff status.

Ms. Neel asked if staff could quantify PERA's exposure. Ms. Pittard said for the class period from February 2017 through November 2019, the approximate losses for PERA were \$12 million. She characterized that as a significant loss for PERA and have not seen that type of loss in a single security that the AG Office has presented to PERA. She understood the investment was within an MLP.

Mr. Davis asked whether PERA currently holds equity in Energy Transfer, Ltd. Ms. Pittard said PERA still holds the security.

Ms. Khoury said under the federal securities laws these types of actions are considered class action lawsuits which means PERA and anybody who has holdings in the company are part of the class potentially harmed by the actions. If appointed by the judge, PERA's move to lead plaintiff status is to lead that class.

Ms. French asked whether staff was aware of the alleged fraud before the AG. Ms. Pittard said staff was made aware of this through PERA's security monitoring firms which monitor the portfolio. She pointed out that this is at a security level not a manager level.

Ms. Fisher asked whether this MLP was the Harvest Fund and Ms. Pittard confirmed it is.

G. Executive Director's Report

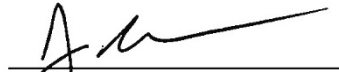
Deputy Director/Chief Information Officer Trujillo referred to the report provided and stood for questions.

Ms. French requested the resumes of the new investment employees.

7. Adjournment

Having completed the agenda and with no further business to come before the Board, Chair Melia declared the meeting adjourned at 11:45 p.m.

Approved by:



Joan Melia
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Exhibits attached

Exhibit 1: Consent Agenda

Exhibit 2: Claudia Armijo's statement dated 10/25/2019

Exhibit 3: Joan Marentes' statement, email dated 1/29/2020