

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SMARTSAVE
COMMITTEE MEETING

July 12, 2016

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

Following the Pledge of Allegiance, Executive Director Wayne Propst called roll and a quorum was established as follows:

Members Present:

John Reynolds, Chair
Jackie Kohlasch, Vice Chair
Dan Mayfield
Loretta Naranjo Lopez

Member(s) Excused:

Tim Eichenberg
Brad Winter

Other Member(s) Present:

Patty French
Dan Esquibel
James Maxon
Paula Fisher
John Melia
Cathy Townes

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director/Chief Information Officer
Karen Risku, Deputy General Counsel
Dana David, Assistant General Counsel
Renada Peery-Galon, ASD Director
Jude Perez, Deputy CIO
Karyn Lujan, Deferred Compensation Plan Manager
LeAnne Larrañaga-Ruffy, Director of Equity

Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager

Others Present:

Paul Lium, Nationwide
Paul Cowie, Meketa Investment Group

2. APPROVAL OF AGENDA

Ms. Kohlasch moved to approve the agenda as presented. Her motion was seconded by Ms. Naranjo Lopez and passed by unanimous [4-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

Chair Reynolds indicated he reviewed the minutes of the May 10th meeting and found them accurate.

Ms. Naranjo Lopez moved approval. Ms. Kohlasch seconded and that motion passed by unanimous [4-0] voice vote.

4. CURRENT BUSINESS

A. Reclassification of Principal Diversified Real Asset Fund to Tier IV of the IPS

Karyn Lujan, Deferred Comp Plan Manager, said PERA staff along with Meketa Investment Group recommends the reclassification of the Principal Diversified Real Asset Fund to the Tier IV category of the PERA SmartSave Deferred Compensation Plan Investment Structure. She characterized the reclassification as a housekeeping item which affects only the internal structure of the plan. Currently the fund, which was introduced in May 2012, has \$341,000 in it as a stand-alone fund. Its exposure is 5 percent to 8 percent in the lifecycle portfolios. In participant materials it is listed as a balanced asset class.

Ms. Lujan reviewed the five tiers of the SmartSave program's investment structure. Tier IV has a variety of funds that offer additional diversification to the fund line-up. This reclassification offers participants that actively select their investment options a more accurate description of how the fund is built.

Paul Cowie, Meketa, said when his firm was conducting its initial fund review in September 2015 they noticed that the Principal Diversified Real Asset Fund was better suited to Tier IV where there are more eclectic investment options than where it is currently in Tier III, which is more traditional stocks and bonds. The Principal Diversified Real Assets is a mix of different asset classes and serves to assist investors hedging against inflation and is not a traditional stock or bond fund. Meketa has confidence in the fund and its process that provides a diversified strategy and a long-term total return in excess of inflation. He noted the difficulty in benchmarking the strategy

and said in peer comparisons the fund ranks in the 30th percentile.

In response to Mr. Esquibel's question regarding the MLPs performance, Jon Grabel, Chief Investment Officer, said the MLPs are positive through the end of May and calendar year to date, up approximately 8 percent, notwithstanding that fiscal year to date they were down 20 percent and since inception down 13 percent. There has been a significant turn this calendar year.

Mr. Grabel said one of the unique aspects of the strategy compared to other strategies within the SmartSave fund lineup is that it is a fund to fund.

Mr. Cowie confirmed that the reclassification has no impact on the lifecycle portfolio mix.

Mr. Mayfield moved to reclassify Principal Diversified Real Asset fund to Tier IV. The motion was seconded by Ms. Kohlasch and passed by unanimous [4-0] voice vote.

Mr. Esquibel complimented Ms. Lujan on her presentation before the IPOC.

B. Introduction of a High Yield Bond Fund to the LifeCycle Portfolio review

Mr. Cowie said Meketa finds high yield bonds to be a key part of a diversified portfolio. High yield bonds are also referred to as below investment grade bonds and/or junk bonds. High yield bonds range from BB to C. He provided a history of the high yield bond market noting they gained popularity in railroad funding in the 1800s. In the 1980s high yield companies started issuing high yield debt creating a new market. The global high yield market is approximately \$1.6 trillion, approximately two times larger than it was 10 years ago. Even though high yield debt/ junk bonds sound unattractive, historically the default rate (3.5 percent) has been low and not a huge risk for an overall portfolio perspective. In terms of returns, high yield bond funds are considered between bonds and stock. Highlighting rolling five-year returns, Mr. Cowie was able to demonstrate that high yield bonds increased the diversity of a portfolio.

Mr. Cowie said Meketa recommends that PERA make a strategic allocation to high yield bonds within the custom Lifecycle fund with a target allocation of approximately 20 percent of the fixed income allocation of each Lifecycle fund and conduct a search for a specialist high yield manager. Meketa would like to conduct the manager search in conjunction with staff over the next few months.

Chair Reynolds said Meketa's recommendation sounds consistent with the strategic asset allocation.

Mr. Grabel said there is a procurement policy for the SmartSave consistent with the PERA fund procurement policy. It requires an RFP; MQs and timelines would be

presented to the committee in the future.

5. **OTHER BUSINESS**

Chair Reynolds expressed his appreciation to Ms. Lujan for her IPOC presentation.

6. **ADJOURNMENT**

Upon motion by Mr. Mayfield and second by Ms. Kohlasch, Chair Reynolds adjourned this meeting at approximately 9:36 a.m.

Approved by:

John Reynolds, Chair
SmartSave Committee

ATTEST:


Wayne Propst, Executive Director

Attached Exhibits(s)

Exhibit 1: Reclassification of Principal Diversified Real Asset Fund to Tier IV of the IPS

Exhibit 2: Introduction of a High Yield Bond Fund to the LifeCycle Portfolios - Review