

**New Mexico
Public Employees Retirement Association
SmartSave Committee Meeting
December 14, 2021**

1. Call to Order

This meeting of the New Mexico PERA SmartSave Committee was held on the date cited above via Zoom tele/video conferencing. Vice Chair, Steve Neel, called the meeting to order at approximately 9:02am.

2. Pledge of Allegiance

Tim Eichenberg led the Pledge of Allegiance.

3. Roll call

The meeting attendance met quorum with the following members present;

Committee Members Present

Steve Neel
Roberto Ramirez
Francis Page
Tim Eichenberg

Committee Members Absent

John Melia
Maggie Toulouse Oliver

Other Board Members Present

Loretta Naranjo Lopez
Shirley Ragin
Diana Rosales Ortiz

Staff

Greg Trujillo, Acting Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Kristin Varela, Interim CIO
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel
Ron Gallegos, CTO

Others in Attendance

Paul Cowie, Meketa
Rose Dean, Wilshire
Steve DiGirolamo, Wilshire
Artie Pepin, AOC
Stephanie Sorg
Charlie Marquez, Broadspectrum Consulting

Gar Chung, FIN News
Annette Martinez-Varela

4. Approval of Agenda [Exhibit 1]

Francis Page moved to approve the agenda. Tim Eichenberg seconded the motion. The motion passed with a unanimous roll call vote as follows;

Steve Neel	Yes
Francis Page	Yes
Tim Eichenberg	Yes
Roberto Ramirez	Yes

5. Approval of Consent Agenda [Exhibit 2]

Francis Page moved to approve the Consent Agenda. Roberto Ramirez seconded the motion. The motion passed with a unanimous roll call vote as follows;

Steve Neel	Yes
Francis Page	Yes
Tim Eichenberg	Yes
Roberto Ramirez	Yes

6. New Business

Paul Cowie from Meketa Investment Group, the Plans investment consultant, presented the September 2021 quarter, which is the first quarter of Fiscal Year 2022.

A. Q1 FY22 (September 2021) Investment Performance Review [Exhibit 3]

Mr. Cowie kicked off his presentation by outlining the investment lineup and how it is broken up into tiers 1 through 4. Tier 1 represents the lifecycle funds. These are the target funds, which is the investment default and where majority of people fall.

Mr. Cowie reported that a change occurred a few days ago under Tier III, that is the DFA US Small Cap portfolio was replaced by Fidelity Small Cap index. This happened on December 10. Everything else within the Plan remained the same for the quarter.

At the end of the third quarter, the assets were at \$810 million, down about \$2 million from the end of the prior quarter. Half of this was due to some negative performance primarily from some of the equity options. The other half, of about \$1.2 million, was due to negative net cash outflows from the plan.

On the positive side, the average account balance is currently at \$35,304. Just a year ago, it was under \$30,000. Participants have seen their balances increase with the strong markets seen over the last year.

In the Tier II category, which are the passively managed options, the small-cap option was changed from dimensional to fidelity. The new fidelity fund is an index fund that will be

categorized under Tier II. There will be a small-cap fund here in the future, but the aim is to have each major asset class represented.

Mr. Cowie reported that in the fourth quarter, continued strong returns were seen for the U.S. markets, up roughly 7 to 8%, but international stocks were flat so far.

For Tier III, the active funds, stable value fund continued to deliver lower returns. This is better compared to money market which is yielding nothing in the current low-interest-rate environment. In the equity options, for the third quarter, large stocks did better than small stocks, and growth did better than value.

Mr. Cowie stated that overall, the absolute and relative performance of the funds was good. For instance, Dodge & Cox U.S. Equity trailed slightly in the quarter due to their healthcare holdings but were up year-to-date, well ahead of their benchmark. It is one of the best-performing options.

Under the one-year, Fidelity Contrafund is starting to trail. Over the last five years, the fund had the strongest absolute return that's averaged but that puts it slightly behind its benchmark and peers. Strong absolute returns were seen here, but in comparison with other large-cap growth managers, it is not performing well.

Overall, international stocks have struggled a little bit relative to U.S. stocks, but Fidelity was up. The American Funds Euro Pacific Growth produced negative returns for the quarter but outperformed their benchmark. T. Rowe Price Midcap Growth fund is starting to lag slightly over the 3 and 5 year periods, even though the year-to-date numbers are good. Dimensional U.S. Small Cap Core had a bounce back and outperformed in the year-to-date period.

Tier IV, the extended choice options, are the lesser-used options that fulfill specific investment roles. Wellington fund is an emerging markets debt strategy that had negative performance for the quarter. This fund is affected by the same factors that affect international equities. Emerging markets had some China exposure and China was the worst-performing market in the past year.

Everything else performed well for the year. For instance, Aberdeen, an emerging markets equity strategy, outperformed for the quarter and over longer periods. They are doing well versus their benchmark and peers. Invesco Global REITs is a longer-term underperformer and will be replaced as soon as the finances of the plan allow. The fund is not being widely used and represents only 0.2% of the Plan's assets.

Some funds do not fall into any tier because they are only utilized as components within the lifecycle portfolios. For example, Prudential retirement real estate fund has between an 8 and 12% allocation within the lifecycle portfolio and was one of the drivers of strong relative returns for the quarter.

Mr. Cowie also presented a chart showing the allocations of the lifecycles portfolios relative to peers. He stated that the Plan generally has less equity exposure than the average peer. He also showed the underlying components and the percentages under each fund.

He further stated that at the end of the year is when the funds adjust according to the term that's used as a glide path. Each year, the funds incrementally become slightly more conservative. For example, five years from, the 2055 fund will look like today's 2050 fund. Last year, the 2020 fund went away and the 2060 fund was added. In four years, there'll be a 2065 fund and the 2025 fund will go away.

Mr. Neel asked if some things will be moved around in the lineup in 2022. Ms. Lujan stated that they will be moved, but first, the Plan has to get past a little hurdle.

Mr. Neel also asked if there was a possibility of having some alternative exposures. He felt that it would be nice to have other parts of the market included. Ms. Lujan stated there those could be added to the lifecycle funds. Mr. Cowie added that they had already added some asset classes in the past that would be considered alternatives, e.g. core private real estate.

Mr. Cowie further stated that more private equity and defined contribution plans were being seen within target-date funds. However, some unique issues have to be looked at when dealing with a fund that has daily valuations and deals with cash flows, like a pension fund.

Ms. Lujan stated that there are some conferences dedicated to alternatives in defined contribution plans.

B. Q1 FY22 (September 2021) Plan Activity Review [Exhibit 4]

Ms. Karyn Lujan, PERA's SmartSave Plan Manager, reiterated that the Plan, as of September 2021, was about \$810 million. The next quarter started strong and November ended at \$825 million, which was still not the high watermark. The high water mark was in August at \$832 million.

With regards to the participation rate, the Plan ended the quarter with about 23,000 participants. As new enrollments come in, others are cashing out. Currently, the number is stagnated since many people are still working from home. Most office buildings are also closed and employers are not allowing large group meetings thus affecting the Plan's outreach efforts.

Enrollment for the last quarter was up 37% with 503 new enrollments. The previous quarter brought 368 and before that, it was about 450. In December, there's usually a slow down because of the holidays and most people borrow money from deferred comp. The enrollments then pick up in January.

Ms. Lujan reported that the Northern New Mexico rep position is still vacant. VOYA is working with their talent acquisition team to get the position filled. The Central New Mexico rep is covering for the north in the meantime.

Mr. Neel noted that 5% of participants have a balance of about \$150,000 or greater. He asked if there is a stratification of balances broken out by types of balances. Ms. Lujan stated that they had broken down balances into several different types. For example, there were balances by age, status, specific investment, et cetera.

Ms. Lujan explained that VOYA's system looks at the balances on a per participant basis. It looks at their age, asset allocation, and their contribution rate. The system has a personalized messaging system that will generate an email message for each participant. The message might tell a participant how they can benefit from doing something in their account. Several slides were presented to show how the participants act according to that messaging.

Mr. Neel asked if the system provides a notice if one breaches the qualification for a Roth contribution. Ms. Lujan explained that VOYA system has a stop in place at the contribution reporting level. When an employer is reporting the contribution data into the VOYA system, if an employee is above the limit, the employer will get an error saying the employee is over the limit and there's a need to adjust the contribution. The system will not allow a participant to over contribute.

Ms. Lujan further informed the Committee that the IRS raised the contribution limits for 2022. It will be \$20,500 for persons under age 50, and \$27,000 for 50 and above per calendar year.

Mr. Cowie added that a query had been run a few years back and it indicated that at least two-thirds of the Plan's participants have a balance of between \$10,000 and \$15,000. The median was somewhere below \$10,000.

Ms. Lujan agreed to run another query and add it to the report. Mr. Neel agreed and stated that it would encourage participants to participate as well as they can.

C. SmartSave Plan's Budget Structure Update

Ms. Lujan stated that in September, she presented an overview of the SmartSave budget structure and how incoming revenue is acquired for PERA's operating expenses and for Meketa's contract.

Ms. Lujan stated that they plan to revamp the fund lineup and in order to do so, certain funds would have to be removed and this is where they get the revenue for PERA's operating costs and for Meketa's contract.

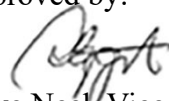
She explained that her September presentation was meant to provide information on how to stop using the Plan's revenue shares for operating expenses. This means that the quarterly fee per participant would have to be adjusted.

It was agreed that Ms. Lujan would research further on the Plan's fee structure and bring it back as a priority project in early 2022.

7. Adjournment

With no further business to discuss, Vice Chair Neel adjourned the meeting at approximately 9:42am.

Approved by:



Steve Neel, Vice-Chair
PERA SmartSave Committee

ATTEST:



Greg Trujillo, Acting Executive Director

Attached Exhibit(s):

Exhibit 1: Agenda

Exhibit 2: Consent Agenda

Exhibit 1: Q1 FY22 Investment Performance Review

Exhibit 2: Q1 FY22 Plan Activity Review