

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SmartSave Committee Meeting
December 8, 2020

1. This monthly meeting of the SmartSave Committee Meeting was held on the date cited above via Zoom tele/videoconferencing. David Roybal, Chair, called the meeting to order at approximately 11:15 a.m., and adjourned at 11:48 a.m.

2. **Pledge of Allegiance**

Mr. Tim Eichenberg led the committee in reciting the Pledge of Allegiance.

3. **Roll Call**

Trish Winter, Executive Assistant, undertook the roll call. Meeting attendance met quorum, with the following members present:

Members Present:

David Roybal, Chair
Tim Eichenberg
Patty French
Claudia Armijo arrived at 11:40am

Additional Board Members:

Steve Neel
Loretta Naranjo Lopez
Paula Fisher
Dan Mayfield
Maggie Toulouse Oliver
Lawrence Davis

Staff Members Present:

Wayne Propst, Executive Director
Greg Trujillo, Deputy Director
Dominic Garcia, CIO
Kristin Varela, Deputy CIO
Susan Pittard, Chief of Staff/General Counsel
Anna Williams, ASD Director/CFO
Trish Winter, Executive Assistant
LeAnne Ruffy Larranaga, Portfolio Manager
Joaquin Lujan, Portfolio Manager
Karyn Lujan, SmartSave Plan Manager
Frank Mihail, Portfolio Manager
Aaron Kayser, Investment Analyst
Isaac Beckel, Investment Analyst
Isaac Olayoe, Investment Analyst
Christina Perea, Outreach Manager

Others Present:

Francis Page
Cait Gutierrez, REDW
Chip Burciaga, Voya
Paul Cowie, Meketa

Gar Chung
Luther Yost
Maja Ben – FundMap
Mike Barela
Stephanie Sorg
Susan Ireland, Datagain

4. Approval of Agenda

Ms. Patty French moved to approve the Agenda. Mr. Tim Eichenberg seconded. The motion to approve the Agenda was passed by a roll call vote as follows:

David Roybal	Yes
Tim Eichenberg	Yes
Patty French –	Yes

5. Approval of Consent Agenda

Ms. Patty French moved the motion to approve the Consent Agenda, seconded by Mr. Tim Eichenberg seconded. The Consent Agenda was approved by a roll call vote as follows:

David Roybal	Yes
Tim Eichenberg	Yes
Patty French –	Yes

6. New Business

A. Q1 FY21 (Sept. 30, 2020) Investment Performance Review

Ms. Karyn Lujan, SmartSave Plan Manager, introduced Mr. Paul Cowie from Meketa Investment Group to present quarterly reports, starting with performance.

Mr. Cowie reviewed the structure of the investment lineup for the SmartSave Plan. Highlighting one change to the report in the Tier 4 section with Wellington Emerging Markets debt being a new global fixed income option that replaced the Franklin Templeton Bond Fund at the end of August as a new option for the plan, as well as being a component of the Life Cycle Portfolios. Otherwise, there has been no change to the investment structure.

The third quarter was very positive, with assets up nearly \$30 million from the previous quarter to \$698.4 million, despite net cash outflows of about \$5.9 million.

Life Cycle Portfolios continue to be the largest holding as a group at 27% of the plan's assets. The next largest is the New Mexico stable value, just under 20%. The Vanguard Institutional Index, an S&P 500 index fund, is at 15%. The last three are the Fidelity Contra Fund, a stock fund, and the Vanguard Total Bond Market Index.

Asset breakdown by tiers are 27% in the target date funds, 23% of assets in passive options, 47% inactive funds, with about half in the Stable Value Fund, with a much smaller percentage of 2% in extended choice options.

The performance of the LifeCycle Portfolios in the third quarter was a continuation of the rebound trend which started in the second quarter, returning 3% for the most conservative fund all the way up to 6.7% for the 2055 Fund, which is the most aggressive fund with more equity exposure.

Most of the funds outperformed their custom benchmarks for the year meaning that the underlying active management as a whole has performed well.

All funds are positive year to date with the rally in the last couple of quarters.

The LifeCycle Portfolios will get merged in the Conservative Portfolio, at the end of this year and a new 2060 fund will be added for the youngest participants in the plan.

Tier 2 Passive Funds account for 22.5% of the plan assets. The idea is to cover all the major stock and bond asset classes. The first option, a Vanguard Total Bond Market Index, returned 0.6% for the quarter, with strong returns of 7% year to date. This is a function of the rapidly decreasing interest rates seen this year. Going forward, those types of returns are not expected from bonds given that yields are below 1% for Treasuries right now. The benefit of very good returns have recently been experienced but that puts a lot of downward pressure on future expectations.

Vanguard Tips are treasury bonds indexed to inflation, 3% in the quarter, up 9.2% year to date.

The two equity passive options, one is indexed to the S&P 500 and the other to the broad international equity markets, saw a really nice rebound in the third quarter, with the S&P 500 fund up 8.9%, bringing the year to date back into positive territory of 5.6%.

International stocks still through the third quarter were negative, down about 4.8% but seeing a very big rally in the month of November in the stock market, where international has gone well into the positive year to date now.

Page 19 outlines the Tier 3 sections, the actively managed funds within the plan. The New Mexico Stable Value Fund is still delivering solid returns, 0.6% for the quarter, 1.8% year to date. Those returns are very favorable as money markets are essentially earning zero now. This is a benefit for those members in the plan that want to be very conservative, as they can get a higher return in this fund than they would in a money market in this environment.

Equity funds have seen a continuation of the trends from earlier this year, with pretty varied returns, especially looking year to date with some negative numbers and some very positive numbers. When a strategy is invested in growth, technology and consumer discretionary, they've done very, very well. To the extent that they have focused on value sectors like financials, energy and materials, they haven't done as well.

Despite strong overall markets year to date, it's been driven by a couple of sectors, with the technology sector being a huge portion of the market right now and only a handful of stocks that are driving much of the S&P 500 returns. Funds, like the Fidelity Contrafund, although they lagged their benchmark a little bit, up 22.5%. Being a large cap growth fund, they focused on large technology companies like Amazon, Apple and Netflix.

Page 20 outlines the remaining Tier 3 active options, which are all actively managed equity funds. Similarly, the smaller and more value-tilted strategies haven't done as well. For example, Dimensional US Small Cap Core has really struggled year to date, down 13.6%. On the flip side, American Funds, Principal Mid Cap Equity, that are more growth focused, have done much better. It's really a function of the particular sectors that these strategies focus on that has driven the returns this year.

The Dimensional US Small Cap Core is one that's been struggling for some time now so it's one that is being watched closely at this point. There are no immediate concerns with other funds' performance. All have performed well relative to benchmarks and peers.

Page 21 covers Tier 4 Extended Choice. These are specific investment options for more sophisticated members within the plan that fill a more targeted role within a portfolio. The Emerging Markets Debt Fund was just recently added at the end of August. The Principal Diversified Real Asset Fund is focused on inflation hedging assets, which are things like natural resources and REITs, which have really struggled in this environment. None of those returns are outside of expectations, given what's going on in the world.

The Aberdeen Emerging Markets Equity Fund had a really strong third quarter, up nearly 12% and have continued to do very well versus their benchmark and peers.

Page 22 shows the loan balance of \$12.3 million. Two other funds don't show a balance because they are only components within the Life Cycle portfolios. The real estate fund with Prudential and a high yield bond option with Columbia have delivered essentially flat returns year to date. The Columbia Institutional High Yield Fund has bounced back recently, and even more so in the last month, given where spreads in the fixed income market have continued to tighten. Some of the negative returns in the first quarter from high yield bonds have been completely recovered in the last month.

Page 29 highlights the investment fees paid in plan and how they compare to the median expense ratio of the mutual fund universe in general. The fees members are getting in this plan are significantly less than what is in the marketplace. The new Wellington Fund has a fee of 55 basis points, lower than its peer group of 67.

Slide 33 provides an overview of how LifeCycle portfolios are constructed. At the end of this year, the plan is to roll out a new 2060 portfolio and merge that 2020 portfolio into the conservative. The new 2060 portfolio will look very similar to how the 2055 looks now. Five years from now, there'll be a 2065 and then the 2025 will go away.

November 2020 saw double-digit returns from the stock markets, essentially since the election. The portfolio is up another 3.5% for the most conservative all the way up to 8.7% for the 2055 portfolio. Year to date, every portfolio is up between roughly 7% and nearly 10%.

Some of the individual options, bonds, are essentially flat but the S&P 500 was up 8%, International is up 10.5%. Dodge and Cox Fund is up 16%.

With the exception of a couple of options like REITs, everything is positive in the year-to-date period now with the continued rally since the election.

B. Q1 FY21 (Sept. 30, 2020) Plan Activity Review

Ms. Lujan reviewed the plan activity for the September quarter. The plan ended the quarter with 23,123 participants, and the NAV was just above \$693 million. As of November 30th it was at \$728 million.

The quarter had 282 new enrollments, 184 were done online and only 98 were done on paper.

The outreach team continues to do what they can virtually, given the current environment. Some outreach reps are piggybacking on the PERA retirement seminars.

Questions and Feedback

Mr. Roybal asked how enrollment compared to the previous year. Ms. Lujan indicated it was pretty average with no large swing experienced, with 200-300 enrollments per quarter being the norm. Ms. Lujan also indicated that 300 enrollments during the COVID shutdown was impressive.

Ms. Armijo explained this was her last SmartSave meeting, and expressed thanks to Karyn Lujan for her leadership in the PERA SmartSave Program over the last four years.

Chair Roybal thanked Ms. Armijo for her dedication over the past four years to the SmartSave Committee and to the PERA board.

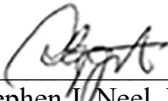
Ms. French echoed Ms. Armijo's thanks to Ms. Lujan for her work on the SmartSave Committee and expressed her appreciation for her hard work.

Mr. Eichenberg echoed appreciation and thanks to Ms. Lujan for the work she does for PERA, and thanked Ms. French and Ms. Armijo for their service to the PERA Board.

7. **Adjournment**

Having completed the Agenda and with no further business to come before the Board, Chair Roybal declared the meeting adjourned.

Approved by:



Stephen J. Neel, Vice Chair
SmartSave Committee

ATTEST:



Greg Trujillo, Acting Executive Director

Exhibits attached