

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING
April 30, 2015

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 10:45 a.m. on the above-cited date at the PERA Building, Fabian Chavez Jr. Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

2. ROLL CALL

Following the Pledge of Allegiance, roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

Members Present:

Patricia French, Chair - Municipal
Stewart Logan, Vice Chair - County
Tim Eichenberg - *Ex-officio*
Dan Esquibel - Municipal
Paula Fisher - State
Roman Jimenez - State
Louis Martinez - Municipal
Loretta Naranjo Lopez - Retiree
John Reynolds - State

Member(s) Absent:

Dianna Duran - *Ex-officio*
Jackie Kohlasch - State
Dan Mayfield - Retiree

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jonathan Gabel, Chief Investment Officer
Sylvia Barela, ASD Director
Greg Trujillo, Deputy Director
Julian Baca, Deputy CIO
Judy Olson, Executive Assistant
Karen Risku, Deputy General Counsel
Roderick Ventura, Assistant General Counsel
Claudia Armijo, Assistant General Counsel
Sam Ojinaga, Bureau Chief, Contributions Accounting
Natalie Cordova, Controller/CFO
LeAnne Larrañaga-Ruffy, Portfolio Manager
Joaquin Lujan, Portfolio Manager

Christina Keyes, Portfolio Manager
Jude Perez, Portfolio Manager
Mark Montoya, Financial Analyst
Kristen Varela, Financial Analyst
Karyn Lujan, Deferred Compensation Administrator

Others Present:

Stanley Bernstein, Bernstein Liebhard
Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Paul Lium, Nationwide
Richard Ong, RRJ Capital
Charles Ong, RRJ Capital
Ronald Merriman, Retiree
Barbara Pardo, Retiree
Theo Livingston, Retiree
Patrick O'Brien, Retiree
Sally Malavé, Assistant Attorney General
Nancy Long, Long, Komer & Associates

3. APPROVAL OF AGENDA

Mr. Logan introduced the following motion:

“RESOLVED, that the PERA Board approve the agenda as published.”

Ms. Fisher seconded and the motion passed by unanimous [9-0] voice vote.

4. APPROVAL OF CONSENT AGENDA

[Exhibit 1: Consent Agenda]

Chair French said she reviewed the minutes and found them to be accurate and complete.

Ms. Fischer introduced the following motion:

“RESOLVED, that the PERA Board approve the consent agenda as published.”

Mr. Jimenez seconded and the motion passed by majority [8-1] voice vote with Ms. Naranjo Lopez voting against approval of the minutes.

5. Current Business

A. Executive Session

1. Pending Litigation (The Board will go into Executive Session under NMSA 1978, Section 10-15-1(H)(7) to discuss this item.)

a. NM PERA v. Clearlend Securities f/k/a Wachovia Global

Securities Lending

2. Attorney Report

a. Administrative Appeal (The Board will go into Executive Session under NMSA 1978, Section 10-15-1 (H)(3) to discuss this item)

1. Jerry Hogrefe

Mr. Logan moved to go into Executive Session pursuant to NMSA 1978, Sections 10-15-1 (H) (3)(7). His motion was seconded by Ms. Fisher and passed by unanimous roll call vote.

Executive Director Propst conducted roll call vote as follows:

Chair French	Aye
Mr. Logan	Aye
Mr. Jimenez	Aye
Mr. Reynolds	Aye
Ms. Fisher	Aye
Mr. Eichenberg	Aye
Mr. Martinez	Aye
Mr. Esquibel	Aye
Ms. Naranjo Lopez	Aye

Nancy Long and Stanley Bernstein participated in item A.1 and Sally Malavé participated in item A.2.

[The Board met in Executive Session from 10:50 a.m. – 11:55 a.m.]

Ms. Fisher moved to return to open session. Mr. Jimenez seconded. Executive Director Propst conducted roll call vote as follows:

Chair French	Aye
Mr. Logan	Aye
Mr. Jimenez	Aye
Mr. Reynolds	Aye
Ms. Fisher	Aye
Mr. Eichenberg	Aye
Mr. Martinez	Aye
Mr. Esquibel	Aye
Ms. Naranjo Lopez	Aye

Chair French announced for the record that the only items discussed during executive session were those shown on the agenda.

Exercising the Chair's prerogative, Chair French said the agenda would be altered to accommodate the quorum as well as guests who have traveled great distances.

C. Action Item: Action Regarding Attorney Report

Mr. Reynolds introduced the following motion:

“RESOLVED, that in the matter regarding Jerry Hogrefe, PERA No. 105660, that the PERA Board adopt the Hearing Officer’s recommended findings of fact and conclusions of law and approve the Hearing Officer’s recommended decision and deny Mr. Hogrefe’s appeal.”

[Exhibit 2: Final Order]

Ms. Fisher seconded and the motion passed by majority voice vote with seven voting for the motion and two abstaining.

D. Action Item: Proposed 2015 Rulemaking Timeline/Notice of Rulemaking

Roderick Ventura, Assistant General Counsel, said staff is requesting the Board approve the notice of rulemaking and its timeline. The changes are to comply with the amendments to the Judicial and Magistrate plans as well as a change within the Volunteer Firefighters plan. Rulemaking notice will be filed in the *New Mexico Register* and published in the *Albuquerque Journal* as well as on the PERA website. The rules will be available to the general public and written comments will be accepted up to June 3rd prior to the June 9th Rulemaking Hearing, followed by a Special Board meeting the same day. Once filed with the Commission of Public Records/State Records Center the rules will become effective on June 30, 2015.

Mr. Ventura said staff has already advised the AOC of the rulemaking. Once the notice is published copies of the rules will be available.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve the 2015 rulemaking timeline and notice of rulemaking as presented by staff.”

Ms. Fisher seconded and the motion passed by unanimous [9-0] voice vote.

E. Investments Division

1. Action Items:

a. Portable Alpha RFP Recommendations

Jude Perez, portfolio manager, presented the recommendation to award AQR Capital Management the portable alpha RFP. Portable alpha is a program within PERA’s domestic equity portfolio which makes up approximately 2.7 percent of the total fund. Portable alpha makes up about 13 percent of the domestic equity portfolio. If approved AQR would be the second largest manager within the domestic equity portfolio.

Mr. Perez reviewed the portable alpha program within PERA. Currently there is a beta program or the passive exposure to the S&P 500 index achieved through futures; the alpha

portion is a portfolio of 13 individual hedge funds and a small cash reserve. The current program has performed well for PERA since its inception in 2007.

With changes in the investment landscape, Cliffwater and staff recommend changing the program objectives and total mandate. The goal is to have a consolidated program in which the alpha portion is market neutral. The beta/passive exposure will be changed to the Russell 3000 to reflect the policy benchmark of the domestic equity portfolio. The alpha portion of the mandate will be composed of a single fund that is market neutral, diversified, and trades in a variety of assets and markets. This will be established through AQR.

Mr. Perez provided an overview of AQR Capital Management history, style, personnel, and investment strategy. The evaluation committee is presenting the recommendation of AQR.

Mr. Esquibel asked about PERA's hedge fund investments and Mr. Grabel said this is a different allocation and AQR was changing its marketing to remove the term "hedge fund." Hedge funds in PERA's absolute return program have one objective which is to generate Libor + 5 percent over a market cycle. This mandate which was opened to an RFP process is a different procurement process than that used in the alternative program and is more market neutral with very low correlation to equities. It applies a systematic risk-base overlay to a very efficient asset category.

Mr. Logan who participated in the evaluation committee and due diligence visit said he was very impressed with AQR's research team.

Mr. Grabel pointed out this is a flat asset based fee.

Jamie Feidler, Cliffwater, discussed the operational due diligence conducted on AQR. He said the process of unwinding the current portable alpha program and transitioning into AQR will evolve over a period of a few quarters.

Chair French, who also participated in the due diligence, said she was particularly impressed that top management meets daily. She asked why the portable alpha program was not within PERA's other asset classes. Mr. Grabel said in theory, with conviction in the program it can be overlaid in the entirety of the efficient assets in the portfolio.

Mr. Feidler mentioned that the separation of beta and alpha is occurring across some institutional portfolios. Equity beta is what the market provides and typically beta provides the biggest source of returns and alpha is incremental.

Mr. Grabel offered that staff, Wilshire and Cliffwater develop a straw-man proposal to see what it looks like to separate alpha and beta components for the more efficient asset categories

Mr. Logan introduced the following motion:

“RESOLVED, that the PERA Board approve awarding the portable alpha RFP to AQR subject to legal review of documentation.”

Mr. Reynolds seconded and the motion passed [9-0].

b. Recommendation to Commit up to \$75 Million to RRJ Capital Master Fund III, LP, in the Private Equity Portfolio

Mr. Grabel said this item was discussed and approved by the Investments Committee at this morning’s meeting.

Mr. Jimenez introduced the following motion:

“RESOLVED, that the PERA Board commit up to \$750 million to RRJ Capital Master Fund III LP, a private equity partnership focused on non-U.S. investments to be funded according to PERA’s Cash Plan, subject to approval of legal documentation by General Counsel.”

Mr. Esquibel seconded and the motion carried by unanimous [9-0] voice vote.

c. Deferred Compensation Plan Document Loan Amendment

Mr. Grabel noted that this item was also discussed at this morning’s Investment Committee meeting and was unanimously approved. The amendment eliminates the limit of two loans per 12-month period.

Mr. Esquibel introduced the motion:

“RESOLVED, that the PERA Board approve the Deferred Compensation Plan Document Loan Amendment.”

Mr. Jimenez seconded and the motion passed by unanimous [9-0] voice vote.

d. Recommendation of Auditor for FY15, Deferred Compensation Plan Audit – Eide Bailly, LLP

Mr. Esquibel introduced a motion as follows:

“RESOLVED, that the PERA Board approve Eide Bailly as the auditor for the FY15 Deferred Compensation Plan subject to staff recommendations.”

Mr. Eichenberg seconded and the motion passed by unanimous [9-0] voice vote.

B. Certificate of Appreciation

1. Anna Leyba

Mr. Propst said he was happy to honor Anna Leyba who will be joining PERA's retiree membership. He provided personal and professional history about the recipient.

Ms. Leyba was presented a pin and congratulated by the Board.

6. OTHER BUSINESS

Chair French invited public comments.

Theo Livingston and Patrick O'Brien, both retirees and return-to-workers appeared before the Board. Mr. Livingston was representing the Otero County Sheriff's Department and was previously a retired investigations commander for the City of Alamogordo. Mr. O'Brien is a retired Sheriff from Lincoln County.

Mr. Livingston said he has worked with legislators for several years and has not gotten satisfaction on the issue of law enforcement. Even though they were grandfathered in, Mr. Livingston said losing the COLA was difficult. He appreciated the need for the fund to be solvent. He said he likes law enforcement and has over 30 years in it. He said he was asked to return to the agency and did not request coming back. He said he never expected to take a COLA loss and he has been discussing this with the legislators to no avail.

Mr. Livingston said losing law enforcement personnel is epidemic throughout the state and needs to be addressed. He discussed his own numbers that would indicate PERA received \$15.8 million from return-to-workers who will gain no return for that. He said they could live with that but the COLA hit is "a thorn that can't seem to come out."

Mr. Livingston suggested that PERA re-establish COLAs for those grandfathered in and take that money out of their current paycheck. He said when he retired he relied on receiving a COLA.

Mr. Livingston said the City of Alamogordo is down 10 officers which is significant for a small agency. Because of the current restrictions retired officers cannot come back. He urged the Board to consider the possibility of giving those return-to-work employees a COLA to come back.

Mr. O'Brien said it was very difficult to hire for law enforcement in Lincoln County. He mentioned the \$25,000 sign-up bonuses offered throughout New Mexico for law enforcement. The pool for law enforcement no longer exists, the youth are going to college or they are ineligible as convicted felons. He said the changes made to the retirement plan affect a lot more than the PERA Board may realize.

Chair French thanked the speakers and assured them that the Board takes all member concerns seriously.

Ms. Naranjo Lopez asked whether the stats and data could be provided to the Board. She advised the speakers that the Fraternal Order of Police have been very strong in their request for the return-to-work. Mr. Livingston said he could provide his salary information and show what comes back to PERA as a retiree.

Mr. Propst advised the Board that there are over 700 grandfathered return-to-work employees and 100+ are in law enforcement/public safety.

F. Executive Director's Report

Mr. Propst updated the Board on the PERA Albuquerque office expansion stating he hoped to be in the building early next fiscal year. The new office will have a seminar room. The contractor, Linea Solutions, has begun to analyze the RIO system starting with staff interviews and a report is expected in May or June.

7. ADJOURNMENT

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 12:50 p.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibit:

Exhibit 1: Consent Agenda

Exhibit 2: Final Order, Hogrefe