

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**BOARD MEETING**

**March 26, 2015**

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 9:00 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  
Dan Esquibel - Municipal  
Paula Fisher - State  
Roman Jimenez - State  
Jackie Kohlasch - State  
Dan Mayfield - Retiree  
Louis Martinez - Municipal  
Loretta Naranjo Lopez - Retiree  
John Reynolds - State

**Member(s) Absent:**

Dianna Duran - *Ex-officio*  
Tim Eichenberg - *Ex-officio*

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Greg Trujillo, Deputy Director  
Sylvia Barela, ASD Director  
Jonathan Grabel, Chief Investment Officer  
Julian Baca, Deputy CIO  
Judy Olson, Executive Assistant  
Karen Risku, Deputy General Counsel  
Roderick Ventura, Assistant General Counsel  
Claudia Armijo, Assistant General Counsel  
Natalie Cordova, Controller/CFO  
LeAnne Larrañaga-Ruffy, Portfolio Manager  
Joaquin Lujan, Portfolio Manager  
Christina Keyes, Portfolio Manager  
Mark Montoya, Financial Analyst

Jude Perez, Portfolio Manager  
Kristen Varela, Financial Analyst  
Karyn Lujan, Deferred Compensation Plan Manager

**Others Present:**

Sally Malavé, AG Office  
Jamie Feidler, Cliffwater  
Tom Toth, Wilshire  
Paul Lium, Nationwide  
Barbara Bardo, Retiree  
Jessica Bundy, REDW  
Chris Moore, 3Advertising  
Jamie Cembrola, 3Advertising  
Sam Maclay, 3Advertising

**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. [Mr. Jimenez was not present for this action.]

**3. APPROVAL OF CONSENT AGENDA**  
*[Exhibit 1: Consent Agenda]*

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

Mr. Reynolds introduced the following motion:

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

Mr. Logan seconded and the motion passed by majority [8-1] voice vote with Ms. Naranjo Lopez voting against approval of the minutes contained in the consent agenda. [Mr. Jimenez was not present for this action and arrived shortly thereafter.]

Chair French said she recently learned of Sylvia Barela’s plans to retire and recognized and thanked her for her tremendous contribution to the agency.

**5. Current Business**

**A. Executive Session - Attorney Report**

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

**Ms. Fisher moved to go into Executive Session pursuant to NMSA 1978, Section 10-15-1 (H) (3). Her motion was seconded by Mr. Esquibel. 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. Mayfield	Aye
Ms. Kohlasch	Aye
Mr. Martinez	Aye
Mr. Esquibel	Aye
Ms. Naranjo Lopez	Aye

Sally Malavé, AG Office, met in executive session with the Board.

[The Board met in Executive Session from 9:15 to 9:45]

**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. Mayfield	Aye
Ms. Kohlasch	Aye
Mr. Martinez	Aye
Mr. Esquibel	Aye
Ms. Naranjo Lopez	Aye

**Action Item: Action Regarding Attorney Report**

Chair French announced for the record that the only item discussed during executive session was agenda item A.1.a and that Mr. Esquibel recused himself from the session.

Mr. Martinez introduced the following motion:

**“RESOLVED, in regard to the appeal of Lancia M. Gonzales, PERA No. 11295, that the PERA Board adopt the Hearing Officer’s recommendations, recommended findings of fact and conclusions of law and approve the Hearing Officer’s recommended decision as corrected by the Hearing Officer’s Notice of Errate filed February 6, 2015 in denying Ms. Gonzales’ request for duty disability benefits.”**  
[Exhibit 2: Final Order]

Mr. Reynolds seconded and the motion passed by majority [6-3] vote with Mr. Esquibel recused and Ms. Naranjo Lopez, Mr. Jimenez and Ms. Kohlasch voting against.

**B. Presentation of 10-Year Service Pins**

1. **Christine B. Carrillo**
2. **Christina Gauthier**

Mr. Propst provided personal and professional history about the two recipients.

The recipients were presented with certificates and PERA service pins and congratulated by the Board.

**C. 3Advertising Presentation**

Mr. Propst said the process working with 3Advertising has paralleled the strategic planning process. The strategic planning process identified areas where the agency could improve including information technology, communication internally within the agency and externally with the membership. 3Advertising was selected through a competitive bidding process and has helped PERA to determine how it is perceived externally by employers, active members, retirees and other constituency groups and stakeholders. Over the year, 3Advertising has met with staff, reviewed surveys and developed new ideas for branding and presentation to the outside.

Greg Trujillo, Deputy Director, discussed the current PERA website which is not user friendly and is difficult to navigate for information.

3Advertising used slides throughout their presentation. Chris Moore, 3Advertising, said a lot of thought and effort from PERA staff has gone into the recommendations. He said 3Advertising has been thoughtful and deliberate in developing the campaign to effectively communicate with all of PERA's constituents. A lot of upfront planning work occurred with focus groups and researching other pension groups. The first step was to implement a more effective campaign with a foundational, long-term, consistent brand effort to build trust and instill confidence. Mr. Moore said that more effective communications will improve upon staff's efficiency.

Jamie Cebrola, 3Advertising, said it is important to understand "who we are talking to" and to see them as individual people. The top five groups are the members, employers, retirees, internal audience and external audience (general public, legislators). She explained that communication to younger current members will differ from that to the members nearing retirement. She showed example slides of how the proposed communications will occur and the different components of educating the members as well as the internal and external audience. She emphasized the importance of reinforcing the notion of security and certainty within PERA and promoting that PERA can be trusted and is capable of managing the funds.

Mr. Moore said there is uncertainty because pensions can be complicated. With uncertainty comes distrust. The idea is to inform the target population that PERA is the smartest option for retirement. Examples of building trust were: “We’re inspired by building your future.” “You’re working for your retirement and so are we.” Or in one sentence, “We’re professionals here to ensure the stability of benefits for every public employee in New Mexico.”

Mr. Moore said the information needs to be wrapped into a personality and 3Advertising has proposed these key words and phrases: trustworthy, the only objective is your successful retirement, we’re focused on each and every member, we’re dedicated to managing the trust and providing services and successful retirement to our members, we are reliable, our own motivation is providing direct, simple information, and our people are here for you. Mr. Moore said that essentially is the strategic direction for the communications.

Sam Maclay, 3Advertising, demonstrated with slides how that strategy is developed into the pieces the members see. A professional logo was created to instill confidence – a simple modern design. The logo is intended to communicate the fragile yet protective nature of saving and investment for tomorrow. The tag line needs to strike a confident and capable tone but does not over-promise: Invested in Tomorrow. He showed the corporate identity package with stationary, envelopes, business cards, pocket folders, brochures, posters, *La Voz*, internal communications, etc. He noted the use of natural New Mexico photography which promotes pride in the state and instills confidence. Other tag lines included: the best way to predict tomorrow is to build it today; every hour you spend working for your retirement we spend planning for it; and, you’re working hard for your retirement, so are we.

Mr. Maclay showed an example homepage and the primary and secondary navigation call-outs. The website will have a revolving/changing background photos. The background changes every time the website is reloaded providing a dynamic experience. Popups were demonstrated and it was mentioned the website is desktop, iPhone, and iPad friendly. Mr. Maclay said they have social media ideas that can be pursued.

Mr. Esquibel asked about navigating the new site and why the color orange was chosen. Mr. Maclay said it is actually a deep yellow sun-related color and was chosen to reinforce the natural surroundings. Mr. Moore said the site is a responsive design and the elements adjust to the page width.

Mr. Trujillo said staff is discussing logging into RIO from the website. Anyone wanting to log in will be directed to the PERA internal site where there is security. The actual website is going to be hosted externally. There will be two separate sites: RIO and the PERA webpage where there is not sensitive information. Staff is also investigating YouTube-type media platforms but will proceed very cautiously. At this point the focus is the website content.

Mr. Trujillo confirmed that PERA would be taking control of its own website. He anticipated a new site could be populated and operational by May. PERA is changing its URL to NMPERA.org. The site will be rolled out slowly.

Ms. Kohlasch, Mr. Logan and Chair French congratulated staff and Advertising.

Chair French commented that on her first look the logo appeared to be a circular saw blade and once the concept was explained she easily recognized the nest egg. She recommended an explanation of the logo on the website. Mr. Moore said logos tend to be abstract and grounded in the literal.

**D. Action Item**

**Approval of Proposed Three-Year Internal Audit Plan**

Mr. Logan said this was discussed and recommended for approval at the Audit & Budget Committee.

Mr. Esquibel introduced the following motion:

**“RESOLVED, that the PERA Board approve the three-year internal audit plan.”**

Mr. Reynolds seconded and the motion passed by unanimous [10-0] voice vote.

**E. Investments Division**

**1. Chief Investment Officer’s Report**

Jonathan Grabel, CIO, highlighted the executive summary results for February. The plan finished the month with \$14.8 billion in assets, a new high-water mark for PERA. For the month the plan was up 2.78 percent and fiscal year-to-date the plan is up 2.54 percent. February was a stellar month. As always, the numbers reported are net of fees and expenses.

Mr. Grabel reviewed the returns by asset categories: domestic equities were up 6.27 percent, international equities were up 5.2 percent, core fixed income was down 21 basis points, fixed income plus was up 1.37 percent, and the alternative assets portfolio was up 92 basis points.

Chair French announced that Mr. Grabel was invited to speak at the Chief Investment Officer Summit in New York and will speak on “Dangerous Ideas – Can You Handle The Truth? New Mexico PERA Can: A Look At One Of The Most Extensive Fee Analyses In The History Of Public Pension Fund Investment.” Mr. Grabel thanked the Board and pointed out it takes a team and he acknowledged the Board, his staff and the advisors.

**Cash Plan**

Mr. Grabel reviewed the plan noting the change in the fund balance was an increase of over \$381 million for February. As the domestic equity account is transitioned, the cash is high. The month finished with \$807 million; however, that cash is invested with the cash overlay program. The cash balance will normalize as the Board reviews the pending RFPs/RFIs over the next several months.

Mr. Grabel said what has influenced the cash balance over the past few months is the relative outperformance of domestic equity. As of March the last tranche of the domestic equity rebalance was completed. Cash continues to come in from the absolute return rebalance. He emphasized that with the exception of \$77 million all of the cash is invested.

Regarding the sources of cash, the major inflow was \$321 million from the domestic equity rebalance and \$45 million from private equity distributions and redemptions. The uses of cash during February included: \$36 million to pay benefits and manager fees, \$115 million transferred to the fixed income plus transition account managed by BlackRock, and \$16 million used for private asset capital calls.

The cash overlay plan was up \$18 million for February and will mimic the performance of PERA's public equity portfolio and core fixed income portfolio. Fiscal year-to-date the program is up \$13 million.

Mr. Grabel reported on the progress to reach strategic plan targets and mentioned that the process of transitioning money to increase the international equity portfolio began today. He reminded the Board that prudent implementation of the long-term portfolio target will take time.

#### Updates

- Emerging Market Debt – recommendation is pending
- Portable Alpha – final site visits are scheduled with a potential April recommendation
- Emerging Market Equity – the RFI evaluation committee met this morning. Semi-finalist interviews are being scheduled for April
- High Yield – RFI MQs were discussed last month and 11 responses were received
- Pending – Listed Infrastructure RFP to be posted April 1<sup>st</sup> and a Multi-Category Credit RFP MQs will be presented to the Board in April
- International Equity small-cap contract held by Principal expires and will require the issue of an RFP
- 457B investment consultant contract held by Mercer expires and will require the issue of an RFP

Mr. Grabel reported that the transition with BNYM was going smoothly and there was “truly fantastic teamwork.” The commitment and the quality of the work product he is seeing from staff rivals anything he has ever seen in the private sector.

He noted that BNYM has entered into a foreign currency settlement brought about by a lawsuit filed by the US Attorney and the New York Attorney General on allegations relating to their foreign exchange trading practices. The allegation was that BNYM was mis-timing and not getting the best execution to earn incremental profit. The settlement is that BNYM will pay \$714 million, will dismiss certain employees and will have fuller disclosure going forward. While not excusing their behavior, Mr. Grabel noted that BNYM is not alone in this case and said BNYM was not a rogue actor – there was a practice that the regulators identified and subsequently improved.

Mr. Grabel advised the Board that he included a written update on an allegation that Nationwide was picking the funds that had the highest share back to Nationwide. Nationwide settled for \$140 million and this does not impact PERA's 457B plan. The Board selects investment options, not Nationwide. He assured the Board that PERA was structured to avoid such conflicts.

Mr. Grabel said the SPIVA US Scorecard was included in the Board packets. This compares active managers against underlying benchmarks and indices across time. In the past 10 years, 80 percent of active managers in the domestic equity mutual funds have underperformed the benchmark.

2. **Action Item: Alternative Asset Recommendation for Approval to be Funded According to the Cash Plan and Subject to Legal Review by General Counsel:**
  - a. **Recommendation to Commit up to \$60 Million to KSL Capital Partners IV, L.P. an Opportunistic Real Estate Fund in the Real Estate Portfolio** [*Exhibit 3: Staff report, KSL, dated 3/10/15*]

Chair French noted that items a and b were discussed at length at the last IC meeting.

Mr. Jimenez introduced the following motion:

**“RESOLVED, that the PERA Board commit up to \$60 million to KSL Capital Partners IV L.P., a global hospitality and leisure focused equity investment partnership private for the real estate portfolio, subject to approval of legal documentation by General Counsel.”**

Mr. Mayfield seconded and the motion carried by unanimous [10-0] voice vote.

- b. **Recommendation to Commit up to \$150 Million to 57 Stars LLC in an Emerging Market Private Equity Separate Account for the Private Equity Portfolio** [*Exhibit 4: Staff recommendation re: 57 Stars LLC, dated 3/10/15*]

Mr. Jimenez introduced the following motion:

**“RESOLVED, that the PERA Board commit up to \$150 million to an emerging market Fund of One (FOO\_ for the private equity portfolio. The FOO would be managed by 57 Stars, who will invest in approximately 8 to 12 local funds over a 3-year investment period at \$50 million per year, with a 12-year term, subject to legal approval by PERA's General Counsel.”**

Mr. Esquibel seconded and the motion carried by unanimous [10-0] voice vote.



c. **Evaluation Committee Recommendation to Invest in the Emerging Market Debt Mandate with Lazard Asset Management**  
[Exhibit 5: Staff recommendation re: Lazard, dated 3/26/15]

In accordance with the Emerging Market Debt Evaluation Committees recommendation, Mr. Jimenez introduced the following motion:

**“RESOLVED, that the PERA Board utilize the investment management services of Lazard Asset Management to invest the Emerging Market Debt mandate, approximately \$183 million, and that NM PERA does so within the Lazard EMD Total Return Product, subject to review by PERA’s General Counsel.”**

Mr. Esquibel seconded and the motion passed by unanimous [10-0] voice vote.

Mr. Jimenez lauded staff and the consultant for the excellent reports that have been presented to the Board.

6. **OTHER BUSINESS**

Chair French announced that she has made the appointments to the 2015 PERA Board Election Committee and the roster was contained in the Board packet. The first meeting is scheduled for April 24, 2015.

5. **F. Legislative Update/Executive Director’s Report**

Mr. Propst said an email was sent earlier in the week advising the Board of legislative activities. The most significant bills in terms of PERA were HB 2 that included a significant increase in the agency’s FY16 budget that included three additional FTEs and SB 4 relating to the reporting of volunteer firefighter service credit. He recognized Mr. Trujillo for his diligence during the session.

7. **ADJOURNMENT**

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 11:26 a.m.

Approved by:

  
Patricia French  
Chair, PERA Board

ATTEST:

  
Wayne Propst, Executive Director

**Attached Exhibit:**

*Exhibit 1: Consent Agenda*

*Exhibit 2: Final Order, Laneia Gonzales*

*Exhibit 3: Staff report, KSL, dated 3/10/15*

*Exhibit 4: Staff recommendation re: 57 Stars LLC, dated 3/10/15*

*Exhibit 5: Staff recommendation re: Lazard, dated 3/26/15*