

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING

May 28, 2015

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 11:40 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

Executive Director Wayne Propst called roll and a quorum was established with the following members present:

Members Present:

Patricia French, Chair – Municipal
Stewart Logan, Vice Chair - County
Dan Mayfield - Retiree
Dianna Duran - *Ex-officio*
Paula Fisher - State
Jackie Kohlasch - State
Louis Martinez - Municipal
Loretta Naranjo Lopez - Retiree
John Reynolds - State

Member(s) Excused:

Dan Esquibel - Municipal
Roman Jimenez - State
Tim Eichenberg - *Ex-officio*

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jonathan Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Julian Baca, Deputy CIO
Judy Olson, Executive Assistant
Karen Risku, Deputy General Counsel
Roderick Ventura, Assistant General Counsel
Natalie Cordova, Controller/CFO
Greg Portillos, CIO
Patricia Thaxton, Liaison Officer
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 Plan Manager

Others Present:

Anne Hanika-Ortiz, LFC
Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Paul Lium, Nationwide
Walter Schmidt, Rockwood Capital
Tyson Skillings, Rockwood Capital
Stafano Mion, Ardian
Michael Bane, Ardian
Don Wencewicz, AFSCME Retirees
Akio Tagawa, Linea Solutions
Bryce Haws, Linea Solutions
Ronald Merriman, Retiree

3. **APPROVAL OF AGENDA**

Mr. Propst noted that item 5.A. 1. Executive Session, would not occur.

Mr. Logan introduced the following motion:

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

Ms. Fisher seconded and the motion passed by unanimous [8-0] voice vote. [Mr. Martinez 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. Mayfield introduced the following motion:

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

Mr. Logan seconded and the motion passed by majority [7-1] voice vote with Ms. Naranjo Lopez voting against approval of the minutes contained in the consent agenda. [Mr. Martinez was not present for this action and arrived shortly thereafter.]

5. Current Business

A. Executive Session – TABLED.

B. Certificate of Appreciation (Retirement)

1. Sylvia Barela

Mr. Propst said Ms. Barela's retirement was a tough loss for the agency as well as him personally. He said she exemplifies what a true professional and public servant is.

Ms. Barela was presented with a plaque and PERA service pin in appreciation of her service. She received a round of applause and was congratulated by the Board. [Photographs were taken]

C. Presentation by Linea Solutions

[Exhibit 2: Linea Solutions Presentation, 5/28/15]

Mr. Propst pointed out that when PERA transitioned to RIO there were challenges as is to be expected with any large system. Some of the challenges have been addressed and some not. RIO is now 10 years old and it was appropriate to have it evaluated. Linea has been working with the agency and will present their interim evaluation.

Akio Tagawa, Linea Solutions, an IT consulting firm, provided background and outlined the services his firm offers. The company has experience working with 25 pension/health and welfare funds. Linea was tasked to understand the current use of the RIO pension system – also known as HP Clarity – assess if it is close to the end of its useful life and provide recommendations on whether to replace, enhance or propose an alternative to RIO. Mr. Tagawa said it was fairly common to evaluate a system of this size after 10 years of service.

The process Linea uses to perform its assessment starts with a discovery phase to investigate future state exploration and develop preliminary assessments and recommendations. At this point they have met with the departments of PERA and looked at gaps and pain points in the system. They met with Hewlett Packard and re-met with staff and discussed future visions of what things could be done to improve agency services.

Mr. Tagawa said their findings are that RIO is in better shape than originally expected. There are issues that continue to exist since the original implementation causing manual processing outside of the system. Linea thinks RIO can be updated to increase its useful life. He said there are data issues, room for improvement within the system with more automation, and modification, changes and improvements to business process would all serve the organization.

Linea is recommending a planning phase/project plan that takes into consideration how three components – systems, data, processes – can be layered and sequenced in working better together. He said HP should be included in the processing plan.

Mr. Tagawa said in evaluating the risks of keeping RIO they weighed that staff has expressed confidence issues with HP, longevity of HP's commitment to the public pension industry and the point that PERA has a very lean staff size compared to its peers. He said HP services many pension programs and continues to respond to RFIs. He discussed the benefits of RIO enhancements and said the system's useful life can clearly be extended. He said they would be putting together cost estimates for budget request purposes, creating a high level road map for sequencing the improvements, and final presentation to executive management and the Board.

In response to Ms. Kohlasch's question of the cost of a new system, Mr. Tagawa said he could provide replacement cost data which would correspond to what PERA peer systems have paid recently for replacement. He did not see a particular need to upgrade the computer hardware at this time.

Mr. Tagawa said HP has been moving away from hardware development. He explained that Clarety is the name of the software and RIO is PERA's internal name of the product. A number of pension organizations in the country use Clarety. RIO was originally developed by Covansys, then Saber bought it, next it was purchased by EDS and HP took it over from EDS. HP is investing in software development and working to be a leader in the market.

Deputy Director Trujillo said the IT budgeting cycle differs from the overall budget. The State IT needs to review PERA's IT budget before it can be submitted for funding in the next budget cycle. PERA has maintenance funding available that may be appropriate for this project.

Chair French asked that staff include details in the cost analysis regarding programming change, maintenance, etc. compared to going to a new system and most importantly is RIO user friendly to the end user?

Mr. Trujillo said the navigation of the system for users can be improved upon. The functionality exists within the system. The project would include bringing the capability to make changes in-house. PERA does not have a database administrator although PERA did receive budget approval to hire that administrator along with a higher level IT business analyst and additional FTEs in the contribution accounting unit. One of the first tasks is to educate employers on how to report to PERA and tighten enforcement on reporting issues. He discussed data cleansing issues as one of the biggest issues.

Mr. Propst said Mr. Trujillo and CIO Greg Portillo have identified vendors for data cleansing. Mr. Trujillo added that the data will need to be cleansed whether PERA stays with RIO or not.

Bryce Haws, Linea Solutions, said there were six to eight competitors in the pension program software industry. HP would likely be considered a finalist to any project they bid on. He noted that Mississippi and Indiana had used RIO and both are now using PeopleSoft.

D. Action Item: Alternative Asset Recommendation for Approval, to be Funded According to the Cash Plan and Subject to Legal Review by General Counsel

1. Action Item

a. Recommendation to Commit up to \$60 Million to Rockwood X, LP, in the Real Estate Portfolio

Investment Committee Chair Mayfield indicated that this item was discussed at this morning's Investment Committee meeting and introduced the following motion:

“RESOLVED, that the PERA Board commit up to \$60 million to Rockwood Fund X in the Real Estate Portfolio, subject to approval of legal documentation by General Counsel.”

Mr. Logan seconded and the motion carried by majority [8-1] voice vote. Explaining her nay vote, Ms. Naranjo Lopez said there were too many ifs and questions.

b. Recommendation to Commit up to \$65 million to Ardian Infrastructure IV, LP an Infrastructure Fund in the Real Asset Portfolio

Mr. Mayfield noted that this item was discussed at this morning's Investments Committee meeting and he introduced the following motion:

“RESOLVED, that the PERA Board commit up to \$65 million to Ardian Infrastructure IV, LP, an Infrastructure Fund in the Real Asset Portfolio, subject to approval of legal documentation by General Counsel.”

Mr. Logan seconded. The motion passed by majority [8-1] voice vote with Mr. Reynolds voting against.

c. Emerging Market Equity RFI Recommendation
[Exhibit 3: Staff Investment Recommendation, 5/28/15; Exhibit 4: Wilshire Investment Recommendation, 5/2015]

Leanne Larrañaga-Ruffy, Portfolio Manager, provided an overview of the equity portfolio and noted that PERA's strategic asset allocation target to international equity is 24.8 percent. As of April 30, 2015 the portfolio is 24.5 percent/\$3.6 billion. With the completion of the international equity structure analysis it will be on target. PERA's international equity portfolio has seven managers. This RFI was due to the expiration of Parametric's eight year contract.

Ms. Larrañaga-Ruffy delineated the RFI process, identified the evaluation committee, and said that three finalists were chosen from 10 firms. Following interviews, the evaluation committee chose to conduct an on-site visit with Parametric, the current manager. The evaluation committee agreed that Parametric's approach will continue to benefit PERA. She discussed

Parametric’s strategy noting that since inception it has exceeded the benchmark net of fees. Parametric has held the same fee but the required excess return has been increased so Parametric will have to exceed the benchmark by a larger amount to receive the fee.

Tom Toth, Wilshire, highlighted their manager research evaluation and said Parametric scored very high. He noted that Parametric explicitly does not attempt to fundamentally research the underlying stocks which makes their information score low; however, excluding that component their overall score is very high. He noted that their more recent performance has been a struggle over the last year due to their underweight to China. However, Parametric’s portfolio construction process towards smaller more frontier companies has added value over time.

PERA CIO Grabel reminded the Board of the importance of judging performance with measures other than returns. He noted the Parametric has performed quite well for PERA over the long term.

Evaluation committee member Kohlasch said she was in agreement with the recommendation and felt it was the best decision. PERA Analyst Montoya agreed with Ms. Kohlasch’s statement.

Mr. Logan introduced the following motion:

“RESOLVED, that PERA continue utilizing the investment management services of Parametric Portfolio Associates, LLC for the Emerging Market Equity mandate in the amount of \$260 million.”

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

d. High Yield Fixed Income RFP Recommendation

[Exhibit 5: Staff memo re: Guggenheim, 5/28/15; Exhibit 6: Wilshire Recommendation re: Guggenheim, dated 5/2015]

Joaquin Lujan, Portfolio Manager, said staff was recommending utilizing the investment management services of Guggenheim Partners for the global high yield bond mandate which is approximately \$183 million. He said this is a component of the fixed income plus portfolio and the mandate is about 25 percent of the 5 percent fixed income plus component of the total strategic asset allocation. He identified the role of fixed income plus and global high yield in the portfolio.

Mr. Lujan said this management service will help PERA meet its actual rate of return with half the volatility which equities present.

Mr. Lujan said this was the first RFI that staff and consultants have completed. The process was basically an invitation-only RFP. He defined the process of reducing the universe of 400 to 36 managers; from that 11 managers were chosen to further evaluate.

Mr. Toth reviewed his manager research score for Guggenheim and provided its qualitative and quantitative score. He reviewed the characteristics of Guggenheim's process that were considered very attractive. He noted that 2008 was the most difficult year in the high yield market and Guggenheim dramatically outperformed the benchmark showing a very strong downside protection. The risk statistics for Guggenheim show their standard deviation has been materially lower than that of the index.

Mr. Martinez introduced the following motion:

“RESOLVED, that the PERA Board approve NM PERA’s utilize the investment management services of Guggenheim Partners to invest the Global High Yield Bond mandate, approximately \$183 million.”

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

E. Board Trustee Educational Conference Reports

1. **Jacquelin Kohlasch, 2015 Pension Bridge Annual Conference (April 7-8, 2015)**
2. **Stewart Logan, 2015 Wilshire Consulting Client Conference (April 19-21, 2015)**
3. **Patricia French, NCPERS 2015 Annual Conference (May 3-7, 2015)**
4. **Paula Fisher, NCPERS 2015 Annual Conference (May 3-7, 2015)**

Ms. Kohlasch, Mr. Logan, Chair French and Ms. Fisher provided details about the conferences they attended, each mentioning the value and educational experience they gained from having attended. Materials from the conferences were available and would be forwarded to Executive Assistant Judy Olson for distribution to the Board members.

F. Executive Director’s Report

Mr. Propst informed the Board that he has hired a new administrative services director, Renada Peery-Galon, who will start June 8th. She spent eight years as a senior fiscal analysts for the LFC and served as the administrative services director for the Children, Youth and Families Department. He said upper management was involved in the interview process.

The Albuquerque office expansion continues to be on track and they are actively filling the positions for the office.

Mr. Propst encouraged the Board to inspect the repair work on the building and said it looks substantially better. Once the patching is completed the sealing will begin. Steel coping will be installed around the roof line to preserve the repairs and eliminate the moisture problem.

Mr. Propst said the PERA building is 14,000 square feet and was built in anticipation of expansion. He said at this point there is substantial excess space. An opportunity to provide space to the Retiree Health Care Authority has surfaced. The Authority’s main office is in Albuquerque and they have a small office in Santa Fe where they have four full-time employees.

The Santa Fe office lease expires in September and they have expressed an interest in locating in this building. Mr. Propst said they are exploring the possibility to locate the Authority employees here adding it will be a wonderful amenity for the membership in having a one-stop shop to deal with retirement. It would start as a short-term lease and the Authority would pay a lease fee and be responsible for their own needs – phone system, furniture, signage, etc.

He said he will continue to keep the Board updated on this issue.

Ms. Naranjo Lopez asked that staff consider fixing the PERA sign which appears to be chipping similar to the building. She also mentioned that exterior doorways be addressed to ensure water does not come into the building and suggested overhangs.

6. OTHER BUSINESS

None was offered.

7. ADJOURNMENT

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 1:10 p.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibit:

Exhibit 1: Consent Agenda

Exhibit 2: Linea Solutions Presentation, 5/28/15

Exhibit 3: Staff Investment Recommendation, 5/28/15

Exhibit 4: Wilshire Investment Recommendation, 5/2015

Exhibit 5: Staff memo re: Guggenheim, 5/28/15

Exhibit 6: Wilshire Recommendation re: Guggenheim, dated 5/2015