

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT BOARD**  
**INVESTMENTS COMMITTEE MEETING**

**September 24, 2015**

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair Dan Mayfield, at approximately 9:17 a.m. on the above-cited date in the PERA Building, 33 Plaza La Prensa, Fabian Chavez Jr. Board Room, Santa Fe, New Mexico.

1. **ROLL CALL:** Executive Director Wayne Propst called roll and a quorum was established with the following members present:

**Members Present:**

Dan Mayfield, Chair  
Roman Jimenez, Vice Chair  
Dan Esquibel  
Patricia French  
Stewart Logan  
Louis Martinez

**Member(s) Excused:**

None

**Other Board Members Present:**

Loretta Naranjo Lopez  
John Reynolds  
Jackie Kohlasch  
Paula Fisher

**Staff Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Jonathan Grabel, Chief Investment Officer  
Greg Trujillo, Deputy Director  
Judy Olson, Executive Assistant  
Karen Risku, Deputy General Counsel  
Claudia Armijo, Assistant General Counsel  
Natalie Cordova, Controller/CFO  
Renada Peery-Galon, ASD Director  
LeAnne Larrañaga-Ruffy, Portfolio Manager  
Joaquin Lujan, Portfolio Manager  
Jude Perez, Portfolio Manager  
Mark Montoya, Financial Analyst  
Kristen Varela, Financial Analyst  
Karyn Lujan, Deferred Compensation Administrator

**Others Present:**

Don Wencewicz, AFSCME, Retiree  
Devon Muir, Mercer  
Lawrence Otero  
Lorraine Urioste  
Tracy Hughes, PERA Contract Attorney  
Jamie Feidler, Cliffwater  
Tom Toth, Wilshire  
Paul Lium, Nationwide  
Fred Wang, Trinity Ventures  
Sally Malavé, Assistant Attorney General

**2. APPROVAL OF AGENDA**

Ms. French moved to approve the agenda as published. Her motion was seconded by Mr. Jimenez and passed by unanimous [6-0] voice vote.

**3. APPROVAL OF CONSENT AGENDA**

Mr. Logan moved to approve the consent agenda. Mr. Jimenez seconded and that motion passed by unanimous [6-0] voice vote.

**4. CURRENT BUSINESS**

**Chief Investment Officer's Report**

**1. Investment Performance Summary – August 2015**

Jonathan Grabel, Chief Investment Officer, reviewed the results for August noting it was a volatile month and the fund was down 3.4 percent, \$5 million. He reminded the Committee that PERA does not run a portfolio of “what if,” but rather a policy that recognizes that prudent implementation of the strategic asset allocation takes time with vintage year diversification.

Mr. Grabel mentioned that while the consumer benefits with the low price of gasoline, to PERA as an investor in the oil and gas complex it is a detriment. The most important thing for PERA to accomplish is reaching its targets and then re-evaluating assumptions within the strategic asset allocation. He mentioned the 6 percent to 7 percent gap within PERA's alternative portfolio that is a one billion in underweight in certain asset categories. The goal is to close that gap smartly and prudently.

Referring to a quilt-type chart (1994-2015) entitled “Diversification Matters in Uncertain Markets,” Mr. Grabel highlighted the lack of consistency. The class category with the best performance varies, verifying that reacting a day late is a losing strategy. The role of investment-grade fixed income now focuses more on downside protection, the generation of current income and a source of liquidity as opposed to being alpha seeking. Not only does it help preserve capital but it assists in making \$80 million to \$85 million in monthly benefits payments.

In terms of the not so good, Mr. Grabel identified an underweight in real estate, real assets and private equity which are key elements of the strategic asset allocations. Those assets will bring different correlations and cash flow profiles that PERA's portfolio needs. In terms of the big picture, the portfolio needs to correct this underweight.

Mr. Grabel reviewed the asset category performance with domestic equities down 5.74 percent and international equities down 7.29 percent. He identified these as significant drawdowns. Fixed income plus was down 80 basis points. Absolute return was up 1 basis point and continues to serve its portfolio purpose. The long/short equity portfolio is helping the fund promote the investment philosophy of reducing drawdowns.

Private equity was up 12 basis points and real estate was down 3.13 percent which was attributed to the REITs allocation.

In response to a question about investing in China, Mr. Grabel said it is important for PERA not to lose sight of the global nature of the world in which we invest.

## **2. Cash Plan Update**

Mr. Grabel said August ended with under \$400 million in cash. The source of cash for the month was \$100 million from core fixed income to fund the portable alpha program. Distributions and redemptions were \$96 million from private equity distributions and hedge fund redemptions during the month. Uses of cash include \$36 million for benefits, refunds and manager fees and \$15 million for capital calls.

Mr. Grabel highlighted the impact volatility of equities has on the portfolio. The move by the Board to reduce and diversify its equity exposure is paying off.

Chair Mayfield asked about the cash overlay program performance and Mr. Grabel said it performs as does the public market. The program has been profitable since inception.

## **3. Other Updates**

Ms. French congratulated Mr. Grabel for his well prepared presentation to IPOC. Mr. Propst agreed stating Mr. Grabel worked cooperatively with ERB and SIC on the presentation. He mentioned that the presentation included the benefit of the PERA pension payroll with over \$1 million monthly going into the New Mexico economy. PERA has positioned itself as a leader in terms of fee transparency and reporting.

Mr. Grabel recognized PERA's investment team and said they are doing a fantastic job. The transition of the custodian bank, multiple audits and RFPs created a tremendous amount of work that he was proud to say his staff did well. "The team's got game." Mentioning that all these accomplishments were achieved with a reduced staff, he announced there were positions in the process of being filled.

Mr. Grabel said a nationwide search was conducted for the Deputy CIO position and it attracted great candidates. He announced that effective September 26th, Jude Perez is the new Deputy CIO.

The investment staff received a round of applause for their service to PERA.

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

**1. Recommendation to Commit up to \$30 Million to Trinity Ventures XII, LP, an investment in the Private Equity Portfolio**

*[Exhibit 1: Staff recommendation re: Trinity; Exhibit 2: Cliffwater report, 9/24/15; Exhibit 3: Trinity Report]*

LeAnne Larrañaga-Ruffy, portfolio manager, said Cliffwater and staff recommend a commitment of up to \$30 million to Trinity Ventures Fund XII, an early-stage venture capital fund for the private equity portfolio. The portfolio currently has 36 percent exposure to venture capital funds with 9 percent in early stage. This fund will complement the current private equity portfolio by providing sector and stage diversification.

Fred Wang, Trinity Venture Managing Director, said they are an established venture firm in business for 29 years and have invested over \$2 billion over the history of the firm. They are dedicated to early stage investing – companies in concept or very early revenue stage in both consumer facing and business facing technology companies. Currently, it is primarily internet leveraged types of businesses. Trinity’s mission is to be the best partner they can be for these entrepreneurs with a strategy of providing a personal touch in developing deep relationships with the entrepreneurs and the communities Trinity focuses on.

Mr. Wang said Trinity’s team has deep operating experience and successful entrepreneurial experience. The firm has avoided the temptation of going after the international markets that other asset categories and has instead “stuck to our knitting” around early stage investing.

Trinity has a very low capital partner ratio which allows them to engage deeply with the portfolio, limit the number of board seats and really spend time in their focus sectors. Over 29 years, Trinity has backed technology and consumer companies, stated Mr. Wang. Trinity was the first venture investor in Starbucks, PF Chang’s, Java Juice as well as several software companies. As the technology market has evolved they have shifted their practice to internet leveraged consumer companies.

Mr. Wang acknowledged the lessons learned during the dotcom boom years and spoke about the discipline they practice.

The past few years, Mr. Wang said Trinity has experienced a robust exit market and have had four successful IPOs that generated over \$450 million of value.

Jamie Feidler, Cliffwater, addressed Mr. Esquibel's concern regarding the B rating of Trinity. Mr. Feidler said even with a B rating Cliffwater does not see any outside risks in investing with Trinity, in fact, it is a very low risk investment vis á vis other venture capital or private equity firms. He assured the Committee that if Cliffwater thought anything about a firm was less than institutional quality it would not be recommended.

Mr. Feidler noted that most venture capital firms do not have to register with the SEC as registered investment advisors. He noted that Trinity has a very, very consistent performance across decades.

Mr. Jimenez moved to approve the recommendation to approve up to \$30 million to Trinity Ventures XII, LP, an investment in the Private Equity Portfolio, to be funded according to the cash plan and subject to legal review by General Counsel. Ms. French seconded and the motion passed by unanimous [6-0] voice vote.

**C. Action Item: Fixed Income Plus Benchmark Change & Investment Policy Statement Update**

Mr. Grabel reminded the Committee that this item was discussed during the August Board retreat and relates to the fixed income plus benchmark.

Joaquin Lujan, Portfolio Manager, said staff is requesting a benchmark update on the fixed income plus sector. He said as the emerging market debt component of the fixed income composite was modeled the index used was industry standard. The emerging debt market has largely re-rated with countries, e.g., Mexico, Chile, Brazil, generating internal growth and taming inflation. They can issue debt at a marginal spread to the US Treasuries with that dynamic and investor demand for more yield, many emerging markets are more able to issue local currency denominated debt.

Mr. Lujan spoke about markets as living/evolving entities and PERA's strategic asset allocation and the manner in which PERA invests need to have fluidity.

Mr. Lujan said staff and Wilshire recommend updating the Investment Policy Statement to reflect a policy index update with the JPMorgan Emerging Market Bond Index, EMBI, which better represents the evolution in the market.

Mr. Grabel said the benchmark appears in the Investment Policy Statement and required formal action to revise it.

Mr. Jimenez moved to approve the recommendation updating the Investment Policy Statement to reflect the change to EMBI Global Diversified Index within the fixed income plus composite. Ms. French seconded and that motion passed by unanimous [6-0] voice vote.

The change will become effective following Board action and the Board Chair's signature on the document.

**D. Information Items**

**1. 457(b) Q4 FY15 Plan Review**

*[Exhibit 4: NM Deferred Compensation Plan, Nationwide]*

Karyn Lujan, Deferred Compensation Plan Manager, offered the following information:

- The new updated participation and easy enrollment forms are both in use. She will continue to work with Nationwide to post the easy enrollment form
- There is an enhanced security feature on the website for the 457(b)
- October 18 through 24 is National Save for Retirement Week
- The Deferred Compensation Plan FY15 audit is near completion and will be reviewed with the PERA Board in October

Chair Mayfield asked whether the Deferred Compensation Plan enrollment form is attached to the PERA enrollment form. Ms. Lujan said staff has discussed this issue and will continue to look at it.

Paul Lium, Nationwide Program Director, indicated in the participant's interest, no fee is charged to the participant for the first two quarters or \$1,000 whichever comes first. He reviewed the plan enrollment activities, the number of individuals seen, group meetings, current assets, and total participants. Two new entities were added to the plan and participation is clearly expanding. The easy enrollment form has received excellent response.

Nationwide is expanding its participation at new employee orientations.

Deputy Director Trujillo said currently PERA holds retirement seminars for employees close to retirement. Staff would like to design informational seminars for the members throughout their careers; first, at an early entrance into the PERA system and another at mid-career seminars. These sessions would be independent from that of the employer agency.

**2. 457(b) Q4 FY15 Investment Performance Review**

*[Exhibit 5: Mercer – Deferred Compensation Plan, Q2 2015]*

Mr. Grabel thanked Devon Muir and Mercer for their 13 years of service to PERA. Mr. Muir thanked Mr. Grabel for his words and said they have appreciated their relationship with PERA.

Mr. Muir provided a summary of the investment options and noted that the information is from the second quarter and is a bit dated at this point. The 2<sup>nd</sup> quarter was mediocre and the 3<sup>rd</sup> quarter has experienced a significant sell-off. The actively managed options have all added value above benchmark. The primary investments are the lifecycle funds at over 20 percent. On a standalone basis, the New Mexico Stable Value Fund continues to represent the highest single investment option with 26 percent. He commented that that fund has declined as participants have shown favor toward the target date/lifecycle fund. Vanguard, which tracks the S&P 500, continues steady with 14 percent of the assets.

On June 30, 2015, Plan assets totaled approximately \$500 million; Mr. Muir said that is a very slight decrease from the prior quarter.

Mr. Muir reviewed the investment expense analysis which is a breakdown of the fund fees. The fund net expense ratio relative to the institutional peer group, PERA offers the plan well below median cost to participants. On a weighted average the fund fees were 42 basis points, inclusive of 2 basis points of revenue sharing which offsets the plan cost.

Mr. Muir reviewed performance of the different funds. The lifecycle funds had a slightly negative quarter on an absolute basis which he attributed to exposure to global real estate securities and MLPs. NM Stable Value, the most used option, still offers an advantage. On a year to date basis all of the equity managers have added value relative to the benchmark. He highlighted that most of the investment options have significantly sold off presenting a negative performance from -2 percent to -13 percent for the emerging markets. Each one of the managers has been able to provide more than the benchmark – preserving on the downside.

### **3. 457(b) Rebranding**

Ms. Lujan said the new branding will help in promoting the Deferred Compensation Program.

Mr. Trujillo said the PERA brand will assist in aligning the Deferred Compensation Program with the PERA brand.

Mr. Grabel presented a slide show/power point on the Deferred Compensation naming and logo development that illustrated how the PERA logo will be communicated and connect PERA with the plan. The new name which will appear with the new PERA logo is “PERA Smart Save – Deferred Compensation Plan.” The new brand and new name will hopefully trigger members to sign up as beneficial in enhancing the retirement nest.

Ms. Lujan said staff worked closely with 3 Advertising and she felt confident this is a good change for the membership.

Mr. Jimenez said he was pleased that PERA has better identified with deferred comp and agreed it will help the membership. Ms. French agreed and commented that Nationwide will run into less resistance in presenting the program to employees.

Ms. Lujan said an informational flyer with an easy enrollment form on the PERA Smart Save plan will be included in the active member annual statement.

Ms. French asked whether RIO can isolate new members and if so she suggested sending them an enrollment letter. Mr. Trujillo said that was possible.

Ms. Lujan said a good target population for the PERA Save Smart program is the recently vested member.

5. **OTHER BUSINESS**

None was presented.

6. **ADJOURNMENT**

Having completed the agenda, and with no further business to come before this Committee, Chair Mayfield declared this meeting adjourned at 11:10 a.m.

Approved by:

 10/20/15  
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Dan Mayfield, Chair  
Investments Committee

ATTEST:

  
\_\_\_\_\_  
Wayne Propst, Executive Director

**Attached Exhibits:**

*Exhibit 1: Staff recommendation re: Trinity*

*Exhibit 2: Cliffwater report, 9/24/15*

*Exhibit 3: Trinity Report*

*Exhibit 4: NM Deferred Compensation Plan, Nationwide*

*Exhibit 5: Mercer – Deferred Compensation Plan, Q2 2015*