

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SPECIAL BOARD MEETING

January 12, 2016

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 9:20 a.m. on the above-cited date at the PERA Building, Senator Fabian Chavez Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

1. & 2. PLEDGE OF ALLEGIANCE & ROLL CALL

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

Members Present:

Patricia French, Chair - Municipal
Tim Eichenberg - *Ex-officio* [Early departure]
Dan Esquibel - Municipal
Paula Fisher - State
Jackie Kohlasch - State
Louis Martinez – Municipal [Early departure]
James Maxon - County
Dan Mayfield - Retiree
Loretta Naranjo Lopez - Retiree
John Reynolds - State
Cathy Townes - State
Brad Winters - *Ex-officio*

Member(s) Excused:

None

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jonathan Grabel, Chief Investment Officer
Renada Peery-Galon, ASD Director
Greg Trujillo, Deputy Director
Karen Risku, Deputy General Counsel
Jude Perez, Deputy CIO
Danna Varela, Executive Assistant
Natalie Cordova, Chief Financial Officer
Joaquin Lujan, Director of Rates and Credit
LeAnne Larrañaga-Ruffy, Portfolio Manager
Mark Montoya, Financial Analyst
Kristen Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager

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Others Present:

Paul Lium, Nationwide
Don Wencewicz, AFSCME Retirees

3. APPROVAL OF AGENDA

Ms. Fisher introduced the following motion:

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

Mr. Reynolds seconded and the motion passed by unanimous [12-0] voice vote.

4. CURRENT BUSINESS

**A. Oath of Office for Incoming and Re-elected Board Members:
James Maxon, Jackie Kohlasch and Loretta Naranjo Lopez**

Chair French administered the oath of office to Members Maxon, Kohlasch and Naranjo Lopez.

The new members were congratulated.

**B. Election of 2016 Board Officers
PERA Board Chair**

Ms. Towns nominated Patty French and Mr. Martinez seconded the nomination.

Ms. Naranjo Lopez nominated Jackie Kohlasch. She went on to say that she appreciated the service that Chair French has provided to PERA and, as this election is held annually, it is an opportunity for other Board members to provide leadership and gain the knowledge and experience of chairing this elected Board. Mr. Reynolds seconded the nomination.

There were no further nominations and Mr. Eichenberg moved to close the nominations. Mr. Esquibel seconded and the motion to close the nominations passed without opposition.

Ms. French won the election having nine votes and Ms. Kohlasch three votes.

Mr. Martinez thanked Ms. French for her service and dedication to PERA. Ms. Fisher too thanked the Chair French for her diligence to PERA.

Mr. Eichenberg congratulated the Chair and thanked Ms. Kohlasch for her service.

Chair French thanked Ms. Kohlasch for her work and thanked the Board for their vote of trust. She said PERA is her number one priority.

PERA Board Vice Chair

Mr. Esquibel nominated Dan Mayfield and Mr. Martinez seconded.

Mr. Reynolds nominated Jackie Kohlasch and Ms. Naranjo Lopez seconded.

Mr. Reynolds moved to close the nominations and Ms. Fisher seconded. The motion to close nominations passed without opposition.

Mr. Mayfield won the election with nine votes and Ms. Kohlasch three votes.

C. Executive Session:

- 1. Pending Litigation - The Board will go into Executive Session under NMSA 1978, Section 10-15-1(H)(7) to discuss the following item:
*Logan, et al. vs. PERA, PERB, et al.***

Ms. Fisher moved to go into executive session per the item listed above. Mr. Eichenberg seconded. The Board went into executive session by roll call vote as follows:

Patricia French	Aye
Tim Eichenberg	Aye
Dan Esquibel	Aye
Paula Fisher	Aye
Jackie Kohlasch	[out for the vote]
Louis Martinez	Aye
James Maxon	Aye
Dan Mayfield	Aye
Loretta Naranjo Lopez	Aye
John Reynolds	Aye
Cathy Towns	Aye
Brad Winters	Aye

[The Board met in executive session from 9:40 a.m. to 10 a.m.]

Mr. Eichenberg moved to come back into open session. Mr. Mayfield seconded. By unanimous roll call vote the Board returned to open session.

Patricia French	Aye
Tim Eichenberg	[out for the vote]
Dan Esquibel	Aye
Paula Fisher	Aye
Jackie Kohlasch	[out for the vote]
Louis Martinez	[out for the vote]
James Maxon	Aye
Dan Mayfield	Aye
Loretta Naranjo Lopez	Aye
John Reynolds	Aye
Cathy Towns	Aye

Chair French announced that members Eichenberg and Martinez did not participate in Executive Session.

D. Market Perspective

Jonathan Grabel, Chief Investment Officer, characterized the current global capital markets as very challenging, brutal and ugly. He provided a perspective on the market and how it impacts the PERA portfolio. Through yesterday, which is six trading days in the current calendar year, the markets are down substantially. The ACWI (All Country World Index) is down 6.5 percent -- that is over 1 percent a day and a significant number. Credit markets are down, real estate is down, and commodities are down. The one major asset category that is up, and only marginally up, is the Barclays Agg with the bonds up 54 basis points. He explained that as the equity markets go down there is a flight to safety in the context of government fixed income. Fiscal year to date, the ACWI is down 10.82 percent. Emerging markets are down 27 percent. The Russell 2000 – an index of small cap domestic companies – is down 16 percent, evidencing that the US/domestic is not an investment solution. MLPs are down 33 percent – that too is domestic and demonstrates hiding within the US is not a solution. The Goldman Sachs Commodities Index, fiscal year to date, is down 38 percent and that is on top of a bad year before. What is up is the flight to safety with Barclays Agg, the bond index, and 10-year Treasuries are up 2.37 percent.

Mr. Grabel emphasized that PERA's portfolio is made up of various asset categories to protect the fund especially in uncertain times. The common theme is the slowdown in global growth. Over time virtually all asset categories are dependent on some form of global growth in order for them to work. The factors are all outside of PERA's control.

Mr. Grabel said PERA's plan was at its peak of \$14.8 at the end of April 2015. As of yesterday, the fund is at \$13.4 billion down, over 9 percent from the peak. PERA's liabilities don't rest and the cash flow needs becomes a larger percentage of assets as the markets go down. PERA is net cash-flow negative of about \$500 million a year. At the peak number the net cash-flow negative is 3.3 percent of the fund; at \$13.4 billion it is 3.7 percent. The net difference between 3.7 and 3.3 compounded over 25 years is close to 11 percent. What the market does has a disproportionate impact on PERA's long-term liabilities.

In the positive, Mr. Grabel said PERA has made tremendous positive changes with the 2014 adoption of the strategic asset allocation which provides:

- Better diversification in the portfolio
- Substantially reduced dependence on domestic equity
- Increased diversification across the asset categories
- Improved implementation within asset categories
- A better risk profile for the total fund
- Reduced total portfolio beta
- Increased the Sharpe ratio
- Reduced volatility
- Lowered the fee structure

Mr. Grabel said “we can always do better.” He referred to a chart that referred to the drivers of portfolio return. The principal driver is asset allocation at 90 percent. Staff and consultants will be revisiting the asset allocation study. The realism to achieve the actuarial return of 7.75 percent will be included within that study. Investment structure/implementation is 5 percent to 7 percent. He discussed the importance of investment guidelines ensuring that mandates are consistent with the strategic asset allocation. Wilshire will be mapping the portfolio to the asset allocation.

Mr. Grabel said it was important for the Board and staff to use its time on what matters most, asset allocation implementation.

Mr. Grabel referred to a quilt-like chart showing 11 different asset categories and their absolute returns since 1994. The chart highlighted the fact that there is no consistency to which asset category does best in any given point in time.

With the loss of \$1 billion, Ms. Naranjo Lopez asked whether staff is researching all the available studies to ensure PERA’s portfolio is going in the right direction. She mentioned that according to some experts hedge funds were a bad investment. Mr. Grabel said he appreciates the Board and members’ concern. He pointed out that hedge funds are less than \$500 million of the investments within the portfolio and respectfully he said that that is not going to drive the portfolio’s performance.

Mr. Grabel repeated that the portfolio is better positioned today than it was in 2008 and losing less than if there was a higher beta. The transition to a new custody bank provides information at a press of a button. Staff has more data with which to view the portfolio.

Mr. Mayfield reminded the Board that PERA’s annual payroll is approximately \$1 billion and the fund annually brings in \$450 million. He thanked Mr. Grabel for his report and looked forward to the strategy of reviewing asset allocation.

Mr. Esquibel asked whether the loss would affect GASB in the sense of the net pension liability for the employers. Mr. Grabel said GASB 67/68 focuses on the market value of the portfolio which introduces more volatility into the numbers and reduced smoothing in terms of assets for certain calculations.

Ms. Naranjo Lopez said she was concerned because SB27 was supposed to ensure that the plan would be fully funded in 30 years.

Chair French said she would like to focus on private debt and real estate debt and how it fits within private equity. Additionally, they should work to better implement the strategic plan. She noted that a member pays in approximately 17 cents for every \$1 received in retirement. Investments must be made wisely. She looked forward to Wilshire presenting information.

Mr. Grabel said the long-term 30-year assumption come out at the end of January and Wilshire will present in March. He wanted to make sure there was adequate portfolio mapping.

Mr. Grabel said PERA has a great investment team. He said he appreciates the hard questions the Board poses and in direct response to Mr. Esquibel's question of what the Board can do to assist staff, he said there needs to be a focus on the importance of asset allocation which is the biggest driver of the portfolio, rather than manager presentations. He suggested a change to the structure of the IC meeting, eliminating the manager presentations and focusing on the process.

Mr. Reynolds said he appreciated Mr. Grabel's recommendation and he felt that the time spent on manager selection is out of proportion with its importance.

Mr. Propst thanked the Board for this discussion and appreciated the trust the Board displays for the Investment staff. Trusted Insights, platform and network for institutional investors, recently named Jonathan Grabel as one of the top 30 pension chief investment officers, which is a significant recognition.

E. Presentation on GASB 67 – Results as of June 30, 2015

Chief Financial Officer Natalie Cordova introduced Jonathan Craven, from Cavanaugh Macdonald, who appeared before the Board via Skype.

Mr. Craven said GASB 67 became effective last year and is the Governmental Accounting Standards Board's requirements for financial reporting for the pension plan. He reviewed a comparison of actuarial valuation and GASB accounting information terminology. Assets are volatile and for actuarial funding purposes assets are smoothed over a four-year period. GASB uses the market value of assets and thus feels the full impact of volatility in the assets.

The long-term expected rate of return on assets is used to discount benefit payments to create the liability; however, GASB requires a projection of benefit payments, contributions and expected asset return. Once the fund is projected to be depleted of assets, a long-term AA/Aa bond index which is currently 3.82 percent is compared to PERA's assumption of 7.75 percent.

Mr. Craven said PERA's market value of assets exceeds the actuarial value of assets as of June 2015. The net pension liability for all the PERA divisions was less than the unfunded liability in the funding valuation with the exception of the Magistrate Fund. PERA's net pension liability increased substantially from June 2014 to June 2015 due to an asset loss of \$850 million during that period. As of June 30, 2015 PERA's net pension liability is \$4.62 billion up from \$3.2 billion last year. The funded ratio – ratio of plan net position to total pension liability – is 77 percent as of June 30, 2015.

Mr. Craven reviewed the change in net pension liability from 2014 to 2015 increased by \$1 billion and noted that benefits plus refunds are running \$1 billion annually for PERA. A slide was shown total pension liability, plan fiduciary net position and net pension liability results for the PERA divisions and other funds.

Mr. Craven said higher salaries than projected caused a loss to the system. For several years the system had salary gains because very few people were receiving pay increases. Last year many pay increases came forward causing a loss which is not expected to be repeated next year.

The slide that illustrated change in net pension liability contained an “other” category and Ms Kohlasch requested clarification of that. Ms. Cordova said that is the special settlement award received within 2014 and 2015.

F. Approval of Open Meetings Resolution: No. 16-01
[Exhibit 1: Resolution 16-01]

Chief of Staff/General Counsel Susan Pittard reviewed the resolution noting this is the open meetings resolution approved annually. The Open Meetings Act requires that every public body adopt a resolution which lays out the meeting schedule and requires agendas be available 72 hours before a meeting before the public body and 24 hours for an emergency meeting.

Ms. Pittard said the availability of agendas on the PERA website was new from last year’s resolution.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve Resolution 16-01.”

His motion was seconded by Mr. Winter and passed by unanimous [10-0] voice vote.

G. Approval of Resolution Regarding Authorization to Act on Behalf of PERA to Transact Investment Business as Request: No. 16-02
[Exhibit 2: Resolution 16-02]

Ms. Pittard said this resolution is presented annually for Board action. It delegates to the executive director, chief investment officer and the deputy chief investment officer the necessary authority to transact business on behalf of the Board. The only change is identification of Jude Perez as Deputy Chief Investment Officer.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve Resolution 16-02.”

His motion was seconded by Ms. Fisher and passed by unanimous [10-0] voice vote.

H. Approval of Resolution Setting Annual Meeting: No. 16-03
[Exhibit 3: Resolution 16-03]

Ms. Pittard said this too is annually acted on by the Board. The resolution sets the annual meeting date which will be 9 a.m. on September 29, 2016. The date will be published

on the website, *La Voz* and added to the annual COLA statement to PERA retirees. The election results are certified at this meeting.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve Resolution 16-03.”

His motion was seconded by Ms. Naranjo Lopez and passed by unanimous [10-0] voice vote.

I. 2016 PERA Board Election: Approval of Resolution Calling for Nomination of Retiree, State and Municipal Positions for a Four-Year Term: No. 16-04

[Exhibit 4: Resolution 16-04; Exhibit 5: 2016 Board Election Timeline and Nominee/Candidate Checklist]

Ms. Pittard said this resolution calls for the nominations for one state member, one municipal member, and one retiree member, all for four-year terms. The election results will be certified at the September 29, 2016 annual meeting.

Ms. Pittard confirmed that further clarification has been made to existing rules regarding original signatures on petitions.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve Resolution 16-04.”

His motion was seconded by Ms. Fisher and passed by unanimous [10-0] voice vote.

J. 2015 Year-end Report

Chair French said the Legislative Committee would not be meeting today and she asked Mr. Propst to provide an update on any pertinent information.

Mr. Propst referred the Board to the 2015 year-end report and stated it was a good year and PERA completed many projects including repairs to the building, launching the new website, transition to a new custody bank, implementation of GASB 67 and 68, Albuquerque office expansion, RHCA relocating to the PERA Building, rebranding of the 457b deferred compensation plan, unqualified FY 15 audit, member services reorganization and successful implementation of fee study recommendations.

Mr. Propst said a couple of bills related to PERA were re-filed: contributions for public safety officers injured in the line of duty; and HJM 2 and SJM3, identical memorials endorsed by the IPOC calling for a moratorium on changes to the PERA benefits for five years.

Mr. Propst said he has not seen legislation related to return to work or deferred retirement option programs. The deadline for pre-filing legislation is Friday, January 15th.

Chair French asked whether the separation of ERB and PERA at retirement was under consideration. Mr. Propst said Deputy Director Trujillo was in contact with the Governor's office to get that legislation related to reciprocity on the Governor's Call.

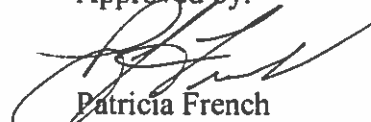
5. **OTHER BUSINESS**

None was offered.

6. **ADJOURNMENT**

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 11:40 a.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Exhibits:

Exhibit 1: Resolution 16-01

Exhibit 2: Resolution 16-02

Exhibit 3: Resolution 16-03

Exhibit 4: Resolution 16-04

Exhibit 5: 2016 Board Election Timeline and Nominee/Candidate Checklist