

**New Mexico
Public Employees Retirement Association
SmartSave Committee Meeting
March 8, 2022**

1. Call to Order

This meeting of the New Mexico PERA SmartSave Committee was held on the date cited above via Zoom tele/video conferencing. Chair, Lawrence Davis, called the meeting to order at approximately 9:00am.

2. Pledge of Allegiance

Francis Page led the Pledge of Allegiance.

3. Roll Call

The meeting attendance met quorum with the following members present;

Committee Members Present

Lawrence Davis
Loretta Naranjo Lopez
Francis Page
Shirley Ragin

Committee Members Absent

Roberto Ramirez
Maggie Toulouse Oliver

Board Members Present

Claudia Armijo
Valerie Barela
Tim Eichenberg
Paula Fisher
Steve Neel
Diana Rosales Ortiz

Staff

Greg Trujillo, Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Kristin Varela, Interim CIO
Misty Schoepner, Deputy General Counsel
LeAnne Larranga Ruffy, Acting Deputy CIO
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel
Karyn Lujan, SmartSave Plan Manager

Angela Romero, Albuquerque Manager
Frank Mihail, Investments
Loretta Lopez, Assistant Legal Counsel
Sara Hume, Investments
Jovanna Archuleta, Investments

Others in Attendance

Paul Cowie, Meketa
Chip Burciaga, VOYA

4. Approval of the Agenda

Francis Page moved to approve the agenda. Shirley Ragin seconded the motion. The motion passed by a unanimous roll call vote as follows;

Lawrence Davis	Yes
Loretta Naranjo Lopez	Yes
Francis Page	Yes
Shirley Ragin	Yes

5. Approval of the Consent Agenda

Francis Page moved to approve the Consent Agenda. Shirley Ragin seconded the motion. The motion passed by a unanimous roll call vote with 1 abstinence as follows;

Lawrence Davis	Yes
Loretta Naranjo Lopez	Abstain
Francis Page	Yes
Shirley Ragin	Yes

6. New Business

A. Quarter Two FY22 (December 2021) Investment Performance Review

PERA SmartSave Plan Manager, Karyn Lujan introduced Paul Cowie from Meketa, the Plan's investment consultant, to give a review on the investment performance.

Ms. Lujan stated the Russian-Ukraine effect on the funds on the DC side will be reviewed.

Mr. Cowie gave a brief update of the current position of the markets. He stated the fourth quarter of 2021 was a positive one but a lot had changed since then.

Mr. Cowie referenced a memo was sent out last Thursday to give an update of the market with regards to the Russian invasion of Ukraine. He reported that over the last several

weeks, the Ruble had depreciated by over 25%, investments, stocks and bonds were down between 50 to 75%.

Russia had increased their short-term rates by 20% in a bid to defend their currency. Mr. Cowie noted that although sanctions were targeted at Russia, they were affecting world economies, including the U.S and Europe. Inflation was also at the risk of increasing even more. There was also the possibility of the Fed raising rates even further.

Mr. Cowie stated the memo also called for divestment. He explained that most managers in these markets were taking watch and assessing the situation, waiting to reevaluate things once the markets opened. There are currently no trades happening in those markets as it is difficult to find buyers.

Regarding the exposure of the Plan to Russia, Mr. Cowie reported the Aberdeen emerging markets equity had about 1.5% as of the end of February. Euro Pacific Growth, another international equity manager, had a small exposure as of the end of the February of about 14 basis points or 0.14%.

Wellington emerging markets debt had more exposure going into the crisis, but some of the holdings had been written down. The current net exposure is about 0.5%. The international index manager, Vanguard had about 80 basis points at year-end, which dwindled down to almost zero due to the decrease in the markets.

Vanguard will not hold any Russia going forward because major index providers will be removing Russia from the benchmark. This might also be the case with the managers depending on how the situation evolves. Mr. Cowie stated Meketa will be holding a webinar next Tuesday to address in detail the Russian-Ukraine effects on the markets.

Mr. Page inquired about the Governor's letter that had been sent to the Board regarding the funds. Ms. Lujan stated the funds in the deferred comp fund are for the most part publicly traded mutual funds. PERA did not have control over the underlying holdings of what the managers have. It could only control decisions to utilize the fund.

Ms. Lujan further stated PERA was relying on the managers discretion on the fund's divestment from Russia holdings. After that is when the Board could decide on whether or not to replace the fund. She opined it was not possible to completely eliminate exposure for mutual funds from international holdings.

Ms. Kristin Varela added mutual funds are a client-directed plan so the set-up is different. She stated the fund's position in the Russia holdings was quite small, being at around 640,000 at December and would continue decreasing.

She further pointed out the funds that were being impacted were minimal and the values will decrease naturally based on the phase-out of Russia in the global broad market indexing. The managers will not be taking an active tilt, especially on passive funds like the Vanguard. Meketa will be providing updates on exposure.

Ms. Armijo reminded the Committee members that any decisions made should be based on the fiduciary responsibilities to the fund. She also requested a link to Meketa's upcoming webinar.

Ms. Lujan pointed out fund replacement is not usually immediate and it always follows the PRISM process. It might take several months before a fund is replaced because of the process of decision making and notification of members and due diligence before a fund is considered. Mr. Cowie also added that once VOYA gets the directive to change a fund, it could take anywhere between 3 to 6 months to affect that change.

Chair Davis asked if there were means to communicate the Board's and the Governor's intention with the funds. Ms. Lujan stated communication could be provided to a fund manager. It was, however, a fund manager's decision to take the communication into consideration when structuring their portfolio. PERA could decide to not use those funds and move to other preferable fund.

Chair Davis pointed out there was a piece of legislation stating the public had their general comment that could lead to a decision to take a particular direction with the funds. Ms. Varela agreed with Chair Davis and added the push was coming from all institutional investors. She stated there was a lot of pressure for the mutual funds to seek to offload or divest.

Ms. Varela further stated that PERA needs to continue watching the managers' positions. They could continue pushing them on holdings and monitor that position. PERA could then choose to make a lineup change if it was ultimately unhappy with the managers' active decisions. She also pointed out the Russian market is currently illiquid, therefore, any divestment might be difficult at this point.

Chair Davis stated that communicating to the fund managers was just an option, not necessarily an encouragement to dissolve Russian assets. He was in support of the idea of watching the managers' positions and possibly try and get out of those assets.

Ms. Lujan informed the committee that if the Governor's letter was a matter of public record, the PERA Board could write a separate memo and attach it to the letter. Meketa could then send it to the managers informing them of the Board's position on the matter.

Ms. Lujan reiterated the Plan is fully participant-directed. This means participants are free to move their funds around as they so wish. They can also do their due diligence and get out of any funds at any time.

Chair Davis requested Mr. Burciaga to send out communication to participants informing them of their options. The communication would have no political inclinations and would be sent out in an email blast. Ms. Armijo stated the communication could be sent out, but any other action to be taken after that, including attaching the Governor's letter, had to be approved by the Board.

Mr. Burciaga stated that the communication should also inform people of market performance and ask them to reassess their risk levels to ensure they are comfortable with their allocations.

On the December 2021 performance review, Mr. Cowie reported there was a change in the Tier II where the US small cap equity option was replaced with Fidelity small cap.

Mr. Cowie outlined the breakdown of the assets by tiers, stating Tier I was at 27%, Tier II at about 28%, Tier III, 42%, and Tier IV, at about 2%.

In comparing the expenses for the Plan to peer medians, the expense ratio was in the middle. Mr. Cowie pointed out the Plan's funds are cheaper than what most participants can get out in the marketplace on their own.

Chair Davis inquired about the status of the loan percentage for the payback. Ms. Lujan stated the percentage rate is prime rate plus 1%.

6.B. Q2 FY22 (December 2021) Plan Activity Review

Ms. Lujan reviewed the Plan's activity for December 2021. She stated the net asset value of the Plan as of December was at \$843 million. The net asset value was back in the 700s (million) as of February.

Regarding the participation rate, the Plan ended with 22,990 balances as of December. The effects of COVID are still affecting the Plan since local government and state agencies are still not fully public. Regular outreach is still not possible. Some local governments and agencies are open but some don't allow large groups of people in one room, thus affecting the numbers. The numbers coming in are about two-thirds of what they used to be pre-COVID.

Participants are still enrolling in the Plan. People are using the online enrollment in addition to the paper enrollment. Throughout the year, there was a 19% increase in enrollment.

Mr. Neil had requested a slide to be included in the presentation showing the number of participants by account balance. The slide indicated a majority of the participants were on lower balance. This might be due to new participants or long time participants who are only contributing \$10.

The digital engagement section of the presentation showed how participants are using the tools available to them, these are the call center, the mobile app, and the website. The website is the most used. The older people are also using all the aforementioned tools. Data on how people were using the tools in the personal online accounts was also provided in the slide presentation.

Personalized messaging entails email blasts that go out periodically. VOYA looks at participant account to see where to nudge them slightly in spaces. For instance, if a person is 100% allocated in one fund, they might get a message about asset allocation. Data on how participants are looking at the messages and taking action was also provided.

PERA has three outreach representatives, all VOYA employees. One represents the North, one, Central New Mexico, and the other represents the South. The Northern New Mexico rep position is still vacant. VOYA is actively trying to fill the position. Several prospects were received but failed on background checks. Mr. Burciaga requested the Board for recommendations for candidates who might be able to fill the position.

A spreadsheet of the Plan's expenses is usually included in every quarterly report. It shows the fees collected, the number of participants who get a fee collected, and where those payments are going, which is VOYA, Meketa, and to PERA.

Chair Davis thanked Ms. Lujan, Mr. Burciaga, the VOYA for providing detailed information the slide presentations.

Ms. Rosales Ortiz noted there were a lot of zeros on the outreach report. She requested details on this and wondered whether it was because people were not attending seminars. Ms. Lujan stated it was an effect of the COVID shutdown. The webinars were happening but people were not attending them. Ms. Lujan believed it was because the people have Zoom fatigue and were yearning for something different. She further explained it might be due to the low enrollment levels as compared to the pre-COVID numbers. It might also be because the Northern New Mexico vacancy.

Ms. Rosales Ortiz also asked if the Deferred Comp program was being advertised in 'Round the Roundhouse. Ms. Lujan responded in the affirmative and added that she writes and provides articles for the publication. The Plan used to buy ad space when it was with Nationwide. However, that stopped because it was not getting much traction and was costly. Ms. Lujan and Voya are looking at options, possibly on a quarterly basis.

Mr. Burciaga echoed Ms. Lujan's sentiments that people were Zoom fatigued. This experience was similar to many of their other clients.

Ms. Armijo asked if the State of New Mexico email blasts had been used for SmartSave. Ms. Lujan stated she had used it for SmartSave but to advertise the vacancy. Ms. Armijo encouraged her to do it there it had no fees and thus presented no risks.

Ms. Lujan explained that Voya blast emails go out to anyone with an email on account at VOYA, so they reach most Plan participants. Quarterly communications are also sent out to employers as a mode of outreach so they can disseminate the information to their employees.

Mr. Burciaga added about 76% of people had opted for e-delivery so the automated outreaches from VOYA reach many of them.

6.C. SmartSave Plan's Budget Structure Review

Ms. Lujan stated one of the big misconceptions people have is that the SmartSave Plan is funded the PERA pension fund, which is not true. The Plan is completely participant funded, including the internal operating budget.

The three components to the Plan's expenses include VOYA's contract, Meketa, and PERA's internal operating costs. Internal operating costs include salary and employee benefits, and the operating budget, like supplies, IT, legal, travel, et cetera. These amounts are always approved during PERA's routine budget request and approval process. Currently, the Plan only charges the administrative fee, which is only VOYA's fee. The administrative fee annually is about \$54.50 per participant. VOYA keeps \$54.35 of that, while PERA keeps \$0.15. The \$0.15 comes from the rent savings Voya gets after moving its offices to the PERA building during the shift from Nationwide to VOYA. The fee is automatically collected every quarter from every participant's account.

The Meketa contract and PERA's operating costs are funded through mutual fund revenue shares. This was established back in 1980 when the Plan started. Ms. Lujan stated it was not unusual for a plan to use revenue shares to offset its expenses, but that was becoming an old practice and plans were getting away from doing it.

Several reasons to consider so as to retract from the practice of mutual fund revenue share usage to offset costs were provided as shown in the slide presentation.

Ms. Lujan reported that as an example, the amount the revenue shares brought in is about \$30,000 a quarter. Actual numbers show the Plan spends about \$50,000 a quarter in expenses. There are cash reserves that have built up over the years. In the past, when the revenue shares were not coming in, the participants were charged to cover the extra cost. The amount charged was usually less than \$0.50.

If the Plan decides to stop using the mutual fund revenue share, then the money would need to come from the participants. Incoming revenue needs to be approximately \$50,000 per quarter. All numbers provided were estimates based from historical actual budget expenses. Therefore, expenses might continue to rise in the future.

An additional \$2.37 would have to be charged per chargeable participant per quarter to provide about \$54,000 each quarter. New participants don't pay the fee until their account balance reaches \$1000 or after the first two quarters, whichever comes first. Even though the Plan has 22,990 participants, not all are paying the fee and the same time.

Ms. Lujan stated that she will collaborate with the CFO to calculate actual numbers when the matter comes before the Board as an action item.

The \$2.37 per quarter comes to about \$9.50 annually. Since the current fee is about \$54.50, adding the \$9.50 will bring it to \$64. This is about \$16 per quarter.

Ms. Naranjo Lopez asked what the average fee would be for people to get one of those plans. She also asked if the number is competitive in the market and if it would impact the program.

Ms. Lujan stated the Plan used to charge a flat fee for everyone. This was revised in 2015 based on account balances since the Board felt it was not fair for smaller balances to be paying the same amount as larger balances. For this reason, a hybrid structure was created. A hybrid structure is a flat rate plus a percentage of assets with a cap. The purpose of the cap is to not penalize the larger balances.

Ms. Lujan presented data showing what participants are currently paying with the hybrid structure formula and what they would pay after the implementation of the \$2.37. (See slide presentation). She added the numbers can be revised at the Committee's discretion.

She also presented a slide illustrating other plans' fees that are comparable to PERA in size. The annual fee of those who charge a flat rate is about \$70. Therefore, PERA's rates were still below the average. Even with the addition of the \$2.37, the Plan will still be below average and remain less costly.

Ms. Naranjo Lopez indicated that the percentage could go as low as 0.2% depending on the services provided. Ms. Lujan reiterated charging \$64 would still make the Plan's fee lower than the market average of \$70.

Ms. Naranjo Lopez pointed out the fees were therefore not affecting the Plan's ability to get more participants. That was just due to the effects of the pandemic. Ms. Lujan believed the fee had no impact on outreach efforts. She however added the fee increase has to be modest so that it doesn't affect participation.

Chair Davis stated that new participants did not have to pay the fee, so that could be used as an incentive to join the Plan. Ms. Lujan added that people that are over \$999,000 will be getting a bargain with the fee.

Ms. Lujan stated back in September 2021, she had presented some information in support of going back to the flat rate. Back then, she had felt the flat rate was easier to explain to participants.

Going back to the participants to explain they would be paying \$2 extra might present a challenge, but they had to understand that was when the Plan only had an administrative fee. She suggested the Board consider introducing a new PERA fee. The participant would be informed that since the Governor's statewide salary increases and increase in employee health benefits, the mutual fund revenue share was not enough to cover expenses. When introducing the new PERA fee, the participants would be informed that the fund is 100% participant funded and therefore the participants should cover part of the costs.

Chair Davis pointed out the Board had the authority to decide on a flat rate or a hybrid structure. He also believed the Plan needs to move away from the mutual fund support structure because it was not fair to the handful of individuals who generate the revenue. He added that Ms. Lujan's proposal would make it fair for everyone, whether the Board decides on a flat rate or a hybrid structure. He urged the Board members to take their time in thinking about the issue and provide their input.

Mr. Page pointed out that matter has been in discussion since November 2021. He wondered how much more time was needed to think it over, adding a decision was long overdue.

Chair Davis stated he was in support of Ms. Lujan's data. He added several outstanding items the Committee needs to consider before making a final decision, such as establishing a policy for PERA to carry a potential fund balance or reserves for rainy days.

Ms. Armijo asked if a copy of the investment policy statement and the Plan Document were sent out to the Committee members. This will enable them to have the background information needed during discussions and when making a recommendation to the Board. Ms. Lujan stated the documents were on the Board portal. She would email everyone to remind them of where to find the documents and encourage them to take a look before the next meeting.

Ms. Lujan stated another benefit of introducing a separate PERA fee is that whenever the cash reserves have enough funds, the participants could be given a fee holiday. Ms. Lujan also agreed with Chair Davis on having a policy within PERA of how much the Plan is keeping on cash reserve and what will be spent. This will show participants that the money is not being collected arbitrarily.

Chair Davis reiterated the methodology provides full transparency to participants. All spending will be documented and the policy will ensure the Plan does not spend beyond its limit.

Mr. Page recommended scheduling another Committee meeting in April to finalize on the matter.

Chair Davis asked if there was an ideal time to implement the new fee. Ms. Lujan stated there is no ideal time. The only thing that would be considered is the build time taken by VOYA. Ms. Lujan confirmed an April meeting would be ideal if the Committee did not want to wait until the next meeting scheduled for June.

She requested the Committee to decide on whether to go with the flat rate or the hybrid structure to enable her and her team to come up with an actual number for the new PERA fee.

Mr. Burciaga stated the fewer the times a fee assessment is adjusted and built into the record-keeping system, the better. He was in support of Chair Davis idea of a policy and added that it is best practice. He mentioned one of VOYA's clients went through the same process. The client decided on a fee structure with the intent of building cash reserves to offset expenses. They have a policy that caps at a certain amount. The policy also provides for either providing a fee holiday for participants or giving the money back.

Mr. Burciaga stated having cash reserves will help to properly administer the Plan. He added the first build would probably be 6 months or so, and then from there VOYA would be under the direction of Plan on how they choose to go forward. He further stated the loan rate for a current loan is 4.25% plus 1.

Executive Director, Greg Trujillo, stated this would be the third time the fee will be revised. He noted the Plan has grown, more than doubling in size, and no significant resources had been added, particularly from a staffing perspective.

Mr. Trujillo suggested holding off on a decision for as long as possible so as to look at all angles and evaluate everything. Chair Davis echoed Mr. Trujillo's sentiments on the need for additional time to re-evaluate. He opined that the Committee should get everything right the first time before going back to the participants with the increases.

Ms. Armijo pointed out there was no room on the agenda in April for another meeting of the SmartSave Committee. She said we could look at May if need be.

Ms. Naranjo Lopez wondered if the Plan's participants were getting enough time to comment on the fees. She also believed that the tiered or hybrid fee structure was better because she felt people who have less money should not have to pay for those that have more money in the accounts. She added she would need more analysis.

Ms. Lujan reiterated that both the flat rate and hybrid fee structure are fair. She stated the simplest way to implement the increase is to just add it as a separate PERA fee. She felt telling participants that it is only \$2 would be an easier message to convey, if they understand the background of the fee.

Ms. Naranjo Lopez reiterated the fee should be compared with the market to determine if its competitive. Ms. Lujan offered to get the fees of other available 457b Plans in New Mexico for comparison.

Ms. Rosales Ortiz proposed launching a promo for potential members of the Plan. The promo could tell the people of the impending fee increase and urge them to sign up before the implementation of the new fees. The people could also be reminded that more participants leads to less fees. Ms. Rosales Ortiz further felt the \$2 was a good bargain. She also agreed with Mr. Trujillo's sentiments that the program needs additional staff to manage it and should come from the fees.

Mr. Burciaga pointed out that for any Plan comparison, it's beyond the fee they state on a matrix. He added the underlying investment menus must be considered when making comparisons because those were the big revenue generators for companies.

Chair Davis referenced Albuquerque's spreadsheet which had ICMA and AIG. He noted PERA's fees are cheaper, but it is based on the annual fee structure. He pointed out that if a

participant has more in their account, they would pay more with the other plans, whereas with SmartSave, they pay less.

Ms. Lujan explained that a competitor had an administrative in the past which was eliminated. They, however, added on to their investment management fees so participants were still paying what they would have with an admin fee. That was still more expensive than SmartSave.

Chair Davis requested Ms. Lujan to breakdown the structures and come up with three different scenarios. He indicated the structures need to be simple for the participants to easily understand what they would be paying for and the costs would be covered with that money.

Chair Davis stated scheduling the next Committee for June would give the Executive team enough time to gather information and consider all options.

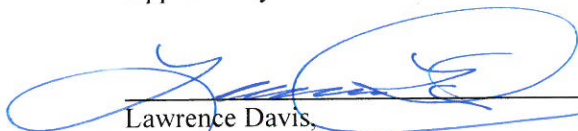
Ms. Lujan asked the Committee if she should come back in June with scenarios for further discussion or with a specific recommendation from the available options, that would be placed on the agenda as an action item.

Chair Davis felt it should be action item. He requested Ms. Lujan to provide the pros and cons on the options then the Committee will take an action and push it to the Board. Ms. Winter clarified the agenda could be generalized with action to be taken on one of the three options. Staff would decide on matters of the agenda offline.

7. Adjournment

With no further business to discuss, Chair Davis adjourned the meeting at approximately 11 AM.

Approved by:



Lawrence Davis,
SmartSave Committee Chair

ATTEST:



Greg Trujillo, Executive Director