

**New Mexico
Public Employees Retirement Association
Investment Committee Meeting
July 12, 2022**

1. Call to Order

This meeting of the New Mexico PERA Investment Committee was held on the date cited above via Zoom tele/video conferencing. Chair, Steve Neel, called the meeting to order at approximately 9:24am.

2. Roll Call

The meeting attendance met quorum with the following members present;

Committee Members Present

Steve Neel, Committee Chair
Francis Page, Vice Chair
Claudia Armijo
Paula Fisher
Loretta Naranjo Lopez [out at 11:00am]

Committee Members Absent

Roberto Ramirez

Other Board Members Present

Tim Eichenberg
Lawrence Davis
Shirley Ragin
Valerie Barela

Staff

Greg Trujillo, Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Kristin Varela, Interim CIO
LeAnne Larranaga-Ruffy, Acting Deputy CIO
Misty Schoeppner, Deputy General Counsel
Geraldine Garduno, Assistant General Counsel
Frank Mihail, Investment Director
Kate Brassington, Investment Associate
Clayton Cleek, Investment Associate
Michael Killfoil, Investment Associate
Sara Hume, Investments
Justin Deubel, Investments
Isaac Olaoye, Investments
Angela Romero, Albuquerque Office Manager
Jess Trujillo, HR Manager
Karyn Lujan, SmartSave Plan Manager

Others in Attendance

Rose Dean, Wilshire
Steve DiGirolamo, Wilshire
Rick Funston, Funston Advisory Services
Tom Caukwell, Albourne
Clayton Cleek, Albourne
Heather Christopher, Albourne
Jeff Goldberger, Aksia
Laura Meck, Aksia
Ryan Fitzgerald, Albourne
Justin Deierling, Albourne
Michael Killfoil, Albourne
Mark White, Albourne
David Lebovitz, JP Morgan
James Sakelaris, JP Morgan
Ben Carlin, Journalist, With Intelligence
Patricia French
Benton Schoenwald

3. Approval of Agenda

Claudia Armijo moved to approve the Agenda. Francis Page seconded. The motion passed by a unanimous roll call vote as follows;

Steve Neel	Yes
Francis Page	Yes
Claudia Armijo	Yes
Paula Fisher	Yes
Loretta Naranjo Lopez	Yes

4. Approval of Consent Agenda

Francis Page moved to approve the Consent Agenda. Claudia Armijo seconded. The motion passed by a unanimous roll call vote as follows;

Steve Neel	Yes
Francis Page	Yes
Claudia Armijo	Yes
Paula Fisher	Yes
Loretta Naranjo Lopez	Yes

5. New Business

A. Performance & Market Review

Interim CIO, Ms. Kristin Varela, welcomed Rose Dean and Stephen DiGirolamo from Wilshire to present the market review for the first quarter of the year.

1. Q1 2022 Market Review

Ms. Dean began her presentation with a brief overview of the market review. She showed a visual presentation of the most updated capital markets assumptions and stated that given the market performance seen year-to-date, there had been a 20% draw-down in the equity markets and an increase in the cash yield.

Ms. Dean reported that as of April, the 10-year yield was back to around 2.90%. The inflation expectation had been about 3% for the 10-year period, but due to the rapid market repricing, the inflation expectation is now at around 2.35%.

She further reported that the US equity markets were down about 20% year-to-date, and down about 5% in the first quarter. Most of the quarter-to-date returns for different sectors in the US equity markets were down, while the energy sector had a drastic gain of about 40% during the first quarter and about 65% for the 1-year trailing period.

Ms. Dean explained that growth equities have always done well in the past five years because money was relatively cheap. Now, this is changing quickly and growth is underperforming value significantly. Large growth equity markets were down about 8% during the first quarter, whereas the value stocks were relatively flat. Large growth stocks were down about 26%.

2. Q1 2022 Total Fund Performance Review

Mr. Digirolamo gave a brief overview of the performance report. He reported that the fiscal year-to-date return for the Plan was 4.47%, a fairly strong return given the pullback the markets have seen over the last three months. This return, however, did not meet the expectation in terms of the assumed return or the fiscal year-to-date. The 7-year and 20-year trailing periods also failed to meet the expectation. All the other trailing periods met and exceeded the expectation of the assumed return.

The target asset allocation and actual allocation for the quarter were within range of the guidelines. The 4-year tracking error for the portfolio was slightly above target for the quarter. Mr. Digirolamo mentioned that there will be a new tracking of risk going forward. It will entail tracking of actionable and non-actionable risks. The calculations are currently ongoing. They will be presented next quarter.

Ms. Dean pointed out that the new tracking of risk was approved by the Board because some of the tracking error was in the private markets and staff was not able to bring it down on short orders. Whatever is actionable will thus be tracked to see that something is being done about the actionable tracking error.

Mr. Digirolamo reported that liquidity allocations were well within the guidelines.

With regards to market performance, the fiscal year-to-date return was at 4.47%, a strong performance versus the benchmark return for the quarter. There was an excess return of 3.6% for the quarter, which met expectations. All trailing periods also met and exceeded expectations.

The reference portfolio met and exceeded expectations over all trailing periods. For the fiscal year-to-date, the reference portfolio, which is made out of public markets, was down 2.85%. Risk adjusted return versus peers met the expectations for all trailing periods.

Mr. Digirolamo stated that the market value at the end of the first quarter was \$17.8 billion. He reported that there had been an investment loss for the quarter of negative \$321 million. This was due to the market downturn seen in the first quarter of 2022. He further reported that the asset allocation was in line with the Fund's policy at the end of the quarter.

Mr. DiGirolamo stated that PERA's peers are other public funds that have over \$1 billion in assets. He presented a visual image indicating the position of PERA in terms of allocation to major asset classes versus its peers. This slide helps the Committee when looking at allocation going forward because over long periods, asset allocation will drive relative performance versus peers.

Mr. Digirolamo stated that the median allocation in public equities from the peers is about 50%. PERA has about a quarter of its portfolio in public equality, meaning it is significantly underweight versus peers. PERA is however overweight in other areas such as the multi-asset class or risk parity. It is also a bit overweight in allocation of private equity.

Ms. Dean mentioned that real assets were not the focus for the past 10 years when there was no inflation. When compared to other peers who had less allocation to real assets, the impact might not have been as robust as equity returns. This is why a diversified and all-weather portfolio was built. When unexpected inflation hit in the past several quarters, the portfolio benefited from having real assets allocation. She further urged the Committee to take into account how to build a portfolio that can stand the test of different impacts of the portfolio.

Mr. Davis asked if the cash asset class displayed on the slide presentation indicated that PERA was holding less cash than its peers. Ms. Dean stated that there is a range of definition of cash including actual cash and cash-like instruments like money markets.

Ms. Varela explained that PERA does not embed cash in policy. The asset allocation does not have an explicit allocation for cash because cash is a significant drag to the portfolio, especially in times of rallying markets. Ms. Varela further stated that the portfolio is highly liquid because of the liquidity buckets held within each asset class. Daily futures-based exposures are used to overlay these asset classes, meaning that the cash is always invested.

Ms. Varela mentioned that the observation here is smaller because every plan looks at its asset allocation differently. She urged the Board and the Committee to open up the specific asset allocation comparison to the broader DB universe and not just public. This will give more points of comparison.

She added that some funds have explicit cash allocations within their policy decisions but PERA uses overlay managers to assist in managing the liquidity and cash drive that could be presented from holding large balances of cash.

Chair Neel asked if the total equity calculation included private equity. Mr. Digirolamo stated that it excluded private equity. Chair Neel also asked if the total equity exposure, both private and public, was closer to 35 and 40%. Ms. Varela stated that it was 35.5%, which is a bit higher because of the overrun in private equity. Total equity includes all liquid public stock.

With regards to the actual returns, Mr. Digirolamo reported that the fund had strong returns for the quarter and the 1-year versus the peers. It was top quartile for the quarter and top decile for the 1-year period. Most of that came from asset allocation versus peers in terms of an underweight to public equities and an overweight to some of the inflation type of hedge approaches over the last 12 months.

Ms. Naranjo Lopez requested updated information on the total fund. Ms. Varela stated that the peer ranking section had been expanded to include a comparison of PERA's different asset allocation components to those of peers. The section will enable Committee and Board members to see how effective PERA is in implementation compared to peers in different segments of space. She urged the Board members to not only look at the total fund but also the different asset classes.

3. May 2022 Preliminary Performance Summary

Ms. Varela reported that May closed at \$17.4 billion after funding benefits. This was a decrease in NAV for fiscal year-to-date of about \$180 million. \$64 million was transferred out of the cash account to cover benefit payments. This accounts for about 55% of liabilities and responsibilities to members and operating partners.

The Fund has plenty of liquidity, at 16% tier one liquidity as of May and into June. The asset classes were a little less tight than they were for March but were still within the ranges. There was, therefore, no need for immediate fund rebalancing. The Fund holds larger over allocations in real assets because of growth. That is how cash activities are funded.

Regarding performance, May was positive but the three-month period was down about 1.5%. Comparing this at a fiscal year-to-date level, the Fund sits at about 2.6% return net of fees. This does not include quarter two fees for the liquid managers because quarter two has not been closed yet. The policy benchmark was outperformed by nearly 7% and the outperformance was consistent across the long term as well.

Ms. Varela estimated that PERA will close its fiscal year-to-date near a \$16.8 billion ending market value. Compared to the \$17.6 billion NAV that PERA started the year with, and that adjusted for the \$710 million in benefits paid out of investment activity, it comes to a projected loss of around \$67 million in NAV decrease. This translates to is a flat to slightly negative fiscal year-to-date return.

Ms. Varela further reported that there were no changes in staffing.

Chair Neel asked how the portable alpha did in May and June. Ms. Varela stated that June will be a slightly negative month while May was strong. On a fiscal year to date, it performed within expectation. For fiscal year to-date, it's exceeding the 4% excess return target. It is highly diversified and doing well.

The portfolio could have been much more down, according to Ms. Varela, were it not for the well diversified asset allocation that has served the portfolio well during the volatile times.

Mr. Davis requested Ms. Varela to meet with him and other interested Board members in a future educational session to help them understand the major differences in portfolios between the ERBs and PERA. He felt that the high performing funds in New Mexico should meet with each other, share ideas, and help each other out.

Ms. Varela stated that staff got the same question at IPOC last week. She agreed to meet with several Board members to discuss the different functions of risk and the drivers of return. She stated that the peer ranking report indicated progressive improvement and a part of that is a function of consistency. She pointed out that remaining consistent and holding conviction in asset allocation is one

of the biggest comparison difference between some of the peer plans. She also added that compared to state peer plans, PERA is right in the middle.

Chair Neel asked if for the fiscal year, PERA would be around a break even. Ms. Varela stated that the calculation would not accurate since the books were not yet closed, but she believed that it would be a negative 50 basis points or so. She stated that when quarter two invoices will be paid, there will be a slight shift.

Chair Neel also asked if the process of closing books for the current fiscal year would be a steady state close like last year. Ms. Varela answered in the affirmative, adding that staff made some private adjustments when closing the books last year. She stated that this process will be consistent. Staff had started reaching out to private market managers asking them to send their capital account statements.

The same reporting process used throughout the year will be maintained. At the close of the fiscal year and when preparing the financials, staff will post an adjustment to the general ledger just as they did last year.

5. B. Bi-annual Rotating Specialty Reporting

Head of Alpha and Acting Deputy CIO, LeAnne Larranaga-Ruffy, introduced the alpha team to review the illiquid asset portfolios. She recognized the presence of Kate Brassington, the global equity investment associate, Jeff Goldberger from Aksia who reviewed private equity.

Mike Killfoil, the real assets investment associate, reviewed illiquid real assets and real estate with Mark White and Heather Christopher from Albourne. Clayton Creek, the credit-oriented fixed income investment associate, reviewed illiquid credit with Tom Caukwell from Albourne.

1. Q4 2021 Illiquid Asset Class Performance

Private Equity

Ms. Kate Brassington kicked off by stating that the purpose of the global equity portfolio is to provide targeted exposure to global economic growth opportunities in both public and private markets.

She reported that the total fund target for global equity is 35.5%. On the public equity side, the more liquid side, the total fund target was 23.5%. This is comprised of global public stock and global low volatility.

On commitment pacing, PERA has a 2022 target of \$300 million whereas it has so far invested \$150 million. With all the public market dislocation, general market changes, and the upped P allocation to 12% from the previous 9% target, PERA will be refreshing its pacing plan later in the year once all the 3/31 numbers are finalized.

PERA wanted to allocate commitments in line with the annual pacing plan. Follow-on commitments were made to two current managers and also three commitments to new managers. PERA also wanted to continue to prioritize co-invest. A top-up co-investment commitment was made to a current manager. Two new co-investment accounts were also added with one new and one existing manager.

PERA wanted to increase alignment of interest with its managers. Of the 2021 commitments, two LPAC seats and four LPAC observer seats were added.

Mr. Page requested details on the due diligence process with regard to co-investing. Ms. Brassington stated that due diligence is a five-stage process. She went on to explain the process.

Ms. Brassington does not go out to underwrite individual companies. She fully relies on the managers. This is the same process applied to co-investment opportunities. PERA relies on skilled partners to identify areas of opportunity where it could get a bit more alongside its funds through co-investment opportunities.

Co-investment allows a lower cost of alpha and some unique portfolio construction tools. They are fund and guideline-based. PERA manages exposure through the guidelines to make sure that it is not concentrating on any specific exposure. Ms. Varela also indicated that PERA gets additional access to information through co-investment options.

Mr. Page mentioned that the 2008 PERA Board had dealt with some companies that had had past legal issues that had been glossed over. He asked how the Aksia team dealt with such issues when determining co-investing companies.

Ms. Varela stated that there is a lot of headline risk associated with the managers. She further stated that consultants are leveraged to run media checks, reference checks, and background checks. This is done at the selection level and is continuously ongoing.

Ms. Varela added that as much as staff tries not to subject the fund to headline risk, litigation is a part of doing business. Staff therefore ensures that they monitor legal pursuits since some areas of private market investments might have some sensitive issues. PERA has also discontinued use of managers who might have employed misconduct. Ms. Varela reiterated that while Ms. Brassington does an investment due diligence process, the operations team do an operational due diligence process (ODD).

Chair Neel asked how the team decides on who to run background checks on. He also inquired about the operational due diligence process. Ms. Varela stated that PERA leverages its resources for the operational due diligence process. Selection consultants run the full process, while staff validates and audits it. Staff does LP reference checks as well to make sure that the partnerships are strong.

Jeff Goldberger indicated that Aksia has an entire ODD team that runs background checks on the most senior or key individuals in a firm. These are usually three to six individuals in the firm. No background checks are run on junior investment professionals.

Chair Neel also asked if a background check would be done on someone listed as a key person in a limited partnership agreement. Mr. Goldberger answered in the affirmative, adding that even though some firms tend to name more key individuals than others, Aksia keys in on the five people that they truly believe are the key individuals.

Mr. Goldberger further explained that these key people are usually determined before the diligence process. He mentioned that Aksia mostly deals with firms that they know well, whereby the firms have undergone diligence for three or four times. Aksia still runs the diligence to ensure that the information is up to date.

In response to Chair Neel's question, Mr. Goldberger stated that Aksia had underwritten Apollo in the past. He added that the Leon Black issues had been meaningful and had changed some relationships. He also mentioned that Aksia had not underwritten Apollo post Leon Black since many clients were reluctant to go forward with them.

Ms. Varela clarified that PERA does not have any Apollo investments in the portfolio.

Private Equity

Mr. Goldberger gave an overview of the private equity portfolio performance. He reported that PERA's performance over the years had been very good. The inception to date returns were 17.2% which was good, according to Mr. Goldberger. He mentioned that the returns have been increasing over time. The 10-year return was 19.9%, the 5-year return was 24.3%, and the 3-year return was 30.2%. The returns have been relatively robust since inception, but they have been increasing recently with market conditions.

Mr. Goldberger also reported that PERA's alpha had been 6.3% better than if money had been put in the public markets. PERA outperformed both the Cambridge associates benchmark, which is directly correlated to private equity, and the ACWI IMI, which is the public benchmark. This further indicated that the returns were good.

Mr. Goldberger discussed the top 10 relationships in PERA's portfolio. He stated that Goldman Sachs is PERA's biggest relationship. It invests in other general partners. Warburg is the second biggest. It is more of a global growth and buyout firm and it is the most likely to give full exposure to the entire world, as well as several different asset classes. The third is TCV, which is more in the venture growth space.

The returns for the top five names are currently above a 2X net and together, they account for a 38.1% net IRR. This indicates a good concentration of investments. Mr. Goldberger stated that PERA's portfolio is well diversified by vintage year, strategy, manager, industry, and geography, and it is well positioned on a go-forward basis.

Chair Neel inquired about the amount of PERA's public exposure. Mr. Goldberger indicated that it is relatively limited, almost less than 5%.

Chair Neel thanked Ms. Varela, Ms. Brassington, and Ms. Larranaga-Ruffy for the portfolio overview presentation.

Illiquid Real Assets

Michael Killfoil gave an overview of the illiquid real assets. He helps cover the real assets division, looking over all the illiquid assets.

Mr. Killfoil stated that real assets take up about 20% of PERA's total portfolio. They try to target exposures that are globally diverse with physical assets. They are mainly used as a hedge against inflation and help PERA to cover their inflation-linked liabilities, and promote diversification across the total fund.

Real assets also try to go with low correlations, because according to Mr. Killfoil, there is no point in being in the same type of stuff that goes up or down when everything else is going up or down. There should be income and cash flows appreciation that come in from different sectors and avenues.

He pointed out that the objectives of private real assets are diversification and illiquid premium. The total fund target for the illiquid side is 8%.

Mr. Killfoil also presented the risk and opportunities on a looking forward basis. He stated that the timeline of creating the roadmap of where the Committee wants to take the portfolio is open to fluctuations and implementations because of the uncertainties with inflation. He urged PERA to ensure that the horizon is very long and to do a consistent and stable pacing plan to continue allocations.

Chair Neel asked what the appropriate vehicle and structure is to invest in, in energy. He mentioned that with energy, there's usually geopolitical risk and he wondered how Albourne underwrites that. He also asked about Albourne's approach to energy going forward.

Mr. Killfoil stated that different managers hedge their bets on oil pricing. With the recent spike in energy, not all managers had captured the entire move on the oil side because they thought oil would never go above 75. Therefore, some of the gains that were expected were hedged out. Mr. Killfoil further stated that the energy sector is viewed as a stabilized cash yield with consistent cash flow going forward, but the oil fields are not expected to appreciate 3X overnight.

Ms. Varela added that the energy portfolio, unlike the private equity portfolio, has had its share of ramp-ups, cool-downs, and ramp-ups again. She stated that back in 2014 and 2015, the portfolio was primarily concentrated in energy exposure. The team then recognized the geopolitical and environmental risks associated with the energy sector and scaled back significantly. There is a huge amount of volatility in the sector and strong return characteristics in some markets for it, but PERA still invests in it at a much smaller scale. The Plan is trying to diversify to other inflation-sensitive products since energy isn't a highly inflation sensitive product.

The characteristics of the portfolio can also be met through essential services like infrastructure and essential needs like agriculture to try and diversify away from the geopolitical and environment risk.

Ms. Varela stated that PERA is very intentional in who it allocates energy allocations to going forward. These entail a small group of key strategic partners in the energy space who show the potential of evolving in their thought and allocation process as their market is evolving.

In response to Chair Neel, Ms. Varela stated that PERA will continue to selectively invest in upstream with very few key partners. She added that NCAP and NGP are the upstream partners.

Private Assets Performance Review

Mark White, Head of Assets at Albourne, gave an overview of performance. He began by stating that the objective of the real assets portfolio is providing inflation sensitivity and stability over the long term while attempting to capture inflationary anomalies. He mentioned that the energy component of the portfolio was developed during a different time when there was a different focus on the energy environment. He stated that many energy assets went back to pre-2008 so several of them are legacy positions that were developed with a private equity view than a true real asset view.

Mr. White indicated that overall, the portfolio performed well relative to the universe despite the headwinds having some strategies that were not suited for the revised mandate of 2014 particularly in the agriculture and the energy space. He noted that infrastructure has been a focus since 2014 when the portfolio was built out and capital became available. This is capital that was returned from energy and other strategies and was redeployed into infrastructure. The infrastructure portfolio has been doing well is now 53% of NAV. Its performance was strong at 13.1%.

Mr. White pointed out that the geopolitics of energy investing is difficult. The focus is usually on managers that target producing operations and low-cost producers. Any upside volatility associated with the investments are not planned. Most of the managers are usually conservative and will hedge their production forward, sometimes up to three years, to try and lock in on the gap that exists between the cost of production and the actual hedging price. Mr. White indicated that energy is inflation participation, not inflation sensitivity. The U.S and the global economy have shown that inflation is driven by transportation costs and prices of gasoline.

The market turned in 2014 when the pricing start to decrease because the Saudi and the Russian governments at that time decided to increase production to regain market share that the U.S. energy complex had gained. That geopolitical event was very difficult to underwrite the manager. Bedrock is thus the team trying to reinvent and rebrand themselves as they try to continue to operate in the space.

Mr. Page asked why PERA continued to hold on positions such as First Reserve. Mr. White stated that they are private positions that have to be run out through the life of the funds. The funds are usually 10, 12, or 15 years in life.

Several of the strategies have already returned a significant amount of capital to PERA, according to Mr. White, even though they are rougher vintages. He further stated that since most of the positions are now very small, Albourne has been looking into selling some of them into the secondary market to realize some interest. Some offers have been received on a few assets. He reiterated that many of the positions are legacy positions and just a fraction of the dollar value that they previously were.

Mr. White presented a slide showing details on how much value is left in each position. He highlighted that the 2007 vintage NGP IX had an original fund size of about \$4 billion. PERA had committed \$30 million. They paid in \$32 million and received \$46 million in distributions from that. The only remaining value of that asset is \$127,000. Mr. White reiterated that even though the positions are still in the books, they are the last components.

Chair Neel asked if there were active bids in the secondary market and energy. Mr. White stated that there is a group of LPs interested in assets in the energy space that are own to depletion. Because of ESG change in approach of most U.S. and European pension players, the energy market had made it difficult for energy managers to come back. According to Mr. White, several European pension funds have indicated that they will be carbon neutral by 2035 and they cannot do that by making new investments in energy. Most energy managers are therefore trying to reinvent themselves in energy transition with varying degrees of success. The LPs that are still able to invest in energy are taking an own-to-depletion strategy, which means they will be the last owner of the asset.

Mr. Page asked if staying on secondary markets might lead to greater losses than what is currently being seen. Mr. White stated that most older funds have been written down to minimum

values at this point, with a few odd exceptions. He pointed out that the challenge would be in finding a buyer for a few of the assets.

Illiquid Real Estates

Mr. Killfoil gave an overview of the illiquid real estates. He presented slides showing the real estate key portfolio attributes, both public and private real estate. He stated that real assets make up a total of 20% of the portfolio. Private real estate makes up about 5%, while public real estate makes up 2%. The objectives are the same as all the other illiquid classes; diversification, capital appreciation, some liquidity, and low targeted correlations.

Other slides presented showed how to invest in illiquid real estate and reasons as to why PERA should invest in it. On market opportunity, Mr. Killfoil stated that it will be easy for PERA to access and target deals by property type and sector. Because of the large scale of the investible universe, it will be easy to pick and choose the geographic regions and markets easier and pick and choose the lifecycle stages from stabilized through development.

With regard to PERA's portfolio overview, Mr. Killfoil presented a pie chart showing the portfolio overview. He indicated that as of 12/21, core/core plus took up about 50%, opportunistic, about 40%, and a little small sleeve of value add.

Q4 2021 Performance

Ms. Heather Christopher from Albourne presented an overview of the fourth quarter 2021 performance. She kicked off by showing graph images of the internal rate of return, IRR, and the public market equivalent, PME, also known as the Wilshire Global REIT index.

Ms. Christopher stated that the performance was fairly good relative to where the Wilshire Global REIT has been. The portfolio maintained an IRR of 10 to 12% since its inception. Although 2020 was a difficult year, the portfolio had a large exposure to public markets in terms of REITs and C-Corps. Therefore, the IRR in 2020 went down to 8.7%, but now it's up to 12.4%, an increase of 370 basis points in one year.

Looking at exposures by property or of its styles, in terms of core plus, opportunistic, and value added, Ms. Christopher reported that the exposures to each value added is the lowest weighted exposure currently. The IRR was 14% for opportunistic, which is consistent. Opportunistic is the highest risk style and has consistently led the other styles since 2017, when Albourne started working with PERA.

Referencing a slide showing performance summary, Ms. Christopher stated that the portfolio's overall performance was good. As for the funding status, She reported that the portfolio is mature even though it has had newer commitments being made.

Ms. Christopher stated that the portfolio, as of December 31, 2021, had a 12.4% IRR and a 1.4x or 1.4 times multiple. She noted that from Wilshire's presentation of the March 31 performance, illiquid real estate was attributed to 80 basis points of outperformance. Liquid real estate subtracted 2 basis points from that but overall contributed 78 basis points to the performance of the Plan as a whole. She mentioned that Albourne was pleased with the direction that the performance has been trending.

Chair Neel appreciated the presentations, adding that the presentations gave the Board insight into the illiquid part of the portfolio.

Illiquid Credit

Clayton Cleek gave an overview of the illiquid credit, kicking off with the credit oriented fixed income portfolio. He reviewed the key portfolio attributes as displayed on the presentation slides, and stated that the twin portfolio objectives are capital appreciation and income with a total fund target of 15%.

Mr. Cleek stated that the objective of the liquid credit portion is capital appreciation and income liquidity. The total fund target for liquid credit is 2%. The objective for illiquid credit is diversification, illiquidity, and complexity premiums. The total fund target is 6%.

He also presented a bar chart showing that the most significant mismatch within credit is the overweight to alternative credit, which targets 4% of total fund, and the underweight is private credit, which targets 6% of total fund.

Mr. Cleek also discussed the progress made in terms of relative returns and cash flows. He highlighted that cumulative net cash flows rose from \$27 million in 2020 to \$113 million in 2021, indicating the strong position that PERA is in, in terms of cash flow distributions and being able to restart the private credit program. He further discussed the risks and opportunities within private credit on a looking forward basis, as displayed on the slides. He stated that cash flow must be managed carefully to ensure that the new private credit program is self-funding.

Chair Neel pointed out that there were no hedge fund structures within private credit. Mr. Cleek stated that there were none within illiquid credit. The hedge funds were within the alternative credit bucket where the total fund target is 4%. He mentioned that redemptions have been placed with many credit managers to draw that down and those redemptions are currently being realized. Therefore liquid credit is seen above its total fund target of 2% at a bit more than 3%. Mr. Cleek added that the hedge funds sit within alternative credit and illiquid credit and are defined as private credit.

Chair Neel asked if the portfolio is usually compared against the private market benchmarks as well. Mr. Cleek stated that they look at the portfolio against leverage loan index, like the one shown on the slides was the policy benchmark of Barclay's global high yield index. He indicated that selection benchmarks for individual managers tend to be their Burgess categories. These also sometimes leave something to be desired in terms of robustness.

Mr. Cleek explained that leverage loans tend to be more illiquid. He mentioned that he would be embarking on a study of benchmarking of how asset owners benchmark their private credit portfolios. The most common way is a leveraged loan index with a premium added of a few percentage points per year to account for the illiquidity premium.

Tom Caukwell, Head of Private Markets at Albourne, presented the report on illiquid credit portfolio. He stated that the portfolio has been around for a long time. It has hit and exceeded its target return, and it has long term stable returns at around 9%.

Mr. Caukwell reported that the current NAV of the illiquid credit portfolio is about \$430 million. It sits alongside the more liquid alternative credit portfolio of \$1.4 billion. The overall IRR sits

at 9.2%. This is 0.7% higher than what PERA would have gotten if those cash flows had been invested in high yield. The portfolio is running at 1.3 times total value to paid in (TVPI), indicating that it performed well.

Mr. Caukwell stated that this is a portfolio with real estate as its collateral and the corporate collateral loans are more in the alternative credit portfolio. This will have a bearing on how resilient the performance and legacy positions of the portfolio are likely to be over the coming time periods. He added that the real estate credit is an attractive collateral to have relative to corporate in the current market.

Chair Neel requested more details on distressed. Mr. Caukwell stated that in PERA's portfolio, the largest position is Seus Residential Opportunities, which is buying loan portfolios of residential loans and holding them to either maturity or restructuring and selling them in the market. He explained that the holders of those loans might have bought them as performing loans. The loans started becoming non-performing and the original holders no longer wanted to own them. So Seus could buy them at a cheap price and either repackage them, hold them to maturity or work them out with the original lender. This model is similar to lone star.

The other major sleeve of distressed is buying loans in corporations which are trading at below a hundred cents on the dollar due to either temporary issues or problems at the issuer or structural long term issues that the company may have to go through a restructuring or bankruptcy.

Mr. Caukwell mentioned that PERA's distressed portfolio is skewed towards the loan portfolios being worked out rather than individual holders being worked out.

Chair Neel also asked about PERA's anticipated performance for Q1 and Q2. Mr. Caukwell stated that for Q1, the IRR stayed entirely stable at 9.2%. Q2 were not yet available but funds with full exposure to corporate credit showed declines of around 5% relative to their end of year marks.

Smaller markdowns were seen for PERA's portfolio, given its real estate backing. Mr. Caukwell reported less equity beta in there indicating that PERA is not immune. Some negative marks will be seen on the hedge fund-oriented book, but the portfolio is expected to stay very solid in Q2.

Mr. Caukwell reported that exposure by region is 37% Europe and 63% North America. This is in line with typical portfolios seen in distressed, whereas in private equity, the skew is more towards North America.

He stated there will be additional allocations to this portfolio to take advantage of dislocations in the market. This will require some additional acceptance of illiquidity and could be special situations loans, traditionally distressed to groups potentially heading into bankruptcy. Those would be the first two targets for distressed, but over time, consumer loan portfolios could be an area of opportunity as well.

Chair Neel asked if other areas were being explored in the illiquid credit portfolio, such as synthetic royalties. Mr. Caukwell stated that the opportunity set in illiquid is expected to be broad. He mentioned that the last 10 years have been tough for distressed since there was very limited distressed.

Ms. Varela highlighted that with regard to private markets, it was clear from the presentations that private equity has consistency, and, comparing to vintage year diversification year-over-year,

real assets and real estate had more risk on challenges that should be focused on. Credit also had a complete ramp up that is being currently worked on. Ms. Varela indicated that staff will monitor credit and provide more updates.

5. C. Market Outlook

Chair Neel proposed pushing the outlook presentation to the Board retreat because of time.

5. D. Asset Allocation Education

Ms. Varela introduced Rose Dean and Steven DiGirolamo from Wilshire to discuss asset allocation.

Ms. Dean stated that asset allocation education entailed background information in terms of things to think about when the portfolio choices come before the Committee and the Board, and the factors that should be focused on in terms of landing on the appropriate asset allocation.

Ms. Dean mentioned that the last asset allocation was adopted in 2018. Several discussions have been held since then and the new allocation that the Board approved was the multi-risk, multi-asset class allocation. It was 10% of the portfolio and was intended to show showcase how risk can be better balanced combining different asset classes together with a targeted risk level.

Several other educational sessions have been held. After the background and educational talks, Wilshire will look to discussing forward looking expectations and then show at a future date some of the options that are will best optimize the trade-offs of return and risk. They will also discuss whether and if any changes need to be made to the asset allocation so that the committee and the board can adopt the new asset allocation if needed at a future date.

Ms. Dean presented a visual display of the economic factor exposure and pointed out that PERA has a neutral exposure to inflation because of its real assets allocation. The portfolio should thus hold up well in a surprise inflationary environment, as it is currently doing. It is skewed towards growth exposure, meaning equities or growth assets have to do better for the portfolio to do well. In the current market environment, the portfolio takes a hit when equities are doing worse.

The last component of the Wilshire optimization process is to determine the percentage of private markets and equities so that PERA ends up with something that is practically implementable in its portfolio.

Steve DiGirolamo provided an overview of the evolution of asset allocation. He stated that markets and market assumptions evolve over time. That's why it's important to continuously evaluate asset allocation and look for better approaches going forward. He highlighted some specific events in the market to show how different market environments change at different times. For instance, the dot com bubble in the years 2000 through 2003, the U.S. equity markets were down 43%. The financial crises in 2008, U.S. equity markets were down 40%. In Q1 2020, the U.S. equity markets were down 20%.

Ms. Varela stated that today's presentation was just an introduction. Staff will dive deeper and have conversations around how capital market assumptions are built and how asset classes are

optimized. She mentioned that the next steps would be to work together with the Board to provide different options and alternatives.

5.D. Manager Selection Activity Report

Ms. Larranaga-Ruffly gave a brief overview of the manager selection report. She stated that for the manager selection pipeline, six proposals were completed and reviewed at PRISM. Four of those proposals were approved at PTFRT.

On the liquid side, there were two terminations and one hire. DFA REIT was terminated after review of the two managers in the space. DFA was a full liquidation, which was used to fund capital calls for commitments to illiquid real estate.

The team ran an RFI process to add an active global equity manager. AB was selected for an allocation of \$200 million. This was the completion of the global equity restructure that started in November.

Ms. Varela informed the Committee that more supplemental confidential information was available to the Board on the portal. Staff were also available to talk through any of the processes they conducted.

Ms. Varela also mentioned that she had provided the monthly cash updates. Nothing was out of compliance. Securities lending information was also available and showed the income that PERA received and the exposures that were in the books. All were within expectation.

Adjournment

With no further business to discuss, Chair Neel adjourned the meeting at approximately 12:58pm.

Approved by:



Steve Neel, Committee Chair

ATTEST:



Greg Trujillo, Executive Director