

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**BOARD MEETING**

**July 28, 2016**

This meeting of the Public Employees Retirement Board was called to order by Dan Mayfield, Vice Chair, at approximately 11:00 a.m. on the above-cited date in the Domenici Room at New Mexico State University, Las Cruces, New Mexico.

**1. ROLL CALL**

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

**Members Present:**

Patricia French, Chair - Municipal  
Dan Mayfield, Vice Chair – Retiree  
Dan Esquibel –Municipal  
Paula Fisher - State  
Jackie Kohlasch – State  
James Maxon - County  
John Melia - Municipal  
Loretta Naranjo Lopez - Retiree  
Cathy Townes - State

**Member(s) Absent:**

Brad Winter - *Ex-officio*  
Tim Eichenberg- *Ex-officio*  
John Reynolds - State

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff-General Counsel  
Jon Grabel, Chief Investment Officer  
Greg Trujillo, Deputy Director/Chief Information Officer  
Jude Perez, Deputy CIO  
Joaquin Lujan, Director of Rates and Credit  
Trish Winter, Executive Assistant

**Others Present:**

Edwardo R. Castillo, NMDOT  
John Garrett, Cavanaugh Macdonald  
Rick Little, State Representative  
Greg Smith, Las Cruces City Councilor, District 2  
Charlie Marquez, PERA Contractor  
Joshua Kestler, BNY Mellon, Hedgemark  
Jean-Francois Crousillat, BNY Mellon – Hedgemark  
Jamie Feidler, Cliffwater  
Tom Toth, Wilshire

2. **APPROVAL OF AGENDA**

Mr. Melia introduced the following motion:

**“RESOLVED, that the PERA Board approve the agenda.”**

Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote.

3. **APPROVAL OF CONSENT AGENDA**

*[Exhibit 1: Consent Agenda]*

Ms. Naranjo Lopez introduced the following motion:

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

Mr. Maxon seconded and the motion passed by unanimous voice vote.

4. **CURRENT BUSINESS**

A. **Action Item: Approval of Recommended Changes to Economic Assumptions**

John Garrett, Cavanaugh Macdonald, reminded the Board that this item was discussed at length during the retreat. The recommendation is to change the investment rate of return assumption to 7.25 percent for the next 10 years and 7.75 percent for the last period.

Vice Chair Mayfield recalled there was a deep discussion on this at the retreat and he requested a motion to approve the bifurcated assumptions.

Mr. Melia introduced the following motion that Mr. Esquibel seconded:

**“RESOLVED, that the PERA Board approve the recommended changes to the economic assumption to 7.25 percent for 10 years then back to 7.75 percent following that period.”**

Stating she appreciated the presentation made by the actuary during the retreat, Ms. Naranjo Lopez said she continues to have reservations about the recommendation but would support the motion.

The motion passed without opposition.

B. **Action Item: Approval of Recommended Changes to Investment Procurement Policy**

Mr. Esquibel noted that the Investments Committee deferred this item until next month.

**C. Action Item: Approval of Dedicated Managed Account Platform with BNY Mellon**

Vice Chair Mayfield noted this item was discussed at length during the retreat and called for a motion.

Mr. Esquibel introduced the following motion that was seconded by Ms. Naranjo Lopez:

**“RESOLVED, that the PERA Board approve the dedicated managed account platform with BNY Mellon.”**

The motion passed by unanimous voice vote.

**D. Action Item: Approval of Credit Oriented Fixed Income Implementation Plan**

Joaquin Lujan, Director of Rates and Credit, said the recommendation is to approve action items 1, 2, and 3 as proposed by staff:

- 1) Immediately rebalance the global high yield bond strategy with existing manager in good standing, Guggenheim, to new asset allocation target (up \$15 million, from \$194.8 million to \$209.6 million). Vehicle will remain separate account.
- 2) Immediately rebalance the secondary bank loan strategy with existing manager in good standing, CVC Credit, to new asset allocation target (up \$50 million, from \$54.2 million to \$104 million). Vehicle will change from commingled fund to dedicated managed account.
- 3) Immediately rebalance the emerging market debt strategy (in two tranches) with existing manager in good standing, Lazard, to new asset allocation target (up \$230 million, from \$188 million to \$419 million). Vehicle will change from commingled fund to dedicated managed account.

Ms. Kohlasch introduced the following motion:

**“RESOLVED, that the PERA Board approve the implementation plan items 1-3 as shown above.”**

Mr. Esquibel seconded and the motion passed by unanimous voice vote.

**E. Action Item: Approval of Multi-Strategy Credit RFP Evaluation Committee Recommendation**

Chair French thanked Mr. Lujan for his participation in two recent due diligence visits.

Mr. Lujan said the evaluation committee recommends that PERA utilize the investment service management services of both Napier Park and Ellington Management Group. Per the

RFP, NM PERA sought investment management services for a multi strategy credit mandate totaling \$400 million. The committee concluded that Napier Park's specialized complex credit strategy fits the PERA's portfolio and recommends allocating a majority of the mandate in the amount of \$300 million to them. Ellington's structured credit strategy adds a creative and differentiated quality to the portfolio and the evaluation committee recommends allocating \$100 million to them.

Both investment strategies will be custodied at BNY Mellon. He identified the evaluation committee that included Board members French, Melia and Mayfield, staff members Lujan and Perez, and non-committee observers Mr. Grabel and consultants Msrs. Toth and Feidler.

Mr. Lujan outlined the strategy allocation noting it was in line with the new strategic asset allocation, the investment objectives and asset allocation targets, potential portfolio guidelines, fees, and investment process. Regarding the fees, Mr. Lujan noted that while the 1 percent fee less than the past 2 percent; BNY Mellon will obtain 1 percent for their custodial services and there is still a net fee savings of 85 basis points on \$300 million.

Napier Park is 100 percent employee-owned with \$86 million of employee capital which is invested and paying fees.

Tom Toth, Wilshire, referred to the qualitative assessment of Napier Park with a focus on the organization, the team that manages the product, the process for obtaining and using information, implementing the portfolio, and attributions, which confirmed staff's recommendation to award Napier Park the RFP. He noted the quantitative information provided.

Mr. Lujan said the second part of the recommendation is awarding Ellington management of the leveraged loans/structured credit. The allocated target is \$210 million with \$65 million funded and committed. The Ellington Structured Credit strategy will fill the gap for \$100 million.

Mr. Lujan reviewed structured credit and securitized product stating securitized product makes up a quarter or \$10.3 trillion of the US fixed income market. Securitized products are pools of loans created from different types of contractual debt. This area of the market is generating a 7.92 percent return. There is yield and a lower volatility than other segments of the credit market.

Mr. Lujan said the asset class meets most of PERA's objectives and when negotiating fees he said PERA was willing to pay a small management fee and a .65 percent fee was agreed upon.

Mr. Toth said the same framework used to evaluate Napier Park was implemented for the Ellington firm. He said both firms rank in the 2<sup>nd</sup> decile. Ellington is employee-owned and has a very deep team. Their information score is high with 21 dedicated research professionals. He highlighted the diversification benefits and exposure PERA will capture with Ellington and Napier Park. Ellington has a negative down-market capture ratio – when the market is down they add value.

In regard to Ellington's reduced fee, Mr. Esquibel asked whether the firm's accommodation to PERA will also be reduced. Mr. Lujan responded that throughout the RFP and due diligence process Ellington demonstrated that the client relationship is very important

to them. Ellington understands the landscape is changing and their institutional investing partners, those that bring \$100+ million to the fund, are important.

Chair French said she was particularly concerned about cyber threats, trading floor and off-site backup components. She noted that Ellington built their own database and as of yet they have not had any cyber threats. She was particularly impressed with their compliance procedures.

Mr. Melia said he was very comfortable with the recommendation.

For purposes of transparency, Mr. Grabel disclosed that he had worked with one of the senior members of Napier Park's investment team, Ed Scott, from 1998 through 2005. He said Mr. Scott is a man of great character and a great investor, adding that they have no business relationship.

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board approve the Multi-Strategy Credit RFP Evaluation Committee Recommendations.”**

Mr. Esquibel seconded and the motion passed by unanimous voice vote.

**F. Action Item: Reclassification of Principal Diversified Real Asset Fund to Tier IV of the IPS**

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board reclassify the Principal Diversified Real Asset Fund to the Tier IV category of the PERA SmartSave Deferred Compensation investment structure.”**

Ms. Kohlasch seconded and the motion passed without opposition.

**G. Action Items: Approval of Resolutions: [*Resolutions on file*]  
1. Interest Rate Resolutions Nos. 16-07 through 16-13**

Susan Pittard, Chief of Staff-General Counsel, noted these resolutions are presented each July to set interest rates for reinstatement of service credit and purchase of service credit. The rates will become effective January 1, 2017. Ms. Pittard said the rate of interest for purchase or reinstatement of service credit tracks the investment rate of return assumption adopted by the Board earlier at 7.25 percent. The resolutions have been ratified to reflect the 7.25 percent.

Mr. Mayfield introduced the following motion and Mr. Melia seconded:

**“RESOLVED, that the PERA Board approve resolutions 16-07 through 16-13.”**

The motion passed without opposition.

## 2. Overpayment Resolution No. 16-14

Ms. Pittard noted that Resolution 16-14 deals with the interest rates on overpayment due to fraudulent information being provided to PERA. Staff recommends that remain at 10 percent.

Mr. Mayfield introduced the following motion and Mr. Esquibel seconded:

**“RESOLVED, that the PERA Board approve resolution 16-14.”**

The motion passed without opposition.

Ms. Pittard said overpayments are regulated by statute and PERA cannot collect an overpayment for more than one year from the date of discovery.

## H. Executive Director’s Report

Mr. Propst gave a special thank you to Trish Winter, recognizing her tremendous assistance during the retreat.

## 6. OTHER BUSINESS

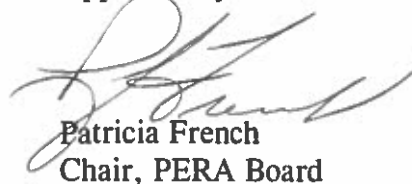
Chair French said one of the comments that the team builder, Denise Montoya, stressed during her presentation was giving staff recognition. The chair said that was important to her and she directed Mr. Propst to consider a manner in which the Board and staff can better and more frequently interact.

The Board thanked staff and especially Ms. Winter for their efforts in making this retreat successful.

## 7. ADJOURNMENT

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 11:51 a.m.

Approved by:



Patricia French  
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibit:

*Exhibit 1: Consent Agenda*