

**Public Employees Retirement Association  
Investment Committee Meeting  
Thursday, August 26, 2021**

**Call to Order**

The meeting of the 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 10:00 a.m.

**1. Roll call**

The meeting attendance met quorum with the following members present;

**Committee Members Present**

Steve Neel, Chair  
Paula Fisher, Vice-Chair  
Lawrence Davis  
Loretta Naranjo-Lopez  
Diana Rosales-Ortiz

**Other Board Members Present**

Francis Page  
Tim Eichenberg  
Shirley Ragin  
Roberto Ramirez  
Maggie Toulouse Oliver

**Staff**

Greg Trujillo, Acting Executive Director  
Susan Pittard, General Counsel  
Trish Winter, Executive Assistant  
Anna Williams, ASD Director/CFO  
Misty Schoeppner, Deputy General Counsel  
Kristin Varela, Interim CIO  
LeAnne Larranaga Ruffy, Co-Head of Equity  
Aaron Kayser, Investment Administrator  
Frank Mihail, Investments Director  
Isaac Beckel, Investments Director  
Isaac Olaoye, Investment Accountant  
Kate Brassington, Investment Associate  
Michael Killfoil, Investment Associate  
Clayton Cleek, Investment Associate  
Frank Mihail, Director  
Karyn Lujan, SmartSave Plan Manager  
Jessica Trujillo, HR Manager  
Ron Gallegos, CTO

Angela Romero, Albuquerque Office Manager  
Geraldine Garduno, Assistant General Counsel

**Others in Attendance**

Tom Toth, Wilshire Consulting  
Rose Dean, Wilshire  
Stephen DiGirolamo, Wilshire  
Leah Emkin, Wilshire  
James Walsh, Albourne  
Sara Grist, Albourne  
Justin Deierling, Albourne  
Gar Chung, FIN News

2. **Approval of Agenda**

Lawrence Davis made a motion approve the agenda, second by Loretta Naranjo Lopez.

Steve Neel	Yes
Paula Fisher	Yes
Lawrence Davis	Yes
Loretta Naranjo-Lopez	Yes
Diana Rosales-Ortiz	Yes

3. **Approval of Consent Agenda**

Lawrence Davis made a motion approve the agenda, second by Paula Fisher

Steve Neel	Yes
Paula Fisher	Yes
Lawrence Davis	Yes
Loretta Naranjo-Lopez	Yes
Diana Rosales-Ortiz	Yes

4. **New Business.**

A. **Performance and Market Review.**

Interim CIO, Kristin Varela highlighted that this performance report was different based on the feedback received from the Investment Committee members and the long-term goals affirmed back in March.

She introduced Tom Toth and Rose Dean of Wilshire Consulting, who presented the review.

1) **Q2 2021 (FY 2021) Performance Review**

Rose Dean began the presentation, stating there had been past discussions about putting together certain criteria for measuring the success of the portfolio decisions and different metrics to gauge compliance with certain risk measurement guidelines.

The Wilshire team put together a summary of the metrics that the Board can use as a monitoring tool going forward.

The first metric was the performance of the strategic asset allocation or the entire portfolio across the opportunity set available in the market, to measure whether the allocations have resulted in returns that meet the assumed rate of return.

The second table showed PERA's portfolios realized tracking error or excess risk over the market risk over the past four-year period. The excess risk is related to the excess return generated in addition to the market returns.

Ms. Dean also presented the liquidity guidelines and discussed the relative performance of the portfolio versus different benchmarks as follows;

**One;** relative performance to the policy benchmark. The portfolio had not met or exceeded the benchmark in recent periods, including this fiscal year, the 3-year, and the 7-year. In the longer term, the portfolio is lagging slightly behind the 20-year, but is outperforming the 30-year and inception to date.

Ms. Dean stated that they were working with staff to make improvements on the portfolio where necessary.

**Two;** performance versus the reference portfolio. This is a simple 60/40 market portfolio passively implemented. It has outperformed the fiscal year as well as the 10 and 30-year periods, but not the other periods such as 3, 5, and 7 years. This is largely due to diversification.

However, over the longer term, market history has shown that diversification is the only source of return that can be considered, on a regular consistent basis, to provide value and add to the portfolio in different market environments.

Mr. Toth provided an overview of some of the drivers of both return and risk. He reported that the total fund market value has increased materially and sits at \$17.6 billion as of June 30.

Mr. Toth discussed the longer-term attribution and reported that over the 5-year attribution, in aggregate, the portfolio had moderately outperformed versus the policy index by about 9 basis points. Much more muted contributions were observed here.

Ms. Dean then presented a comparison of PERA's total fund returns versus all public pension plans with assets greater than \$1 billion. 94 plans were included in the comparison of absolute level of returns.

The one quarter, ending June 30, the ranking was in the top 14th decile, and the year-to-date was about median. Another contributor is the amount of liquid assets or private markets allocations, which can be large drivers of a return as seen in the PERA portfolio this fiscal year.

## **2) Q2 2021 (FY 2021) Market Review**

Ms. Dean stated that Wilshire produces capital markets assumptions on a quarterly basis. In this case, they had produced 10-year forward-looking assumptions with respect to asset class return on risk and correlation.

The assumptions consider current valuation levels as well, which is why equity returns are expected, going forward, to be much lower than what's been realized in the past year.

With regards to inflation, Ms. Dean stated that the investment environment is expected to be challenging going forward. However, the PERA portfolio has meaningful allocations to real assets which are meant to mitigate inflation shocks.

Chair Neel requested details on asset class return assumptions and a highlight on anything above 7.25%. Ms. Dean noted that the only asset class with an expected return of over 7.25% is private equity which sits at 7.8%. This is a 10-year assumption. The 20-year and 30-year assumptions blend into the 10-year assumption, which includes current valuations, and to the equilibrium assumption, which is the ultra-long-term assumption, not to current market valuations. The blend of 10-year and equilibrium assumptions produces the longer-term assumptions, which tend to be higher.

Ms. Dean stated that they would be discussing all the asset allocation inputs, components, and options, for the Board to select the appropriate portfolio.

### **4.B. Wilshire Service Update**

Ms. Varela reported that Wilshire had gone through an organizational change and they would be reviewing the benefits of that to PERA. She introduced Leah Emkin, the Managing Director for Client Solutions at Wilshire, Stephen DiGirolamo, who assists in the selection, and Rose Dean and Tom Toth, who discussed the benefits to NM PERA.

Mr. Toth stated the transaction closed in January whereby two private equity firms, CC Capital and Motive Partners, acquired a controlling interest in Wilshire. CC Capital is focused on controlling and operating high-quality businesses over the long term. Motive Partners is focused on growth equity in the technology space, where financial services and technology intersect. Mr. Toth said the transaction solidifies Wilshire's presence in the market and allows for expansion on what they can provide for PERA.

Leah Emkin talked about some of the new senior executives added to the Wilshire team. She stated that executives from Motive had joined Wilshire full time. She further reported that Wilshire had also undergone an internal reorganization.

It is now more functionally aligned, with a client solutions team that Ms. Dean, Mr. Toth, and Mr. DiGirolamo were part of. The client-facing teams in different areas across Wilshire had been merged to bring more benefits to clients.

Ms. Emkin, who has been at Wilshire for 13 years, believed that the transaction is a great enhancement in bringing together the teams at Wilshire to work more cohesively.

Ms. Dean added that the experience, technology, and additional resources brought to Wilshire also enhance the resources provided to clients. Wilshire's aims to ensure that PERA has access to all those expanded resources.

Chair Neel requested details on the ownership of Wilshire, pre-acquisition and post-acquisition. Ms. Dean explained that pre-acquisition, the firm was predominantly owned by Dennis Tito, who founded Wilshire in 1972. Mr. Tito was the CEO for that entire time and was in his eighties when he retired, thus prompting the change in ownership.

Ms. Emkin also outlined the current leadership teams at Wilshire. There's a new Executive Committee functioning as the day-to-day governing body of the firm. They include the CEO, CFO, President, and COO. In addition to the new people, many long-term Wilshire people will be participating in the decision-making going forward.

Chair Neel asked if any of the senior people are part of the ownership group. Ms. Emkin stated that Andy Stewart is part of Motive Partners and is also the Chief Innovation Officer at Wilshire.

Chair Neel also requested details on how potential conflicts that might have arisen with the transaction were mitigated. Ms. Emkin stated that one of the potential conflicts was concerns about private equity firms owning Wilshire and what that would mean for Wilshire's overall view of private equity.

She assured the PERA Board that no one from the private equity firms is on any of Wilshire's investment committees and they will not be participating in any of the investment decision makings. She further stated that to her knowledge, none of their clients are invested in either CC Capital or Motive Partners.

Chair Neel also inquired whether there is preclusion of debt. Ms. Emkin confirmed that there is some debt as part of the transaction. She offered to send the details to Chair Neel later.

Ms. Varela pointed out that New Mexico PERA is also not invested with either CC Capital or Motive Partners.

#### **4.C. Manager Review - TimesSquare Capital Management**

Head of Alpha, LeAnne Larrañaga-Ruffy, introduced Clayton Cleek, the newest member of Alpha. Mr. Cleek joined PERA on June 1. He has 10 years of experience in global equity across public plans and investment management firms.

Mr. Cleek, together with Ms. Dean, provided an overview of the follow-up from July 29, 2021, Executive Session discussion concerning Array Technologies, Inc. & ChemoCentryx, Inc.

Mr. Cleek provided a brief background and stated that he grew up on a farm in the Texas Panhandles and attended Texas A&M University. He moved to Santa Fe in 2011 and spent seven years at Thornburg Investment Management. After living overseas for a while, he joined New Mexico's State Investment Council in 2019 and worked on the public equity portfolio, before joining PERA in June, this year.

Chair Neel thanked and welcomed Mr. Cleek.

Mr. Cleek then provided the history of the TimeSquare relationship. He stated that the TimeSquare small mid-cap account was created in 2005 and re-underwritten through an RFP process in 2013. Following a period of underperformance and downward fee pressure across the industry, fees were renegotiated in favor of PERA in 2018. In May of this year, the contract was extended and fees were once again, successfully, negotiated lower.

Mr. Cleek reported that the TimeSquare incentives are strongly aligned with PERA and the history and current fee agreement support that.

The two companies, Array Technologies and ChemoCentryx, were each purchased following significant due diligence, which included meetings with management, market share analysis, intellectual property research, and assessments of the regulatory environments that each firm operates within. The manager recognized both the upside and downside potential for each of these names and size acquisitions accordingly.

Chair Neel stated that both companies were incumbent within the index and would require some exposure, but that they were also overweight and leaning into these positions. He asked if there is a process where an overweight position requires additional work on the manager's part.

Mr. Cleek answered in the affirmative and explained this is what the manager is being paid to do; to assess the universal stocks investible to them, including stocks in the index, and then narrow them down into a list of names they want to overweight.

#### **4.D. Notice of RFI for External Legal Counsel**

General Counsel, Susan Pittard reported that PERA is currently engaged with three separate law firms that provide external legal assistance on investment transactions. These kinds of firms have been engaged since 2005 and cover all aspects of domestic and global illiquid investments, such as private equity, hedge funds, among others.

The three law firms are Foster Garvey, Morgan Lewis, and Reinhart Boerner Van Deuren. Their services are satisfactory, but the contracts are set to expire at the end of this year. The existing procurement policy allows for issuance of an RFI for the services, which PERA intends to do next month.

Ms. Pittard provided a timeline and stated that executed contracts should be in place to start effective January 1, 2022. Updates will be provided at the November meeting.

#### **4.E. Portable Alpha Update** **1-Year Portfolio Review**

Ms. Larrañaga-Ruffly introduced Frank Mihail, a member of the investment team since 2018. She also introduced James Walsh and Sara Grist from Albourne.

Frank Mihail is the Director of risk mitigation portfolio, which includes core bonds and the Portable Alpha program. He provided the 1-year review and stated that the goal of the Portable Alpha Program is to be an anchor to the portfolio during times of market volatility, to provide modest returns above Barclay's U.S. Agg, and promote diversification to the total fund through targeting managers that produce idiosyncratic returns.

He presented a snapshot of Q2, June 30, and stated that 10 managers in the portfolio make up \$750 million in 10 different hedge fund strategies. The U.S. Agg exposure that PERA gets is at about \$789 million.

The program was kicked off in January 2020. Five new allocations were made in June, plus a few others in July and August. In May 2021, additional capital was allocated to five managers. New commitments were also made. As of June 30, PERA had invested \$678 million.

Two managers operate on a capital cost structure, similar to private, so there's \$92 million of uncalled capital for a total of \$769 million of committed capital in the program.

Mr. Mihail is working closely with Albourne to set guidelines that will serve as guardrails around volatility, risk management targets, concentration targets, and then rebalancing guidelines and liquidity guidelines. These will be in writing by the end of the year.

James Walsh stated that the Portable Alpha portfolio sits alongside a beta component, which is the Barclays U.S. Agg. In the Wilshire reports, the Alpha part incorporates the bond component and is thus not separated out.

The performance of the portfolio as a whole, the bonds plus the Alpha, annualized over the last 18 months since inception is 5.7%. Of that, 2.7% annualized comes from the bond part, and 3% comes from the Alpha component, hence alpha has contributed considerably to return over the last 18 months.

The Portable Alpha portfolio takes up 6% of the PERA active risk budget and has therefore added meaningfully to the overall planned return for a small amount of risk. The portfolio is also well-diversified on the strategy and the regional exposure side.

With regards to performance, the 1-year return at 15.4% for the Alpha is unusually strong and is not expected to occur again. It reflects the unusual nature of the markets over the last 18 months and the ability of the managers to take advantage of those opportunities and add value to the portfolio.

The bond overlay over the 1 year lost money and recorded a negative 1.6%.

Mr. Walsh gave a brief history of the Alpha portfolio and stated that it was initially comprised of existing managers, who were already in PERA's overall portfolio. In phase one, which took place from April to June, three of the managers were moved.

Two went elsewhere in PERA's portfolio, and since they had a heavy credit exposure, they are housed in the credit portfolio. Seven more managers were added to further diversify the portfolio.

Phase two of the build-out of the portfolio was to add two more managers and then add to existing managers. This has taken place since the end of last year.

The existing portfolio had a large exposure to credit thus the loss in the portfolio in 2020. That loss had been recovered by January of this year, and since April 2020, the portfolio has returned 1.3% per month.

Sara Grist discussed risk management and stated that on a 1-year basis, the strategies that have added to performance have been the event-driven and equity long-short strategies, with smaller contributions from some of the other strategies.

For the risk profile, the volatility of the portfolio reflects the March 2020 event and the subsequent recovery. The expectation is to lower volatility given the increased diversification within the portfolio now. The 1-year volatility of the portfolio is around 4% of the Alpha portfolio.

For the beta, volatility since inception is at 0.75%, encompassing the March drawdown when there was more credit beta in the portfolio. This has been reduced through diversification in the past year. The 1-year beta credit has, therefore, fallen to 0.44%, and the expected beta going forward is 0.3%. This beta will be monitored to reduce it further through risk management and the potential addition of one or two strategies over the next 12 months.

Chair Neel asked if the expected 0.3% beta is the appropriate beta as it is being ported onto the Barclays Agg. Ms. Grist stated that the portfolio looks good as it currently is, but the beta can be further reduced. Mr. Walsh added that the past year had been unusual and had taken the observed beta up. It is therefore expected to move further down to 0.2% or lower.

Ms. Varela stated that several discussions had been held concerning the beta and the conclusion was that one or two more funds need to be brought in to further lower the beta.

Chair Neel noted that the numbers in alpha looked compelling. He asked about plausible figures in alpha going forward over a long-term basis. Mr. Walsh stated that the expectation for a portfolio targeting a beta of 0.2% or less is LIBOR +3, LIBOR +3.5.

Chair Neel also inquired about the liquidity profile and the need to rebalance it forward. Ms. Grist explained that 50% can be redeemed within 6 months and then 65% in 12 months. She



added that in 12 months, some of the lock-ups will expire so the portfolio will become more liquid. Ms. Grist stated that the consensus with staff was that the PERA portfolio meets the liquidity requirements.

Chair Neel asked if there is a possibility of partially redeeming from any of those positions. Ms. Grist explained that adding one or two new strategies will require pulling some capital out of some of the managers. No manager needs to be fully redeemed from the portfolio. They just need rebalancing to get sufficient diversification into the portfolio.

Chair Neel further asked if most of the positions have hurdles or high watermarks. Ms. Grist confirmed that they all have high watermarks and are all highly rated managers at Albourne. There are no explicit hurdles for the managers.

#### **4.F. Investment Division Compliance Update**

##### **i. Manager Selection Activity Report**

Ms. Larrañaga-Ruffly stated that this report is the same one provided to the Board at every meeting. It shows the opportunities that have been reviewed by staff and approved.

She stated that the manager selection pipeline report shows all opportunities in their various stages of diligence across credit, real assets, and private equity. Two had been completed for the private equity portfolio.

PERA started co-investment in 2020 and now has about five co-investment vehicles within the private equity portfolio totaling \$161 million, with diversifying exposures in the U.S., China, and Europe, as well as several sectors.

The manager selection for the Bond plus has been paused and no approvals have happened yet.

SmartSave had a proposal to replace dimensional fund advisors, U.S. small-cap fund with Fidelity small-cap index fund within the PERA SmartSave plans fund lineup. Fidelity will be a passive option within tier two. The replacement was due to DFA not meeting the minimum 3 and 5-year performance criteria.

Ms. Larrañaga-Ruffly reported that the Portfolio Fit and Review Team met on August 5 to review three proposals. The team includes the acting Executive Director, the interim CIO, and the interim deputy CIO. The IC chair also attended as an observer.

All proposals were agreed to by the team and have been forwarded into legal review and diligence.

Chair Neel stated that the Portfolio Fit and Review Team is part of the investment process that has been newly implemented. The IC has an observer seat for each of the meetings. He stated that he would send out the agenda and meeting dates to all Committee members so that

each could have a chance to participate in the meetings. Only one IC member is allowed at each meeting.

Francis Page asked about the recusals on the first two investments. Ms. Larrañaga-Ruffly explained that she had recused herself as she had provided the proposals to PRISM. She would not be part of the agreement process.

Chair Neel requested details on the two co-invest vehicles and what it means for both to be core and strategic. Ms. Larrañaga-Ruffly stated that they are calling these two core strategic partners, meaning they are investing alongside them.

**ii. Q2 2021 Cash Activity & Rebalance Update**

Ms. Varela reported that in April, \$111 million was paid out in total benefits. \$61 million came from the fund through investment activities. \$75 million was pulled from real assets.

In May, \$111 million was again paid out in total benefits. \$64 million came from investment activities of the trust. \$50 million was pulled from global equities liquidity accounts.

In June, \$111 million of total benefits paid. \$58 million came from the investment activities of the trust. \$80 million came from global equities liquidity account to fund that and replenish the cash account.

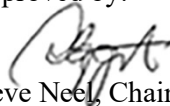
**iii. Q2 2021 Securities Lending Update**

PERA is modestly lending out assets and receiving reasonable growth earnings for lending those assets. Those earnings directly offset the overhead capital when it comes to the cost of custody banks.

**5. Adjournment**

With no further business to discuss, Chair Neel adjourned the meeting at approximately 12:18PM.

Approved by:



Steve Neel, Chair  
PERA Investment Committee

ATTEST:



Greg Trujillo, Acting Executive Director