

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
ANNUAL BOARD MEETING

September 29, 2016

This Annual meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair at approximately 9:00 a.m. on the above-cited date at the PERA Building, 33 Plaza la Prensa, Senator Fabian Chavez, Jr. Board Room, Santa Fe, New Mexico.

1. & 2. ROLL CALL

The Pledge of Allegiance was followed by Executive Director Wayne Propst calling roll and confirming a quorum was established with the following members present:

Members Present:

Patricia French, Chair - Municipal
Dan Mayfield, Vice Chair - Retiree
Tim Eichenberg - *Ex-officio*
Dan Esquibel - Municipal
Paula Fisher - State
Jackie Kohlasch - State
James Maxon - County
John Melia - Municipal
Loretta Naranjo Lopez - Retiree
John Reynolds - State
Cathy Townes - State
Brad Winter - *Ex-officio*

Member(s) Excused:

None

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Jude Perez, Deputy CIO
Karen Risku, Deputy General Counsel
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
David Dana, Assistant General Counsel
Misty Braswell, Assistant General Counsel
LeAnne Larrañaga-Ruffy, Director of Equity
Lalleh Dayeny, Investments Division

Karyn Lujan, Deferred Compensation Plan Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager
Mark Montoya, Investments Division

Others Present:

Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Paul Lium, Nationwide

3. APPROVAL OF AGENDA

Chair French said that under, the monthly meeting agenda, Item C will move to the top of the agenda.

Mr. Esquibel introduced the following motion:

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

Mr. Reynolds seconded and the motion passed by unanimous voice vote. [Members Fisher, Townes and Melia were not present for this action.]

4. APPROVAL OF CONSENT AGENDA

[Exhibit 1: Consent Agenda]

Chair French said she reviewed the minutes and found them complete and accurate.

Mr. Mayfield introduced the following motion:

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

Mr. Maxon seconded and the motion passed by unanimous voice vote. [Members Fisher, Townes and Melia were not present for this action and arrived shortly thereafter.]

5. CURRENT BUSINESS

A. Resolution No. 16-03 Calling for the Annual PERA Board Meeting

Chair French noted that the resolution which was passed in January 2016, identifies today as the Annual meeting.

B. Board Chair’s Message to Members and Retirees

Chair French reminded the membership that PERA invests for the long term and is a successful fund. The fund is approximately \$14 billion and remains strong.

C. Public Comments

None were presented.

D. 2016 Board Election

1. Report by Board Election Committee and Certification of State and Retiree Election [Exhibit 2: 9/16/16 Election Committee minutes/report; Exhibit 3: PERA Staff memo to the Board dated 9/28/16]

Election Committee vice chair Lynette Trujillo and member Avelino Gutierrez presented the results. Ms. Trujillo identified the committee members, PERA staff and others present during the September 16th meeting. The tabulations were presented as follows:

<u>Retiree:</u>	Dan Mayfield	6,384
	Kurt Weber	2,299

Spoiled ballots, 12

<u>State:</u>	Claudia Armijo	1,491
	Paula Fisher	1,137

Spoiled ballot, 1

Ms. Trujillo said a spoiled ballot was declared when a determination could not be made by at least two committee members. She said the committee made a motion to accept and verify the election results.

Ms. Trujillo said that, along with counting the ballots the committee reviewed an ethics complaint. Based on the election results, the committee chose to take no action on the complaint.

Ms. Naranjo Lopez noted that the Board received a letter dated September 26th protesting the election from Kurt Weber. She requested the Board review the letter.

Mr. Esquibel asked how the election protests were handled and Karen Risku, Deputy General Counsel, said Claudia Armijo's complaint was presented to the Election Committee because it was received prior to that meeting. However, Mr. Weber's complaint was received following the Election Committee's meeting.

Mr. Esquibel asked about an earlier letter from Mr. Weber going before the Election Committee, and Ms. Risku said that correspondence was sent to the Board and neither staff nor the Election Committee received it.

Susan Pittard, Chief of Staff/General Counsel, noted that staff received a copy of Mr. Weber's concern yesterday and has addressed the issues he raised in a memo within the Board's packet, as well as including his emails.

For the record, Ms. Naranjo Lopez said was requesting an investigation of the whole election.

Acknowledging that he read all the packet material, Mr. Esquibel said he has process-related questions and concerns regarding the election. He hoped PERA would develop a more proficient process to eliminate election turmoil in the future.

In response to Mr. Eichenberg's question regarding the number of state employees, Greg Trujillo, Deputy Director, said an individual does not have to be an active PERA member to vote. An individual is eligible to vote so long as there is a PERA member contribution on account and the last PERA employment was a state agency. He added that vestment is not required. Ms. Risku said the statute contains the definition of member.

Ms. Naranjo Lopez said that, when she was a PERA Board candidate, she encountered problems twice, which is costly for candidates. She said that the fact the ballot went out early, and there was staff interference in the election, evidences the need for a thorough investigation. She said staff cannot be involved in the election at all, adding that she could not support the Election Committee's report. An independent contractor should be retained to run PERA elections. Ms. Naranjo Lopez called for a new election.

Chair French said she will call for a review and investigation of the election process. She agreed that outsourcing the election process would be beneficial and that a subcommittee is working on the issue. She acknowledged staff's assistance in developing a vendor list.

Ms. Trujillo said that the Election Committee opened and counted over 11,000 ballots, and there were observers for the majority of the candidates. The ballot counting was appropriate and the only recommendation she had was to automate the tallying.

Chair French said it was a trying election, culminating with the van that carried the ballots catching fire. There was no harm to either humans or ballots.

Ms. Townes asked whether there was a way to quantify the affects of the ballots going out early. Ms. Naranjo Lopez said the candidates rely on the mailing dates to schedule their campaign.

Mr. Winter said for statewide elections there is an election code that spells out the process from early voting to mailing ballots overseas. He offered the Secretary of State's office assistance to strengthen PERA's process.

Ms. Kohlasch pointed out that PERA's procedure calls for the ballots to be sent out at least 30 days prior to the election.

Mr. Eichenberg recommended that any new election process includes two envelopes, one for the sealed ballot and the other that identifies the voter. He expressed concern that without any identifier, ballots could be copied. Ms. Trujillo said if a ballot appeared non-original it was considered spoiled.

Mr. Propst agreed with Mr. Winter about procedures and said staff developed a draft of election procedures that were presented to the ad hoc committee. Moving the elections to a vendor who can offer a bar code scan and electronic voting will be very important to PERA and improve ballot security.

Ms. Naranjo Lopez brought up Mr. Weber's concern that this election saw an increase of 30+ percent in voters and she agreed with him that this is a "red flag." The fact the ballots went out early should have triggered a new election.

Ms. Kohlasch referred to data on ballots cast in PERA elections since 1999, and said the data disputed the 30 percent increase referred to by Mr. Weber and corroborated by Ms. Naranjo Lopez. Mr. Propst said the data did show an upward trajectory in terms of the numbers of ballots that go out for retirees and the percentage of voters. The data showed consistency and there was not a 30 percent increase in the number of people voting in the retiree election.

Under the Election Code, it is a criminal offense to tamper with elections; however, PERA's elections are not covered under the statewide statute, stated Ms. Risku.

Mr. Maxon introduced the following motion: [restated and shown in bold]

“RESOLVED, that the PERA Board accept the Election Committee’s report and for PERA to contract with a neutral third-party to validate the integrity of the election results. If a problem is ascertained, the election results would be invalidated.”

Ms. Kohlasch seconded.

Mr. Reynolds said candidates are free to challenge the election results in court, but he was not prepared to support a motion that accepts the report and keeps the door open to reverse the results. Mr. Melia agreed.

Chair French understood the motion gives the Board a recourse to reverse their decision if a legitimate issue is identified.

Ms. Naranjo Lopez identified this as the fifth time PERA has had election issues.

For the sake of clarity, Ms. Risku recommended separating the motion to accept the Election Committee report and a second motion regarding the election issues.

Mr. Maxon restated his motion and Ms. Kohlasch maintained her second:

“RESOLVED, that the PERA Board accepts the Election Committee’s report, validate the election and to look into the integrity of the election process and take action if necessary.” [This motion was reconsidered, See below]

The motion passed by majority voice vote with Mr. Winter and Mr. Reynolds voting against.

Mr. Esquibel said he voted for the motion to address the issue of tampering and those that may have been involved in that, but not necessarily to change the election results.

Mr. Winter said the perception the motion promotes is that the election is open ended. The results are validated with a proviso that the results can be invalidated.

Chair French said his perception of the motion was correct: “If we find something that we feel was unfair to the candidate, the Board needs to have an avenue to address it. That’s what was said.”

The Election Committee was thanked for their service.

In response to Mr. Winter's observation that the election results would be perceived as open, and having voted for the motion, Mr. Eichenberg was in a position to introduce the following motion:

“RESOLVE, that the PERA Board reconsider the previous motion.”

Mr. Melia seconded and the motion to reconsider passed by majority voice vote with Ms. Naranjo Lopez casting the sole nay vote.

Ms. Risku referred to staff's memo which provides adequate information for the Board to make a decision on the issues raised by Mr. Weber. She said, to her knowledge, staff received no concerns, concrete or specific, regarding the integrity of the election. The election contractor is an independent vendor as is the printer. According to the election rules, and technically-speaking, there was no early ballot mail-out and no violation of PERA rules.

Ms. Risku recommended splitting out action on the Election Committee report and any review of the election process as a whole in the past, and any changes or implementation of new procedures for the future.

Mr. Maxon introduced the following motion:

“RESOLVED, that the PERA Board accept the Board Election report and certify the State and Retiree election results.”

Ms. Kohlasch seconded.

Ms. Fisher said it would not be hard to copy the ballot nor for the Election Committee to mistakenly invalidate a valid ballot. Ms. Risku said all of the ballots were returned in a PERA specific envelope. She supported the employment of an outside vendor in the future.

Mr. Eichenberg said a printer could copy the envelope, watermarks, etc. and asked how PERA's election process can be protected. While it isn't impossible, Deputy Director Trujillo said it would take significant effort to copy the envelope which contains PERA's postage permit barcode.

Mr. Esquibel said the issues that have come up regarding the election imply there may have been misconduct.

Mr. Winter cautioned that the contemplated second motion sets up a slippery slope for PERA. According to staff's memo nothing was violated in the process. He pointed out that in any election there are going to be complaints and that person can challenge the results in court.

The ad hoc committee will work on procedures and timelines for future elections and investigate hiring a private vendor which will address these issues.

The motion passed by majority voice vote. Ms. Naranjo Lopez voting against.

The second motion would be to investigate the irregularities, correct them and move forward.

Mr. Melia reminded the Board that they held a special meeting to address an earlier complaint regarding candidate misconduct, and the majority of the Board voted to stay out of the election process and allow the candidates to pursue alternative avenues. He asked what had changed, and why the Board was engaged in rehashing this.

Ms. Naranjo Lopez said she recently found out that “staff interfered in this election” and said she wants a thorough investigation. During the course of her comments, she stated that the timing of the ballots being mailed was an issue that needs to be addressed and “because staff interfered, that gave certain candidates an opportunity where other candidates didn’t have that opportunity.”

Mr. Melia characterized Ms. Naranjo Lopez’s comments as a “bold accusation.” The members voted, the ballots have been counted and winners have been declared.

Mr. Propst advised Ms. Naranjo Lopez that she was entitled to her own opinions but not entitled to her own facts. The ad hoc election committee was developed to study the election procedures and make recommendations for the future.

Chair French, as a member of the ad hoc committee, said they would conduct that study and report back to the Board. Members of that committee include Mr. Esquibel, Mr. Maxon and Chair French is replacing Ms. Townes.

2. Introduction of Newly Elected State and Retiree Board Members

Dan Mayfield was congratulated on his re-election to the PERA Board and said it has been a privilege to serve on the Board.

Claudia Armijo was not present.

E. Resolution 16-15, Resolution Expressing Gratitude to the 2016 PERA Election Committee for Services Provided throughout the 2016 Election Process [Exhibit 4: Resolution 16-15]

Mr. Reynolds introduced the following motion:

“RESOLVED, that the PERA Board approved Resolution 16-15.”

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

[The Board recessed at 10:15 and reconvened at 11:15]

MONTHLY PERA BOARD MEETING

At approximately 11:15, Chair French called the monthly PERA Board meeting back to order. A request was made to return the agenda to its published sequence.

Ms. Fisher introduced the following motion:

“RESOLVED that the PERA Board accept the agenda as originally published.”

Mr. Esquibel seconded and the motion passed without opposition.

Rules & Administration Committee

A. Approval of Scope of Work for Fiduciary and Governance Counsel

Chair French recalled that, at the last meeting where this item was discussed, it was determined the contract amount could not exceed \$60,000 and the RFP will spell out all of the details.

Ms. Fisher, chair of the Rules & Administration Committee deferred to Ms. Naranjo Lopez to introduce the item. Ms. Naranjo Lopez said if there was no further discussion on the scope of work for fiduciary counsel she was prepared to make a motion.

Mr. Eichenberg said it appears minutiae are bogging down the process. The provided scope of work appears to limit the Board by failing to address personnel, budget, hiring or terminating staff, etc. He recommended using one of the PERA's contract attorneys, having them develop a scope of work following discussions with the Board. The most important thing is to have a Board attorney to tell the Board their options. He pointed out that PERA general counsel works for Mr. Propst. The Robles law firm contracts with PERA and he said it would not be a conflict if one of the partners worked with the Board.

Mr. Eichenberg said he was prepared to make a motion approving that the Board has its own attorney and direct the chair to meet with the partners of the Robles Law Firm to determine whether or not it works under their current contract, and let them advise the Board regarding the scope of work.

Chair French said she liked Mr. Eichenberg's suggestion to obtain a legal point of view on how to move forward.

Ms. Pittard said the contract with Robles is for administrative appeals and claim-related services at \$25,000. She was unsure of the balance on the contract.

Member Melia said he can appreciate the need for fiduciary counsel but questioned anything further. Can the Board justify the need for an outside attorney? He said the money being spent belongs to the membership, and he was not comfortable with the proposal when there are attorneys on staff.

Mr. Eichenberg provided an example of why an attorney is needed, citing a dispute regarding bonuses with the Albuquerque Police. He understood that nobody from the Board provided direction to either Ms. Pittard or Mr. Propst on how they wanted to proceed. The Board did not have counsel advising them not to send counsel to court without Board directive. He went on to say that Mr. Propst is the only employee the Board, theoretically, manages and he manages staff. He said PERA is unique in that its general counsel is also chief of staff.

Mr. Eichenberg said he did not want to see the Board attorney limited, and instead

wanted the attorney to serve as the Board's attorney on any and every issue that comes before the Board,

Ms. Naranjo Lopez said Mr. Eichenberg's comments were captured in the prepared scope of work. She said staff developed the scope of work and the subcommittee reviewed and edited it. Mr. Eichenberg championed getting an independent attorney to direct the Board in developing a scope of services.

Mr. Propst said staff conducted a survey of whether other public pension plans have fiduciary and governance counsel and some do. However, they were unable to identify a single pension plan that has its own counsel, with the proposed scope of work. He said he respects the Treasurer's consistency and opinion on this matter; however, it is diametrically opposed to what people said they were voting for at the Rules & Administrative Committee. He pointed out that the Board will be acting on \$195 million of investments with the caveat that it is reviewed by legal counsel, staff legal counsel. Mr. Propst said he opposed independent separate counsel to duplicate the efforts of PERA's office of General Counsel, and added that not one incident has been cited where counsel has not ably represented both the Board and the agency.

Mr. Eichenberg said he appreciates the argument presented by Mr. Propst but staff will continue to work for the Board. The Board is merely adding a second opinion at the Board level. "Our general counsel doesn't represent the Board. They represent the Chief of Staff...and they work for Wayne and Wayne works for us and we need our own attorney." He was not concerned that other public pensions don't have a Board attorney because PERA needs one.

Mr. Esquibel moved to amend the contract for the Robles Law Firm in order to work with the committee to establish a scope of work for the Board attorney. Mr. Eichenberg seconded.

Mr. Melia proposed the scenario that general counsel and the Board contract attorney have the same opinion and membership funds were spent for nothing. Will the Board seek an additional opinion if the two attorneys have conflicting opinions? He further noted that each Board member has a different idea of the role of the proposed attorney.

Speaking from his experience as a 17-year city councilor, Mr. Winter introduced a motion to defer this item for 30 days. He said the city council has its own staff attorney. The city's attorney is by statute required to work for both the council and staff members, which creates conflict since council's responsibility is policy and budget, and staff's administration.

Mr. Winter moved for a 30-day deferral to work out the issues with staff. Mr. Melia seconded.

A discussion ensued of whether a motion to defer was recognized by the Board as a subsidiary motion, and, according to Mr. Esquibel, it was not, and hence out of order. Mr. Winter noted that in many councils a motion to defer overrides anything else on the floor. He suggested a 30-day deferral would be useful to think through the issue. Ms. Kohlasch and Mr. Melia were prepared to support a 30-day deferral.

Mr. Esquibel said the Board is trying to determine the scope of work, and the Robles Firm may be the best avenue to achieve that.

Ms. Naranjo Lopez said she has requested a Board attorney because the Latino conference she attended recommended it.

The motion was restated by Mr. Esquibel and Mr. Eichenberg's second remained:

"The Board approves an amendment to the contract with the Robles Law Firm to work with the board committee to establish the scope of work for a board attorney."

Mr. Esquibel continued: "It doesn't mean we're hiring a board attorney at this point, we're just still looking at building up what the parameters for that attorney – that still has to be brought back to the Board for analysis and voted on..."

The motion passed by majority [8-4] voice vote. Members Kohlasch, Melia, Reynolds and Winter voting in opposition.

B. Investments

1. Recommendation to Commit up to \$75 Million to Tillridge Global Agribusiness Partners II, LP

Mr. Esquibel said items B 1 through 4 were discussed during the IC meeting and he introduced the following motion:

"RESOLVED, that the PERA Board approve a commitment of up to \$75 million to Tillridge Global Agribusiness Partners II, LP, funded according to the cash plan and subject to legal review by General Counsel."

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

2. Recommendation to Commit up to an Additional \$45 Million to Charterhouse Capital Partners X, LP

Mr. Esquibel introduced the following motion:

"RESOLVED, that the PERA Board commit approve an additional commitment of up to \$45 million to Charterhouse Capital Partners X, LP, funded according to the cash plan and subject to legal review by General Counsel."

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

3. Recommendation to Commit up to an additional \$75 Million to IFM Global Infrastructure, LP

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board approve an additional commitment of up to \$75 million to IFM Global Infrastructure, LP, funded according to cash plan and subject to legal review by General Counsel.”

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

4. Recommendation to approve the Credit Oriented Fixed Income Implementation Plan

Mr. Esquibel introduced the following motion:

“ RESOLVED, that the PERA Board approve the implementation of the SAA for the credit oriented fixed income as presented by staff.”

Mr. Mayfield seconded and the motion passed by unanimous voice vote. [Mr. Winter was not present for this action.]

C. SmartSave

1. Recommendation to Replace BlackRock Inflated Protection Bond Fund with Vanguard TIPS Fund within the PERA Smart Save Fund lineup

Mr. Reynolds, Chair of the SmartSave Committee, said these items were discussed at the committee level. He said this is the replacement of an active strategy with a passive one with lower fees and savings to the SmartSave participants. He introduced the following motion:

“RESOLVED, that the PERA Board approve the replacement of BlackRock Inflated Protection Bond Fund with the Vanguard TIPS Fund.”

Ms. Naranjo Lopez seconded and the motion passed without opposition. [Members Winter, Esquibel and Mayfield were not present for this action.]

2. Recommendation to Select Columbia High Yield Bond Fund to implement into the fixed income allocation within the PERA SmartSave LifeCycle Portfolio

Mr. Reynolds said this provides a new element in the lifecycle portfolios which provides similar returns at a lower risk. He introduced the following motion:

“RESOLVED, that the PERA Board approve the selection of Select Columbia High Yield Bond Fund to implement into the fixed income allocation within the PERA SmartSave LifeCycle Portfolio.”

Ms. Naranjo Lopez seconded and the motion passed without opposition. [Members Winter, Esquibel and Mayfield were not present for this action.]

F. Executive Director's Report

Mr. Propst recognized Paul Lium for his excellent customer service to PERA.

Chair French advised staff that she wanted to see out-of-state staff travel before it occurs. In-state travel can be reported after the fact. Mr. Propst said this was discussed at the last meeting and for security concerns staff would prefer not having out-of-state travel published in a public report. Mr. Eichenberg suggested not identifying which staff member it is.

6. OTHER BUSINESS

Ms. Kohlasch recognized and thanked Karyn Lujan for her exceptional work for the SmartSave program. Mr. Grabel said Ms. Lujan was nominated as a finalist by *Pensions & Investments* magazine for excellence in innovation associated with deferred compensation plan, i.e., PERA's SmartSave.

Chair French thanked Ms. Lujan and Mr. Reynolds for their work with SmartSave

7. ADJOURNMENT

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 12:20 p.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibit:

Exhibit 1: Consent Agenda

Exhibit 2: 9/16/16 Election Committee minutes/report

Exhibit 3: PERA Staff memo to the Board dated 9/28/16

Exhibit 4: Resolution 16-15