

# NEW MEXICO

## PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

### SMART SAVE COMMITTEE MEETING

**February 14, 2017**

This meeting of the Public Employees Retirement Board Smart Save Committee was called to order by Vice Chair Jackie Kohlasch at approximately 9:15 a.m. on the above-cited date in the PERA Building, Senator Fabian Chavez, Jr. Board Room, 33 Plaza la Prensa, Santa Fe, New Mexico.

Executive Director Wayne Propst called roll and a quorum was established as follows:

**Members Present:**

Jackie Kohlasch, Vice Chair  
Loretta Naranjo Lopez  
Patty French  
Cathy Townes [appointed]

**Member(s) Absent:**

John Reynolds, Chair [excused]  
Tim Eichenberg  
Maggie Toulouse Oliver

**Other Member(s) Present:**

Dan Mayfield  
Claudia Armijo  
James Maxon  
John Melia

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff-General Counsel  
Jonathan Grabel, Chief Investment Officer  
Greg Trujillo, Deputy Director  
Karen Risku, Deputy General Counsel  
Renada Peery-Galon, ASD Director  
Dana David, Assistant General Counsel  
Jude Pérez, Deputy CIO  
Karyn Lujan, Smart Save Plan Manager  
LeAnne Larrañaga-Ruffy, Director of Equity  
Anna Williams, Chief Financial Officer  
Kristin Varela, Portfolio Manager  
Emily Lopez, Financial Specialist  
Christine Ortega, Portfolio Manager

**Others Present:**

Paul Cowie, Meketa

Paul Lium, Nationwide

**2. APPROVAL OF AGENDA**

Ms. Naranjo Lopez moved to approve the agenda as presented. Her motion was seconded by Ms. Townes and passed by unanimous voice vote.

**3. APPROVAL OF CONSENT AGENDA**

Ms. Naranjo Lopez moved approval. Ms. Townes seconded and that motion passed by unanimous voice vote.

**4. CURRENT BUSINESS**

**A. Q2 FY17 Smart Save Plan Activity Review**

*[Exhibit 1: Nationwide Quarterly Report]*

Karyn Lujan, Smart Save Plan Manager, said this was a successful enrollment quarter for the plan. There are now over 20,000 participants with over \$530 million in asset value. She noted that the EZ enrollment contributed to the gain in participants as did the fact that Smart Save acquired all DC participation from Bernalillo County as it consolidated its deferred compensation plans to PERA Smart Save. Fund fact sheets and four education videos are available on the Smart Save website. Fund changes that the Committee and Board approved earlier in the year have been implemented. An asset allocation information email outreach campaign occurred for those participants not in a lifecycle portfolio.

Ms. Lujan said at this point there is no outreach to participants who stop their contributions and she can work with Nationwide on possibly implementing outreach for those who stop contributing. She noted that the participant continues to pay fees regardless of ceasing contributions. Paul Lium, Nationwide, said the contribution stops are not retirees. Ms. French asked that additional information about this group be provided.

CIO Grabel said HB 33, the amendment to the Deferred Compensation Act to allow for electronic transactions/enrollment, could include additional questions about the participant that will better inform the program.

**B. Q2 FY17 Smart Save Investment Performance Review**

*[Exhibit 2: Meketa Quarterly report]*

Paul Cowie, Meketa, reviewed the four tiers offered within the plan and noted the TIPS option within Tier II offered by Vanguard. At the end of December, the plan assets were \$530.5 million, an increase of \$14.9 million from the prior quarter. Stable Value makes up 25 percent of the plan, the lifecycle portfolios make up 23 percent with Vanguard Institutional Index fund having 14 percent of the assets.

Mr. Cowie highlighted investment manager updates mentioning Franklin Templeton Global Bond's high tracking error and Principal US Equity and Real Assets CFO and executive vice president preparing for retirement.

Mr. Melia asked whether the Templeton Global Bond was similar to the Columbia Institutional High Yield that has been offered only in the lifecycle portfolios because it has volatility that an investor may not be aware of. Mr. Cowie said in terms of risk and returns, the Templeton fund is slightly more conservative than others but has the ability to invest a significant portion of its assets in emerging markets debt which can be very volatile.

Mr. Grabel pointed out that Franklin Templeton is the number one ranked fund in terms of returns for the quarter and in the second percentile for the year.

Mr. Cowie said the US equities market has been positive since the election with strong performance from energy, materials, and financials. Consumer staples, utilities and REITs did not do as well because they are more income focused. It was a very good year for index funds. Small cap stocks did very well post election.

Regarding Fidelity Diversified, Ms. French pointed out that they have underperformed for one-, three- and five-year periods. Mr. Cowie said they are outperforming over the five- and 10-year periods but underperforming the median peer. She asked whether that should be a concern. Mr. Cowie agreed and noted that the exposure from Fidelity and EuroPacific Growth are very similar and reminded the Committee that Fidelity Diversified was removed from the lifecycle portfolios. He mentioned that "white labeling" – replacing brand-name mutual funds with no-name options to simplify investment lineups – increases portfolio diversity and reduces fees which may be the appropriate manner in which to eliminate some of the underperforming investment options.

Mr. Grabel pointed out that both the domestic and international managers have performances that vary and it is different than the DB plan where the investment guidelines are closely controlled. These are SEC registered mutual funds and the managers have tremendous leeway. Actively managed funds will have varying performances. Staff and the consultants watch the managers but the question is whether to offer actively managed products for the average PERA Smart Save member.

Reviewing the lifecycle portfolio, Mr. Cowie said the shorter dated funds had poor returns which was attributed to the overweight in fixed income allocation with negative returns in bonds. International equities also struggled in the fourth quarter, but overall the returns for the lifecycle portfolios were up approximately 7.5 percent.

**C. Private Core Real Estate Strategy for LifeCycle Portfolios**  
*[Exhibit 3: Meketa report]*

Ms. Lujan said this item is an introduction to a new strategy, private core real estate, within Smart Save.

Mr. Cowie said real estate is important to include in the lifecycle portfolios because it provides a yield, has potential for growth, serves as an inflation hedge and historically returns in real estate have exhibited a low correlation with other assets while experiencing lower volatility than equities. He provided a comparison between REITs and private real estate. Private real estate property types include office, industrial/ warehouse, retail, residential and hotels, and self storage. The idea is to have high occupancy which generates stable income. Most of the transactions are cash with very little debt and are considered conservative and stable.

Mr. Cowie said private core real estate provides good returns with reduced volatility and he reviewed the spread between private core and REITs. In terms of vehicle and fees, the private real estate plan offers daily valuation and liquidity components which is usually a component of REIT stocks. The vehicle would be a contract with an investment manager and the fees are generally between 75 and 100 basis points.

There were no questions on this information item and Vice Chair Kohlasch thanked the consultants and staff for their presentation.

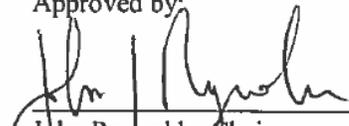
**5. OTHER BUSINESS**

None was presented.

**6. ADJOURNMENT**

Upon motion by Ms. Naranjo Lopez and second by Ms. Townes, Vice Chair Kohlasch adjourned this meeting at approximately 10:05 a.m.

Approved by:

  
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John Reynolds, Chair  
Smart Save Committee

ATTEST:

  
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Wayne Propst, Executive Director

Attached Exhibits:

*Exhibit 1: Nationwide Quarterly Report*

*Exhibit 2: Meketa Quarterly Report*

*Exhibit 3: Meketa Report*