

# NEW MEXICO

## PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

### SMART SAVE

### COMMITTEE MEETING

**May 9, 2017**

This meeting of the Public Employees Retirement Board Smart Save Committee was called to order by Chair John Reynolds at approximately 9:28 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.

Roll was called and a quorum established as follows:

**Members Present:**

John Reynolds, Chair  
Jackie Kohlasch, Vice Chair  
Loretta Naranjo Lopez  
Patty French

**Member(s) Absent:**

Tim Eichenberg  
Maggie Toulouse Oliver

**Other Member(s) Present:**

Dan Esquibel  
James Maxon  
John Melia  
Claudia Armijo  
James Maxon

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Greg Trujillo, Deputy Director  
Jude Pérez, Interim CIO  
Karen Risku, Deputy General Counsel  
Renada Peery-Galon, ASD Director  
Dana David, Assistant General Counsel  
Trish Winter, Executive Assistant  
LeAnne Larrañaga-Ruffy, Director of Equity  
Karyn Lujan, Deferred Compensation Plan Manager  
Kristin Varela, Portfolio Manager of Real Returns  
Christine Ortega, Portfolio Manager

Anna Murphy, Compliance Officer  
Isaac Olaoye, Financial Analyst  
Emily Lopez, Financial Specialist

**Others Present:**

Paul Lium, Nationwide  
Ted Benedict, Meketa  
Hannah Schriener, Meketa

**2. APPROVAL OF AGENDA**

Ms. Kohlasch moved to approve the agenda as presented. Her motion was seconded by Ms. Naranjo Lopez and passed by unanimous [4-0] voice vote.

**3. APPROVAL OF CONSENT AGENDA**

Chair Reynolds said he reviewed the minutes. Ms. Naranjo Lopez moved approval and Ms. French seconded. The motion passed by unanimous [4-0] voice vote.

**4. CURRENT BUSINESS**

- A. Recommendation to replace the Invesco Global REIT allocation with Prudential Retirement Real Estate Fund II within the PERA Smart Save LifeCycle Portfolios, subject to legal review by general counsel**  
*[Exhibit 1: Staff Memo and Meketa Report]*

Karyn Lujan, Smart Save Plan Manager, said this is the follow-up to Meketa's February presentation on how a private core real estate strategy may benefit the LifeCycle Portfolios. Staff and Meketa recommend that Invesco Global REIT allocation be replaced with Prudential Retirement Real Estate Fund II. She reviewed the purpose of the LifeCycle Portfolios as one in which the proportional representation of an asset class is automatically adjusted during the course of the fund's time horizon. She noted that all of the LifeCycle Portfolios include REIT exposure. She explained that the private core real estate strategy will replace the Invesco across all the LifeCycle Portfolios. However, the Invesco REIT will remain as a standalone fund option for participants not in a LifeCycle Portfolio. Currently, Invesco represents approximately \$12.1 million in the LifeCycle Portfolios and Prudential PREFF II will assume those funds.

Ms. Lujan reviewed the search criteria and reminded the Committee that there are a limited number of managers who offer this strategy to DC plans. Seven candidates were reviewed and two finalists, JP Morgan and Prudential, were chosen. Meketa prefers to provide two managers for consideration with Prudential ranking the highest.

Ted Benedict, Meketa, provided the specifics of the manager search noting that four of the seven firms that responded to the RFP met the MQs. There is a strong

income component to core real estate strategies which are stable assets. The majority of PGIM's assets are in real estate strategies. They have a large global team to manage the properties and execute the strategy and a long history of offering private core real estate in defined contribution plans. He reviewed JP Morgan and noted they do not offer a core plus component. Both firms can limit redemption request; however, PGIM offered a higher liquidity threshold. PERA will not make up a large percent of either managers' plan assets and there should be no problem for PERA to liquidate.

Mr. Benedict reviewed the performance of the various underlying components of the two candidates and Invesco.

In conclusion, Mr. Benedict said that either of the candidates could improve the LifeCycle Portfolios but it was Meketa's opinion that PGIM has a slight advantage.

Mr. Melia pointed out that for the past 10 years, Invesco failed to beat their benchmark, and while he understood past performance doesn't predict the future, he asked why PERA would continue to offer it. Mr. Benedict said that is a good topic for another meeting and a manager search may be appropriate.

Ms. Naranjo Lopez moved to replace the Invesco Global REIT allocation with Prudential Retirement Real Estate Fund II within the LifeCycle Portfolios subject to legal review by general counsel. Ms. French seconded and the motion passed by unanimous voice vote.

## **B. Q3 FY17 Investment Performance Review**

*[Exhibit 2: Meketa Report]*

Hannah Schriener, Meketa, reviewed the tier structure and said PERA is offering a strong portfolio of options to the participants. As of March 31, 2017, the plan assets were \$553.2 million, an increase of \$22.8 million from the prior quarter. There were 20,269 participants with a balance at quarter-end. The average account balance was \$27,294. The majority of the assets are within the NM Stable Value Fund with 24 percent, followed by the LifeCycle Portfolios with 23 percent.

Ms. Schriener said performance across the funds were positive for the quarter which was largely driven by the equity markets. The large cap options outperformed their benchmarks and performed in the top half of their peer groups – with the exception of Dimensional small cap core. With the exception of Aberdeen, all the international equity managers outperformed their benchmarks. She noted that Franklin Templeton outperformed this quarter.

Mr. Benedict said they will be reviewing Franklin Templeton Global Bond fund. It holds a heavy percentage of the portfolio's emerging market debt/bonds which has a higher yield component but brings a great deal of volatility.

Ms. Schriener said during the 3<sup>rd</sup> quarter energy was down and hurt the commodities sector, however, Principal Diversified Real Asset was able to outperform.

The target-date funds all outperformed.

Mr. Benedict pointed out that 11 out of PERA's 15 actively managed options outperformed both the benchmark and the peer group.

**C. Q3 FY17 Plan Activity Review**

*[Exhibit 3: PERA SmartSave Activity Report]*

Ms. Lujan reminded the Committee of the recent accomplishments: a new fee structure was adopted along with a communication plan regarding the fee structure and SB 75 passed which allows for online enrollment and contribution changes. The online expansion will require coordination with the employers. Once the audit and the fee restructure are complete, staff and Nationwide will focus on the online enrollment process.

Ms. Naranjo Lopez complimented the tag line/brochure, Make a Resolution for your Future. Ms. Lujan said on a quarterly basis, Nationwide places a full-page color ad in *Round the Roundhouse* and copies of those ads were included in this quarter's activity report for the Committee's reference.

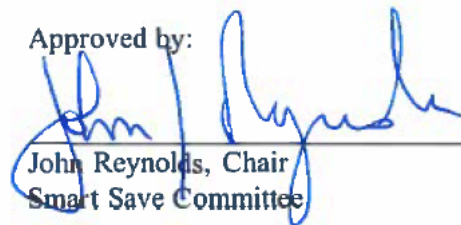
**5. OTHER BUSINESS**

None was presented.

**6. ADJOURNMENT**

Upon motion by Ms. Naranjo Lopez and second by Ms. French, Chair Reynolds adjourned this meeting at approximately 10:17 a.m.

Approved by:



John Reynolds, Chair  
Smart Save Committee

ATTEST:



Wayne Propst, Executive Director

Exhibit Attached:

*Exhibit 1: Staff Memo and Meketa Report*

*Exhibit 2: Meketa Report*

*Exhibit 3: PERA SmartSave Activity Report*