

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SMART SAVE COMMITTEE MEETING

August 31, 2017

This meeting of the Public Employees Retirement Board Smart Save Committee was called to order by Chair John Reynolds at approximately 9:00 a.m. on the above-cited date at the PERA Albuquerque Office, 2500 Louisiana Blvd., NE, Suite 400, Albuquerque, New Mexico.

Roll was called and a quorum established as follows:

Members Present:

John Reynolds, Chair
Jackie Kohlasch, Vice Chair
Loretta Naranjo Lopez
Claudia Armijo [appointed]

Member(s) Absent:

Tim Eichenberg
Maggie Toulouse Oliver
Patty French

Other Member(s) Present:

Dan Esquibel
James Maxon
John Melia
Cathy Townes
Dan Mayfield

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Dominic Garcia, Chief Investment Officer
Jude Pérez, Deputy CIO
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Dana David, Assistant General Counsel
Trish Winter, Executive Assistant
Joaquin Lujan, Director of Rates and Credit
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager
Mark Montoya, Financial Analyst
Isaac Olaoye, Financial Analyst
Emily Lopez, Financial Specialist
Kristin Varela, Portfolio Manager of Real Returns
Marlena Riggs, Financial Budget Manager
Anna Murphy, Compliance Officer

Others Present:

Jennie Lusk, NM AG Office
Harvey Leiderman, Reed Smith, PERA Board Fiduciary Counsel
Tom Toth, Wilshire
Paul Cowie, Meketa
Paul Lium, Nationwide
Andrew Hayward, Albourne
Mark White, Albourne
DL Heshley, FOP
Anna Hanika-Ortiz, LFC
Dianne Creser, Chapter 5
Isabel Clendenin, RPENM
Mike Clendenin, RPENM
John Rivers, RPENM
Steve Cogan, REDW
Jessica Bundy, REDW

2. APPROVAL OF AGENDA

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

3. APPROVAL OF CONSENT AGENDA

Chair Reynolds said he reviewed the minutes of the June 13th meeting and found them accurate.

Ms. Naranjo Lopez moved approval. Ms. Kohlasch seconded and the motion passed by unanimous [4-0] voice vote.

4. CURRENT BUSINESS

A. Q4 FY17 Investment Performance Review [*Exhibit 1: Meketa Report*]

Paul Cowie, Meketa, referred to the four tiers used to organize the plan: lifecycle, passive core array, active core array, and extended choice array. At the close of the quarter (June 30, 2017), the plan assets were at \$566.9 million with 20,466 participants. The average account balance was \$27,697. Contributions for the quarter totaled \$12 million and withdrawals totaled \$11.7 million. This quarter, the lifecycle portfolios took the lead from stable value.

The strategy of Franklin Templeton Global Bond may not be the best option for participants on a standalone basis, stated Mr. Cowie. He said Meketa's conviction has not changed in including this within the lifecycle portfolios. The strategy is scheduled to be discussed further at the September Smart Save meeting.

Mr. Cowie reviewed the allocations within the four tiers and the performance of the tiers options. The equity markets continue to do well with all of the domestic equity options outperforming with the exception of Dimensional who tilts more toward value stocks and small caps. Fixed income

continues to meet expectations with the exception of Franklin Templeton. In regards to real assets, Mr. Cowie said they make up less than half a percent of the total plan and have performed close to the benchmark.

The lifecycle funds have returns between 1.7 percent and 4 percent with the conservative funds making up the lower returns.

In response to Mr. Esquibel's concern about educating the membership, Karyn Lujan, Smart Save Plan Manager, said the Nationwide representatives are in the field speaking to participants and the Smart Save website contains a great deal of educational materials. With education, the participants can improve their investments.

Mr. Cowie reviewed the plan expenses showing each investment option, assets, net expense ratios, and comparisons. On the whole, PERA's expenses are less than average. Those that are more expensive include Principal Diversified Real Assets which is difficult to benchmark because it is a unique strategy, and Fidelity Diversified International which has been a strong performer and has earned their fee.

B. Q4 FY17 Plan Activity Review *[Exhibit 2: Nationwide Report]*

Ms. Lujan said during the quarter, Nationwide enrolled 577 new participants. She noted the updated Unforeseeable Emergency form is available on the website. She reminded the Committee that the Board adopted Provision 845 of the Pension Protection Act which allows retired public safety officers to utilize up to \$3,000 of their deferred compensation distributions towards health care premiums and can exclude that amount from their federal income tax.

Ms. Lujan highlighted the summer Smart Save "Walk Around the Block" campaign which provided Smart Save information in cluster locations of physical state agencies. She said she and Nationwide representative Paul Lium have been working together on this campaign.

Letters outlining the new fee structure were mailed in August and Ms. Lujan said she has received a few calls/emails from participants with high balances that are not pleased with the changes. She has explained the rationale for the changes to ensure PERA is offering the best plan they can.

Mr. Lium said most participants understand that those participants with smaller account balances should not be paying the identical fee to those with large balances. Ms. Lujan said PERA signs off on roll-out forms and said staff will explain the expense ratio and why the change was made.

Mr. Lium explained that a roll-over is not considered a taxable event. Interim PERA CFO Pérez said there are financial vehicles that can be used that have no tax implications until the money is used as personal income.

Mr. Lium complimented Ms. Lujan for the innovation of the "Walk Around the Block" campaign. He noted that in the 18 years he has been associated with the plan, this was the first time stable value was not the top asset.

Chair Reynolds said the plan will stand on its own and he thanked staff for their efforts and diligence.

C. Approval to Amend Introduction: Sections 1, 3, 4, 10, 12, 14, 15; and accordingly, renumber Section 10-15 of the PERA SmartSave Plan Document
[Exhibit 3: Staff Recommendation Memo]

Ms. Lujan said the plan document governs the administration of the PERA Smart Save Plan. Amendments are recommended to address legislative changes and updates to industry and or administrative practices. The changes before the Committee include updates: Section 845 of the Pension Protection Act, changes that occurred during the 2017 legislative session/citation date, 457b guidelines and renumbering as a result of an added section. She reviewed each of the changes and in response to Ms. French’s question at the July meeting, Ms. Lujan said that correction employees were permitted to use 845 for tax exemptions. Section 10 brings provision 845 into the Smart Save plan. The changes also allow for electronic communications.

Ms. Lujan said the entire document is available on the Board Portal.

Ms. Naranjo Lopez thanked staff for providing a comprehensive review of the changes, in particular providing the legislative action. She recommended clarifying the email address by adding “currently on the record.”

Mr. Mayfield thanked staff and asked what was the normal retirement age referenced in Section 1.1.7 for public safety. Ms. Lujan said that “normal retirement age” is an IRS term. Normal retirement age for PERA depends on the eligibility requirements.

Ms. Naranjo Lopez moved to approve staff recommendation as referenced in the agenda caption. Ms. Kohlasch seconded and the motion passed by unanimous [4-0] voice vote.

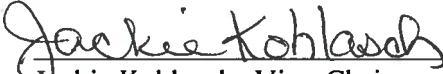
5. OTHER BUSINESS

None was presented.

6. ADJOURNMENT

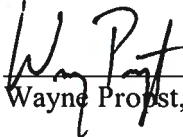
Upon motion by Ms. Naranjo Lopez and second by Ms. Kohlasch, Chair Reynolds adjourned this meeting at approximately 10:00 a.m.

Approved by:



Jackie Kohlasch, Vice Chair
Smart Save Committee

ATTEST:



Wayne Probst, Executive Director