

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
MONTHLY BOARD MEETING

December 30, 2015

This 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, Senator Fabian Chavez, Jr. Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

1. & 2. ROLL CALL & PLEDGE OF ALLEGIANCE

The Pledge occurred at the Investment Committee meeting. Executive Director Wayne Propst called roll and a quorum was established with the following members present:

Members Present:

Patricia French, Chair - Municipal
Stewart Logan, Vice Chair - County
Tim Eichenberg- *Ex-officio*
Jackie Kohlasch - State
Dan Mayfield – Retiree
Dan Esquibel - Municipal
Loretta Naranjo Lopez - Retiree
Paula Fisher - State
Brad Winter - *Ex-officio*

Member(s) Excused:

Louis Martinez - Municipal
Cathy Townes - State
John Reynolds - State

Staff Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Danna Varela, Executive Assistant
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Jude Perez, Deputy CIO
Joaquin Lujan, Director of Rates and Credit
Karyn Lujan, Deferred Compensation Administrator
Kristen Varela, Portfolio Manager
Mark Montoya, Financial Analyst
Emily Lopez, Financial Specialist

Others Present:

C. Rennick
Donald Wencewicz, AFSCME

3. **APPROVAL OF AGENDA**

Mr. Logan introduced the following motion:

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

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

3. **APPROVAL OF CONSENT AGENDA**

[Exhibit 1: Consent Agenda]

Chair French requested the removal of the approval of the December 8, 2015 Special Board Meeting Minutes.

Mr. Mayfield introduced the following motion:

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

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

A moment of silence was observed in memory of Officer Daniel Webster, a duty related death.

5. **CURRENT BUSINESS**

A. **Oath of Office for Incoming Board Member: Secretary of State Bard Winter**

Chair French administered the oath of office to newly appointed Secretary of State Brad Winter.

Mr. Winter was congratulated for his appointment and welcomed to the PERA Board.

B. **Executive Session**

1. **Pending Litigation: The Board will go into Executive Session under NMSA 1978, Section 10-15-1 (H)(7) to discuss the following item**

a. ***Logan, et al. vs. PERA, PERB et al.***

Mr. Mayfield moved to meet in executive session to discuss the item listed above. Ms. Naranjo Lopez seconded. The motion passed by unanimous roll call vote as follows:

Patricia French	Aye
Stewart Logan	Aye
Dan Mayfield	Aye

Dan Esquibel	Aye
Cathy Townes	Excused
Jackie Kohlasch	Aye
Louis Martinez	Excused
Loretta Naranjo Lopez	Aye
John Reynolds	Excused
Paula Fisher	Aye
Brad Winter	Aye
Tim Eichenberg	Aye

[The Board, excluding Mr. Logan, met in executive session from 9:15 – 10:20]

Mr. Mayfield moved to return to open session. Ms. Naranjo Lopez seconded. The motion passed by roll call vote as follows:

Patricia French	Aye
Stewart Logan	Aye
Dan Mayfield	Aye
Dan Esquibel	Aye
Cathy Townes	Excused
Jackie Kohlasch	Aye
Louis Martinez	Excused
Loretta Naranjo Lopez	Aye
John Reynolds	Excused
Paula Fisher	Aye
Brad Winter	Aye
Tim Eichenberg	Aye

Chair French announced the only item discussed during executive session was that listed on the agenda.

C. Chief Investment Officer’s Report
1. Investment Performance – November 2015

Deputy Chief Investment Officer Jude Perez reported that the fund ended November at approximately \$14 billion, down 64 basis points or \$142 million for the month. Mr. Perez expected the fund to remain flat for December. He reported on the asset categories results for November noting that domestic equity was up while international equity was down; core fixed income was down 19 basis points and the fixed income plus was down 1.03 percent. Absolute return was down 29 basis points, private equity was up 22 basis points, real estate was down 43 basis points and the biggest detractor to the fund was real assets down 5.71 percent. Mr. Perez characterized the last 18 months as “brutal” for real assets and attributed that to energy, oil, gas and commodity prices.

Mr. Perez reported that Intervest, one of PERA’s private partnerships, has been placed on the watch list. This was a \$20 million commitment funded in 2010. To date, PERA has

received \$12.7 million in distributions and there is currently \$7 million of capital at risk. Cliffwater and staff are monitoring the situation.

Ms. Kohlasch asked how much the PERA fund has lost year to date and Mr. Perez said approximately \$300 million.

2. Cash Plan Update

Mr. Perez said the month ended with approximately \$334 million in cash. He noted that the report has been revised, separating the contributions and benefits to better highlight that PERA is a cash-flow negative mature plan. He said the plan is cash flow negative by approximately \$40 to \$45 million monthly. Monthly payments are \$86 million and the fund receives approximately \$40 to \$47 million in contributions. PERA keeps a cushion in the State Treasurer account. He reviewed the cash flow information noting \$80 million in private asset capital was called. This reverses the trend of having greater distribution than capital calls over 2015.

3. Other Updates

Quoting John Kenneth Galbraith, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know," Mr. Perez said Mr. Grabel wanted the Board to know that he and staff will move forward in 2016 with caution. He discussed 2015 noting divergence between central banks, slowing global expansion as stimulus wanes, increased prospects for another recession, slowing GDP growth, changing political regimes, etc., and said PERA's fund is less than 20 percent illiquid and the strategic asset allocation is PERA's defensive plan.

According to Mr. Grabel, PERA will need to revisit their actuarial return assumptions. Wilshire will provide an analysis of the probability of the fund achieving the 7.75 percent. If it is unlikely to reach that return, the Board may have a hard decision to make: add risk to the portfolio or lower the actuarial return assumption.

In response to Chair French's question of whether PERA is prepared for another 2008/2009, Mr. Perez said to the best of our ability we are. The portfolio has been restructured, the beta has been reduced, and there is down-side protection and better preparation than in the past.

Chair French asked that Wilshire bring their analysis forward in February and Mr. Perez said he would forward her request.

Mr. Perez said the Wilshire study may not recommend a change to the actuarial assumption.

Mr. Propst pointed out that the Cavanaugh Macdonald would be presenting the GASB 67 net pension liability at the next meeting. The actuaries will be very involved in the asset liability study with Wilshire. Concluding his report, Mr. Perez noted that:

- The listed infrastructure RFP will be posted 1/14/16

- The listed infrastructure RFP will be posted 1/14/16
- Education sessions with the Board will be held on 1/12/16
- New trustee investment education will occur on 1/28/16
- A new committee will be formed in January for the PERA SmartSave
- The investment staff should be fully staffed by the end of January
- There were no findings on the custody bank transition audit which was attributed to the stellar work of the team

Ms. Naranjo Lopez said she would like the actuary to review limiting the pension amount to improve the unfunded liability. She added that she would like the fund to eliminate all exposure in hedge funds.

Mr. Propst said the net pension liability under GASB 67 for FY15 is approximately \$4.3 billion at the end of FY 14 it was approximately \$3.3 billion. The unfunded actuarial accrued liability, which is a smoothing of investment gains and losses over four years, for the end of FY15 was \$4.7 billion.

Mr. Propst said the 2043 projected funded ratio for PERA is 113 percent. Informationally, he mentioned that CalPERS recently reduced its rate of return from 7.5 percent to 6.5 percent to be accomplished over 20 years. He said it is prudent for investment staff to take a look at the long-term rate of return assumptions.

Mr. Esquibel said this conversation is further evidence that SB27 should not to altered for the next five years.

D. Action Item: Alternative Asset recommendation for approval, to be funded according to the cash plan and subject to legal review by General Counsel:

Mr. Mayfield, Chair of the Investment Committee, said these items were discussed at the previous IC meeting and approval was recommended.

1. Recommendation to Commit up to \$150 Million to Passport Fund I, LP/PineBridge

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve a commitment up to \$150 million to Passport Fund I, LP/PineBridge to be funded according to the cash plan and subject to legal review by general counsel.”

Mr. Esquibel seconded and the motion passed by unanimous [9-0] voice vote.

Enhanced 2. Recommendation to Commit up to \$70 Million to Quadrant Debt Fund, LP

Mr. Mayfield introduced the following motion:

- Education sessions with the Board will be held on 1/12/16
- New trustee investment education will occur on 1/28/16
- A new committee will be formed in January for the PERA SmartSave
- The investment staff should be fully staffed by the end of January
- There were no findings on the custody bank transition audit which was attributed to the stellar work of the team

Ms. Naranjo Lopez said she would like the actuary to review limiting the pension amount and other alternatives to improve the unfunded liability. She added that she would like the fund to eliminate all exposure in hedge funds.

Mr. Propst said the net pension liability under GASB 67 for FY15 is approximately \$4.3 billion at the end of FY 14 it was approximately \$3.3 billion. The unfunded actuarial accrued liability, which is a smoothing of investment gains and losses over four years, for the end of FY15 was \$4.7 billion.

Mr. Propst said the 2043 projected funded ratio for PERA is 113 percent. Informationally, he mentioned that CalPERS recently reduced its rate of return from 7.5 percent to 6.5 percent to be accomplished over 20 years. He said it is prudent for investment staff to take a look at the long-term rate of return assumptions.

Mr. Esquibel said this conversation is further evidence that SB27 should not to altered for the next five years.

D. Action Item: Alternative Asset recommendation for approval, to be funded according to the cash plan and subject to legal review by General Counsel:

Mr. Mayfield, Chair of the Investment Committee, said these items were discussed at the previous IC meeting and approval was recommended.

1. Recommendation to Commit up to \$150 Million to Passport Fund I, LP/PineBridge

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve a commitment up to \$150 million to Passport Fund I, LP/PineBridge to be funded according to the cash plan and subject to legal review by general counsel.”

Mr. Esquibel seconded and the motion passed by unanimous [9-0] voice vote.

2. Recommendation to Commit up to \$70 Million to Quadrant Enhanced Debt Fund, LP

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve a commitment up to \$70 million to Quadrant Enhanced Debt Fund, LP, to be funded according to the cash plan and subject to legal review by general counsel.”

Mr. Esquibel seconded and the motion passed by unanimous [9-0] voice vote.

E. Executive Director’s Report

Mr. Propst noted his report was within the Board packet and highlighted a few items as follows:

- The expanded Albuquerque office opened December 21st
- The March or April Board meeting will be held at the new Albuquerque office
- A recap of 2015 PERA activities will be presented at the next Board meeting
- 2016 priorities will be presented in January

In response to Mr. Mayfield’s question of whether this was the first year PERA payroll has exceed \$1 billion, Mr. Propst said he would have to check that and report back.

Regarding staff vacancies, Mr. Propst said it has been difficult to fill IT positions. SPO is reviewing IT positions with the intentions of reclassifying at a level that state agencies can compete for good IT.

ASD Director Peery-Galon said the attorney and information clerk positions are reclassified positions that required SPO review. Staff is preparing to post those positions.

Mr. Propst said a full report on GASB 68 will be provided within the 2015 success report. He said outreach with employers has been incredibly successful and he commended staff and Ms. Cordova in particular. The Board’s decision to assist PERA’s 300+ employers on the reporting of GASB 68 has paid off.

Mr. Propst said he checks pre-filing of bills daily and as yet there have been no return to work bill filed. Representative Rehm has reintroduced a bill regarding the payment of the PERA contribution when a public safety member is on disability. An alternative to return to work has come up that would tap the surplus within the Law Enforcement Protection Fund to provide lump-sum one-time bonuses for qualified police officers. That bonus would not be considered salary for purposes of calculating pension.

Representative Harper may introduce a bill for a drop or deferred retirement option plan. It is very broad and would open a deferred retirement option plan to all state, city and county employees. The representative recently stated he was considering amending the bill to apply to public safety members only. PERA’s actuaries are reviewing the bill. Mr. Propst said the last drop plan that the actuaries reviewed would have resulted in an increase of \$54 million to the unfunded liability: “It is very, very difficult to design a drop plan that is cost neutral, same with return to work.”

Mr. Esquibel suggested the early retirement for public safety employees may not be beneficial to the general public and all PERA members should have the same duration for

retirement.

Mr. Propst said SB 27 increased the retirement from 20 to 25 years for public safety hired after July 1, 2013. All public pension plans across the country have seen an increase in life expectancy of members, which is also true of the public safety members.

Mr. Propst said not all of the provisions of SB 27 have been implemented. The last piece does not go into effect until July 2016. He expected the HJM placing a moratorium on changes to SB 27 will be reintroduced during this session.

Mr. Mayfield asked Retiree Health Care was considering phasing in a system where benefits would not be paid for any retirees under age 55. Mr. Propst recalled that action had been taken by the Retiree Health Care Board a few years ago and it is being phased.

Mr. Propst informed the Board that retirees will receive more in benefits over the course of a retirement than they contributed. In fact, contributions – employer and employee – are exhausted within five years of retirement. The remainder of the pension is paid through earnings of investment. The 2 percent compounding cost of living adjustment (COLA) is quite substantial if one is retirement for 30 years – that's 60 percent and a good hedge against inflation. He noted many pension plan COLAs are tied to the cost of living, New Mexico PERA is a flat 2 percent. In fact, many that have a flat COLA do not compound. He said it a good benefit that PERA is glad to provide; however, it is one of the bigger costs driving liabilities and funding challenges.


6. **OTHER BUSINESS**

None was offered.

7. **ADJOURNMENT**

Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 11:25 a.m.

Approved by:


Patricia French
Chair, PERA Board

ATTEST:


Wayne Propst, Executive Director

Attached Exhibit:

Exhibit 1: Consent Agenda