

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING

February 27, 2014

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

2. ROLL CALL

Following the Pledge of Allegiance, roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

Members Present:

Patricia French, Chair - Municipal
Dan Mayfield, Vice Chair - Retiree
Roman Jimenez - State
Louis Martinez - Municipal
Paula Fisher - State
James Lewis - *Ex-officio*
Stewart Logan - County
Loretta Naranjo-Lopez - Retiree
John Reynolds - State

Member(s) Excused:

Dianna Duran - *Ex-officio*
Jackie Kohlasch - State
Dan Esquibel - Municipal

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, General Counsel/Chief of Staff
Jonathan Grabel, Chief Investment Officer
Sylvia Barela, ASD Director
Judy Olson, Executive Assistant
Karen Risku, Assistant General Counsel
Julian Baca, Deputy CIO
Greg Trujillo, Deputy Director Member Service
LeAnne Larrañaga-Ruffy, Portfolio Manager
Christina Keyes, Portfolio Manager
Roderick Ventura, Assistant General Counsel
Jason Goeller, Portfolio Manager
Joaquin Lujan, Portfolio Manager
JoAnn Garcia, Deferred Compensation Program Manager
Sonam Raptan, Financial Analyst
Mark Montoya, Financial Specialist

Others Present:

Jamie Feidler, Cliffwater
Michael Schlachter, Wilshire Associates
Paul Lium, Nationwide
Anne Hanika Ortiz, LFC
Ted Sheridan, Franklin Templeton
Brian Henry, Franklin Templeton
Rick Fulford, PIMCO

3. APPROVAL OF AGENDA

Mr. Lewis introduced the following motion:

“RESOLVED, that the PERA Board approve the agenda as published”

Mr. Fisher seconded and the motion carried by unanimous [9-0] voice vote.

4. APPROVAL OF CONSENT AGENDA

[Exhibit 1: Consent Agenda]

Ms. Naranjo-Lopez introduced the following motion:

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

Ms. Fisher seconded and the motion carried by unanimous [9-0] voice vote.

5. CURRENT BUSINESS

A. Investments Division

1. Chief Investment Officer’s Performance Report

Jonathan Grabel, CIO, reported that the fund was down for the month of January. He reminded the Board that there will be down months and the focus has to remain long term – the most important thing is the plan’s strategic asset allocation and the analysis of the investment structure to position the fund. At the end of January the balance was \$13.8 billion. All PERA’s asset categories underperformed for the month. He mentioned that the importance of consistent asset allocation and that managers be consistent to the mandate to which they are charged.

Mr. Grabel said the main driver of January’s performance came from equities exposure. PERA has \$7.6 billion in public equities or 55 percent of the funds total assets compared to its target of 49 percent. Equities have had a very strong period in the past and PERA has profited and exceeded its benchmark. He reviewed PERA’s performance for the month and fiscal year to date.

Mr. Grabel repeated that PERA is a long-term investor whose primary job is to invest assets for a multi-generational liability and to do it with a diversified portfolio that maximizes a risk adjusted return. The capital markets have changed since PERA's last asset allocation study.

Michael Schlachter, Wilshire, said the options proposed in the recent asset allocation study did not offer radical alternatives. Rather, the alternatives decreased risk at the same level of return or increased return at the same level of risk all to make the portfolio more efficient.

As long-term investors, Mr. Jimenez asked whether a quarterly performance report would better suit the Board and a monthly report could be available on line.

Mr. Lewis said the monthly reports are especially important with new members on the Board and he also pointed out that prior to 2005 PERA was not permitted to invest in the alternatives market. He favored receiving the monthly report as long as it is within context of what it means to PERA as long-term investors.

Chair French said she too favored a monthly report. Mr. Logan said he too favored it.

Mr. Reynolds cautioned about changing benchmarks because the three and five-year comparisons don't have the same yardsticks.

Returning to the monthly reporting, Mr. Jimenez said he appreciated the comments of the Board members and asked whether staff could better use that time rather than preparing reports. He asked that staff provide a listing of staff monthly reports with an eye toward synthesizing them.

Mr. Grabel said he believed reports could be consolidated and provide better and more granular information enabling the Board to better focus on the long-term nature of their task.

Chair French recommended the investment reporting issue be a topic at the Board retreat.

In terms of the monthly performance, Mr. Grabel said alternatives make up approximately 17.6 percent of the plan assets. That portion of the portfolio was up for the month.

Mr. Grabel reported that during the month the portfolio was rebalanced when cash needs were evaluated to fund benefit payments. At the time the plan was above its policy bands for international and domestic equities. Exposure to each was reduced by \$125 million and reallocation was made to five of the six fixed income managers that were underweight. In fact, February has been a strong month for equities and it appears that PERA has recovered all the losses from January.

2. January Hedge Fund Performance Report

Jason Goeller, Portfolio Manager, reviewed the performance for the absolute return and portable alpha programs. The broader hedge fund indices held up relatively well for the month of January but declined slightly alongside the volatile global financial markets as investor risk

appetite retreated on the news of additional stimulus withdraw by the Federal Reserve and on weakness from the emerging markets.

PERA's absolute return program returned 16 basis points for January. PERA's portable alpha portfolio was down 3.43 percent for January due to the weakness in the broader US equity markets although; the hedge funds returned a positive 5 basis points.

3. **Action Item:**
 - a. **2014 AIA Commitment Budget**
[Exhibit 2: Cliffwater memo dated 2/11/14]

Jamie Feidler, Cliffwater, said the commitments cover private equity, private real assets and private real estate. The recommended budgets are \$290 million for private equity partnerships, \$200 million for real asset partnerships and \$80 million for real estate partnerships, all commitments for vintage year 2014. He noted that this was discussed at the committee level and he was prepared to stand for questions.

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve the 2014 AIA Commitment Budget.”

Mr. Logan seconded. Chair French asserted that the commitments were subject to legal review and the motion carried by unanimous [9-0] voice vote.

4. **Action Item: Large Cap US Equity**
 - a. **Recommendation to allow the CS McKee contract to expire (6/30/14). Proceeds will be placed in the SSgA Russell 1000 index fund**

LeAnne Larrañaga-Ruffy, portfolio manager, said at the February 11, 2014 IC meeting staff recommended and the Committee approved terminating the contracts with CS McKee and the Northern Trust Russell 1000 and to transition the assets to the Russell 1000 large cap core index managed by State Street. With Board approval, the transition could be completed by the end of March.

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve the termination of the CS McKee contract and place the proceeds in the SSgA Russell 1000 index fund.”

Mr. Jimenez seconded and the motion carried by unanimous [9-0] voice vote.

- b. **Terminate Northern Trust Russell 1000 Growth, transferring proceeds to the SSgA Russell 1000 Index fund**

Ms. Larrañaga-Ruffy said this item was also discussed at the February IC meeting. This

is the growth component that would be terminated and transferred to SSgA large cap core index.

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board approve the termination of the Northern Trust Russell 1000 Growth, transferring proceeds to the SSgA Russell 1000 Index fund.”

Mr. Logan seconded and the motion carried by unanimous [9-0] voice vote.

5. Presentations by Core Plus Fixed Income and Global Fixed Income Managers

Ms. Larrañaga-Ruffy advised the Board the PERA has six fixed income managers: two core, three core plus and one global. The total fixed income portfolio is \$3.6 billion, 26.4 percent of the total fund.

a. Franklin Templeton – Global Fixed Income
[Exhibit 3: Franklin Templeton Performance Report; Exhibit 4: Wilshire Report re: Franklin Templeton]

Ms. Larrañaga-Ruffy introduced Franklin Templeton stating PERA retained the firm in March 2011. As of January 31, 2014 Franklin manages \$545 million, 15 percent of PERA’s fixed income portfolio and 4 percent of PERA’s total fund.

Brian Henry, Franklin Templeton, commented that their strategy is a unique, global fixed income strategy. He referred to the firm’s beliefs and guiding principles, noting that they try to capitalize on a large and expanding set of opportunities around the globe. They describe themselves as unconstrained, flexible and opportunistic.

Mr. Henry said Franklin Templeton examines countries from a fundamental perspective and looks for economic imbalances that will lead to a change in interest rates, change in foreign exchange or a change in a credit standing.

Chair French noted that Templeton’s reporting ends at December 31, 2013 while Wilshire offered information up through the end of January 2014. She asked that in the future the manager provide current information.

Mr. Henry said 2013, which was a difficult year for most fixed income strategies, was a solid year for Franklin Templeton. He noted that while January was a difficult month it doesn’t change the fact that they were able to obtain value from multiple sources and he mentioned interest rates and significant dispersion of performance amongst countries in 2013. He highlighted a 50 percent gap between the best and worst bond market performance during 2013. Franklin was able to add value in the portfolio by identifying countries that managed their economies appropriately and prudently added value to the portfolio.

Mr. Henry reviewed the portfolio characteristics: duration at 2.5 years, yield at 6 percent,

and credit quality BBB. He noted South Korea has their largest position at 14 percent. He mentioned Ireland as a standout position and he explained their currency positions.

Mr. Mayfield asked about the below investment grade allocations. Mr. Henry said that exposure is both country and corporate. He added the firm strives to keep a balance to grade investments and noted that the grading agencies have come under a great deal of fire. The defaults have been quite low on the corporate side and none on the sovereign side.

Mr. Logan asked about the cash positions with China and Mr. Henry said they do not have direct exposure with the Chinese market. He said it is expensive and there is a premium, instead they use the Malaysia ringgit, Singapore dollar, and South Korean won as a basket of Asia currency to serve an Asia proxy.

In response to Mr. Reynolds' comments, Mr. Henry concurred that currency exposure was not the source of added value in 2013 but it can be. The bonds are not local currency.

Mr. Henry discussed the tools and systems Franklin Templeton employs to manage risk including an independent risk management team, bi-monthly meetings to review the portfolio, etc.

b. PIMCO Core Plus Fixed Income

[Exhibit 5: PIMCO Performance Report; Exhibit 6: Wilshire Report re: PIMCO]

Ms. Larrañaga-Ruffly introduced PIMCO stating PERA retained this firm in March 2011. As of January 31, 2014 PIMCO manages \$705 million, 19 percent of PERA's fixed income portfolio and 5 percent of PERA's total fund.

Rick Fulford, executive vice president PIMCO, opened his comments discussing the changes and approaches PIMCO is taking to make sure business continues as usual. He noted their assets under management are \$1.9 trillion. He discussed the depth of experience of the portfolio management team and the size of the global and emerging market portfolios where trading occurs around the clock.

Referring to staff changes, Mr. Fulford said Mohamed El-Erian (CEO and Co-CIO) will be stepping down from PIMCO for personal reasons. He identified and discussed the individuals that will be taking on Mr. El-Erian's roles at PIMCO. PIMCO has a depth of resources, stated Mr. Fulford.

Referring to performance, Mr. Fulford said at the end of December 2013 the market value of the portfolio was approximately \$650 million and at the end of January 2014 it's approximately \$706 million – the increase was attributed to a \$50 million contribution PERA made to the fund. Since inception the portfolio has returned 4.47 percent annualized versus the index at 3.4 percent annualized. He said 2013 was not a particularly strong year for PIMCO although the long-term numbers are very good. The portfolio is modestly outperforming this year.

Mr. Fulford offered a few broad comments about the portfolio structure. PIMCO is still concerned about growth, global deleveraging, lack of credit availability and structural issues in the employment market. The portfolio is positioned defensively and offense positions are modest and very selective.

Mr. Fulford said PERA has a discounted fee schedule at about 25 basis points.

Mr. Fulford said he understood Mr. Grabel will be focusing on identifying the purpose of various investments and their role within the plan. The historic role of bonds has been as an investment that produces income, provides diversification and is a risk-off asset. He discussed bond portfolios in the future mentioning that some clients have reduced benchmark durations that could lose a lot of return potential in terms of yield. GDP weighted indices may be a valid retreat topic, stated Mr. Fulford. He said clients are turning to unconstrained fixed income considerations which PIMCO considers a good approach in looking forward. It has the opportunity to increase returns and better manage portfolio risk. Typically, unconstrained fixed income is without a benchmark and targets a spread like a hedge fund portfolio. Correlations are particularly important when considering an unconstrained fixed income portfolio.

Mr. Reynolds asked what percentage of PIMCO's investments under management are from public pension money and Mr. Fulford said roughly \$90 billion out of the \$1.5 trillion.

B. 2014 Legislative Update

Mr. Propst reported that bills related to reform of the judicial and magistrate plans did pass both the House and Senate and are awaiting the Governor's signature. He also noted that SB 304, which would transfer \$1.2 million per year for a period of three years from the legislative retirement fund to the judicial and magistrate funds, was awaiting the Governor's signature and would have a significant impact on improving the solvency of both of those plans.

Mr. Propst said the bills were overwhelmingly supported and he attributed that support to the hard work of the judges and magistrates, the AOC, PERA's board and staff. Mr. Propst recognized the work of Anne Hanika Ortiz from the LFC as well.

The agency received an approximate 14 percent increase in its operating budget for next year which will fund three additional FTEs, as well as physical expansion to the Albuquerque office.

Mr. Propst said a bill was introduced calling for the Legislative Council Service to conduct a study of the feasibility of combining the investment functions of the ERB, SIC and PERA. While the bill passed the Senate it was not considered by the House prior to adjournment. He said staff developed comprehensive information that is available for review on line.

A number of return-to-work bills were introduced during the session. Staff diligently worked to educate the legislators on the fiscal impact of the bills on the fund's solvency. Mr. Propst said he expected the issue of return-to-work to continue to be an issue before the IPOC

during the interim. He appreciated the concerns with recruitment and retention in public safety but with the passage of SB 27 the benefit level of new tier hires is different and has a significant impact on the plan's projected funded ratio. Anything that delays the hiring of new tier employees, such as allowing current employees to return to work will likely have a negative impact on PERA's projected funded levels.

Ms. Naranjo-Lopez thanked all those that worked on the New Mexico PERA pension bills. She further stated the following: 1) the actuarial reports should be distributed in a timely manner for the Board to review; 2) the Board should receive fiscal impact reports in a timely fashion; 3) the Board should take a policy position on all legislation; 4) all plans should be prefunded and funded in a way that targets 100 percent funding of plan obligations, and the JRA and MRA need to state in the approved bills that they are required to be 100 percent funded in 30 years or less.

Mr. Lewis thanked the Board and staff as well as the lobbyists that worked for PERA throughout the session. He encouraged the Board to continue to monitor through IPOC.

Chair French said recruitment and retention are very important issues with public safety officers and she concurred with Mr. Propst's point that it is the wages not necessarily the pension that will contribute to retention.

C. Executive Director's Report

Mr. Propst noted a significant spike in benefit estimates in December, which he attributed to the new COLA eligibility period, which takes effect in July 1, 2014. The report includes new information on the deferred compensation program.

Mr. Propst said he planned on developing a staff strategic plan and improvements to the PERA website. He hoped to include the Board in the strategic plan process and was considering facilitation and assistance through the Santa Fe Community College. As far as the website, Mr. Propst wants to see it communicate better with the membership.

Ms. Logan requested the number of contributing employees to the PERA fund be included in the Executive Director's report.

D. Trustee Report on Educational Conference

Mr. Mayfield attended the NCPERS Legislative conference and provided a written report made available in the Board's packet. He said he was surprised to learn how many plans have retirements that tops out at 50 percent; naturally the contributions are lower.

6. OTHER BUSINESS

Chair French announced that next month's Board meeting will be held on Wednesday, March 26th. The retreat is planned for July 15th through July 18th in Ruidoso.

Mr. Reynolds appreciated the PERA annual report and asked whether the timeliness of the report could be improved upon in the future.

Mr. Reynolds asked about the budget for Board travel and Chair French said she would have a copy forwarded to him. Ms. Naranjo-Lopez requested that information be forwarded to all Board members.

Mr. Reynolds said Moody reported on adjusted net pension liabilities state by state and he asked whether PERA has a subscription to obtain the report. Mr. Grabel said he has not seen the report and recommended the Pew Center on the States website which has a free report updated annually. Mr. Grabel noted that every state has different actuarial assumptions and it is not an apples-to-apples comparison.

Mr. Propst noted that in the past Moody has released inaccurate information about cities within the state. He said he was skeptical about anything that comes out of Moody's with regard to New Mexico.

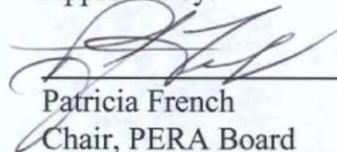
Mr. Reynolds asked whether PERA's actuaries were aware of a series of recommendations a pension panel from the Society of Actuaries recently developed. Mr. Propst said he was aware of the panel recommendations and would be talking to the actuaries about it.

Mr. Logan said he has been working with Ms. Barela to develop a review of accounting standards for the Audit & Budget Committee review.

7. ADJOURNMENT

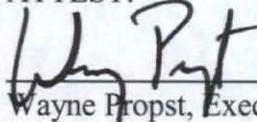
Having completed the agenda and with no further business to come before the Board, Mr. Lewis moved to adjourn. Ms. Naranjo-Lopez seconded and Chair French declared this meeting adjourned at 11:50 a.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibits:

- Exhibit 1: Consent Agenda*
- Exhibit 2: Cliffwater memo dated 2/11/14*
- Exhibit 3: Franklin Templeton Performance Report*
- Exhibit 4: Wilshire Report re: Franklin Templeton*
- Exhibit 5: PIMCO Performance Report*
- Exhibit 6: Wilshire Report re: PIMCO*