NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SMART SAVE

COMMITTEE MEETING

February 13, 2018

This meeting of the Public Employees Retirement Board Smart Save Committee was called to order by Chair Dan Mayfield 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.

The Pledge of Allegiance was followed by roll call which confirmed a quorum with the following members present:

Members Present:
Dan Mayfield, Chair
Patty French, Vice Chair
Natalie Cordova
Loretta Naranjo Lopez

Member(s) Absent:
Tim Eichenberg
Maggie Toulouse Oliver

Other Member(s) Present:
Jackie Kohlasch
James Maxon

Staff Members Present:
Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Dominic Garcia, Chief Investment Officer
Karen Risku, Deputy General Counsel
Renada Peery-Galon, Administrator Services Director
Dana David, Assistant General Counsel
Trish Winter, Executive Assistant
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Smart Save Plan Manager
Christine Ortega, Portfolio Manager
Emily Lopez, Financial Specialist
Kristin Varela, Portfolio Manager of Real Returns
Anna Williams, Chief Financial Officer

Others Present:
Paul Lium, Nationwide
Paul Cowie, Meketa

2. APPROVAL OF AGENDA

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

3. APPROVAL OF CONSENT AGENDA

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

4. CURRENT BUSINESS

A. Q2 FY18 Plan Activity Review *[Exhibit 1: Nationwide Report]*

Karyn Lujan, Smart Save Plan Manager, opened her presentation by stating the net asset value for the Smart Save plan reached an all time high of $602,784.716. There were 21,136 participants during the quarter and Nationwide enrolled 608 new participants for the quarter. During the quarter the private core real estate strategy was implemented into the lifecycle portfolios. The plan acquired two new employers: the villages of Cimarron and Pecos.

Ms. Lujan said the Vanguard Institutional Index Fund reached over $100 million in assets and PERA with that achievement will benefit from a reduced fee program through the Plus Share Class.

Paul Lium, Nationwide, said 2017 was "fantastic" for PERA's deferred compensation plan and the momentum continues through 2018.

Ms. French said she was contacted by a PERA Smart Save participant who lamented that she was required to keep her account for five years before she could withdraw money for an emergency and even then a penalty is levied.

Ms. Lujan said there is no requirement regarding time in the plan for an emergency withdrawal. There are two methods to take a distribution while still an active PERA member. One is a loan of up to one-half of the account balance and a loan minimum of $1,000. The loan is paid back with interest which goes directly back into the participant's account. Second, one can borrow from their account for an unforeseen emergency. There is no time requirement; however, there is an IRS qualification for the emergency to meet. An emergency withdrawal is taxable. There are no early withdrawal penalties associated with PERA's 457 plan.

Mr. Lium noted a third withdrawal method, if the participant has not contributed to the plan for more than two years and has an account balance less than

$5,000, the participant can withdraw the funds and close the account.

Ms. Lujan said the payback of a loan is not tied to the participant's contribution. Once a loan is defaulted, the participant cannot take out another loan.

The recent market downturn occurred in February and thus not reflected in the quarter under review, stated Mr. Garcia.

B. Q2 FY18 Investment Performance Review *[Exhibit 2: Meketa Report]*

Paul Cowie, Meketa, said the recent market volatility occurred within the past two weeks before that the markets were up 7 percent to 8 percent. As of today, the equity markets are only slightly negative by 1 percent or less. Since February there has been a rise in interest rates and inflation. He also mentioned that during January large investors are profit taking/portfolio rebalancing.

Mr. Cowie reviewed the four tiers of the deferred compensation plan: Tier I, lifecycle funds; Tier II, passive core array; Tier III, active core array; and, Tier IV extended choice array. Other than the core private real estate fund added to Tier I, there were no changes in the investment line up during the quarter.

Mr. Cowie said the lifecycle portfolios is the largest investment option within the plan making up approximately 25 percent of the plan assets with stable value next at 22 percent.

Mr. Cowie reviewed the performance of the underlying investment options noting that 2017 was a very strong year. Domestic equity performance reveals that large cap options did better than small cap and growth did better than value. Small cap core was one of the weaker performing options at 11.5 percent for the year. The options all performed within expectations. International stocks did well in 2017 which was attributed to strong economic fundamentals in Europe and Asia and the weakening of the US dollar. Emerging markets did well although they trailed their benchmark because of an underweight in China.

Fixed income or bond options had "muted" returns in the low interest rate environment, stated Mr. Cowie. Franklin Templeton Global Bond was down 1.8 percent versus the benchmark of 1 percent and has consistently trailed their benchmark. Their currency positions worked against them. He highlighted that Franklin Templeton has been in the first percentile over the last 10 years and while they have a good management team with a good strategy it is volatile and does not perform as a traditional fixed income option.

Ms. French asked whether there were any managers that should be placed on a watchlist and/or not offered in the tiers. In additional to Franklin Templeton, Mr. Cowie mentioned the Fidelity Diversified International which has had a mediocre performance.

Noting that PERA touts its Smart Save plan as staff monitored, Ms. French requested that staff continue to scrutinize those managers.

Chair Mayfield observed that the 2009 market downturn will fall off the 10 year return soon. He asked whether that would show an over inflation. Mr. Cowie said the 2009 downturn will fall out of the 10 year report in April 2019 and will have a significant impact on the 10-year return. Mr. Garcia said it would be valuable to continue to look at the 15 and 20 year returns.

Ms. Naranjo Lopez said it was her understanding that the money lost in 2008/2009 is gone forever and PERA "will never gain it back."

Mr. Cowie said Meketa pays close attention to investment expense analysis and tracks the plan's fees in comparison to averages. He also highlighted the glide path that lifecycle funds track. The report contained a new section delineating the benchmark history of the lifecycle portfolios.

C. 2018 Plan Initiatives *[Exhibit 3: Staff Memo]*

Ms. Lujan highlighted the 2018 plan initiatives as follows:

- An online enrollment pilot project with seven plan entities to run for at least six months
- A re-enrollment project for the stable value fund (SVF) – there are approximately 1,300 participants in the fund who will be educated through a mailing campaign and will need to actively opt to remain in the fund or by default be mapped to a lifecycle portfolio

Ms. French questioned defaulting a participant out of the stable value fund. Ms. Lujan said the participant could be asked to respond with an either or answer rather than a negative election. If the Board prefers, those that do not respond can remain in the SVF which is returning 1 percent to 2 percent a year.

Mr. Garcia said PERA has a responsibility to assist the participant in supplementing their retirement. The SVF served as a default option in the past and will likely not meet the goals of younger members. From an investment perspective, it is the right choice to move into the lifecycle fund. Staff will further discuss the default notion and bring it to the Smart Save Committee for action.

Ms. Cordova asked whether there were IRS prohibitions associated with re-mapping a participant's original fund selection. According to a recent survey of 4,000 deferred compensation plans, Mr. Cowie said approximately 18 percent practice re-enrollment/re-mapping with a default issue.

Ms. Lujan pointed out that there is still stable value exposure in the lifecycle portfolios.

Ms. Lujan returned to the plan initiatives and mentioned the concept of auto enrollment to Smart Save for new hires. Ms. French spoke against this concept stating most employees at hire "work for today" and are not considering retirement and pensions. An automatic enrollment will not be favored by new employees.

Ms. Cordova supported staff continuing research on the automatic enrollment concept. Dr. Kohlasch asked that staff consider a minimum investment.

Other initiatives include:

- Development of a charter for the Smart Save Committee
- Review the Investment Policy Statement and include a section to define the goals and responsibilities of the Smart Save Committee and Board, PERA staff, and the Plan's investment consultant
- Issue an RFP for third-party administrator
- Continue participation in the NM Retirement Income Security Task Force
- Encourage NM public school employees to participate in a supplement retirement plan
- Develop outreach efforts through social media

5. OTHER BUSINESS

None was presented.

6. ADJOURNMENT

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

Approved by:

Dan Mayfield, Chair
Smart Save Committee

ATTEST:

Wayne Propst, Executive Director

Exhibits:
Exhibit 1: Nationwide Report
Exhibit 2: Meketa Report
Exhibit 3: Staff Memo