

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
INVESTMENT COMMITTEE MEETING

February 12, 2019

This meeting of the Public Employees Retirement Board Investment Committee was called to order by Dan Mayfield, Committee Vice Chair, at approximately 9:00 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 call preceded the Pledge of Allegiance and indicated the presence of a quorum as follows:

Members Present:

John Melia, Chair [9:10 arrival]
Dan Mayfield, Vice Chair
James Maxon
Jackie Kohlasch

Member(s) Absent:

None

Other Member(s) Present:

Steve Neel
Lawrence Davis
Patty French
Loretta Naranjo Lopez
Tim Eichenberg
Claudia Armijo

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Dominic Garcia, Chief Investment Officer
Greg Trujillo, Deputy Executive Director
Karen Risku, Deputy General Counsel
Dana David, Assistant General Counsel
Renada Peery-Galon, ASD Director
LeAnne Larrañaga-Ruffy, Director of Equity
Anna Williams, Chief Financial Officer
Karyn Varela, Deferred Compensation Plan Manager
Joaquin Lujan, Director of Rates and Credit
Isaac Olaoye, Investment Analyst
Trish Winter, Executive Assistant
Christine Ortega, Portfolio Manager
Emily Garcia, Financial Specialist

Others Present:

Harvey Leiderman, Board Fiduciary Counsel
Lenora Chavez, Retiree
Gary Haug
Paul Lium, Nationwide
Tom Toth, Wilshire
Annette Martinez Varela, AODA
Rick Tedrow, District Attorneys Association
Randy Saavadra, Former AODA Director
Richard Flores, DA's Office

2. APPROVAL OF AGENDA

Mr. Maxon moved approval. His motion was seconded by Dr. Kohlasch and passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Mr. Maxon moved approval and Dr. Kohlasch seconded. The motion passed by unanimous voice vote.

4. CURRENT BUSINESS

A. Information Item: 2018 Year End Review

1. 2018 Year End Review

Chief Investment Officer Dominic Garcia, reminded the Committee of the pension best practices within the sustainable pension model which includes solid pension design, good governance, attraction and retention of talent, and portfolio best practices.

Mr. Garcia identified the goals of the five-year strategic plan which are also the performance measures on which the legislature evaluates PERA that guides the investment team work. He reviewed the many accomplishments of 2018 and highlighted future work to include new pension design, attracting and retaining more talent, strengthening infrastructure, technology processes and execution. He discussed the risk budget and highlighted the beta which drives most of the return, which is predominantly in private markets/liquid assets. He added alpha or the active management is primarily in public markets. Those three components are expected to equate to a 6.75 percent return with 10.5 percent risk. Each of the three components – selection, allocation and beta – were discussed individually within the risk budget. He noted this was the first risk budget PERA has ever had. Approximately \$1 billion was moved from global equity to real assets which over the year produced 3.3 percent value added, \$30 million to the fund.

Mr. Garcia said staff is currently implementing 10 percent risk balance to the strategic asset allocation. Referring to illiquidity, Mr. Garcia noted that the net asset value of private assets – equity, credit, real estate and real assets – increased by \$660 million in 2018. Twenty percent of PERA's assets are in private markets and added value beyond PERA's public

markets. The restructuring and realigning of the public global stock and credit portfolios were discussed and the value that that added.

Mr. Garcia said that 2018 was a very tough market and while the fund produced a -2.48 percent return, it is considered a very good result. The implementation and decisions made in the portfolio saved the fund \$448 million relative to the policy benchmark. The year ended with a net asset value of \$14.6 billion.

Characterizing PERA as a big business that pays out \$1.1 billion annually, Mr. Garcia highlighted the value add relative to the cost to have a professional staff. The total cost of all PERA staff for 2018 was \$6.4 million or 4 basis points of the fund. He compared that to the value-add last year which was \$535 million. Ninety-nine percent of that value stayed with the membership.

2. Quarterly Market Review

Tom Toth, Wilshire Consultant, said 2018 was a very challenging period in capital markets. This was the first time in 40 years that there was no single asset category that returned positive 5 percent or more. He discussed the balancing act that the Federal Reserve is navigating to ensure that the interest rate policy is such that inflation remains contained while not impeding growth. The uncertainty of trade wars hindered business confidence particularly multi-national.

Mr. Toth compared the total fund return to the 6.75 percent expectation and the reference portfolio/simple index Bogle portfolio. Relative to the simple index portfolio, PERA outperformed substantially. Comparing the return to the policy index there is a substantial outperformance. The complexity and illiquidity in the PERA portfolio added material value relative to the broad markets. The value of more complex implementation, illiquidity, manager selection and rebalancing benefitted the fund.

Pointing out that as investors “we can’t control what the market does,” Mr. Toth stated, “we can control how a portfolio is managed through market.” Last year’s performance clearly demonstrates staffs success at managing through a very challenging market. Mr. Toth provided performance details as well as allocation and selection returns.

Ms. Naranjo Lopez said she has concerns with how the portfolio is managed.

3. Performance and Risk Update

The two key benchmarks within the portfolio that the Board should be aware of: the policy benchmark and reference portfolio. The policy benchmark is a diversified set of market benchmarks aggregated together. The reference portfolio is the simple Bogle-Vanguard portfolio. For 2018 the PERA portfolio beat both of those benchmarks and produced strong results. Relative to other peer public pensions plans PERA had been down towards the bottom following 2008 because of its equity risk. During 2014 to 2016, the Board adopted a streamlined strategic allocation ramping up illiquid and private capacity and eliminated the gatekeeper component of private asset consult. During 2017 and 2018 a risk based allocation philosophy and alpha/beta separation was adopted.

The comparison included 359 institutional investors over the past 10 years. PERA is in the upper quartile. As PERA developed a more efficient portfolio taking more efficient risk, its peer ranking improved.

Mr. Neel congratulated Mr. Garcia on the value add; stating that being down 2.5 percent for the past 12 months is a very, very good number. Showing where PERA was compared to where they are today is important in highlighting the new paradigm.

B. Action Item: 2019 Investment Committee Work Plan
[Exhibit 1: 2019 IC Work Plan]

Mr. Garcia reminded the Committee that they adopted the first work plan in 2018. The 2019 work plan envisions five IC meetings that include CIO update, quarterly updates, internal process update, manager selection activity report, performance update cash activity updates, rebalance update, investment costs, etc. He highlighted the consultant presentations and guest speakers that were scheduled.

Ms. Naranjo Lopez stated that she did not support the work plan because this committee should meet monthly and the Committee should have a voice in manager selection.

Mr. Maxon moved to approve the 2019 IC work plan as presented. His motion was seconded by Mr. Mayfield and passed without opposition.

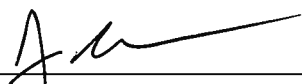
5. OTHER BUSINESS

Mr. Garcia announced that the SmartSave RFP for a third-party administrator is in progress. Chair Maxon appointed Lawrence Davis and Jackie Kohlasch to work with staff on the RFP evaluation committee. The committee will report to the SmartSave Committee.

6. ADJOURNMENT

Chair Melia declared the meeting adjourned at approximately 12:45 p.m.

Approved by:



John Melia, Chair
Investment Committee

ATTEST:



Wayne Probst, Executive Director