

NEW MEXICO  
PUBLIC EMPLOYEES RETIREMENT BOARD  
INVESTMENTS COMMITTEE MEETING

January 14, 2014

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Board Chair French, at 9:20 a.m. on the above-cited date in the PERA Building, 33 Plaza La Prensa, Fabian Chavez Board Room, Santa Fe, New Mexico.

1. **ROLL CALL:** Executive Director Wayne Propst called roll and a quorum was achieved with the presence of the following members:

**Members Present:**

Patricia French  
Dianna Duran  
Jackie Kohlasch  
James Lewis

**Memberfs) Excused:**

None

**Other Board Members Present:**

Roman Jimenez, Vice Chair - State  
Dan Esquibel - Municipal  
Paula Fisher - State  
Stewart Logan - Coimty  
Louis Martinez - Municipal  
Dan Mayfield - Retiree  
Loretta Naranjo-Lopez - Retiree  
John Reynolds - State

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Sylvia Barela, ASD Director  
Judy Olson, Executive Assistant  
Jon Grabel, CIO  
Julian Baca, Deputy CIO  
Karen Risku, Assistant General Counsel  
Greg Trujillo, Deputy Director  
LeArme Larrafiaga-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  
Khalid Greathouse, Financial Analyst

Others Present:

Jamie Feidler, Cliffwater  
Chris Rice Shepherd, Cliffwater  
Paul Lium, Nationwide  
James L. Moran  
Tom Toth, Wilshire

2. APPROVAL OF AGENDA

Mr. Lewis moved to approve the agenda as published. His motion was seconded by Ms. Kohlasch and passed by unanimous [4-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

Board Chair French noted she reviewed the minutes from the December 10, 2013 meeting which were accurate and complete.

Mr. Lewis moved to approve the consent agenda. Ms. Kohlasch seconded and the consent agenda was unanimously [4-0] approved.

4. CURRENT BUSINESS

**A. Chief Investment Officer's Report**

**1. Preliminary Investment Performance Summary – December 2013**

Jonathan Grabel, Chief Investment Officer, introduced himself and outlined his educational background and employment history. He thanked Mr. Propst for the opportunity and confidence placed on him and said he looked forward to serving the Board and working with PERA's outstanding staff.

Mr. Grabel said the preliminary fund balance number at the end of December 2013 was \$14.01 billion. The fund was up approximately 1.28 percent in December and for the calendar year the plan was up 16.7 percent. He highlighted that as a fantastic number "wildly" trumping the actuarial assumptions and said it builds in great actuarial gains to be amortized over time. The strongest performance driver was US equities. That portfolio was up 270 basis points for December. He noted that fixed income had a challenging year but was up for the calendar year. Staff and the consultants will further research duration to best advise the Board as to what the role of invested rate fixed income is within an institutional portfolio.

The 2013 environment was difficult for alternative assets, stated Mr. Grabel, especially when simply viewed from a return standpoint. The goal of alternatives is to provide different liquidity streams, correlations and diversification across the portfolio. Referring to returns/numbers, he said the alternative asset returns were positive with respect to the actuarial assumptions.

## **2. Cash Plan Update**

Julian Baca, Deputy CIO, reviewed the use of cash and pointed out that the beta overlay account was rebalanced to its target by reducing it \$30 million. PERA received \$42 million in hedge fund distributions and a large number of distributions from private equity. There is \$93 million in the STIF account at JP Morgan and \$106 million at the State Treasurer's account.

Mr. Baca said there have been a number of capital calls which are expected to be \$19 million. He reviewed the cash flows that have occurred in December and January.

The expected contribution to help cover benefit payments is anticipated in the amount of \$30 million for January. Firms from alternative asset distributions, i.e., private equity and \$52 million from Meditor are expected in January.

## **3. Other Updates**

Mr. Grabel said this agenda item is to keep the committee apprised of issues that staff and the advisors are working on. He looked forward to reporting to the Board identifying metrics and measures of the portfolio rather than solely focusing on the returns. This will facilitate the Board's decision making process to best position the portfolio.

Currently staff is developing the staff work plan for 2014; Wilshire is working on an asset liability study and an equity structure analysis, along with two outstanding RFPs.

LeAnne Larrañaga-Ruffy, Portfolio Manager, provided an update on the MLP (Master Limited Partnership), noting the evaluation committee met on January 6<sup>th</sup> and interviewed three finalist firms. Following the interviews, the committee deliberated and chose two firms. Due diligence will occur in February and a recommendation will come before the Board on February 27<sup>th</sup>.

Jason Goeller, Portfolio Manager, provided an update on the GTAA (Global Tactical Asset Allocation) RFP final submissions that were received on January 6<sup>th</sup>. Twenty-four proposals were received that span the spectrum. Staff and Wilshire will conduct an MQ verification process and assemble the comparative quantitative data for firm and product. The evaluation committee will meet the afternoon of February 11<sup>th</sup>.

**B. Informational Item: Custody Bank Update**

Mr. Baca said staff was directed by the Board to provide periodic updates on the custody bank relationship following the recent JP Morgan contract extension in that role. He said receipt of reports and the data accuracy has improved. Staff has participated in training with JP Morgan which has been valuable in bringing about improvements.

Khalid Greathouse, Financial Analyst, in charge of day-to-day relationship with JP Morgan said over the quarter there was one error that JP Morgan addressed the same day. He said JP Morgan has heard PERA's concerns and at this point the firm is working on solutions to address those needs and concerns. He envisioned improving upon the relationship as well as the reporting of data.

In regard to the custody bank, Mr. Grabel emphasized that PERA's assets are safe. He noted there are benefits from the economy of scale and the larger the infrastructure a custodian bank has, presumably they are better able to deliver information to clients. Acknowledging that JP Morgan is a world-class business, he said custodial banking is not their prime business. Part of staffs work plan includes analyzing the status of their relationship as PERA's custodian bank and the timing of a potential RFP.

Chair French highlighted that \$14,121 billion is an all-time PERA high number.

**C. Informational Item: Quarterly Securities Lending Update**

Mr. Goeller stated that for the calendar year 2013 the securities lending program net income was \$2.6 million – net of the fee arrangement with JP Morgan. As of December 31, the unrealized losses were at \$15,689,000 an improvement from the last quarter. He was pleased to report the program is moving in the right direction.

Mr. Goeller discussed the changes to the securities lending guidelines with respect to the collateral reinvestment.

**D. Informational Item: Real Estate Annual Program Review**

*[Exhibit 1: Cliffwater report]*

Jamie Feidler, Cliffwater, reminded the Committee that on a quarterly basis, Cliffwater reviews one of the sub asset classes within the alternative assets portfolio.

Chris Rice Shepherd, who heads Cliffwater's real estate research efforts, outlined the driving factors in real estate that have informed staffs investment decisions over the prior year and the expected environment for the coming year. Cliffwater is confident 2014 will be a strong year for commercial real estate, both domestically and abroad. He mentioned that in a diversified portfolio, real estate is often used as an alternative to fixed income. Using a chart he illustrated that real estate has outperformed the major bond indices.

As in other sectors of the economy, Mr. Shepherd said recovery in real estate has been uneven. CBD (central business districts) office and multi-family investments have performed the best. He discussed what has led to the increase in values with the best performers. At this time, Cliffwater sees opportunities in retail, industrial, and suburban office. Regardless of location there is strong demand for core-stabilized assets – without leasing risk or capital requirement.

In regard to "distress" Mr. Shepherd said it continues in real estate and it is estimated that there will be \$500 billion in real estate assets that cannot be refinanced.

Mr. Feidler pointed out that the real estate market is made up of a series of sub-markets regionally by property type.

Mr. Shepherd said in 2008 there was six times more money flowing into private real estate rather than REITs and that changed with money moving to fixed income alternatives including REITs and core assets. He also noted that banks are not yet willing to accept the volume of risk that construction loans present and large supply constraints will continue in the market. He reviewed opportunities in the public markets, private debt and private equity within real estate.

Mr. Feidler reviewed PERA's real estate portfolio noting PERA has made \$573 million in real estate commitments with 14 general managers. The commitments include investments in private real estate partnerships as well as REITs. The current market value as of 9/30/13 was \$471 million representing 3.5 percent of PERA fund total. Characteristics of the portfolio were described to include sector and location noting it is mostly North American.

Through September 30, 2013, Mr. Feidler pointed out the total net IRR since inception, net of all fees, is 12.92 percent. Outperformance of the portfolio was driven by REIT investments.

Mr. Shepherd said the strength of the PERA private real estate portfolio also benefited from good timing prior to the downturn. He highlighted BPG VIII, a poorly performing partnership. The firm is heavily invested in multi-family and in some marginal locations. Although the firm is expected to return all invested capital there are some fixed rate debt arrangements the ability to liquidate the assets in the near term is muted. He also highlighted good performance from Praedium VII, and Rockwood VIII and IX.

Mr. Feidler said 2013 was a challenging year for REIT performance and there was a heavy sell off when the Fed mentioned their tapering program mid-2013. Blackrock was at its benchmark as a passive REIT manager but LaSalle and Morgan Stanley both underperformed their benchmarks during 2013 impacting their longer-term results. Cliffwater will continue to work with staff to remove money from the REIT program to reach its long-term target.

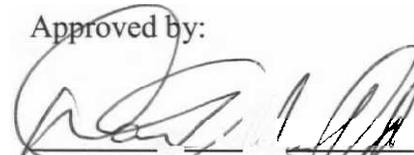
**5. OTHER BUSINESS**

Chair French said Board members have expressed concern regarding the quantity of managers and associated fees. She said she will be appointing a subcommittee to investigate the issue.

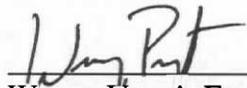
**6. ADJOURNMENT**

Having completed the agenda, Chair French declared this meeting was adjourned at 10:38 a.m.

Approved by:

  
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Jan Vlayt^Icf^c^ir  
Investments Conunhfee

ATTEST:

  
\_\_\_\_\_  
Wayne Vrop^, Executive Director

Attached Exhibits:

*Exhibit 1: Cliffwater report*