

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING

January 26, 2017

This meeting of the Public Employees Retirement Board was called to order by Dan Mayfield, Chair, at approximately 11:02 a.m. on the above-cited date at the PERA Building, 33 Plaza la Prensa, Senator Fabian Chavez, Jr. Board Room, Santa Fe, New Mexico.

2. Roll Call

Executive Director Wayne Propst called roll and a quorum was established with the following members present:

Members Present:

Dan Mayfield, Chair - Retiree
James Maxon, Vice Chair - County
Claudia Armijo - State
Dan Esquibel - Municipal
Patricia French - Municipal
Jackie Kohlasch - State
John Melia - Municipal
Loretta Naranjo Lopez - Retiree
Cathy Townes - State

Member(s) Absent:

Tim Eichenberg - *Ex-officio*
Maggie Toulouse Oliver - *Ex-officio*
John Reynolds - State

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Jude Perez, Deputy CIO
Renada Peery-Galon, ASD Director
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
Misty Braswell, Assistant General Counsel
Dana David, Assistant General Counsel
LeAnne Larrañaga-Ruffy, Director of Equity
Lalleh Dayeny, Investments Division
Karyn Lujan, Deferred Compensation Plan Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager

Others Present:

Jamie Feidler, Cliffwater
Paul Lium, Nationwide
Thomas Toth, Wilshire

Jennie Lusk, New Mexico AG's Office
David Welp, Eaton Partners
Don Wencewiz, AFSCME Retirees

3. **Approval of Agenda**

Ms. Townes introduced the following motion:

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

Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote. [Ms. French and Mr. Esquibel were not present for this action.]

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.”

Mr. Maxon seconded and the motion passed by unanimous voice vote. [Ms. French and Mr. Esquibel were not present for this action.]

5. **Current Business**

A. **Smart Save**

1. **Smart Save Plan Administrative Fee Restructure**

Ms. Kohlasch said this item passed by unanimous voice vote at the previous Smart Save Committee meeting and introduced the following motion:

“RESOLVED, that the PERA Board adopt the administrative fee restructure considering of a flat rate of \$30 per participant plus .135 percent of the participant's assets for the PERA Smart Save Deferred Compensation Plan.”

Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote. [Ms. French and Mr. Esquibel were not present for this action.]

B. **Investments:**

1. **Alternative Asset Recommendations for approval to be funded according to the cash plan and subject to legal review by General Counsel**

a. **Recommendation to Commit up to \$150 Million to Sarofim Realty Advisors, for an illiquid real estate fund of one**

Investment Committee Chair Melia said this item was discussed at the committee level and he introduced the following motion:

“RESOLVED that the PERA Board commit up to \$150 million to Sarofim Realty Advisors, for an illiquid real estate fund of one to be funded according to the Cash Plan and subject to legal review by General Counsel.”

Mr. Maxon seconded and the motion passed by majority [6-1] voice vote with Ms. Naranjo Lopez voting against and Ms. French and Mr. Esquibel were not present for the vote.

2. Recommendation to Commit up to \$90 Million to Cheyne Real Estate Credit Holdings Fund V, LP

Mr. Melia said this item was discussed at the committee and he introduced the following motion:

“RESOLVED that the PERA Board commit up to \$90 million to Cheyne Real Estate Credit Holdings Fund V, LP, to be funded according to the Cash Plan and subject to legal review by General Counsel.”

Mr. Maxon seconded and the motion passed by unanimous [7-0] voice vote. Ms. French and Mr. Esquibel were not present for the vote.

2. Update to the Global Equity Implementation Plan

Mr. Melia said the Investment Committee reviewed this item earlier today and he introduced the following motion:

“RESOLVED that the PERA Board approve the update to the Global Equity Implementation Plan to mandate 70 percent passive and 30 percent active management.”

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

C. Presentation of 30-Year Plan Projections
[Exhibit 2: Staff memo re: 30- year projections]

Mr. Propst said the projections are updated annually and normally the actuaries would make this presentation. The projections are based on the year 2043 because pension reform reflects that 30-year period. A graph within the memo demonstrates the downward trend to insolvency prior to the 2013 pension reform. The fund is currently funded at 75.3 percent. The funded ratio of the PERA Fund which includes the Municipal Police, Municipal Fire, State Police and Adult Correction Officers, State General and the Municipal General if projected as of 2043 is 76.8 percent – a 1.5 percent growth over the next 27 years. He noted that State Police and Adult Correction Officers are overfunded. The Municipal Police and Municipal General plans continue on an upward trajectory closer to 100 percent funded, which is the target for all of PERA’s funds. State General and the Municipal Fire plan are not moving in an upward direction. State General, one of PERA’s largest plans, is projected to be 35.8 percent funded by 2043. By the year 2043, the State Police and State Correction will be

268.5 percent funded. Municipal Police is expected to be at 96.5 percent by 2043 and Municipal general is expected to be 95.7 percent funded by 2043. State General and Municipal Fire are both projected to be below or at 40 percent by 2043. He noted that the Judicial plan is expected to continue to decline to 28.3 percent by 2043.

Mr. Propst said when the state plan rates were set they were not set at a level to properly fund the plan based on its demographics. He reminded the Board that PERA is a cost sharing multi-employer plan: "We're all in this together." Cavanaugh Macdonald has indicated that most public pension plans with multiple plans are on the same trajectory because the contribution rates were set appropriately to make sure they were at an equalized level. In the next few years he said the Board would have to grapple with funding rates. The goal is to ensure that all of PERA's plans are on the same path and the plan to get there is the Board's responsibility as a policy issue, stated Mr. Propst.

According to the packet material, it is unfortunate, stated Mr. Melia, that either the contributions are increased or benefits decreased or both to attain solvency. He advocated looking at options to ensure the solvency of the fund. Mr. Propst said it was somewhat comforting to know that New Mexico is not the only state that has gone through pension reform and still has insolvency issues to address.

Mr. Propst noted that there have been subpar years of investing which have lowered the 30-year projected funded ratio and the Board lowered the discount rate from 7.75 percent to 7.25 percent. Public pensions throughout the country are lowering their discount rate.

Ms. Naranjo Lopez said the Governor is asking state employees to contribute more towards their pension to help address the State's budget deficit. She mentioned that the Judicial were provided extravagant benefits and those should be reviewed in terms of across the board equity. The Board will have to deal with it, stated Ms. Naranjo Lopez.

Mr. Propst said the legislature does not seem to be favorably disposed to the state employee contribution proposal.

Mr. Propst said the 30-year projection numbers are sobering and they are just the best guess. He said staff was not before the Board in panic mode; however, the suggestion is that the Board needs to spend time understanding why some of the plans are better funded than others which includes demographics, contribution rates, etc. Staff will facilitate throughout a process to improve the solvency projections.

PERA CIO Grabel said fund solvency is optimized through prudent asset and liability management. Contributions plus investment income equals benefits plus expenses ($C+I=B+E$). The issue is that the "I" is not always investment income but rather investment principal which is not a sustainable model and impacts the expectations for benefits and potentially impacts contributions. He noted that PERA dedicates significant resources to optimize the allocation. The agency has lowered its budget and the investment management fees by 25 percent. As the 30-year projections indicate, there are significant demographic headwinds with fewer workers than retirees. As a mature pension, every month there is \$45

million net out-of-pocket that needs to be made up and money needs to be made on top of that. The projections depend on a sufficient number of Tier 2 members to fill positions. Mr. Grabel said there are many more outcomes that can happen than will happen – recessions happen. He noted that up until July 2016 PERA assumed a return of 7.75 percent but for the last three years the return has been 3.95 percent annualized.

Mr. Grabel agreed with Mr. Propst that now is the opportunity to dedicate efforts to manage liabilities. The solutions/ideas are not difficult. They are hard to implement but it's not difficult.

Mr. Propst demonstrated a modeling software tool that allows for manipulation of the 30-year funded ratios.

Ms. French said it is the Board's responsibility to protect the fund and she recognized that the membership has their lifesavings in the fund. She asked whether the Board needs to develop legislation now. Mr. Propst said it was important not to overreact or push something through in a hurry. He advocated that this be the major focus of the Board for the next several months or year. Colorado is developing a workplan and strategy to get out to the membership and he recommended PERA do the same. He recommended allowing the pension reform to run a full five years and then determine whether what was accomplished in 2013 was enough.

A discussion ensued about the proposal within the Executive's budget to take \$12.5 million out of the legislative fund. Mr. Propst said PERA would file an injunction to stop it from happening. It is PERA's belief that any attempt to take money out of the fund is unconstitutional under Article 22 and would risk PERA's tax status as a qualified government retirement plan. At this point that proposal is off the table.

D. Proposed 2017 Meeting Schedule

The schedule was included within the Board's packet for review.

E. 2017 Legislative Session Report

Mr. Propst noted that the session ends March 17th. The report was included within the Board's packet.

F. Executive Director's Report

The report was included within the Board's packet.

G. Executive Session

1. **Administrative Appeal: Final Review**
 - a. **Eric Fresquez**
 - b. **Gerald E. Sandoval**

Mr. Maxon moved to go into Executive Session pursuant to NMSA 1978, to discuss

the items listed above. His motion was seconded by Mr. Melia and passed by unanimous roll call vote as follows:

Dan Mayfield	Yes
James Maxon	Yes
Claudia Armijo	Yes
Dan Esquibel	Yes
Patricia French	Yes
Jackie Kohlasch	Yes
John Melia	Yes
Loretta Naranjo Lopez	Yes
Cathy Townes	Yes

[The Board met in Executive Session from 12:10 p.m.-12:25 p.m.]

Mr. Maxon moved to return to open session and Mr. Melia seconded. The motion passed by unanimous voice vote as follows:

Dan Mayfield	Yes
James Maxon	Yes
Claudia Armijo	Yes
Dan Esquibel	Yes
Patricia French	Yes
Jackie Kohlasch	Yes
John Melia	Yes
Loretta Naranjo Lopez	Yes
Cathy Townes	Yes

For the record, Chair Mayfield stated that the Board received a briefing from the AG's Office and determined that additional time was required to fully review the cases. Action will be deferred until the February Board meeting.

6. Other Business

Mr. Esquibel wished a speedy and full recovery for Representative Lucky Varela. Ms. French requested that staff, on behalf of the Board, send the representative a card or flowers.

7. Adjournment

Having completed the agenda, Chair Mayfield declared this meeting adjourned at 12:25.

Approved by:


Dan Mayfield
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibits:

Exhibit 1: Consent Agenda

Exhibit 2: Staff memo re: 30- year projections