

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD
INVESTMENTS COMMITTEE MEETING

June 10, 2014

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair Dan Mayfield, at approximately 9:00 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:** Roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

Members Present:

Dan Mayfield, Chair
Jackie Kohlasch
Stewart Logan
Louis Martinez [appointed]

Member(s) Excused:

James Lewis
Roman Jimenez, Vice Chair
Patricia French

Other Board Members Present:

None

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, General Counsel
Sylvia Barela, ASD Director
Greg Trujillo, Deputy Director
Jonathan Grabel, Chief Investment Officer
Julian Baca, Deputy CIO
Judy Olson, Executive Assistant
LeAnne Larrañaga-Ruffy, Portfolio Manager
Joaquin Lujan, Portfolio Manager
JoAnn Garcia, Deferred Compensation Program Manager

Others Present:

Jamie Feidler, Cliffwater
Gabrielle Zadra, Cliffwater
Michael Schlachter, Wilshire
Tom Toth, Wilshire
Julia Bonafede, Wilshire
Anne Haneka-Ortiz, LFC
Paul Lium, Nationwide
Katie Jamgochian, Mercer

Devon Muir, Mercer

2. APPROVAL OF AGENDA

Mr. Logan 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

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

4. CURRENT BUSINESS

A. Chief Investment Officer's Report

**1. Preliminary Investment Performance Summary –
May 2014**

Jonathan Grabel, Chief Investment Officer, reminded the Committee that the numbers are preliminary at this point. May was a strong month for the plan and the estimate in the plan as a whole, was up 1.42 percent with an end of the month market value of \$14.3 billion. The strong performance for 2014 continues with the plan up 15.09 percent. During May, both U.S. and international equities had a strong month. Fixed income markets were very strong for the calendar year, up 4.3 percent.

2. Cash Plan Update

In response to a question of Ms. Kohlasch's from the previous meeting about cash movements within the month and how they compare to other months, Mr. Grabel noted that this month's report is amended to include an average monthly movement of cash for the fiscal year. He reviewed the transfers of cash noting \$16 million was redeemed from US equities index funds, the most overweight category, during the month.

Mr. Grabel noted that \$35 million has been funded to MLPs. The month ended with \$172 million in cash inclusive of that \$80 million clears at the end of the month for benefit payments.

3. Other Updates

Mr. Grabel announced that Wilshire consultant Michael Schlachter is leaving Wilshire within the month. He wished him success and thanked him for his contribution to New Mexico PERA.

Michael Schlachter thanked PERA and said the asset allocation was a good accomplishment and that it has been an honor to serve PERA.

The committee wished Mr. Schlachter success.

Wilshire President, Julia Bonafede, said Wilshire is committed to serving NM PERA to the best of their ability. Tom Toth and another individual will continue in Mr. Schlachter's role. She invited questions or comments at any time.

Jonathan Grabel indicated PERA continues to monitor the Och-Ziff situation, stated Mr. Schlachter. At this point there is nothing new to report.

In terms of private assets, Mr. Grabel said Christine Keyes and Joaquin Lujan continue to meet with various managers in conjunction with Cliffwater.

During May, the securities lending unrealized losses decreased by nearly \$600,000. It's moving in the right direction, stated Mr. Grabel.

B. Information Item: Managers Updates
1. JP Morgan Small Cap Growth

LeAnne Larrañaga-Ruffy, Portfolio Manager, visited the JPMorgan office on May 22nd and understands from Eytan Shapiro, CIO/portfolio manager for small cap growth, that the only changes in his promotion will be a heavier reliance on his analyst team. Mr. Shapiro indicated that more research analysts will be hired and he provided an outline of his duties. She noted that JP Morgan will be presenting to the Board at its August meeting.

C. Information Item: Investment Policy Statement Implementation Timeline for New Strategic Asset Allocation

Mr. Grabel said he has discussed how to reflect PERA's new strategic asset allocation within the Board's Investment Policy Statement with the Board and IC chairs in order to facilitate the implementation process. The plan is to focus a morning of the retreat on the Investment Policy Statement and potential updates.

D. Action Item: Recommendation to fully redeem from Saba Capital Partners, LP in the Portable Alpha and Absolute Return portfolios
[Exhibit 1: Cliffwater Report]

Jamie Feidler, Cliffwater, said the recommendation is to fully redeem from Saba Capital Partners, a hedge fund investment in both the absolute return and portable alpha portfolios. Saba had been expected to fill the role of a relative value fund/market neutral fund, and would really not display correlations with movements in the broad equity and fixed income market and should have performed with constant positive performance generating a steady flow of positive returns. However, in the last two years the fund has changed its positioning and the portfolio manager was more bearish with certain asset classes. As a result there was more short credit exposure into the portfolio as well as tail risk positions which are positions that react well if markets experience a sharp jump in volatility.

Mr. Feidler said because of that change the fund was not functioning as a market neutral

fund, which was what it was hired for. The fund does have latitude in how it can be managed. Unfortunately, the fund has not performed well over the past two years and generated a negative performance. The portfolio manager has added positions to provide stability but Cliffwater views these positions as possibly introducing increasingly higher volatility to the fund.

Mr. Feidler said some of the investors are losing patience and the fund is experiencing redemptions. Cliffwater recommends a full redemption. The fund offers quarterly liquidity with 65 days notice. He pointed out that staff was in agreement with this recommendation.

Mr. Feidler said there are no immediate plans to put the money back into hedge funds because PERA is currently overweight in absolute return allocation vis-à-vis the new policy. The funds would be redeployed in the portfolio as staff sees fit. Cost-wise, there is no explicit or additional cost to redeem from the fund. He anticipated the funds would come in early October.

Mr. Grabel said staff concurs with Cliffwater's recommendation.

Mr. Logan moved to accept staff recommendation and fully redeem from Saba Capital Partners. His motion was seconded by Ms. Kohlasch and passed by unanimous [4-0] voice vote.

C. Information Item: Annual Private Equity Program Review [Exhibit 1: *Cliffwater Report*]

Mr. Feidler reminded the committee that on a quarterly basis Cliffwater provides an in-depth study on one of the asset sub-classes within the alternative portfolio.

Gabrielle Zabra, Cliffwater private equities research leader and senior managing director, said there was a big increase in fundraising in 2013 – the biggest year since the downturn. She identified the underlying factors and noted that a trend was seen in investors looking to reduce the size of their overall portfolio and put more money with the best performers which has increased competition among investors.

In terms of investment activity, Ms. Zabra said it did not keep pace with what managers were trying to do – but because pricing was pushed up with available debt, there was an increase in competition for assets. There was an expectation that 2013 would be a bigger year for investors than it turned out to be, while in 2014 there is slightly more activity. She said there appears to be more cash coming back from distributions than capital being put to work in new deals.

Referring to pricing, Ms. Zabra said the price paid for companies in 2013 in the US the average price paid was 8.8 times the company's earnings – a healthy price level. She noted that company earnings have not completely recovered from the downturn. She attributed the average price paid to the available debt financing.

In 2013 M&A (mergers and acquisitions) were down but there has been an upturn in 2014 activities. IPOs (initial public offerings) were up in 2013, particularly in the tech sector and there was very strong performance out of the venture capital portfolio in 2013 driven by the public market. That started to come down in 2014 as the tech stocks came down.

Ms. Zabra reviewed Cliffwater's outlook in the private equity program. She noted that the large buyout managers PERA has within its portfolio are doing very well. There is a recommendation slanted toward overweighting in small/middle sector for the buyout universe because there's more opportunity to find value oriented pricing. She mentioned the consolidation common among early stage venture managers and said there are fewer firms and thus less capital chasing the companies and greater opportunities for taking on venture risk. In the emerging markets she noted volatility in the Asia market and difficulty getting liquidity for earlier staged companies. In the Hong Kong Exchange there has been a shutdown of new IPO activity. Cliffwater's outlook is neutral. Within the credit world, distressed debt is very cyclical and something that Cliffwater is underweighting. Direct lending requires a manager who is working off the beaten track because the market to lend is very competitive. Opportunistic credit has shown good performance in the US and Europe.

Responding to Mr. Logan's question of where Cliffwater sees opportunities in Europe and the emerging markets, Ms. Zabra said regions within Asia, particularly Southeast Asia that have interesting investment opportunities. Within private equity, investors step back in terms of Asia. Although called "emerging markets," they are very established within the private equity perspective. There is more skepticism within regions of South America. Eastern Europe and Russia were the other areas of private equity emerging markets and there the returns have been less impressive. Africa is on the far end of the emerging markets and there is very little in terms of performance other than South Africa.

Mr. Grabel added that public equity opportunities are different from the types of investments in emerging markets that private equity managers would avail themselves of. The public market in emerging markets tends to focus on more industrial commodities and financial related sectors whereas the private equity managers have the opportunity to focus on the growing middle class.

Focusing on PERA's private equity portfolio, Mr. Feidler noted that when the Board approves a commitment to a private equity firm it does not get invested immediately as is the case with public market managers. Private equity managers invest the money over a series of years. Since inception of PERA's alternative portfolio, there has been slightly more than \$1 billion in commitments to private equity funds spread out to over 40 funds invested by 28 general partners/firms. He pointed out the diversification PERA has in this portfolio. PERA recently made a change increasing the allocation target to private equity to 7 percent from 5 percent.

Mr. Feidler noted that since inception the IRR of PERA's private equity portfolio is 10.85 percent versus the benchmark which is 8.99 percent. He reviewed performance by vintage year as well as calendar year. As the portfolio matures the performance becomes more meaningful because it takes time for the investments to season.

Ms. Zadra provided an overview of the partnerships PERA is invested in. Mr. Feidler pointed out that energy is included within PERA's real assets portfolio.

Mr. Grabel pointed out that private asset drawdowns and private asset distributions are at a wash with \$20 million in drawdowns and \$20 million in distribution. He attributed that to the phase of the market cycle and where PERA's private equity program is.

F. Information Item: 3rd Quarter Fiscal Year 2014 Deferred Compensation Review [Exhibit 2: Nationwide Report]

Paul Lium, Nationwide, said Nationwide is fully staffed in New Mexico and had a great quarter. He noted that plan assets are at their highest: \$473,041,972. The total number of participants remains flat at 17,650. He reviewed reinstatement, increased contributions and 450 new enrollments, a significant number. He attributed the increased enrollments to their being fully staffed. Rollovers were up and Mr. Lium said percentage-wise it is less than 1 percent; however, a retention brochure is being developed. He noted that 78 percent of the new enrollees went to the stable value option.

A discussion ensued about individuals taking more responsibility in terms of retirement.

Mr. Lium discussed the new institutional share class for the Vanguard Total International Stock Index Fund, which resulted in reduced participant expenses.

G. Information Item: 3rd Quarter Fiscal Year 2014 Deferred Compensation Investment Performance Review [Exhibit 3: Mercer Report]

Devon Muir, Mercer, indicated the biggest theme was rotation in leadership with more defensive sectors and value oriented strategies performing better. He reviewed in a broad category sense the investment structure offered from managed allocations through to self-managed portfolios. There are 20 options in the program.

Mr. Muir concurred with an earlier comment that participants are more engaged in their pension planning. He said rather than reduce the diversification, Mercer suggests shrinking the menu of options or "white labeling" – providing fewer options without compromising diversification available within the plan.

Mr. Muir said \$473 million was the asset value at the end of March representing a \$3.6 million increase of which \$2.3 million was attributed to investment gains. Approximately 2/3 of the program participants are invested within four funds: New Mexico Stable Value, New Mexico LifeCycles, Vanguard Institutional Index Fund Institutional and Fidelity Contrafund. He noted that the PERA Board continues to make this plan as economically attractive as possible.

Mr. Muir reviewed the lifecycle funds from the most conservative to the most aggressive. For the most recent period, the lifecycle funds performed better relative to their peer group. He attributed that to the conservative allocation and bonds having a positive return. The absolute performance over the longer-term performance is good but relative to peer groups the funds have underperformed. He highlighted the performance of the index options noting they are designed to track the benchmark. Calvert Equity is the only fund Mercer has concern about and they are recommending termination of the fund.

Most of the funds over the three- and five-year periods are exceeding the median of the peer group and stacking up well relative to the benchmark, stated Mr. Muir.

Regarding the Aberdeen Emerging Markets Fund, Mr. Muir said they have bounced back in the recent quarter beating the benchmark by 1.5 percent. Aberdeen is a very large fund that takes sizable bets that can diverge meaningfully from the benchmark.

Katie Jamgochian, Mercer, added that for calendar year 2013, emerging markets struggled which is reflected in Aberdeen's performance.

Stating Mercer is very mindful of investment expenses, Mr. Muir referred to an investment expense analysis highlighting that PERA is offering better than median pricing to the participants.

Mr. Grabel clarified the fees that participants pay are: 1) an annual \$52 administrative fee, and 2) a variable ratio based upon the chosen investments and the allocation of participant investments.

H. Action Items: Deferred Compensation

1. Recommendation to rebalance Deferred Comp LifeCycle Portfolio
[Exhibit 4: Mercer Report, dated 6/10/14]

Mr. Muir identified the LifeCycle portfolios as target date funds that are custom-managed. The funds become more conservative as they mature. Historically, the Board would approve the roll-down or move to a more conservative portfolio.

Mr. Muir summarized the consensus the Board reached at the recent strategic planning session: custom lifecycle approach continues to be appropriate; equity allocations should be 50 percent closer to the respective peer median equity allocation; and a roll-down schedule can occur annually without Board action.

Using a graph, Mr. Muir demonstrated how lifecycle portfolio allocations are adjusted to account for the funds becoming closer to their respective retirement.

Mr. Grabel said staff concurs with Mercer's recommendations and finds them to be prudent.

Mr. Logan moved to approve the recommendation to rebalance the Deferred Comp Lifecycle portfolios and the automatic roll-down for the portfolios. Ms. Kohlasch seconded. The motion passed by unanimous [4-0] voice vote.

2. Recommendation to Terminate Calvert Equity Portfolio
[Exhibit 5: Mercer memo re: Calvert; Exhibit 6: PERA memo re: Calvert]

Ms. Jamgochian said this issue was discussed at the strategy session where Mercer outlined their concerns. Overall the Calvert Equity Portfolio, which is the socially responsible investment option in the plan, has experienced issues over the past few years, to wit, team changes, consistent underperformance and a departure from the investment process and philosophy when originally hired. Given those concerns, Mercer recommends terminating the contract and mapping the assets to the Vanguard Institutional Index Fund.

Ms. Kohlasch moved to recommend to the Board the termination of the Calvert Equity portfolio and mapping of assets to the Vanguard Institutional Index Fund. Mr. Lewis seconded.

Mr. Grabel stated that staff concurred with Mercer's recommendation.

The motion passed by unanimous [4-0] voice vote.

I. Information Item: "White Labeling" of Deferred Compensation Fund Options [Exhibit 7: Mercer report, re: White Labeling]

As a follow-up from strategic planning session, Mr. Muir said many deferred compensation plans are moving to a streamlined investment menu. There is a general trend towards this generically named convention, which provides a more streamlined list of investment options. He highlighted the following goals of the program: consolidate investment line-up which reduces participant confusion; reduce choices; greater diversification; increase emphasis on asset allocation rather than investment manager brand allegiance; and provide a seamless transition of underperforming investment managers.

Mr. Muir said the industry has seen a trend with 40 percent of plans implementing the white label investment structure. He confirmed this could be seen as a fund of funds.

Mr. Grabel mentioned that a retreat topic will be Behavioral Finance, the study of how psychology influences investment decisions. He said that faults/pitfall with investing are alleviated through a white labeling type of structure.

Mr. Logan agreed it may cause less angst for participants to have fewer funds to work through.

There appeared to be consensus for Mercer to pursue the concept further.

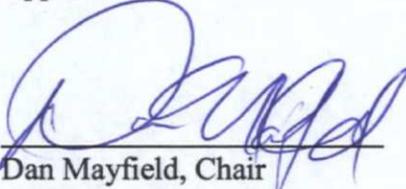
5. OTHER BUSINESS

None was brought forward.

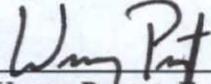
6. ADJOURNMENT

Having completed the agenda, and with no further business to come before this Committee, Chair Mayfield declared this meeting was adjourned at 11:20 a.m.

Approved by:

 7/8/14
Dan Mayfield, Chair
Investments Committee

ATTEST:


Wayne Propst, Executive Director

Attached Exhibits:

- Exhibit 1: Cliffwater Report*
- Exhibit 2: Nationwide 3rd Quarter Report*
- Exhibit 3: Mercer 3rd Quarter Report*
- Exhibit 4: Mercer Report, dated 6/10/14*
- Exhibit 5: Mercer memo re: Calvert*
- Exhibit 6: PERA memo re: Calvert*

INVESTMENTS COMMITTEE MEETING
SENATOR FABIAN CHAVEZ JR. BOARD ROOM
PERA BUILDING

June 10, 2014

COMMITTEE MEMBERS

Dan Mayfield, Chair
 Roman Jimenez, Vice-Chair
 Jackie Kohlasch, Member

Patricia French, Member
 Honorable James B. Lewis, Member
 Stewart Logan, Member

AGENDA

1. Roll Call
2. Approval of Agenda
3. Approval of Consent Agenda
4. Current Business

ITEM	PRESENTER
A. Chief Investment Officer's Report. (15 minutes) 1. Preliminary Investment Performance Summary – May 2014 2. Cash Plan Update 3. Other Updates	Jonathan Gabel, PERA Chief Investment Officer
B. Information Item: Manager Updates (5 minutes) 1. JP Morgan Small Cap Growth	Jonathan Gabel LeAnne Larrañaga-Ruffy, PERA Portfolio Manager
C. Information Item: Investment Policy Statement Implementation Timeline for New Strategic Asset Allocation. (5 minutes)	Jonathan Gabel
D. Action Item: Recommendation to fully redeem from Saba Capital Partners, LP in the Portable Alpha and Absolute Return portfolios. (10 minutes)	Jonathan Gabel Jamie Feidler, Managing Director, Cliffwater LLC
E. Information Item: Annual Private Equity Program Review. (20 minutes)	Jonathan Gabel Jamie Feidler, Senior Managing Director Gabrielle Zadra, Senior Managing Director Cliffwater LLC

F.	Information Item: 3 rd Quarter Fiscal Year 2014 Deferred Compensation Review. (20 minutes)	Jonathan Gabel JoAnn Garcia, PERA Deferred Compensation Plan Manager Paul Lium, Program Director, Nationwide Retirement Systems
G.	Information Item: 3 rd Quarter Fiscal Year 2014 Deferred Compensation Investment Performance Review. (20 minutes)	Jonathan Gabel JoAnn Garcia Devon Muir, Principal, Katie Jamgochian, Senior Associate, Mercer Investment Consulting
H.	Action Items: Deferred Compensation 1. Recommendation to rebalance Deferred Comp Life Cycle Portfolios. (10 minutes) 2. Recommendation to terminate Calvert Equity Portfolio. (10 minutes)	Jonathan Gabel JoAnn Garcia Devon Muir Katie Jamgochian
I.	Information Item: "White Labeling" of Deferred Compensation Fund Options. (10 minutes)	Jonathan Gabel JoAnn Garcia Devon Muir Katie Jamgochian

5. Other Business

6. Adjournment

Consent Agenda

Approval of minutes of May 13, 2014 Investments Committee meeting.

Any person with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing or meeting, please contact Judy Olson at (505) 476-9305 at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats. Please contact Ms. Olson if a summary or other type of accessible format is needed.

NEW MEXICO PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

INVESTMENTS COMMITTEE

DATE: June 10, 2014

COMMITTEE MEMBERS

EXPECTS TO ATTEND

PRESENT AT MEETING

Dan Mayfield, Chair
505-259-0528

Roman Jimenez, Vice-Chair
505-819-9636

James Lewis
505-955-1122

Patricia French
505-480-1335

Jackie Kohlasch
505-417-3296

Stewart Logan
505-344-4514

Designated alternate members, if any

LOUIS MARTINEZ

Other Board Members Present:

