

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

BOARD MEETING

June 26, 2014

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 10:45 a.m. on the above-cited date at the PERA Building, Fabian Chavez Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

2. ROLL CALL

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

Members Present:

Patricia French, Chair - Municipal
Dan Mayfield, Vice Chair - Retiree
Dan Esquibel - Municipal
Paula Fisher - State
Roman Jimenez - State
Jackie Kohlasch - State
James Lewis - *Ex-officio*
Louis Martinez - Municipal
Loretta Naranjo-Lopez - Retiree
John Reynolds - State

Member(s) Excused:

Dianna Duran - *Ex-officio*
Stewart Logan - County

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, General Counsel
Greg Trujillo, Deputy Director
Sylvia Barela, ASD Director
Karen Risku, Deputy General Counsel
Jonathan Grabel, Chief Investment Officer
Judy Olson, Executive Assistant
Julian Baca, Deputy CIO
LeAnne Larrañaga-Ruffy, Portfolio Manager
Christina Keyes, Portfolio Manager
Joaquin Lujan, Portfolio Manager
JoAnn Garcia, Deferred Compensation Program Manager
Mark Montoya, Financial Specialist
Vince Jaramillo, User Administrator

[*Exhibit 1: Sign-in Sheet*]

Others Present:

Jamie Feidler, Cliffwater
Jeffrey Braemer, TimesSquare Capital Management
Kenneth Tyszko, RBC
Bridget Tompkins, RBC
Taham Mahimwalla, RBC

3. APPROVAL OF AGENDA

Mr. Esquibel introduced the following motion:

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

Mr. Mayfield seconded and the motion carried by unanimous [10-0] voice vote.

4. APPROVAL OF CONSENT AGENDA

[Exhibit 2: Consent Agenda]

Mr. Logan introduced the following motion:

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

Ms. Fisher seconded and the motion carried by unanimous [10-0] voice vote.

5. CURRENT BUSINESS

A. Rules

1. Action Item: Recommendation to Approve Action Taken by the Rules & Administration Committee Regarding PERA Rule 2.80.600 NMAC, Service Credit and Purchase of Service Credit

Due to time constraints, Chair French requested that the Board members avoid repeating comments that are on the record from the earlier Rules & Administration Committee meeting.

Ms. Fisher, chair of the Rules & Administration Committee, said the rule change was in no way meant to punish, pick on, or discriminate against any of PERA's membership. Instead, the change is meant to make the rules more equitable and fair. Ms. Fisher said the Board cannot make everybody happy.

Ms. Jimenez said he has been passionate about this issue for the past few months and apologized that he had not informed himself before the original rule was passed. He mentioned a past conversation with an elected official retired within the PERA system earning a salary in the triple digits who opined that retired return to work employees were greedy. Mr. Jimenez said rules and policies are not necessarily fair.

As a fiduciary, Mr. Jimenez says he asks whether this proposed rule change saves the fund money. According to the information Mr. Propst received from PERA's actuary there is no information proving it saves the fund money.

Mr. Jimenez said he could not support changing the rule for the non-vested part-time employees.

Mr. Lewis said it is important to remember that the legislature empanelled a committee, IPOC, of 24 people to review the state pension funds. He mentioned the stakeholder meetings that occurred throughout the state. COLA was a contentious issue for the membership and he pointed out that only three poor states, Arkansas, Mississippi and New Mexico, provide a 3 percent COLA. State to state, pensions are very different.

Mr. Lewis said reviewing the proposal as a fiduciary and in light of what is fair for the Fund, he was prepared to support the proposed rule.

Without financial projections of actual perspective savings to the PERA retirement fund, Ms. Naranjo-Lopez said it was not possible to formulate good policy. She said the substantial contributions of workers in part-time jobs deliberately structured to allow better administration of the workplace will be threatened. She opined that the rule change would affect some of the state's most vulnerable employees and community members. Ms. Naranjo-Lopez said at this point, the Board has not conducted its due diligence on this issue.

Mr. Esquibel said who pays for this must be considered. The part-time contributions and benefit derived from that are disproportionate. He suggested part-time workers receive a double benefit compared to their counterparts. Recognizing the rule wasn't perfect, Mr. Esquibel said it does provide a needed fix.

Mr. Esquibel introduced the following motion:

“RESOLVED, that the PERA Board accept Rule 600 as presented by staff.”

Mr. Mayfield seconded.

Ms. Kohlasch said all current part-time employees, whether vested or not, should be grandfathered in. New part-time employees starting July 2014 should fall under the new rule just as SB 27; that way new employees know the service credit formula at hiring time.

Ms. Naranjo-Lopez pointed out that this rule change will take a benefit away from current part-time employees, a benefit they have paid for. She pointed out that the fund subsidizes Judicial and Magistrate but not these part-time employees.

Mr. Jimenez agreed with Ms. Naranjo-Lopez. He differed with Mr. Esquibel's assertion that part-time employees were receiving more than they put into the fund. That's the math, stated Mr. Jimenez.

The motion passed by majority [7-3] voice vote. With Members Naranjo-Lopez, Jimenez and Kohlasch voting against.

Chair Fisher thanked the PERA membership that participated in this discussion. She said the Board has made a fair and equitable decision.

B. Investments Division

1. Chief Investment Officer's Performance Report

Jonathan Grabel, CIO, reported on the May results stating the PERA plan was up 1.77 percent, a stellar performance. That is a net increase after payment of benefits and operating expenses of \$212 million. Every asset category was up for the month. Mr. Grabel said continual positive results can build a false sense of security.

The plan finished May at \$14.48 billion, another new high-water mark. As it relates to Fiscal Year 14 through May, at this point in time the plan is up 15.22 percent.

Referring to a recent article in the *Wall Street Journal*, Mr. Lewis asked about the lost opportunity since the great financial crisis. Mr. Grabel said he too read that article which was focused on corporate pensions that were under-invested in equities. PERA was very fortunate in that they maintained a high allocation to equities throughout the period.

2. Action Item: Recommendation to Fully Redeem From Saba Capital Partners, LP in the Portable Alpha and Absolute Return Portfolios

Mr. Mayfield said this item was discussed at length in the previous Investment Committee meeting.

Mr. Grabel said the redemption needs to be submitted to the manager by the end of September. The recommendation to redeem was by both Cliffwater and staff and related to manager performance, drift in the manager's style, an increase in leverage as well as other sizable redemptions.

Mr. Mayfield introduced the following motion:

“RESOLVED, that the PERA Board fully redeem from Saba Capital Partners in the portable alpha and absolute return portfolios.”

Chair French seconded and the motion passed by unanimous [8-0] voice vote. Members Jimenez and Reynolds were not present for this action.

3. Action Item: Deferred Compensation

a. Recommendation to Rebalance Deferred Compensation Life Cycle Portfolios and Perform Automatic Roll-Down Annually

Mr. Mayfield said this item was discussed at length in the previous Investment Committee. He introduced the following motion:

“RESOLVED, that the PERA Board accept the recommendation to rebalance deferred compensation Life Cycle portfolio and perform automatic roll-down annually.”

Chair French seconded.

Mr. Grabel said this item was discussed by the Investment Committee and much of the discussion had to do with a strategy session held in April where the deferred compensation plan was reviewed in detail.

The motion passed by unanimous [7-0] voice vote. Members French, Reynolds and Esquibel were not present for this action.

b. Recommendation to Terminate Calvert Equity Portfolio and Map Assets to the Vanguard Institutional Index Fund

Mr. Mayfield stated this item was referred from the Investment Committee and he introduced the following motion:

“RESOLVED, that the PERA Board accept the recommendation to terminate Calvert Equity Portfolio and map assets to the Vanguard Institutional Index Fund.”

Mr. Jimenez seconded.

Mr. Grabel pointed out that this recommendation is made by both staff and Mercer and is predicated on manager performance and changes within that organization.

The motion passed by unanimous [9-0] voice with Mr. Esquibel not present.

4. Investment Manager Presentation

LeAnne Larrañaga-Ruffy, portfolio manager, provided an overview of the portfolio stating there are eight domestic equity managers – one passive large cap, one enhanced large, one passive smid cap, one smid cap growth, two small cap growth and two small cap value. Today’s presentations are from a small cap growth manager and smid cap growth manager. The total domestic equity portfolio is \$4.5 billion -- 31.19 percent of the total fund.

TimesSquare and RBC were both hired in April 2005.

- a. TimesSquare Capital Management, LLC**
[Exhibit 3: TimesSquare report; Exhibit 4: Wilshire report, re: TimesSquare]

Ms. Larrañaga-Ruffy said TimesSquare currently manages \$250 million which is 5.5 percent of the domestic equity composite and 1.7 percent of the total fund. She introduced Jeffrey Braemer, senior vice president and product manager.

Mr. Braemer said there have been no changes at the firm and it continues to perform as a boutique manager focused on small to mid-cap growth equities. He reviewed the firm's investment process, a bottom up stock picker with analysts focused on different sectors. The firm has conviction in the stocks it buys and concentrates the portfolio with 100 names. The portfolio is built based on what TimesSquare believes will bring the best value and best growth opportunities.

Over the long term, the portfolio has added value to the fund; however, year to date has been difficult. Mr. Braemer said the portfolio is active. He reviewed the detractors, which included NeuStar a database firm that cell phone carriers use. NeuStar has held a contract issued by the industry since 1986 and it appears they may lose that business which accounts for 50 percent of their revenues. He acknowledged that TimesSquare could have trimmed the holding sooner and reduced the impact to the portfolio. The firm makes mistakes and it is their hope these are small. In terms of contributors, AerCap is an aircraft leasing company that has acquired AIG's leasing arm and done quite well. Avis Budget has also done quite well.

In response to a question about TimesSquare's recent below the benchmark performance, Mr. Grabel said in choosing active management he prefers managers like TimesSquare who have high conviction around their portfolio.

Recognizing PERA is a long-term investor Mr. Jimenez commended TimesSquare for making the fund money.

Mr. Grabel noted that managers with higher active shares are potentially going to have greater diversions from the benchmarks.

b. RBC Small Cap Growth Manager

[Exhibit 4: RBC report; Exhibit 5: Wilshire report, re: RBC]

Ms. Larrañaga-Ruffy said RBC currently manages \$239 million which is 5.3 percent of the domestic equity composite and 1.7 percent of the total fund. She introduced those present from the firm.

Bridget Tompkins, RBC client service manager, provided an update on the firm stating they are a subsidiary of the Royal Bank of Canada and RBC is the investment arm in the US. The firm has \$37.5 billion assets under management. The majority of their clients are public funds. She highlighted the breadth of RBC's investment capabilities and reviewed the small cap growth team. She introduced a new institutional portfolio manager, Taham Mahimwalla who will serve a project specialist and client service manager.

Kenneth Tyszko, managing director, said the team is based in Chicago and they specialize in high-quality small cap growth stock that they hold for a long period of time. They invest in

stocks that are currently profitable between \$200 million and \$2 billion. When the stock becomes a \$5 billion market cap company for a complete calendar quarter it is sold.

RBC defines high quality as consistency and stability of revenue and earnings growth, high margins and returns on equities relative to their industry peers and a good balance sheet with low debt to capitalization ratios. They invest in only high quality franchises that are run by good quality management teams.

Mr. Tyszko said the turnover rate in the portfolio in terms of names and weightings is about 15 percent to 20 percent per year. They anticipate holding a stock for 5 to 10 years. The process is bottom up and the investment team has rotating research responsibilities. He said 75 percent of their long-term outperformance is due to security selection as opposed to sector allocation.

Mr. Tyszko reviewed their top 10 holdings noting they make up 21 percent of the portfolio. The highest rating is 2.7 percent, which is a veterinary supply company. Their weighted average market cap of 2.1 billion is in line with their index - the Russell 2000 Growth Index. Currently the portfolio is overweighted in industrials and underweighted in consumer discretionary. There are currently 75 names in the portfolio.

On a year-to-date basis, Mr. Tyszko said the portfolio is down 3.4 percent while the index is up 1.2 percent. He pointed out that calendar year 2013 was a particularly strong year with a return, gross of fees, just under 44 percent. He reviewed the firm's transactions during the year.

Mr. Esquibel commended the firm on their past performance but said his focus is on today. He asked RBC what they were doing to improve their performance. Mr. Tyszko said the firm has neither changed its philosophy nor process. The portfolio is not designed to outperform every quarter and instead they take a longer-term approach.

Ms. Kohlasch asked whether a subcommittee was reviewing the possibility that PERA has duplications in services. Mr. Grabel said the fee subcommittee is chaired by Mr. Logan and met in April. The subcommittee is reviewing fees, the quality of service associated with those fees and the number of managers.

C. Trustee Reports on Educational Conferences

Mr. Martinez said he attended an educational conference that Mr. Logan also attended in San Jose, California. He said the conference was very valuable.

D. Executive Director's Report

Mr. Propst said staff will be undertaking a strategic planning process focusing on communication and service to membership through the Santa Fe Community College. He said it will be important for the Board members to participate in this process.

Staff will provide an overview of retirement numbers during this past fiscal year at the

retreat noting there was a significant increase in retirements this June compared to last year.

E. Executive Session

1. Attorney Report

Administrative Appeal – The Board will meet in Executive Session under NMSA 1978, Section 10-15-1(H)(7) to discuss this item

i. Pending Litigation

Mr. Jimenez introduced a motion to go into Executive Session pursuant to NMSA 1978, Section 10-15-1(H)(7). Ms. Fisher seconded and upon roll call vote with Members French, Mayfield, Esquibel, Fisher, Jimenez, Kohlasch, Lewis, Martinez, Naranjo-Lopez and Reynolds all voting in the affirmative the Board met in Executive Session from 12:10 p.m. – 12:35 p.m.

Mr. Lewis moved to come out of Executive Session announcing the only item discussed was that listed in the agenda. His motion was seconded by Mr. Martinez and upon roll call vote with Members French, Mayfield, Esquibel, Fisher, Kohlasch, Jimenez, Lewis, Martinez, Naranjo-Lopez and Reynolds all voting in the affirmative.

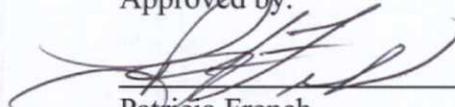
6. OTHER BUSINESS

None was presented.

7. ADJOURNMENT

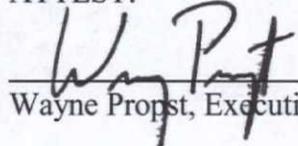
Upon motion and second, and with no further business to come before the Board, Chair French declared this meeting adjourned at 12:35 p.m.

Approved by:



Patricia French
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibits:

Exhibit 1: Sign-in Sheet

Exhibit 2: Consent Agenda

Exhibit 3 TimesSquare report

Exhibit 6: Wilshire report re: TimesSquare

Exhibit 7: RBC Report

Exhibit 8: Wilshire report re: RBC

Please Sign In

PERA Board Meeting: June 26, 2014

**Please Print
Name**

Organization

Kat Brophy

Los Alamitos County

Rosalinda Swent

13th Jud. District Court

Kristin Ellins - Feldbusch

13th Jud. Dist. Ct.

Phil Flores

15th Jud. Dist. Ct.

Becky Hooper

Dept of Health

Donald Albre

CWA - POA

Jean Smith

DOH

Ketti Jamgoocman

Wuer

Debbie Marquay

TRD