

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SMART SAVE COMMITTEE MEETING

November 8, 2016

This meeting of the Public Employees Retirement Board Smart Save Committee was called to order by Chair John Reynolds at approximately 9:25 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.

Executive Director Wayne Propst called roll and a quorum was established as follows:

Members Present:

John Reynolds, Chair
Jackie Kohlasch, Vice Chair
Dan Mayfield
Loretta Naranjo Lopez

Member(s) Excused:

Tim Eichenberg
Brad Winter

Other Member(s) Present:

Paula Fisher
Patty French
James Maxon
John Melia
Cathy Townes
Dan Esquibel

Staff Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director/Chief Information Officer
Trish Winter, Executive Assistant
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Natalie Cordova, Chief Financial Officer
Dana David, Assistant General Counsel
Jude Perez, Deputy CFO
LeAnne Larrañaga-Ruffy, Portfolio Manager
Mark Montoya, Financial Analyst
Kristin Varela, Portfolio Manager Real Returns
Karyn Lujan, Deferred Comp Plan Manager
Christine Ortega, Portfolio Manager

Lalleh Dayeny, Investments Division
Mark Montoya, Investments Division
Emily Lopez, Investment Division

Others Present:

Ted Benedict, Meketa
Paul Lium, Nationwide

2. APPROVAL OF AGENDA

Mr. Mayfield moved to approve the agenda as presented. His motion was seconded by Ms. Kohlasch and passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Ms. Kohlasch indicated that she reviewed the minutes and found them to be in order.

Ms. Naranjo Lopez moved approval. Ms. Kohlasch seconded and that motion passed by unanimous voice vote.

4. CURRENT BUSINESS

A. Update Rolldown Schedule for the LifeCycle Portfolios within the PERA Smart Save Plan [Exhibit 1: PERA Staff Memo]

Karyn Lujan, Deferred Comp Plan Manager, said staff and Meketa recommend the Board adopt an updated rolldown schedule for the LifeCycle portfolios which includes the addition of the high yield bond fund allocation. This September, a high yield bond fund was approved and added to the fixed income allocation within the LifeCycle portfolios, and prior to that a new rolldown schedule was adopted. She said the current rolldown schedule includes an asset allocation plan for years 2016 through 2020 and over the course of five years, the portfolios gradually become more conservative. An updated asset allocation chart was provided with the inclusion of the high yield bond fund.

Ted Benedict, Meketa, said the rolldown schedule moves each portfolio 1/5 of the way closer to their more conservative neighbor portfolio each year. The only update is the inclusion of the high yield bond exposure. The portfolios will evolve without the Board having to take action.

Ms. Lujan confirmed that there is a connection between the addition of the high yield and the updated rolldown schedule.

Mr. Mayfield asked whether the Bernalillo County accounts will be mapped to the LifeCycle portfolios. Ms. Lujan said Nationwide is working with the 700+ employees from the county and they will be defaulted to the LifeCycle portfolios with

the option to change.

Mr. Reynolds moved to approve the updated rolldown schedule for the LifeCycle portfolios within the PERA Smart Save plan. Ms. Naranjo Lopez seconded and that motion passed by unanimous voice vote.

B. Smart Save Plan Fund Performance Review Q1 FY17

[Exhibit 2: Meketa Report – FY17 Q1]

Mr. Benedict said the quarter was good for capital and risk assets with strong returns from emerging market stocks and high yield bonds which means good plan performance. At the end of the quarter, 9/30/16, the plan assets were \$515.6 million, an increase of \$14.3 million from the prior quarter end. Contributions totaled \$12.2 million and withdrawals were \$12.9 million; a net outflow, but performance overcame that.

The plan contains 19,593 participants with an average account balance of \$26,315. The strategy with the greatest assets is New Mexico Stable Value with 26 percent of the assets, LifeCycle portfolios with 22 percent and Vanguard Institutional index fund with 14 percent. Fidelity Contrafund has 7 percent and T. Rowe Price MidCap, 5 percent. He noted that stable value had been the default account. He reviewed the four tiers noting that 56 percent are actively managed and 18 percent passively managed. He confirmed that the assets within the LifeCycle funds are not being double-counted. Nine of the 15 actively managed investment options were ahead of or matching their peer group and benchmark. Two of 15 were ahead of either the peer group or benchmark and four of 15 were underperforming.

Mr. Benedict said the LifeCycle funds had a tough quarter and underperformed peers and benchmark but they still had a strong performance over the year to date and one-year time period. He attributed their performance to the fact they are more conservatively positioned than an off-the-shelf target date product.

Mr. Benedict reviewed the individual options' performance which also indicated good performance although Fidelity low price stock has struggled. Fidelity had a weak stock selection and their value orientation hurt them. In fixed income, the stable value fund showed strong steady performance. While BlackRock's Inflation Bonds performance was poor, Mr. Benedict reminded the Committee that those assets are being moved to a more passive strategy.

Chair Reynolds asked that Mr. Benedict provide the performance of the Vanguard TIPS index during the quarter to compare their performance with BlackRock's.

Mr. Benedict said the Franklin Templeton Global Bond fund had a poor performance during the quarter. The manager has blamed their performance on currency exposures. Meketa will be conducting an onsite meeting with Franklin Templeton and report back to PERA on the strategy and what has caused their

underperformance. He noted that the LifeCycle portfolios all had a tough quarter but strong year to date and one-year peer group rankings.

Mr. Melia asked about Invesco REIT fund and Mr. Benedict said that fund is on the 2017 priority list. Many DC plans include real estate investment options that incorporate private core real estate complemented by REIT exposure and Meketa feels that would enhance the diversification of the plan.

Referring to the expense analysis and fees, Mr. Benedict said the majority of the expenses are below the median expense for the asset class with the exception of the Principal Diversified Real Assets Fund which is slightly above. The overall plan expenses are quite low.

C. Smart Save Plan Activity Review Q1 FY17
[Exhibit 3: Nationwide Report FY17 Q1]

Ms. Lujan said there were 850 new enrollees and two new employers. She highlighted a new report listing the employer, the number of employees contributing and the number not contributing to the DC plan with that employer. This information will better educate the Board members and Nationwide as to which entities may require additional contact.

During National Retirement Security Week Nationwide and PERA conducted a few events that were very successful with 60 new enrollments and 58 new increases. The PERA annual statement includes an EZ Enrollment form to DC and 42 forms were returned. Paul Lium, Nationwide, said it was the largest payroll submission they have had.

Mr. Lium said the majority of the new enrollees for this quarter are from Bernalillo County. Bernalillo employees who have not physically enrolled will be mapped over to the LifeCycle portfolios. A determination regarding the old Nationwide/NACo plan at the county has not been made. Mr. Grabel said what has happened at the County relates to Valic and ICMA. The NACo plan is administered by Nationwide; however, it is not affiliated with Nationwide as it relates to PERA Smart Save. He encouraged people to speak to the plan sponsor/employer, Bernalillo County.

D. Smart Save Plan Administrative Fee Analysis
[Exhibit 4: PERA Staff Memo]

Mr. Grabel pointed out that the administrative fee covers the operating costs for the Plan which consists of three elements: PERA's direct costs, investment consultant's contract/Meketa, and third-party administrator's contract/Nationwide. There is not a profit in the direct costs for PERA, rather it is the operating expenses incurred by PERA. The audit cost is included in the third-party charges. While investment fees are reviewed quarterly, administrative fees are reviewed periodically. He noted that the fee analysis conducted by staff resulted in reducing fees by 24 percent over two fiscal years.

Mr. Grabel said that there was increasing scrutiny on DC-type and TSA (tax sheltered annuity) plans. The recent plan audit indicates that the expenses are below the national best practice cost of 21 basis points. Operating costs and administrative expenses were used interchangeably within the analysis and this presentation.

The Smart Save fee structure is \$52 per year per participant. The fee is waived for the first two quarters or until a participant's account reaches \$1,000, whichever comes first. The average participant balance is just over \$25,000 yet the median participant balance is \$6,600. There are some very large balances which create a huge gap between average and median. The \$52 fee for the median account balance at \$6,600 is about 78 basis points.

Mr. Grabel reviewed the three types of administrative fee structures for DC Plan: flat rate per participant, asset based fee, and hybrid fee. A composite showing a breakdown of the participants by balance and percentage within the DC plan was reviewed and he noted that 75 percent of the participants have balances of less than \$25,000. He acknowledged Nationwide's assistance in developing this useful data chart. A chart comparing the PERA Smart Save fee expenses to those of ICMA and Valic was presented. ICMA does not have an admin fee and rather adds it on to their investment fund expenses. Operating expenses and investment expenses must be part of the equation to make an accurate comparison. Valic charges an administrative fee on a percentage basis. Using a hypothetical account balance a cost comparison was developed employing the administrative fees, investment expenses, and average investment fees. The comparison verified that PERA's Smart Save for smaller balances is meaningfully more expensive. Once the account balance grows, PERA's Smart Save is less expensive. Different scenarios were explored showing average participant fees.

Mr. Grabel noted this was provided as information and staff does not have an associated recommendation.

Ms. Lujan pointed out that the \$52 is a flat fee negotiated with Nationwide and it is not considered high compared to other plans.

Ms. French said it was obvious that the \$52 flat fee is an issue. She asked Mr. Lium whether Nationwide could establish something to address those participants with less than \$5,000. Mr. Lium said in an effort to promote transparency, the PERA Board chose the flat rate. He acknowledged that the Achilles heel is in the early years of saving but all in all it is a cost effective plan. He said Nationwide would work with PERA.

Mr. Melia said with the majority of the participants under the average balance, he suggested the Board should be looking to assist them before the handful that have higher balances.

Ms. Naranjo Lopez said the fees should be viewed in a business perspective and she requested a report to better understand the numbers.

Mr. Grabel said he could not speak for the procurement process that other employers have used; however, the \$52 with Nationwide was attained via a competitive procurement process. As a fiduciary plan, Smart Save has an audit, an investment consultant and participants may be getting more value per fee dollar. Mr. Grabel said the question what is an equitable apportionment of the \$52.

Mr. Esquibel said as long as the administrative fees are fair, reasonable and equitable across the board he was comfortable. Ms. French said it was the Board's decision to go with the flat fee.

As a fiduciary, Mr. Melia questioned whether a DC that financially impacts participants with a low balance is the right thing.

Chair Reynolds said staff can consider the Committee members' comments and possibly return with a recommendation.

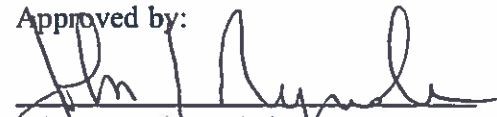
5. **OTHER BUSINESS**

None was offered.

6. **ADJOURNMENT**

Upon motion by Mr. Mayfield and second by Ms. Naranjo Lopez, Chair Reynolds adjourned this meeting at approximately 10:50 a.m.

Approved by:



John Reynolds, Chair
Smart Save Committee

ATTEST:



Wayne Probst, Executive Director

Attached Exhibits:

Exhibit 1: PERA Staff Memo

Exhibit 2: Meketa Report – FY17 Q1

Exhibit 3: Nationwide Report – FY17 Q1

Exhibit 4: PERA Staff Memo