

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**BOARD MEETING**

**October 27, 2016**

This meeting of the Public Employees Retirement Board was called to order by Patricia French, Chair, at approximately 11:25 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.

**1. & 2.      ROLL CALL**

The Pledge of Allegiance occurred at the Investment Meeting. Executive Director Wayne Propst called roll and a quorum was established with the following members present:

**Members Present:**

Patricia French, Chair - Municipal  
Dan Esquibel – Municipal  
Paula Fisher - State  
James Maxon – County  
John Melia – Municipal  
Loretta Naranjo Lopez - Retiree  
Cathy Townes - State

**Member(s) Absent:**

Dan Mayfield, Vice Chair – Retiree, excused  
Tim Eichenberg - *Ex-officio*  
Jackie Kohlasch – State, excused  
John Reynolds – State, excused  
Brad Winter - *Ex-officio*

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Jon Grabel, Chief Investment Officer  
Greg Trujillo, Deputy Director  
Karen Risku, Deputy General Counsel  
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  
David Dana, Assistant General Counsel  
LeAnne Larrañaga-Ruffy, Director of Equity  
Mark Montoya, Investments Division  
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  
Eric Berman, Eide Bially, LLP  
Jonathan Craven, Cavanaugh Macdonald  
John Garrett, Cavanaugh Macdonald

**3. APPROVAL OF AGENDA**

Mr. Esquibel introduced the following motion:

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

Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote.

**4. APPROVAL OF CONSENT AGENDA**

*[Exhibit 1: Consent Agenda]*

Chair French said she reviewed the minutes and found them complete and accurate.

Mr. Maxon introduced the following motion:

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

Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote.

**5. CURRENT BUSINESS**

**A. SmartSave**

**Executive Session**

- 1. The Board will go into Executive Session under NMSA 1978, Section 12-6-1 to 12-6-14 to Discuss the FY16 Deferred Compensation Plan Audit Report**

Mr. Maxon moved to go into executive session pursuant to NMSA 1978 as listed in the agenda caption. Ms. Naranjo Lopez seconded and the motion passed by unanimous roll call vote as follows:

Patricia French	Aye
Dan Esquibel	Aye
Paula Fisher	Aye
James Maxon	Aye
John Melia	Aye
Loretta Naranjo Lopez	Aye
Cathy Townes	Aye

[The Board met in executive session from 11:15 a.m. to 11:35 a.m.]

Mr. Melia moved to return to open session. Mr. Maxon seconded and the motion passed by unanimous roll call vote as follows:

Patricia French	Aye
Dan Esquibel	Aye
Paula Fisher	Aye
James Maxon	Aye
John Melia	Aye
Loretta Naranjo Lopez	Aye
Cathy Townes	Aye .

Chair French announced that the only item discussed during executive session was listed on the agenda.

Mr. Esquibel introduced the following motion:

**“RESOLVED, that the PERA accept the Deferred Compensation Plan Audit Report.”**

Ms. Townes seconded and the motion passed without opposition.

**B. Investments**

**1. Recommendation to Commit up to 65 Million to Antin  
Infrastructure Partners III, LP**

Mr. Esquibel, Chair of the Investments Committee, said this item was discussed during this morning’s meeting and he introduced the following motion:

**“RESOLVED, that the PERA Board approve the commitment of up to 65 million to Antin Infrastructure Partners III, LP, subject to legal review.”**

Mr. Melia seconded and the motion passed by unanimous voice vote.

**2. Recommendation to Commit up to \$200 Million  
to Tennenbaum Capital Partners, for a direct lending Fund of  
One**

This item was also discussed at this morning’s IC meeting and Mr. Esquibel introduced the following motion:

**“RESOLVED, that the PERA Board approve the commitment of up to \$200 million to Tennenbaum Capital Partners, for a direct lending fund of one, subject to legal review.”**

Mr. Melia seconded and that motion passed by unanimous voice vote.

**C. Audit & Budget**

**1. Approval of JRA, MRA and VFF Experience Study Recommendations**

Mr. Propst reminded the Board that these experience studies and recommendations were reviewed and approved at the last Audit & Budget Committee meeting.

Chair French introduced the following motion:

**“RESOVED, that the PERA Board approve the JRA, MRA and VFF Experience Study recommendations.”**

Ms. Fisher seconded and the motion passed by unanimous [7-0] voice vote.

**E. Approval of FY 16 Actuarial Valuations**

*[Exhibit 2: Cavanaugh Macdonald, Actuarial Valuations Report]*

John Garrett, Cavanaugh Macdonald, said this had been a particularly complex year with the valuation study following the experience study and incorporation of those new assumptions. The actuaries look to ensure the reconciliation and the reasonableness of the results of the total fund. Also, this year there was a change in some of the coding as a result. This year the data for pensionable earning has improved and was relied upon in developing valuation results.

Mr. Garrett provided the following observations:

- The actuarial investment losses for the five PERA divisions increased the unfunded actuarial accrued liability (UAAL) by \$14.2 million due to the 7.65 percent return on smoothed value compared to an expected return of 7.75 percent
- The return on market value was 0.34 percent
- All gains and losses that are measured are based on the prior assumptions that were in effect.
- There was an actuarial gain due to non-investment related experience which decreased the UAAL by about \$155 million which is attributed to salary increases being less than expected
- There was a small increase in the UAAL of \$108 million and a funded ratio increase of 0.4 percent
- The statutory rates are now expected to fully amortize UAAL in 56 years; last year it was 41 years
- In the past, total compensation was relied on which includes overtime, clothing pay etc. which are not pensionable earnings. Last year solid pensionable data was available and it is now being employed. The net effect is a very slight improvement to the funded ratio and a slight change to the funding period
- Judge and Magistrate plans showed a slight decline in the funded ratio

Jonathan Craven, Cavanaugh Macdonald, reviewed a pie chart of the liabilities with the present value of benefits for the current members and retirees. It is at \$21,951,183,972. If

PERA had the \$22 billion instead of the \$14 billion they would not need to contribute to the plan. If all the current predictions played out, \$22 billion would cover the current members. Of the \$22 billion, \$19.5 billion is the actuarial accrued liability. The current assets cover 75.3 percent of the actuarial accrued liability leaving an UAAL of \$4.8 billion.

He reviewed PERA's historical membership data since 2009 showing the actives, retirees and ratio. At this point there are more actives than retirees in most plans. It is not unusual to have more retirees than actives in public safety plans.

Mr. Garrett commented that if retirees live longer it will be challenge.

Mr. Craven explained that legislators are not in a payroll-based plan nor are their benefits related to a salary.

Mr. Craven noted that the legislation of 2014 that required contributions from all magistrates has improved the ratio with payouts.

Mr. Garrett said there will be a dip before there is an improvement in the funded ratio because of the investment losses. He reviewed the funded ratio for the different plans and highlighted the shortfall. There is a fairly flat normal cost rates across the plans with a slight in UAAL in most of the plans. State general has the problem of not enough money being contributed to pay the interest on the UAAL. State police is so well funded that future contributions are not required in the long term. He noted that Judicial and Magistrate are stabilizing

Mr. Garrett explained to the Board that "anything that is good for humans is bad actuarial experience. "People living longer and big pay raises are all bad actuarial experience.

The gain/loss analysis was impacted by two items: the method change to pensionable earnings which decreased the UAAL, and the economic assumption changes that lowered the discount rate which increased liabilities.

Chair French deferred action on this item.

#### **D. Presentation of FY15 GASB 67 Draft Results**

Mr. Garrett pointed out that GASB is information purely for the purposes of financial accounting and reporting and has nothing to do with funding the plan.

Mr. Craven noted that accountants and actuaries are different in that actuaries look forward to what's going to happen, and accountants look at what has happened.

Mr. Garrett said GASB looks at fiscal year-end market value to determine the net plan position. He said GASB can be far more volatile in regards to market loss because they do not do any smoothing.

Mr. Craven said GASB sees PERA's net pension liability (NPL) as \$6.2 billion which is greater than the \$4.819 billion UAAL in the valuation. The Board decreased the assumed

annual net rate of return to 7.25 percent for the first 10 years and 7.75 percent thereafter. The single equivalent discount rate of the new assumption is 7.48 percent which results in an increase to the NPL. He reminded the Board that the Judges and Magistrates failed the solvency test.

GASB liabilities are based on members as of July 2015 and funded liabilities are based on July 2016 members, stated Mr. Craven. He reviewed the change in net pension liability, and discount rate sensitivity of PERA within GASB. He explained how the data is used on each of the affiliates' balance sheets.

#### **F. Executive Director's Report**

Mr. Propst thanked the actuaries for their work and Ms. Cordova and Mr. Trujillo for getting the data together. He said today starts the first of eight legislative (IPOC and LFC) presentations to occur within the next three days that PERA will present starting with the FY18 budget request. He encouraged Board members to attend the meetings. He lauded the professionalism and high quality of PERA staff.

#### **5. OTHER BUSINESS**

Chair French said the Board has a lot to do in the next two months and she proposed holding the November Board meeting on Thursday, November 17<sup>th</sup> and the December Board meeting on Thursday, December 29<sup>th</sup>.

Chair French requested updates from both the Election Process and Board Attorney Investigative subcommittees.

Board Attorney Investigative Subcommittee Chair Naranjo Lopez said she received a contract from Robles & Anaya and requested a special board meeting to move forward on this item.

Renada Peery-Galon, ASD Director, said the contract will have to be forwarded to DFA and usually a contract amendment is handled fairly quickly.

Mr. Esquibel said he wanted to see this amendment addressed and acted upon this calendar year.

Chair French agreed with Mr. Esquibel and directed staff to expedite the contract amendment.

Election Process Subcommittee chair Maxon said they have made a great deal of progress and he thanked staff for their work. The complaints regarding the last election will be reviewed at the next meeting scheduled for early November.

Chair French asked that staff include an agenda item on reports from conferences and workshops. She said she was recently at a conference and discussed board attorneys and the election process and it appears to her that PERA is on the right track. All of the pension fund representatives she talked with had contract-type board attorneys. She also talked to people at the conference about internal auditors and she will be discussing that with the Audit & Budget

committee.

Chair French requested the next Legislative Committee agenda include contracts and temporary employment with return-to-work PERA retirees.

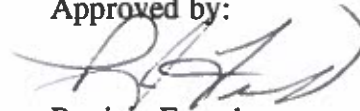
Chair French said she was having difficulties with the email as were other Board member and advocated a PERA dedicated email server. She also asked about training for the BoardPortal and Deputy Director Trujillo said that can be scheduled.

Chair French reminded staff that the Board would like to continue with its Team Building activities.

**7. ADJOURNMENT**

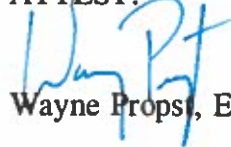
Having completed the agenda and with no further business to come before the Board, Chair French declared this meeting adjourned at 12:55 p.m.

Approved by:



Patricia French  
Chair, PERA Board

ATTEST:



Wayne Probst, Executive Director

Attached Exhibit:

*Exhibit 1: Consent Agenda*

*Exhibit 2: Cavanaugh Macdonald, Actuarial Valuations report*