

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**SMARTSAVE**  
**COMMITTEE MEETING**

**September 13, 2016**

This meeting of the Public Employees Retirement Board SmartSave Committee was called to order by Chair John Reynolds at approximately 9:00 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) Absent:**

Tim Eichenberg  
Brad Winter

**Other Member(s) Present:**

Patty French  
James Maxon  
Paula Fisher  
John Melia  
Cathy Townes

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff-General Counsel  
Greg Trujillo, Deputy Director/Chief Information Officer  
Karen Risku, Deputy General Counsel  
Dana David, Assistant General Counsel  
Renada Peery-Galon, ASD Director  
Jude Perez, Deputy CIO  
Karyn Lujan, Deferred Compensation Plan Manager  
LeAnne Larrañaga-Ruffy, Director of Equity

Natalie Cordova, Chief Financial Officer  
Kristin Varela, Portfolio Manager  
Emily Lopez, Financial Specialist  
Christine Ortega, Portfolio Manager  
Lalleh Dayeny, Investments Division

**Others Present:**

Ted Benedict, Meketa Investment Group

**2. APPROVAL OF AGENDA**

Ms. Kohlasch moved to approve the agenda as presented. Her motion was seconded by Mr. Mayfield and passed by unanimous [4-0] voice vote.

**3. APPROVAL OF CONSENT AGENDA**

Chair Reynolds indicated he reviewed the meeting minutes and found them accurate.

Mr. Mayfield moved approval. Ms. Naranjo Lopez seconded and that motion passed by unanimous [4-0] voice vote.

**4. CURRENT BUSINESS**

**A. Recommendation to Replace BlackRock Inflated Protection Bond Fund with Vanguard TIPS Fund within the PERA SmartSave Fund line-up [Exhibit 1: PERA Staff TIPS Memo & Meketa TIPS Report]**

Karyn Lujan, Deferred Comp Plan Manager, said PERA staff, along with Meketa Investment Group, recommends the replacement referenced in the caption. Currently, BlackRock has an exposure in the LifeCycle portfolios that ranges from 1 percent to 12 percent with over \$6.0 million in participant assets. There are 590 participants invested in BlackRock TIPS as a standalone fund.

A passive TIPS (Treasury Inflation Protected Securities) strategy as offered by Vanguard could potentially save participants, as a whole, up to \$25,000 per year in fees. Vanguard TIPS has characteristics of a traditional TIPS index which includes inflation protection and a risk controlled approach. She noted that Vanguard is currently one of the largest TIPS index funds in the industry.

Ms. Lujan noted that the current BlackRock TIPS fund has little added value and is less consistent with PERA's focus on asset allocation and its effect on returns.

If approved, Nationwide could begin an implementation process by mid-October for the new fund to be effective by December. The participants invested in BlackRock Inflated Protection Bond Fund would be notified by USPS, the SmartSave website and within the December quarterly statement.

Ted Benedict, Meketa, provided an overview of TIPS: they offer protection against inflation, are less risky than bonds and equities, have produced different return patterns from stocks and other bonds, can improve a fund's long-term risk-reward relationship and as an asset class is very efficient – there is little room for active management to add value.

He demonstrated using a graph that active management performance compared to an index adds little value. Mr. Benedict reviewed the process used to screen and conduct due diligence before developing the recommendation for Vanguard.

**Ms. Naranjo Lopez moved to recommend that PERA replace BlackRock's Inflation Protected Bond strategy with the Vanguard Inflation Protected Securities fund in the PERA SmartSave Fund. Ms. Kohlasch seconded and the motion passed by unanimous [4-0] voice vote.**

**B. Recommendation to select Columbia High Yield Bond Fund to implement into the fixed income allocation within the PERA SmartSave LifeCycle Portfolios [Exhibit 2: PERA Staff HY Memo and Meketa HY Report]**

Ms. Lujan said the addition of a high yield bond fund within the LifeCycle Portfolios could potentially increase return prospects, improve the Sharpe ratio for the shorter dated funds and is aligned with PERA's conviction in asset allocation and diversification. She reviewed the MQs for the high yield bond fund and reviewed the search process. There were originally 26 candidates narrowed down to three finalists. All three finalists are viable candidates for PERA.

PERA agrees with Meketa's recommendation to select Columbia High Yield Bond Fund for the following reasons: the flexible investment strategy, they have a large, experienced and stable investment team, the long-term risk adjusted performance has been strong in comparison to the benchmark, and relative to peers the expenses are well below the average.

Mr. Benedict noted that the recommendation is to add this fund to the LifeCycle portfolios only and according to the asset allocations approved at the last meeting, it would make up 2.5 percent to 8 percent of the different LifeCycle portfolios. He reviewed the screening process which included Morningstar direct database which contains 197 unique strategies. Twenty-six met the performance criteria and the assets reduced that to 13 candidates.

Meketa has a dedicated investment analyst that covers each asset class and that individual has been covering high yield bond fund managers for Meketa for eight years. He meets with and interviews all high yield bond fund managers, conducts due diligence and formulates an opinion on which are the best. It is a qualitative opinion based on a number of measures: organization, investment team, investment strategy, investment process and risk management of the strategy and performance, and fees.

Mr. Benedict reviewed the analysis of the three finalists. Columbia's team is made up of 16 individuals based in Minneapolis with very stable personnel. Compared to the other finalists Columbia offers the best risk adjusted returns in terms of the highest Sharpe ratio and the lowest information ratio. All of the finalists have below average expense ratios. Vanguard is the lowest with Columbia second. While all the finalists meet the minimum search criteria and are viable options, Columbia High Yield Bond Fund's deep experience and stable investment team stands out. The strategy utilizes a flexible approach that can adapt to evolving credit market conditions.

Ms. French said the bottom line is PERA's membership looks at cost savings and Vanguard offered the best fees. She asked Mr. Benedict to justify going with Columbia. Mr. Benedict acknowledged that Vanguard's expense ratio stands out as the lowest fee option within the entire asset class. Meketa recommends Columbia because there is better value. On a net of fee basis over a longer time period, Columbia has delivered better performance for participants and shareholders and they have delivered it with better risk adjusted returns. While Vanguard is a low fee option there may be time periods when they will be underperforming and lagging the peer group because of their high quality approach.

Mr. Melia asked why this fund was being offered to the LifeCycle Portfolios and not the overall fund line-up. Mr. Benedict said that is an option that could be explored. There is potential for participant misuse and return chasing. High yield bonds are the riskiest and most volatile area of the bond market. This is not a conservative bond fund that protects principal. It is designed to add a high coupon and equity-like risk associated with it.

Mr. Melia said investing will always depend on education and he questioned holding back on options and protecting investors from themselves. Mr. Benedict said the industry is using a white label approach to naming DC plan investment options.

Deputy CIO Perez reminded the Committee that they have the option to add this line-up to all SmartSave participants.

Chair Reynolds observed that there were less than 20,000 members in SmartSave and roughly 10,000 are invested in a LifeCycle fund. Mr. Benedict confirmed there was a minimum investment but PERA is well above that threshold.

Mr. Melia recommended that staff have a prepared response to participants who may want to invest in high yield bonds but cannot access them.

**Mr. Mayfield moved to recommend that addition of Columbia High Yield Bond Fund into the fixed income allocation within the PERA SmartSave LifeCycle portfolios. Ms. Kohlasch seconded and the motion passed by unanimous [4-0] voice vote.**

## **5. OTHER BUSINESS**

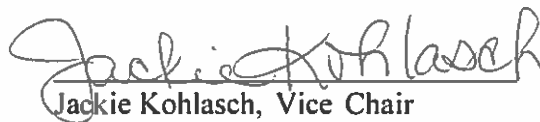
A happy birthday wish was extended to Ms. Naranjo Lopez.

Chair Reynolds expressed his appreciation to Meketa for recommending the addition of the high yield bond fund to the LifeCycle funds. The Board members were acknowledged for asking good questions that lead to good decisions.

6. **ADJOURNMENT**

Upon motion by Mr. Mayfield and second by Ms. Kohlasch, Chair Reynolds adjourned this meeting at approximately 9:55 a.m.

Approved by:

  
Jackie Kohlasch, Vice Chair  
SmartSave Committee

ATTEST:

  
Wayne Propst, Executive Director

**Attached Exhibits:**

*Exhibit 1: PERA Staff TIPS Memo & Meketa TIPS Report*

*Exhibit 2: PERA Staff HY Memo and Meketa HY Report*

