

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**BOARD MEETING**  
**July 26, 2018**

This monthly meeting of the Public Employees Retirement Board was called to order by James Maxon, Chair, at approximately 9:00 a.m. on the above-cited date at the MCM Elegante Lodge & Resort Meeting Room, 107 Sierra Blanca Drive, Ruidoso, New Mexico.

**1. Roll Call**

The Pledge Allegiance led by Lincoln County Commissioner Tom Stewart followed roll call which indicated a quorum. With the following members present:

**Members Present:**

James Maxon, County, Chair  
Jackie Kohlasch - State  
Claudia Armijo - State  
Natalie Cordova - State  
Patricia French - Municipal  
John Melia - Municipal  
Dan Mayfield - Retiree  
Loretta Naranjo Lopez - Retiree  
Cathy Townes - State

**Member(s) Absent:**

Maggie Toulouse Oliver - *Ex-officio*  
Dan Esquibel - Municipal  
Tim Eichenberg - *Ex-officio*

**Staff Members Present:**

Wayne Propst, Executive Director  
Greg Trujillo, Deputy Director/Chief Information Officer  
Karen Risku, Deputy General Counsel  
Dana David, Assistant General Counsel  
Dominic Garcia, Chief Investments Officer  
Renada Peery-Galon, ASD Director  
Kristin Varela, Deputy CIO  
Trish Winter, Executive Assistant  
LeAnne Larrañaga-Ruffy, Director of Equity  
Karyn Lujan, Deferred Compensation Plan Manager

**Others Present:**

Tom Toth, Wilshire Associates  
Rose Dean, Wilshire Associate  
John Garrett, Consulting Actuary  
Harvey Leiderman, Reed Smith  
Charlie Marquez, Spectrum  
Connor Jorgenson, LFC Analyst  
Rafael Salas, Mayor Pro Tempore, Village of Ruidoso  
Tom Stewart, Lincoln County Commissioner

On behalf of the Village of Ruidoso and the PERA members of the southern portion of the State, Rafael Salas welcomed the Board and thanked them for their diligence and meeting in Ruidoso.

Lincoln County Commissioner Tom Stewart said he was pleased to welcome the PERA Board.

Three PERA retirees from Las Cruces were recognized.

## 2. Approval of Agenda

Chair Maxon reminded the Board that they previously discussed removing item F, a resolution regarding PERA Board's commitment to guiding actuarial principles to reduce the fund's UAAL. The resolution will be reintroduced at the next Board meeting.

Mr. Melia introduced the following motion:

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

Mr. Mayfield seconded and the motion passed by unanimous [9-0] voice vote.

## 3. Approval of Consent Agenda

*[Exhibit 1: Consent agenda]*

Mr. Mayfield introduced and Dr. Kohlasch seconded the following motion:

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

Under discussion, Ms. French said her notes were not listed as an exhibit on the attachment to the minutes as she had requested. She asked that the audio be available at least a week prior to taking action on the minutes. Ms. Naranjo Lopez supported Ms. French's comment.

The motion passed by majority vote with Ms. French and Ms. Naranjo Lopez voting no and Chair Maxon abstaining because of an item from Sandoval County.

## 4. Current Business

### A. Approval of updated PERA SmartSave Investment Policy

Karyn Lujan, Deferred Compensation Plan Manager, said the policy was presented to the SmartSave Committee at its March 13<sup>th</sup> meeting and was not approved at that time with direction to staff to address the definition structures. Those items have been redrafted and the entire document was re-reviewed to ensure policy language is consistent with all the governing documentation.

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board approve the SmartSave Investment Policy.”**

Mr. Melia seconded.

Under discussion, Ms. Naranjo Lopez requested that “periodically” be removed from page 3,

items b and c. Assistant Counsel David said “periodically” is there to identify that the frequency of the routine review will be based on the decision of the Board and Committee. Periodically does not limit timing or scheduling.

The motion passed without opposition.

### **B. Approval of PERA SmartSave Committee Charter**

Ms. Lujan said this item was presented to and approved by the committee on March 13<sup>th</sup>; however, it was not approved by the Board. At that time, Ms. Naranjo Lopez requested the inclusion of “delegate,” “authority” and “monitors” to clarify that the Board is the overall responsible party. That language was added.

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board approve the SmartSave Committee Charter.”**

Mr. Melia seconded and the motion passed by unanimous [9-0] voice vote.

### **C. Approval of Experience Study Recommendations**

Cavanaugh Macdonald Consulting Actuary, John Garrett said the final version of the experience study was presented during the retreat. The primary changes were to the discount rate, dropping it to 7.25 percent for all years, an adjustment to inflation, and the change to the mortality table. An analysis of the impact of those changes was presented during the retreat and he stood for questions.

Mr. Melia thanked the actuary for his work and introduced the following motion:

**“RESOLVED, that the PERA Board approve the Experience Study recommendations.”**

Ms. Armijo seconded.

Commenting that this was an important document on which the Board was asked to vote, Ms. French asked about any changes. Mr. Garrett repeated that the most material changes and assumptions were to the discount rate which will remain at 7.25 percent, leveling inflation to 2.5 percent and the mortality changes which are the most current available. He confirmed that they reviewed a survey of 100+ public pension plans as part of their study and the recommendations follow a trend.

Ms. Naranjo Lopez stated for the record, that in 2011 PERA requested that the actuaries project assumed investment returns, and she pointed out that, since that time, the investment assumptions have been reduced thus causing a decrease in projected funding in 2041. She said that the reduction will result in a 1 percent funding decrease and has a significant long-term effect. “Reducing the actual investment returns assumptions by 1/2 of 1 percent ... will probably cause a .5 percent per year decrease in funding.” She said that the Board is missing the point and that she will vote against it. “We are already underfunded...we’re not doing what we need to do and you’re asking the taxpayers to take the burden.”

Mr. Garrett said there is a common confusion about the assumption of discount rate for

discounting back all of the cash flow in the plan to the day, versus what you anticipate you're going to get on investment return. It is tied to that and the information is the same, because it needs to be similar, based on consistent information. With a rate of return that is not met, the fund will experience a loss which costs more to fund than assuming the right assumption at the midpoint of experience.

Ms. Naranjo Lopez said that since 2005 when she served on the Board, the previous chief investment officer Gish cautioned the Board not to change the expected rate of return. Having done so last year it impacted the unfunded liability. Ms. Naranjo Lopez said staff needs to start looking at how they are investing, and if they're doing their job they'll meet the rate.

Mr. Garrett said PERA will fall within the current trend, which is 7.32, the average plan's actuarial assumption. This is a better estimate of plan's true cost. The concept of the experience study is to give decision makers a picture based on best estimates of what will happen in the future.

Ms. Cordova said the Board's duty is to make hard decisions. If there were a way to keep it at a higher rate, the Board would support it; however, that is not the information that the actuaries provided. Ms. Armijo agreed with Ms. Cordova's observations and added that she would be anxious if the rate were adjusted higher.

The motion passed by majority [8-1] voice vote with Ms. Naranjo Lopez voting against.

#### **D. Approval of Risk Balance Policy Proposal**

PERA CIO Dominic Garcia, noted that this item has been discussed for a few months with two education sessions, along with a session during the current retreat. This item will update the asset allocation to include risk balance.

Tom Toth, Wilshire, said the recommendation is to adopt a new target allocation with 10 percent allocation to the multi-risk allocation asset class. High level points in the rationale are that it improves the risk adjusted returns of the portfolio, increasing the expected return by approximately 18 basis points and decreasing the expected risk level by 9 basis points. Given that profile, Wilshire and staff believe it is a prudent shift.

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board approve the risk balance policy proposal.”**

Ms. Armijo seconded.

During discussion, Ms. French said she could not support the recommendation because it shows the fund will be less funded in 10 years than where the fund is today. She said she appreciates the work that was conducted to develop the recommendation and understands the importance of lowering risk. However, the proposal does not show an improvement in the fund. She wanted to see something to improve the unfunded liability and this appeared to move PERA further from that.

Mr. Toth said it is an improvement in the expected case relative to the current policy. The recommended target improves PERA's position over the current targets. He confirmed that over 10 years, the median funded ratio decreases, but with the recommended portfolio the decrease is less than the current portfolio.

Mr. Garcia said the proposal improves PERA’s portfolio by improving returns which helps the funding status. Today’s assumptions of the expected return of the current target portfolios, is about 6.75 percent. This policy is a portfolio enhancement and will improve that return by 20 basis points.

In response to a question by Ms. Naranjo Lopez, Mr. Toth said Wilshire continuously works with its clients to adjust the portfolios to better meet their objective. He said increasing real asset exposure and increasing exposure to illiquids have been common themes across Wilshire’s client base.

Mr. Toth said Wilshire has been assisting pension plans in meeting their objectives for more than 45 years. PERA’s portfolio is incredibly well-diversified and has exposure to effectively every type of asset class available.

Mr. Mayfield said he reviewed the proposal with Mr. Garcia in depth and supported it.

The motion passed by majority [7-2] voice vote with Ms. French and Ms. Naranjo Lopez voting against.

Ms. French stated for the record, that her “nay” vote was not a reflection on either staff or Wilshire’s work, but that she preferred more choices.

**E. Approval of Amended Investment Policy Statement**

Mr. Garcia said this item formally incorporates the risk balance policy into the policy statement.

Mr. Mayfield introduced the following motion:

**“RESOLVED, that the PERA Board approve the amended Investment Policy Statement.”**

Ms. Armijo seconded.

Kristin Varela, Deputy CIO, said the item is administrative by adding a description of what the multi-risk asset allocation will look like and the required adjustments.

The motion passed by unanimous [9-0] voice vote.

**F. Tabled**

**G. Executive Session - Attorney Reports**

- 1. Discussion of pending litigation and proposed settlement agreement under NMSA 1978, Section 10-15-1(H)(7): *AFSCME et al. vs. State of New Mexico, et al.***

**Mr. Melia moved to go into Executive Session to discuss the matter listed on the agenda pursuant to NMSA 1978, Sections 10-15-1 (H) (7). His motion was seconded by Dr. Kohlasch and passed by unanimous roll call vote as follows:**

James Maxon	Yes
Jackie Kohlasch	Yes
Natalie Cordova	Yes
Cathy Townes	Yes
Claudia Armijo	Yes
Tim Eichenberg	Absent
Dan Esquibel	Absent
Patricia French	Yes
Dan Mayfield	Yes
John Melia	Yes
Loretta Naranjo Lopez	Yes
Maggie Toulouse Oliver	Absent

[The Board met in Executive Session from 9:50 a.m.-10:05 a.m.]

Returning to open session, Chair Maxon announced that the e only matter discussed during executive session was that as noted in the agenda.

**Mr. Mayfield moved to return to open session. Ms. Cordova seconded. The motion passed by unanimous roll call vote as follows:**

James Maxon	Yes
Jackie Kohlasch	Yes
Natalie Cordova	Yes
Cathy Townes	Yes
Claudia Armijo	Yes
Tim Eichenberg	Absent
Dan Esquibel	Absent
Patricia French	Yes
Dan Mayfield	Yes
John Melia	Yes
Loretta Naranjo Lopez	Yes
Maggie Toulouse Oliver	Absent

**H. Acceptance of *AFSCME et al. vs. State of New Mexico, et al.* Settlement Agreement**

Ms. French moved the following:

**“RESOLVED, that the PERA Board accept the settlement agreement of AFSCME et al. vs. State of New Mexico.”**

Dr. Kohlasch and Ms. Armijo seconded and the motion passed by unanimous voice vote.

**5. Other Business**

Ms. Naranjo Lopez asked each of the Board members, “Who wants to risk losing their house or pension because of staff’s misconduct? This is an expensive negligence.” Most responded “no response.”

Ms. Naranjo Lopez then asked, "Whose job description is to invest, hold and sell?" She pointed out that the S&P 500 index made 17 percent last year. In the last 90 years, S&P 500 made 8 percent and has expected returns at or above 7.25 percent. Why hold bonds at 3 percent, she asked. She proposed that the CIO be demoted to Chief Monitor Officer and be given \$1 million to invest and then, after three months, determine his investment skills.

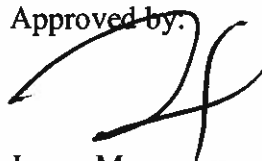
Ms. Naranjo Lopez said she would like to replace Reed Smith who did not sign a required document and "clearly reports to staff" which is a conflict of interest.

Mr. Propst said he was very proud of PERA's staff, and this retreat, with the tremendous amount of work they performed, increased his pride. He said he has complete and absolute confidence in CIO Garcia and all of PERA's staff. This retreat resulted in the most substantive discussions that he recalls in the seven retreats in which he has participated. He thanked Chair Maxon for his leadership, input and support of staff.

6. **Adjournment**

Chair Maxon declared this meeting adjourned at 10:15 a.m.

Approved by:



James Maxon  
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Attached Exhibits:

*Exhibit 1: Consent Agenda*