

**NEW MEXICO  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**SmartSave Committee Meeting**

**September 8, 2020**

1. This monthly meeting of the SmartSave Committee Meeting was held on the date cited above via Zoom tele/videoconferencing. Shirley Ragin, Chair, called the meeting to order at approximately 9:03 a.m. and adjourned at 9:51 a.m.

**2. & 3. Pledge of Allegiance and Roll Call**

Following the Pledge of Allegiance, Trish Winter, Executive Assistant, undertook the roll call. Meeting attendance met quorum, with the following members present:

**Members Present:**

Shirley Ragin, Chair  
Claudia Armijo  
Tim Eichenberg  
David Roybal, Vice Chair (at 9:25 a.m.)  
Patty French (at 9:35 a.m.)

**Additional Board Members:**

Paula Fisher  
Loretta Naranjo Lopez  
Dan Mayfield  
Lawrence Davis

**Staff Members Present:**

Wayne Propst, Executive Director  
Greg Trujillo, Deputy Director  
Susan Pittard, General Counsel  
Dominic Garcia, Chief Investment Officer  
Kristin Varela, Deputy CIO  
Karyn Lujan, SmartSave Plan Manager  
Anna Williams, Administrative Services Director/CFO  
LeAnne Larranage-Ruffy, Private Equity

**Others Present**

Paula Cowie, Meketa Investment Group  
Charles Burciaga, Voya Financial

**4. Approval of Agenda**

Ms. Claudia Armijo moved to approve the Agenda. Mr. Tim Eichenberg seconded. The motion to approve the Agenda was passed by unanimous consent.

**5. Approval of Consent Agenda**

Ms. Claudia Armijo moved the motion to approve the Consent Agenda, seconded by Mr. Tim Eichenberg. The Consent Agenda was approved by unanimous consent.

**6. New Business**

### ***6(A) SmartSave Plan Updates***

Dominic Garcia, PERA CIO, and Karyn Lujan, SmartSave Plan Manager, presented the SmartSave Plan Update. Ms. Lujan summarized on Slide 2 the outreach campaign for the SmartSave Plan, reminding members of two options for plan participants to receive investment advice: the free option and the managed account option at an additional fee. Ms. Lujan reminded members this was not a Voya marketing piece, it was a PERA SmartSave marketing piece and was branded with all PERA SmartSave branding. Emails and mailings were sent between July 29<sup>th</sup> and August 12<sup>th</sup>.

Slide 3 summarized the results of this outreach campaign. A population of 22,000 participants received the outreach, providing they had \$5 or more. The response rate was slightly under 3%; 2.46% is considered decent, with 550 participants who took some form of action as a result of the campaign. 148 participants had advisory planning sessions, 179 took the online advice, and 369 enrolled in the professional management options.

Slide 4 updated members on the investment options. The Stable Value Option which is not a mutual fund, just a cash option. Galliard Capital Management is the fund manager for the Stable Value Fund. Galliard's contract ended on June 30<sup>th</sup>, 2020 and was renewed by PERA on July 1<sup>st</sup> given acceptable performance and as permitted under policy in force. The contract was changed to a commonly used evergreen structure with no termination date; termination can occur when either party desires with proper notice.

Next is a fund swap. Meketa Investment Group has been talking about the Franklin Templeton Global Bond Fund for years now. Our plan doesn't have an official watch list, but this fund could be considered a watch list. This fund was categorized as a bond fund and is structured with components that take on additional risk than a traditional bond fund with appropriate benchmarks to track performance. Performance was falling below required benchmarks of the investment policies, so a search was conducted and the Templeton fund was swapped with a true emerging market debt fund instead, Wellington Trust Company. The fund remains Tier 4. This went live in the plan on August 28<sup>th</sup>. Notification of this swap was sent in July.

Mr. Garcia noted the Franklin Templeton Global Bond Fund is also in the target date funds. In the target date funds, the asset allocation calls for an emerging market debt strategy. It wasn't necessarily functioning as an emerging market debt strategy, so Wellington is a better fit in the target date funds as well, overall a better fit to the plan at comparable fees.

Slide 5 highlighted that in December of 2020, the 2020 lifecycle portfolio to become the conservative portfolio. At that time, a new 2060 lifecycle portfolio will be added effective January 1, 2021. Meketa will work with Voya on the asset allocation.

Ms. Lujan noted that the plan is in the middle of its fiscal year audit, being conducted by Moss Adams. The audit is due to the Office of the State Auditor on November 1<sup>st</sup>, and work is being completed diligently.

### ***Questions and Comments***

Ms. Ragin noted it was awesome that so many people signed up for the active management and asked if the campaign would be conducted annually. Ms. Lujan indicated it would be something done periodically with a date to be determined, expressing a desire to not overwhelm participants with too much marketing.

Ms. Armijo enquired to the evergreen status, noting it was at the will of either party to break the contract. Ms. Lujan affirmed that assertion, highlighting the need for proper notice.

### ***6(B) Q4 FY20 (June 30, 2020) Investment Performance Review***

**PERA SmartSave Committee Meeting: September 8, 2020**

Mr. Paul Cowie from Meketa Investment Group presented the quarterly performance report for the June 2020 quarter. Mr. Cowie presented the breakdown of the investment lineup by tiers, noting one change to Tier 4 option, the Franklin Templeton Global Bond Fund. That fund will now be Wellington as of the end of August.

The overall assets of the plan as of the end of the second quarter experienced a huge jump, due to the unbelievable rally in the market, with assets at \$662 million, up approximately \$75 million from the end of the first quarter; for reference, we were at \$674 million at the end of 2019. In the third quarter, that level will be expected with the continued rally, well into positive territory in Q3 so far.

The plan saw net cash inflows of just under \$770,000. Participants are continuing to contribute money during volatile times. The top five investment options, Lifecycle portfolios continue to be the biggest option at \$181.3 million, just over 27% of the plans assets; the next biggest was just under 21% of assets. The Lifecycle portfolios are starting to break away a little bit in terms of the largest holding.

Page 15 provides an overall view of the plan's assets, organized by tier. The Tier 1 target date portfolio was 27%; there is a pretty nice amount in passive funds at 21%; still a huge chunk in the active Tier 3 funds with 48%, and a very small amount in the Extended Choice options, Tier 4, at about 2%; about 2%, or \$12.3 million, in outstanding loans on the plan.

Page 16 highlights Q2 performance, beginning with the Lifecycle portfolio's strong rebound with the equity market rally. The most conservative option was up 6.9% for the quarter and is now slightly positive YTD. The 2055 portfolio shows a return of 16.4%, as that fund is mostly invested in equities. Relative to benchmarks, all the funds outperformed their benchmark in the second quarter but did trail peers a little bit, as these funds are structured more conservatively.

Through the end of August 2020, the portfolios have continued to do well in 3Q. YTD returns are between 3% and 4% for all of the portfolio, all into positive territory YTD, despite some recent market volatility.

Page 18 highlights Tier 2 -- all Vanguard funds -- passively managed options across a few different asset classes. Vanguard Total Bonds was up 3% for the quarter, up 6.4% YTD. Falling interest rates and a flight to quality earlier in the year resulted in strong returns out of bonds; similarly from the Vanguard Inflation Protected Securities Fund, inflation-linked bonds, up 4.1% in the quarter and up 6% YTD. US Equity Index and International Equity Index were both up around 20% for the QTD; YTD US Equities have done slightly better, only down 3.1% as of June 30<sup>th</sup> and International stocks down about 10.5%. The S&P 500 Fund at the end of August is about 9.8% and the Vanguard Total International Fund is only down about 3% YTD.

Tier 3 options are actively managed funds. Most funds are equity strategies, with the exception of the New Mexico Stable Value Fund, up 1.2% YTD, which has provided good downside protection this year. Stable Value is very attractive in the current environment with very, very low interest rates. Strong returns noted across the board QTD, between 19% and 28%; the largest difference between strategies is in the YTD, highlighting the disparity between the growth and value investment styles, and large versus small. The current market environment has been driven by a handful of large tech stocks, FAANG, representing between 20% to 25% of the overall S&P 500.

The balance of active options reflect the recurring theme with the two bottom funds, Fidelity Low-Price Stock and Dimensional US Market Core, smaller-cap value strategies which struggled in the first quarter. The bounceback was up 19% and 23% respectively, but these strategies have struggled YTD because of the style of investment they seek out.

Ms. Ragin noted the Fidelity Contra Fund on page 19 experienced a lot of red and asked for elaboration. Mr. Cowie noted they have underperformed their benchmark slightly by 20 basis points, 9.6 versus 9.8 but remain in the middle of their peer group throughout their longer-term returns. Not outstanding returns relative to benchmark but acceptable. From an absolute sense, they are one of the strongest-performing funds in the lineup, being up 9.6% YTD. They focus on the growth sectors which are predominantly dominated by technology, so they have done well in an absolute sense.

Ms. Lujan asked for a further breakdown of the difference between the red and the green. Mr. Cowie explained a red number indicates it has underperformed the benchmark for that particular period. The green is the opposite.

On the Tier 4 Extended Choice Options, Mr. Cowie reminded the Members that this represents a very small percentage of the participant-directed assets, 1.9% over \$12.4 million. The next report will reflect a big change, as Franklin will go away and Wellington will be present. Franklin Templeton continues to struggle, so it is positive that change is taking place.

Aberdeen, an emerging market equity strategy, had a nice bounceback, up 23%; YTD they are now only down 9%. Their recent performance is positive 3.1% YTD through the end of August. Emerging markets has been one of the strongest rallying markets in 3Q so far.

Page 22 shows the loan balance and two investment options that only exist in the plan within the Lifecycle portfolios. The Prudential Retirement Real Estate Fund was down a little bit in the quarter and down 2.8% YTD, ahead of benchmark. If compared to the REIT fund, the Prudential Retirement Fund has produced significantly better returns this year. The Columbia High Yield Strategy had a nice bounceback of 9.2% in the quarter, trailing benchmark slightly but have outperformed benchmark and peers over longer periods.

Page 29 highlights the value of this plan around fees, showing expense ratio of all options. The biggest holdings are Target Date funds and expense ratios are between 35 and 43 basis points, 25 to 29 basis points cheaper compared to the median Morningstar Target Date Fund. That holds true through active funds. The Fidelity Contra Fund is more expensive than others, but on average very reasonable investment costs than participants would achieve in the marketplace on their own.

Page 31-33 shows the allocation of the Lifecycle portfolios. Page 33 shows the allocations of the underlying funds, adjusted every year slightly because each fund becomes more conservative over time. At the end of this year the 2060 portfolio will appear and the 2020 will go away.

### **Questions and Comments**

Chair Ragin thanked Mr. Cowie for his presentation.

### ***6(C) Q4 FY20 (June 30, 2020) Plan Activity Review***

Ms. Lujan presented the plan activity review for the June quarter. Ms. Lujan noted this occurred in the middle of the pandemic. Slide 3 highlighted the participation rate, with the plan ending the quarter with 23,265 participants. Ms. Lujan focused on the terminated number and participants actively contributing at 15,354 as of June 2020 compared to 14,636 as of June 2019, up over 700 participants actively enrolling in the last year.

Slide 4 reiterated the net asset value of the plan was above \$664 million. As of August, the plan did cross over in to the \$700 million range. Slide 14 highlighted online capabilities, allowing participants to complete transactions through their online accounts, citing the readiness of the plan for online-only transactions during the pandemic.

The CARES Act allowed participants to use funds in a more flexible manner if they were affected by the pandemic. Slide 29 highlights the number of participants who took advantage of the CARES Act. About 300 participants took a COVID-related distribution. This distribution is not taxed and the participant has up to three years to pay the tax liability, or choose to pay that amount back into their plan. 19 participants chose to increase their loan limit and 34 participants chose to suspend their loan payments until January 2021. The CARES Act does end, with December 28<sup>th</sup> being the last time participants can request a COVID-related distribution. Loan repayment relief will stop on December 31<sup>st</sup> and the last date to take a COVID-related loan is September 18<sup>th</sup>.

Over the last three quarters, online enrolment activity continues to slowly increase, a good feature to have in the middle of a pandemic. First quarter with Voya, 127 online enrolments; second quarter, 136; and now in June, 216, moving in the right direction with enrolments.

Mr. Chip Burciaga from Voya Financial commented on Voya's business continuity planning. Voya's contingency accounts for any issue that might cause a business interruption. Testing of the business continuity plan began in January of 2020, well in advance of COVID. The program provides for complete remote operations – administration, servicing loans, remittances, customer service. On March 2, Voya had 51% of Voya's staff working from home. On March 12<sup>th</sup> as COVID started to escalate, Voya's remote service increased to 85% of Voya's staff across all business units working from home; as of March 20<sup>th</sup>, Voya was 100% remote, beating internal targets seven days ahead of schedule. Voya responded quickly to what was unfolding and is proud of their performance on that.

Additionally, Mr. Burciaga highlighted the CARES Act provisions signed on March 20<sup>th</sup>. Voya was up and ready to provide services via the CARES Act within seven days, including special loan and distribution provisions. Voya also made the CARES Act provisions voluntary for the plan sponsor, as CARES Act provisions require amendments to plan documents. Voya thought it was prudent to have proactive outreach with plan sponsors to ensure an understanding of the ramifications of CARES Act, and whether or not they wanted it.

Mr. Burciaga noted call volumes increased by 35% during the early months of COVID, with 100% of calls being returned on the day received. Through that period, Voya has participant satisfaction surveys that were consistently over 96% that they were very satisfied. Voya is 100% virtual and wanted the Members to be aware from a fiduciary and oversight perspective, Voya was very well-prepared for this unforeseen circumstance and is proud of their execution. Also, 97% of participants across all markets have stayed the course, with no meaningful changes in allocations.

### ***Questions and Comments***

Ms. Armijo asked Mr. Burciaga if Voya's plans to remain 100% teleworking. Ms. Armijo also wondered if there was a plan to keep any Voya employees working remotely after COVID. Mr. Burciaga indicated plans are still evolving, but Voya has extended work-at-home flexibility to January 2021, at which time operation centers will be opened to reduced staff. Voya is leaving it to staff to make the decision. Mr. Burciaga also expressed the value of working together and having teams together, and many employees are expressing a desire to get back to the office and have human contact. Mr. Burciaga elaborated that productivity monitors are used, and Voya desires to see people be as productive as they can and should be while working from home, and that no issues have arisen in that area. Mr. Burciaga reassured that the service levels are closely monitored, and as long as those things remain in check, it was his belief that management will leave it up to employees to determine that. Mr. Burciaga noted that all employees will conform to CDC requirements and guidelines for in-person work.

Ms. Lujan mentioned that participating in the CARES Act does need to be noted in PERA's plan document, but Congress did give all plan sponsors until 2024 to take care of that.

Chair Ragin thanked Mr. Burciaga for the update, underscoring the importance of business continuity and teleworking. Chair Ragin thanked Ms. Lujan for the CARES Act update, appreciating the options to provide to participants.

Ms. Patty French asked Ms. Lujan what the increase of 700 members could be attributed to. Ms. Lujan indicated it was a combination of outreach and the benefit of having three regional outreach reps. Ms. Lujan also stated having online enrollment as another factor.

**7. Adjournment**

Having completed the Agenda and with no further business to come before the Board, Chair Ragin moved to declare the meeting adjourned.

Approved by:



Shirley Ragin, Chair  
SmartSave Committee

ATTEST:

  
Wayne Propst, Executive Director

Exhibits Attached