

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SMART SAVE
COMMITTEE MEETING

February 9, 2016

This first meeting of the Public Employees Retirement Board Smart Save 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.

Roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

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:

Patty French
Dan Esquibel
James Maxon
Paula Fisher
Cathy Townes

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Jonathan Grabel, Chief Investment Officer
Greg Trujillo, Deputy Executive Director
Renada Peery-Galon, ASD Director
Natalie Cordova, Financial Manager
Karyn Lujan, Deferred Compensation Plan Manager
Danna Varela, Executive Assistant
Karen Risku, Deputy General Counsel
Dana David, Assistant Counsel
Jude Perez, Deputy CIO

Joaquin Lujan, Director of Rates and Credit
Kristen Varela, Portfolio Manager
LeAnne Larrañaga-Ruffy, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager

Others Present:

Ted Benedict, Meketa Investment Group
Holly Heiserman, Meketa Investment Group
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 [4-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

There was none.

4. CURRENT BUSINESS

A. Smart Save Committee Work Plan

Jonathan Grabel, Chief Investment Officer, said he was pleased that this committee has been established and is meeting.

Karyn Lujan, Deferred Compensation Plan Manager, said the plan was developed as a guide to prioritize goals and should not be construed as set in stone. The 2016 work plan calls for a quarterly report starting with this meeting. Ongoing discussions will include operations, enrollment and outreach.

Chair Reynolds said he looked forward to implementing a methodical approach to the Smart Save plan and appreciated the development of the 2016 work plan.

B. PERA Smart Save Deferred Comp LifeCycle Portfolio asset allocation and review

Chair Reynolds noted this is the first presentation being made by PERA's new investment consultant for the Smart Save plan, Meketa Investment Group.

Ms. Lujan noted that the LifeCycle portfolios are made up of custom target date funds based on the specific year the investor intends to withdraw money. The primary goal of the portfolio is to provide diversification. These portfolios systematically rebalance to become more and more conservative as the target year is approached.

1. Recommendation to adopt a reviewed asset allocation across all LifeCycle Portfolios

[Exhibit 1: Meketa Asset Allocation and Review]

Ted Benedict, Meketa, said they had four recommendations to present that make sense for the plan. He noted the 2025 portfolio has a fairly high equity allocation for retirement in under 10 years. Meketa recommends increasing diversified fixed income across all lifecycle portfolios by increasing the exposure to foreign bonds and TIPS. In terms of real asset exposure, it is recommended that more conservative portfolios should use TIPS as a conservative inflation hedge, while more aggressive exposures can be better served by using real assets for inflation hedge.

Mr. Benedict reviewed Meketa's recommended models for each of the lifecycle portfolios.

2. Recommendation to replace Fidelity Diversified International Fund with Vanguard Total International Stock Index across all LifeCycle Portfolios

Mr. Benedict said the Fidelity fund is quite similar to the American fund strategy. Both are very diversified, actively managed strategies with repetitive exposure. Meketa recommends indexing a portion and sticking with one active manager by eliminating Fidelity and moving those assets to the index funds which also reduces cost to the plan participants.

Mr. Benedict discussed the adjustments that keep the individual portfolios' expected returns in line while decreasing risk across all portfolios. The conservative portfolio goes from a standard deviation of 8.5 percent to 8.4 percent; the 2025 portfolio goes from 14.5 percent to 13.1 percent standard deviation; 2035 portfolio goes from 17 percent to 16.6 percent standard deviation; and, 2045 18.2 portfolio to 17.5 percent standard deviation. These modifications provide a similar return with less risk across all the portfolios.

Responding to a question posed by Ms. French, Mr. Benedict said Meketa updates its asset allocations annually at that beginning of the year. He offered to update PERA on that review. The projections are for a 20-year time period.

Mr. Grabel confirmed for the Chair that the expected returns and deviations are analogous to what Wilshire provides for the entire fund. He said during the review of the Investment Policy Statement proposed in June there was a formal process to have annual updates on the asset category assumptions. The deferred compensation plan is not invested against a liability, rather a fixed date of withdrawal.

Responding to Ms. Kohlasch, Mr. Benedict said the savings are fairly certain and Meketa does not work on commission but rather on a fee. He said depending on which portfolio the participant is in, the savings could be between three to six/seven basis

points. Ms. Kohlasch asked for a dollar and cents number. Mr. Benedict said there was approximately \$100 million in the lifecycle portfolios and the savings will be between \$300,000 to \$500,000 per year in the portfolio. There are no fees involved for moving the funds.

Mr. Esquibel asked about the difference in the lifecycle portfolios and PERA's portfolio. Mr. Grabel said the pension system/defined benefit is group scheme or insurance vehicle that provides annuities based upon people various demographic assumptions. From that comes the liability stream. As a group PERA invests against that liability. The pension can invest in different investment structures and vehicles. A defined contribution plan has various IRS rules and regulations and needs to provide its participants with daily liquidity. The investment options are greater for the pension than for the DC. The DC world is shifting with new structures to provide a greater breadth of vehicles to participants.

Mr. Grabel said in the DB world the asset allocation is done by the Board. In a DC plan the investment options are provided to the participant and the plan is participant directed.

Mr. Grabel said staff supports the changes as recommended by Meketa.

3. Recommendation to add five-year increments to LifeCycle Portfolio lineup

Mr. Benedict said currently PERA's lifecycle plans are in 10-year increments. Many plans are in five-year increments as it is a better match for participants, especially in terms of retirement. Adding five-year increments adds no cost to the plan and allows participants to choose a plan that better matches their desired risk return and retirement date.

Mr. Mayfield noted that many people in retirement prefer to see no gambling of their money once they pass the glidepath. Mr. Benedict said the plan has a stable value option so there is no principal fluctuation. The lifecycle portfolio has a conservative portfolio which contains some exposure but is the most stable of the option funds.

Mr. Grabel noted these are all SEC registered products. Annuity contracts can have hidden fees and large charges with acquiring and un-acquiring. Participant in the DC plan with severed service with their 457B employers are free to do whatever they want.

Mr. Benedict repeated that Meketa is able to provide a significant fee savings to plan participants. In the future, Meketa will discuss replacing the BlackRock protected strategy with a passive index, further reducing fees.

4. Recommendation to adopt a revised roll-down schedule and formalize quarterly rebalancing of the LifeCycle Portfolios

Mr. Benedict said that each year the portfolios are rebalanced to get a step more conservative. He reviewed the rebalancing schedule that occurs following the 4th quarter of each year.

He discussed the proposed structures/exposure for each of the portfolios. In the future, Meketa hoped to provide an option for dedicated high-yield bond and bank loan strategies as well as core real estate on the semi-private market side.

Mr. Mayfield asked about participant notification to changes and perspectives on the different assets. Ms. Lujan said the perspective can be provided through Nationwide and a summary version is on PERA's website. Participants are made aware of changes to their lifecycle portfolio through their quarterly reports.

Ms. Lujan said following the Board's approval of the four recommendations, the implementation would begin in two phases and the process will take approximately three months.

Referring to recommendation 1, a recommendation to adopt a reviewed asset allocation across all LifeCycle Portfolios, Mr. Mayfield moved to approve. Ms. Naranjo Lopez seconded and that motion passed by unanimous [4-0] voice vote.

Referring to recommendation 2, a recommendation to replace Fidelity Diversified International Fund with Vanguard Total International Stock Index across all LifeCycle Portfolios, Mr. Mayfield moved to approve. Ms. Kohlasch seconded and that motion passed by unanimous [4-0] voice vote.

Referring to recommendation 3, a recommendation to add five-year increments to the LifeCycle Portfolio lineup, Mr. Mayfield moved to approve and Ms. Kohlasch seconded. The motion passed by unanimous [4-0] voice vote.

Referring to recommendation 4, a recommendation to adopt a revised roll-down schedule and formalize quarterly rebalancing of the LifeCycle Portfolios, Ms. Kohlasch moved to approve. Mr. Mayfield seconded and that motion passed by unanimous voice vote.

C. 2Q FY16 Investment Performance Review
[Exhibit 2: 2Q FY16, Meketa Report]

Holly Heiserman, Meketa Investment Group, said the market value of the fund increased by \$14.2 million and ended the fourth quarter with \$490 million. The increase was driven primarily by positive investment performance. She highlighted the withdrawals and reinvestments. She reviewed the investment expense analysis which noted the net expense ratio for all the different funds and how it translates to actual dollars. Overall, the expense ratio is pretty low at 40 basis points. Meketa will continue to work to lower the fees.

Ms. Heiserman reviewed the performance of the managers in each of the asset classes. Domestic equity managers are beating either their peers or benchmark over both the three- and five-year time horizons. Both active international equity managers outperformed their peers in the one year or longer time horizon. NM Stable Value has outperformed the benchmark but not the peers over all time periods. Referring to fixed income BlackRock Inflation Protected Bond, it is not exactly tracking the Barclay's US TIPS but it is close. She repeated Mr. Benedict's point about replacing BlackRock with a passive manager with lower fees.

In regard to the lifecycle funds, only the LifeCycle 2015 outperformed its custom benchmark in the quarter and consequently LifeCycle 2015 was the only one to underperform its custom benchmark in the prior quarter. All the lifecycle portfolios underperformed their peer universes with the exception of the conservative performance. She said the underperformance was driven by large cap US equity underperformance as well as underperformance of some of the asset managers.

Ms. Heiserman said peer review is good for reference but not necessarily a good measurement for how the fund is performing. Mr. Grabel agreed adding it is a one-dimensional analysis return.

Oakmark Equity & Income is the only fund in the plan that underperformed the benchmark medium over the 3- and 5-year periods.

Mr. Benedict noted that the report includes the calendar year returns by each manager as well as strategy details within the plans.

D. 2Q FY16 Plan Activity Review
[Exhibit 3: Nationwide report]

Ms. Lujan noted a reporting change regarding outreach/meetings with participants and potential participants. The 4Q numbers appear smaller than previous quarters but the count is being handled more accurately. Paul Lium, Nationwide, said his team reports meetings differently.

Ms. Lujan reported on quarter activities with 410 new participants. The annual statement included a Smart Save flier with an easy enrollment form and a new tool added to the Smart Save website that provides a peer demographic report with the idea participants will increase their contributions. Three new employers have joined the plan.

Mr. Lium expressed his appreciation for the creation of this committee.

5. OTHER BUSINESS

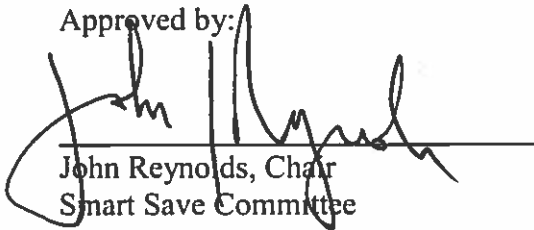
General Counsel Pittard advised the Committee that the recent rule changes included the creation of this committee.

Chair Reynolds said the Board's Policies and Procedure should be reviewed for inclusion of this committee.

6. **ADJOURNMENT**

Upon motion by Ms. Kohlasch and second by Mr. Mayfield, Chair Reynolds adjourned this meeting at approximately 10:20 a.m.

Approved by:



John Reynolds, Chair
Smart Save Committee

ATTEST:



Wayne Probst, Executive Director

Exhibit 1: Meketa Asset Allocation and Review

Exhibit 2: 2Q FY16, Meketa Report

Exhibit 3: Nationwide report