

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**ARP COMMITTEE**

**April 21, 2016**

**I. ROLL CALL & APPROVAL OF AGENDA**

A meeting of the ARP Committee was called to order on this date at 9:00 a.m. in the Educational Retirement Board conference room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico. A quorum was present.

**Members Present:**

Dr. Beulah M. Woodfin, Chair [telephonically]  
Mr. Hipolito J. Aguilar

**Members Excused:**

Mr. H. Russell Goff

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Rick Scroggins, Deputy Director (telephonically)  
Mr. Chris Bulman, General Counsel  
Mr. Roderick Ventura, ERB Deputy General Counsel

**Others Present:**

Mr. Farhad Mirzada, Director, Cammack Retirement Group  
Ms. Denise Burns, Cammack Retirement Group  
Ms. Charmaine Clair for Judith Beatty, Recorder

**Mr. Aguilar moved for approval of the agenda, as published. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

**II. REVIEW AND APPROVAL OF MINUTES**

**Mr. Aguilar moved approval of the October 22, 2015 minutes, as presented. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

### **III. RECOMMENDATION OF AMENDMENTS TO ARP OPERATIONS MANUAL: RODERICK VENTURA, ERB DEPUTY GENERAL COUNSEL**

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Mr. Ventura stated that the committee packet includes a redline version of the operations manual with suggested revisions, as well as a short memo summarizing changes to the manual.

Mr. Ventura said these revisions were necessary because of a number of anachronisms in the ARP plan, and some things no longer made sense, such as references to contributions and amounts that were no longer accurate, community colleges that have since changed their name, etc. He said executive staff, institutions, Mr. Mirzada and tax counsel reviewed the document and suggested various cleanup changes, and those have been incorporated into the draft and are before the committee today for review.

Mr. Ventura highlighted the major changes:

-- Made it clear that the operations manual and statute are the plan document that everyone should follow.

-- Marketing policy and guideline. A provision already in the document states that all of the materials that the carriers present to the participants are supposed to be reviewed by the board. This has been amended to say this can be delegated to staff or the consultant.

-- The old operations manual had a section for eligibility-universities and eligibility-community colleges. Those have been consolidated.

-- Removed language from "Provost" position that stated "to be replaced with Campus Director." Language was unclear.

-- Some changes to the operations manual incorporate current practice at the institutions and NMERB.

Mr. Ventura said there are two basic rules to figuring out eligibility between ARP and NMERB regular membership. One rule is that someone can't be in both at the same time, with a couple of exceptions. The second rule, which is set out in statute, says that once someone starts in an ARP eligible position, they have only one chance to join, which is at the beginning. A couple of issues kept coming up for institutions and those issues were addressed by staff and have been incorporated. He said one of them is that temporary employees cannot participate in the ARP program. The manual defines temporary employees as having a termination date of less than one year. Many colleges/universities were rolling a temporary faculty member into a permanent position when they were doing a good job. The new rule in the manual states that faculty in a temporary position immediately followed by becoming a permanent employee can pick participation at that time.

-- Simultaneous employment: if someone is eligible for ARP and NMERB at the same time, they shall be a participant or member of the plan that is first in time. If they are hired at two different jobs on the same day, they must choose between the two plans.

-- If someone is hired in two ARP positions with different employers, that person can participate in ARP through both employers.

-- All the Return to Work provisions that apply to regular NMERB also apply to ARP participants.

-- Changes were made in regard to IRS regulations because of certain language requirements. The Uniformed Service Employment and Reemployment Rights Act section now has additional language the tax attorney suggested.

**Mr. Aguilar moved to accept the amendments, as presented, with the redline by staff. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

**IV. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW – DECEMBER 31, 2015  
FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

- Total assets in the plan and by fund
- Economic Review
- Investment Analysis
- Quality of investments offered
- Fees and excess revenue
- Money Market Reform

**v. TRANSITION FROM PLAN EXPENSE REIMBURSEMENT AGREEMENT (PERA) TO  
REVENUE CREDIT ACCOUNT – FARHAD MIRZADA, DIRECTOR, CAMMACK  
RETIREMENT GROUP**

**VI. EXPENSE ACCOUNT UPDATE: FARHAD MIRZADA, DIRECTOR, CAMMACK  
RETIREMENT GROUP**

**VII. EVALUATION OF FUND LINEUP DUE TO REDUCED ADMINISTRATIVE COST  
FROM RFP: FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

[Presenters: Farhad Mirzada and Denise Burns, Cammack Retirement Group]

Mr. Mirzada presented highlights:

-- As of December 31, 2015, the ERB ARP held approximately \$453 million in combined total assets.

-- The top three asset category holdings of total plan assets are in large cap equity (37 percent), fixed account (18 percent) and target date funds (12 percent).

-- During 2015, the S&P increased 1.4 percent, led by gains in the consumer discretionary sector.

-- Total plan assets under the program at TIAA-CREF were \$407.9 million for the period ending December 31, 2015, invested across 25 different mutual or variable annuity funds.

-- Total plan assets under the program at Fidelity were \$44.8 million ending December 31, 2015, invested across 18 different mutual funds and one fixed option.

-- Total plan assets under the program at VALIC were \$52.2 million for the period ending December 31, 2015, invested across 60 different variable annuity subaccounts at 536 account holders.

-- Two funds for watch in TIAA-CREF program for Q4 2015:

- Royce Pennsylvania Mutual Invmt – placed on watch Q2 2015
- TIAA Lifecycle Target Date Funds – placed on watch Q4 2015

-- Two funds for watch in Fidelity Program for Q4 2015:

- RidgeWorth Mid-Cap Value Equity I – placed on watch Q3 2015
- Royce Pennsylvania Mutual Invmt – placed on watch Q2 2015

Responding to Mr. Aguilar, Mr. Mirzada said the contracts with the vendors do include an educational component, although that is driven by the vendor rather than the colleges for instance. Mr. Aguilar suggested that the NMERB consider that when constructing the contracts with the vendors. He said the materials being supplied by the vendors may be great, but outreach by them is also important. He said perhaps snail mail or email blasts should be considered as part of an educational outreach effort.

Chairwoman Woodfin asked if the new rules on fiduciary responsibility for financial advisors affect what the vendors do. Mr. Mirzada responded yes, they will, more so on the vendors' side because of the fact that the vendors also try to consolidate assets. He said the impact of the fiduciary rule on retirement program vendors will be covered in the next ARP Committee meeting.

-- Fidelity expense account balance is \$30,253

-- TIAA-CREF expense account balance is \$481,146. This account was set up to pay for qualified expenses out of the ARP plan.

Mr. Mirzada said the expense account is increasing by \$200,000 to \$300,000 per year, most of it in TIAA-CREF because of the higher balance. He said this account was set up as a PERA (Planned Expense Reimbursement Account) to help capture additional revenue above and beyond what was needed for record keeping. It is not an asset; it is a promise to pay, and was set up because NMERB wanted flexibility to roll assets year to year. He said the account has now grown to nearly a half million dollars and a lot of revenue is left in the account that could be credited to plan participants, but under PERA that isn't permitted. The excess money continues to stay in the account and roll over, but a new account introduced by TIAA would allow credit back of excess beyond credit expenses to plan participants. He noted that a lot of plan sponsors are moving to credit back plan participants as a best practice. He said Cammack recommends going with the revenue credit

account for the flexibility and to decide annually whether to credit back some expenses to participants.

Mr. Ventura noted that if the account continues to grow, NMERB might want to consider transitioning from the PERA to a revenue credit account.

Mr. Mirzada stated that, based on the RFP process, since they were able to reduce costs by 50 percent at TIAA-CREF and half that amount at Fidelity, they anticipate about \$400,000 annually going into the revenue credited account. Another way of reducing expense they capture is to look at the funds in the program and reduce the share classes that are available and move to lower cost investment option. He said there would be no change to the investment manager or allocation.

Mr. Mirzada said Cammack is seeking direction from the committee to move forward to a lower share class, where available, for the fund lineup. That would need to be done with TIAA-CREF and Fidelity. He noted that most of Fidelity's funds are in retail share classes versus the lower share class.

Mr. Mirzada said there are also underperforming funds that Cammack would like to discuss to see if a change is warranted by the board.

Chair Woodfin noted that one fund (DFA Emerging Markets) dropped off by almost 16 percent. She asked if that would be put on watch.

Ms. Burns responded that this is the problem with the asset category. There has been a lot of decline with companies in emerging markets. She said there is an American emerging market fund that takes a different approach and would subject the participants to less volatility. They not only invest in companies that are emerging markets as defined by where they are operated out of, but also include a certain percentage of developed market countries that have substantial revenues driven by emerging markets. This tends to smooth the volatility a bit.

Mr. Mirzada presented an overview of regulations as a result of money market reform. Cammack will be working with plan sponsors to develop an educational component for participants.

Mr. Mirzada presented three possible alternatives to replace Royce Pennsylvania Mutual Invmt, the only fund on watch for TIAA-CREF.

Ms. Burns reviewed the three alternatives to Royce Penn. She recommended JPMorgan Small Cap Equity Select.

Mr. Mirzada asked for committee approval to approve the funds to go to lower share classes, where available, working with TIAA-CREF and Fidelity; and to replace Royce Penn Mutual Invmt with JPMorgan Small Cap Equity Select.

Mr. Aguilar asked what the benefit would be to the investor in moving to a lower share class. Mr. Mirzada responded that the best practice is to start to reduce share classes when available, because there is enough revenue to offset record-keeping costs. The benefit would be that, in the beginning, they would get a lower share cost; and if the decision is made to credit back expenses at a later time, investors would see higher returns.

**Mr. Aguilar moved to approve the NMERB moving to a lower share class, as recommended by Cammack. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

Mr. Aguilar recalled Mr. Jacksha saying that it takes a long time to terminate operations with a fund manager and move the money to a new manager. He asked what kind of timeframe would be involved in switching from Royce Penn to JPMorgan Small Cap Equity Select.

Mr. Mirzada responded that it typically takes about 90 days. He said it takes closer to 120 days in a defined contribution plan because the proper communication has to go out to plan participants. Even though ARP is a non-ERISA plan, the vendors do employ best practices in communicating the details of moving from one fund to another. He said a lot of these fee disclosures are not needed in this program, but Cammack recommends taking the same kind of approach an ERISA plan would, which is to give at least 30 days' notice to plan participant that a change is about to occur.

**Mr. Aguilar moved to accept the recommendation to replace the Royce Penn Mutual Investment Fund with the JPMorgan Small Cap Equity Select Fund. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

Ms. Burns stated that RidgeWorth Mid-Cap Value Equity I was placed on watch in Q3 last year. There has been a situation where the quality funds have underperformed the more leveraged funds since 2009. She noted that the fund is up 6 percent for the last quarter, but year to date it is down 6 percent against the index, which was down 4.78 percent. She said the fund is a disappointment.

Mr. Mirzada said this fund has been hovering around the 60th percentile for a while. He said he spoke earlier about the variation between the TIAA-CREF array versus Fidelity, and this is a fund that was different between the two arrays. He recommended streamlining the array and replacing RidgeWorth with Victory Sycamore Established Fund, which is already in the TIAA-CREF array and outperforming the RidgeWorth fund.

**Mr. Aguilar moved to replace the RidgeWorth Mid-Cap Value Equity fund with the Victory Sycamore Established Value Fund, as recommended. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

#### **VIII CAMMACK CONTRACT RENEWAL**

[Cammack representatives left the meeting.]

Mr. Bulman stated that Cammack was hired in 2011, when the NMERB was revisiting its vendors for the first time since 1991, to help manage the process. He said he has heard only good things about their work during that period. After that, Cammack was hired on one-year contracts as the NMERB's consultant, and the NMERB has been doing that ever since. He said the ARP Committee charter states that the committee will choose and hire the consultant.

Mr. Bulman stated that staff recommends awarding a one-year contract for alternative retirement plan consulting services to Cammack Retirement Group for Fiscal Year 2017. Prior to expiration of this new contract, staff plans to either issue a request for information or request for

proposals in order to test the current market for retirement plan consultants prior to entering into a contract for FY18.

Mr. Bulman said Cammack is paid only \$52,000 a year for its services, and these monies come from the expense account paid for by the participants. He recommended awarding Cammack a small purchase contract not to exceed \$60,000, which would give some additional room for staff to negotiate.

Mr. Bulman said the current contract expires on June 30.

**Mr. Aguilar moved that the Committee award a one-year small purchase contract for Alternative Retirement Plan consulting services to Cammack Retirement Group for fiscal year 2017 contingent upon the negotiation of final terms and conditions, in accordance with New Mexico State Law and Educational Retirement Board policies. Chair Woodfin seconded the motion, which passed unanimously by voice vote.**

**IX. OTHER BUSINESS**

None.

**X. ADJOURNMENT**

There being no further business to come before the committee, the meeting was adjourned at 10:50 a.m.

Accepted by:

  
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Hipolito J. Aguilar, Chair