

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ARP COMMITTEE

January 13, 2017

I. ROLL CALL & APPROVAL OF AGENDA

A meeting of the Alternative Retirement Plan (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:

Mr. Hipolito J. Aguilar, Chair
Dr. Donald Duszynski

Members Excused:

Mr. Larry Magid

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Rick Scroggins, Deputy Director
Mr. Roderick Ventura, General Counsel
Ms. Susanne Roubidoux, 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

b. Approval of Agenda

Dr. Duszynski moved approval of the agenda, as published. Chair Aguilar seconded the motion, which passed unanimously by voice vote.

II. REVIEW AND APPROVAL OF MINUTES – April 21, 2016

Dr. Duszynski moved approval of the April 21, 2016 minutes, as presented. Chair Aguilar seconded the motion, which passed unanimously by voice vote.

III. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW—SEPTEMBER 30, 2016
[Presenters: Farhad Mirzada and Denise Burns.]

Mr. Mirzada, head of Cammack’s compliance department, and Ms. Burns, head of their investment team, introduced themselves and presented Cammack’s third quarter report.

-- Total assets are \$552 million, which includes all vendors, including Valic, which was eliminated as a provider because of the higher cost of investment options within that vendor. TIAA and Fidelity were retained as record keepers for the NMERB-ARP plan. In addition, Cammack finalized its last RFP and reaffirmed retaining TIAA and Fidelity with a reduction in administrative costs.

-- Over the last quarter, assets increased in the plan by about \$25 million.

-- Total assets equal \$552 million, \$443 million of which is in TIAA.

-- None of the funds qualified for watch or replacement.

-- The plan expense for the mutual fund for Fidelity is about 53 basis points, down from 63 basis points from Q2. This is due to the changes in the share classes that the ARP Committee approved at its last meeting, and represents \$56,000 in savings. Overall, this will represent a total savings of about \$275,000 per year.

-- Assets in Valic increased from \$50 million to \$52 million based on the market and not from contributions. The number of account members dropped from 484 to 474 when people took their contributions out of the program or else moved them to TIAA or Fidelity.

Mr. Mirzada said Cammack will recommend today that the committee approve including the Vanguard 500 Fund and the Vanguard Extended Market Index Fund, both passive index options, in the investment portfolio.

Ms. Burns explained that there has been a huge debate on which is better, active or passive management, and obviously it is more expensive with active because the portfolio manager has a lot more discretion. The key to index, or passive, is that it is the cheapest way to invest and there has recently been a “race to zero”; there are some commingled trusts from Wilmington where the investor pays nothing. She added that active hasn’t outperformed index for the past three years in this volatile market. This will give participants an additional choice.

Mr. Mirzada noted that Cammack is starting to see class action lawsuits against higher education institutions that sponsor defined contribution 403(b) and 401(a) retirement plans. Even though this hasn’t come into government type 401(a) programs at this point, it could become part of the next wave. Cammack has seen it in 401(k) programs, and now it is seeing it in higher education. He said the law firm Schlichter Bogard & Denton has made a lot of money going after

corporations and their 401(k) plans, and a lot of the allegations they brought up against the Chevron Corp were also brought against the higher education marketplace, and they also attacked TIAA because of certain investment options that they offer. One was the TIAA Traditional Fund, and another was CREF stock, and in both instances they were benchmarked to certain other investment options that were not a proper benchmark. He said TIAA was attacked for having a money market instead of a stable value fund; not going out and doing an RFP every five years; and offering higher cost classes over institutional lower share class funds. He noted that ERISA talks about costs being “reasonable” as opposed to being cheaper, for instance.

Mr. Mirzada said he was citing the Chevron case because a federal judge in California pointed out that fiduciaries aren’t working with a crystal ball and they don’t know which investment option will outperform another, and ERISA doesn’t say someone has to have the lowest share class; it just has to be reasonable. He said the judge also questioned how someone could determine that a plan sponsor hadn’t gone through a proper fiduciary review before they had investment options in the program; whether they put them on watch, deselected them or added them into the program. Mr. Mirzada commented that this is very similar to what Cammack does with the ARP program, adding that this was very positive news for the higher education marketplace. He said 12 very large higher ed institutions were sued by the same firm, and 6 have already filed for dismissals based on the dismissal of the 401K plan with Chevron. This is also very exciting for the not-for-profit marketplace as well as the corporate market, because now there is an actual case people can point to.

Ms. Burns presented the economic report.

-- The economy is growing at a more substantial rate, although recovery is the weakest on record since the 1940s.

-- Unemployment is now at 4.7 percent and wages are increasing as some employers have to raise wages to attract new employees. The labor force participation rate takes into consideration the entire employable universe of people and the percentage of people who work full time. Some have actually left the market and are not working and some can’t find jobs or have gone back to school, but there has been a steady decline in that number since 2007. One reason for that is that people who used to take jobs in order to qualify for health insurance have since chosen to get coverage through one of the exchanges.

Mr. Mirzada noted that there are already passive index options in the Fidelity array, and said Cammack would like very similar passive options included in the TIAA array as well. He recommended including the Vanguard 500 Index Fund and the Vanguard Extended Market Index Fund, which will complement each other in the small and mid cap categories. Ms. Burns added that an extended market fund is also referred to as a completion index, and investing in both covers the entire domestic equity index.

Ms. Goodwin asked what other options are being made available compared to what is available in Fidelity; for instance, are there international options.

Mr. Mirzada said there is already an international index option. He said this will allow plan participants to go completely passive in their portfolio; so if they want to be able to go very low cost, they will be able to do it in fixed income, domestic equity and foreign equity. Ms. Burns noted that fixed income could be either the TIAA-CREF Bond Index Institutional and the foreign could be the TIAA-CREF International Equity Index. All four securities would comprise a fully index portfolio.

Ms. Goodwin asked if there is a real estate index fund. Mr. Mirzada responded that there is not a real estate index option per se. Ms. Burns added that real estate is part of the two indices that are being added; so all of the large REITs would be in the Vanguard 500 and the smaller REITs would be in the Vanguard Extended Market Index Fund.

Ms. Goodwin asked if there are asset classes that people can participate on an index basis in Fidelity that they can't in TIAA-CREF. Mr. Mirzada responded that is true right now, but including both of the Vanguard options will make it very similar to Fidelity – if people choose TIAA as their sole provider, they will be able to use the passive options which basically mirror those in Fidelity. Ms. Burns added that performance might be different because Vanguard tends to use nontraditional benchmarks, but it should be marginally different, but in some cases it could be substantially different.

Mr. Mirzada said a communication will go out to plan participants in TIAA to let them know about the different options. In addition, TIAA is a fiduciary and can also sit down with plan participants on an individual basis and offer them advice. They will be able to communicate to them that there is a Vanguard 500 index if they choose to go completely passive and more low cost. Mr. Mirzada noted that there will also be a change in the Fidelity service model. Very similar to how TIAA offers advice to plan participants as a fiduciary (looking at what's best for the plan participant), Fidelity will also move into that model without increased cost. This will put both on a level playing field.

Dr. Duszynski moved to recommend approval to add the two passive Vanguard passive investments to the TIAA-CREF lineup, and that this be taken to the full board for approval. Chair Aguilar seconded the motion, which passed unanimously by voice vote.

IV. DISCUSSION ON CLASS ACTION LAWSUITS AGAINST HIGHER EDUCATION INSTITUTIONS ALLEGING EXCESSIVE DEFINED CONTRIBUTION PLAN FEES
Farhad Mirzada, Director, Cammack Retirement Group

[Previously discussed – See Section III of Minutes.]

V. EVALUATION OF FUND LINEUP - LOW COST PASSIVE INSTRUMENTS
Farhad Mirzada, Director Cammack Retirement Group

[See Minutes at III above.]

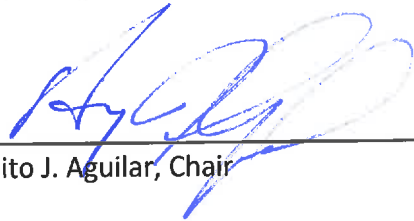
VI. OTHER BUSINESS

With respect to the information on page 75 of the slide presentation, Mr. Ventura said he had asked ERB staff to run data analysis of the number of ARP participants. The analysis shows a total of 1,551 ARP participants and the majority of participants are employed by UNM and NMSU.

VII. ADJOURNMENT

There being no further business to come before the committee, the meeting was adjourned at 10:45 a.m.

Accepted by:



Hipolito J. Aguilar, Chair