

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ACTION SUMMARY

April 21, 2017

<u>Item</u>	<u>Action</u>	<u>Page</u>
APPROVAL OF AGENDA	Approved	2
<u>APPROVAL OF MINUTES</u> February 17, 2017	Approved	3
<u>CONSENT AGENDA: BOARD TRAVEL</u> Mr. Goff: NCTR October conference	Approved	3
EXPERIENCE STUDY	Approved recommendations	3
<u>EXECUTIVE SESSION</u>	Actions taken	4 & 7
<u>INVESTMENT REPORTS</u> Schedule Board Training Session Investment Committee report Other Investment Reports	Informational	5
USE OF INDEPENDENT COUNSEL FOR CONSULTATION RE: COMPENSATION ISSUES	Tabled to June meeting	6
AGE & SERVICE RETIREMENTS	Approved	6
DISABILITY ACTIONS	Approved	7
<u>DIRECTOR'S REPORT</u> Update 2017 Retirement Season NMRHCA Update Other	Informational	7
PROCESS FOR ANNUAL EVAL OF EXEC DIRECTOR JAN GOODWIN	Informational	8

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REGULAR MEETING

April. 21, 2017

1. CALL TO ORDER: QUORUM PRESENT

A Regular Meeting of the New Mexico Educational Retirement Board 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.

Members Present:

Ms. Mary Lou Cameron, Chairwoman
Mr. H. Russell Goff, Vice Chairman
Mr. Hipolito J. Aguilar, Secretary
The Hon. Tim Eichenberg, State Treasurer
Mr. Larry Magid

Members Excused:

Dr. Donald W. Duszynski

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Rick Scroggins, Deputy Director
Mr. Bob Jacksha, CIO
Mr. Roderick Ventura, General Counsel
Ms. Susanne Roubidoux, Deputy General Counsel
Ms. Monica Lujan, Member Services Director
Ms. Lealia Nelson, Outreach Coordinator
Ms. Liz Lorang, Executive Assistant
Mr. Lawrence Esquibel, Chief Information Officer

Others Present:

Mr. Allan Martin, NEPC
Ms. Lori Chavez, Assistant Attorney General
Ms. Anne Hanika-Ortiz, LFC Analyst
Ms. Judith Beatty, Recorder
[See sign-in sheet.]

b. Approval of Agenda

Mr. Goff moved approval of the agenda, as published. Mr. Magid seconded the motion, which passed unanimously by voice vote.

c. Approval of Minutes – February 17, 2017

Mr. Magid moved approval of the February 17 minutes, as submitted. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.

d. Introduction of Guests

Ms. Goodwin introduced Liz Lorang, who joined staff two weeks ago as Executive Assistant and Process Improvement Specialist.

2. SWEARING IN OF NEW BOARD MEMBER -- Placeholder

3. CONSENT AGENDA: BOARD TRAVEL

Mr. Goff requested approval to attend the NCTR conference scheduled in October 2017.

Mr. Eichenberg moved for approval. Mr. Magid seconded the motion, which passed unanimously by voice vote.

4. EXPERIENCE STUDY: RYAN FALLS, GABRIEL ROEDER SMITH

Mr. Falls presented the Actuarial Experience Study for the Six-year Period Ending June 30, 2016. He stated that it is the board's procedure to have this done every two years to stay on top of things and watch for any change in trends. While most of GRS's clients request an experience study every five years, he commented that some assumptions are quite stale at that point.

The following assumption changes were recommended:

- Decrease inflation assumption from 3.00 percent to 2.50 percent
- Decrease nominal investment return assumption from 7.75 percent to 7.25 percent
- Maintain real rate of return assumption of 4.75 percent
- Decrease wage inflation from 3.75 percent to 3.25 percent
- Decrease payroll growth assumption from 3.50 percent to 3.00 percent
- Decrease the annual assumed COLA from 2.00 percent to 1.90 percent

Mr. Falls stated that the current inflation assumption of 3.00 percent per year is no longer reasonable. Actual inflation (measured by the CPI-U) for the last five years has been 1.32 percent; for the last 20 years it has been 2.18 percent; and for the last 30 years, it has been 2.66 percent.

Mr. Falls recommended that the board adopt the proposed assumption for valuations as of June 30, 2017, and thereafter, until the next experience study.

Responding to Mr. Magid, Ms. Goodwin said that, according to the New Mexico Constitution, current employees are guaranteed the benefits that were in place when they began employment; so all the elements of plan design, the different retirement eligibilities, the multiplier, are all guaranteed. The COLA, however, is

considered a separate part of the benefit and can be changed for current employees and current retirees. New Mexico's Supreme Court ruled on this issue in 2013 in response to the change made to the COLA that year.

Mr. Goff asked Mr. Jacksha to discuss how these recommendations would impact the NMERB's investment portfolios.

Mr. Jacksha said he agreed with GRS's recommendation that NMERB make a change in its investment assumption and the direction should definitely be lower given the conditions that are evident in the near-term future. He said 7.25 percent is definitely reasonable and is definitely in line with what other funds are doing these days. As far as how this affects what the NMERB is doing in investments, he did not think the 50 basis point difference would require much of a change, if any; however, the NMERB would be revisiting its asset allocation next year, as it always does.

Responding to Mr. Aguilar, Mr. Falls said the only assumption GRS is recommending be changed is the inflation assumption. By changing that from 3.00 percent to 2.50 percent, all the other assumptions "cascade" off of that, as noted in the report. He added that 2.50 percent is consistent with what NEPC is projecting in the future, and the Social Security Administration is expecting the CPI to be 2.6 percent in the long term. He said felt all of these numbers were reasonable.

Mr. Falls clarified for Mr. Aguilar that the goal of being fully funded in 26 years hasn't changed and the benefits and contributions don't change the funded status of the plan.

Mr. Eichenberg moved to accept the recommendations made by the actuary in the 2016 Experience Study. Mr. Goff seconded the motion, which passed 4-1 by voice vote, with Mr. Aguilar voting against the motion.

5. EXECUTIVE SESSION: LORI CHAVEZ, ASSISTANT ATTORNEY GENERAL: 10:15 A.M.

- a. Deliberation regarding the Hearing Officer's Recommended Decision in the Administrative Appeal of Audra Vigil [session closed pursuant to NMSA 1978, Section 10-15-1(H)(3)]**
-

Chairwoman Cameron moved that the board go into executive session pursuant to Section 10-15-1(H)(3) for the purpose of deliberations in connection with the administrative appeal of Audra Vigil. Mr. Magid seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Aguilar; Mr. Eichenberg; Mr. Magid.

Against: None.

6. ACTION FROM EXECUTIVE SESSION: 10:45 A.M.

Chairwoman Cameron moved that the board come out of executive session. The only matters discussed during the executive session were deliberations in connection with the administrative appeal of Audra Vigil. Mr. Aguilar seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Aguilar; Mr. Eichenberg; Mr. Magid.

Against: None.

Mr. Aguilar moved that, in the matter of Audra L. Vigil, the board adopt the Hearing Officer's findings of fact, conclusions of law and recommended decision. Mr. Magid seconded the motion, which passed unanimously by voice vote.

Mr. Aguilar moved that the board adopt the final decision that Ms. Vigil failed to prove by the preponderance of the evidence that she is totally disabled to continue her employment as a teacher or is unable to obtain and retain other gainful employment commensurate with her background, education and experience. Mr. Magid seconded the motion, which passed unanimously by voice vote.

7. INVESTMENT REPORTS: BOB JACKSHA, CIO

[Also reporting: NEPC consultant Allan Martin.]

a. Schedule Board Session to Discuss Hedging and CLO Investments

The board agreed to hold the session on hedging and CLO investments following the regular ERB Board meeting on June 22. The session would begin a half hour after adjournment.

b. Investment Committee Report

Mr. Jacksha reported on the highlights of yesterday's Investment Committee meeting:

- Approved a \$50 million investment in Z Capital Special Situations Fund III for the private equity portfolio.
- Approved a \$30 million investment in Water Property Investors II for the natural resources portfolio.
- Approved a \$25 million investment in Stonepeak Credit for the infrastructure portfolio.
- Extended two non-U.S. equity manager contracts (BlackRock and Fidelity) for two years and continued the contracts with Neuberger Berman and Mondrian for another two years.
- Accepted the Proxy Voting Report.
- Discussed the latest results (as of March 31) of the portfolio, which is up .9 percent, bringing the fiscal year to date returns to 9 percent. The month was closed at \$12,075,000,000.
- Discussed plans to bring an updated placement agent policy to the board at the June meeting.
- Introduced new staff member Ian Oldham, who has joined investments as an analyst.

c. Other investment Reports

Mr. Martin reviewed NEPC's "2017 Actions and Assumptions" report and probabilities using 2017 assumptions for the 5-7 year and 30-year periods for the NMERB.

Mr. Martin noted that the near-term forecast for the total portfolio dropped from 7.6 percent to 7.1 percent between 2016 and 2017, a significant decline. NEPC's 8 percent forecast for 30 years is based on an inflation forecast of 2.75 percent, which is 25 basis points more than the forecast of 2.50 percent in GRS's experience study presented earlier in this meeting; and this does not include administrative fees, which are 25 to 50 basis points. With those numbers figured in, the forecast is lowered to between 7.25 and 7.50 percent, so NEPC's numbers are not that different from the return assumption in today's experience study and are reasonable.

Mr. Martin commented that 39 percent of the total portfolio is in private equity, private debt and real assets, which have higher returns; but if the board were to decide to save money on fees and put the portfolio in U.S. large cap (60 percent) and bonds (40 percent), the expected return would drop to 4.5 percent. Referring to the experience study presented today, he added that the NMERB's ability to change what the actuary recommended by changing the asset allocation is therefore very limited and the NMERB is dealing with this as well as it can.

8. BOARD DISCUSSION AND POSSIBLE BOARD ACTION – USE OF INDEPENDENT COUNSEL FOR CONSULTATION WITH THE BOARD FOR COMPENSATION ISSUES: CHAIR MARY LOU CAMERON AND RODERICK VENTURA, GENERAL COUNSEL

Chairwoman Cameron stated that the board has discussed concerns in the past about whether it was appropriate for the board to use inside counsel as advisors on compensation issues for administrative and investment staff, since inside counsel would be representing both the board and the affected employees. She asked the board if independent counsel should be engaged for this purpose.

Mr. Ventura said that, when this matter was raised in December, it was noted that the NMERB has a number of attorneys on contract, including Ian Lanoff of the Groom Law Group (although the firm specializes in tax and fiduciary matters). He said there are other firms on contract, however, including Sutin, Thayer & Browne, which can offer advice on employment matters.

Chairwoman Cameron asked the board for direction.

Mr. Aguilar moved to direct staff to implement the components of existing contracts that would make outside counsel available to the board on an as-needed purpose for legal advice, at the direction of the Chair, for any purpose that the board deems appropriate. Mr. Eichenberg seconded the motion.

Mr. Ventura expressed concern that the motion went beyond compensation issues and into areas that weren't on the agenda.

The motion and second were withdrawn.

There was consensus to table this item and revisit it at the next board meeting.

9. AGE & SERVICE RETIREMENTS: MONICA LUJAN, MEMBER SERVICES DIRECTOR

Ms. Lujan presented the Retirement Summary report, reflecting a grand total of 225 retirements processed during the months of February and March 2017. In addition, Ms. Lujan reported that 11 retirees exceeded 30 years of service and would be recognized for their outstanding service with a letter signed by Chairwoman Cameron.

Mr. Goff moved for approval of the report. Mr. Magid seconded the motion, which passed unanimously by voice vote.

10. DISABILITY ACTIONS: RICK SCROGGINS, EXECUTIVE DIRECTOR

Mr. Scroggins presented the Disability Report showing the activity for the months of February and March 2017. There were 2 disapprovals, 3 approvals and 11 waiting on information in the New Claims category. Periodic Reviews had 1 approval, and there was 1 Disability COLA approved and 1 waiting on information.

Mr. Aguilar asked Mr. Scroggins to prepare a trend report.

Mr. Aguilar moved for approval. Mr. Goff seconded the motion, which passed unanimously by voice vote.

11. DIRECTOR'S REPORT

a. Update 2017 Retirement Season

Ms. Goodwin reported that 538 retirement applications have been received to date. At this time last year, 577 applications had been submitted.

b. NMRHCA Update

Ms. Goodwin said the NMRHCA would hold their annual retreat in July. The agency is conducting a nationwide search for an executive director, as Mark Tyndall left in April to work in the private sector.

c. Other

Ms. Goodwin reported that, as a follow-up to Lawrence Esquibel's report at the December meeting about his work with the Oracle database to encrypt all of the NMERB's database information, that work was successfully completed in March. She commented that this is a huge accomplishment.

Ms. Goodwin reported that SB28 (statutory cleanup bill) passed the legislature and was signed by the Governor. As a result, the board can expect a number of changes to NMERB rules in the coming months.

Ms. Goodwin said there has been discussion about state employees having a contribution swap as part of balancing the budget. There has not been as much discussion regarding educational employees, however, but NMERB will be monitoring that discussion, as any such swap would have a negative effect on the fund.

12. EXECUTIVE SESSION: 11:30 A.M.

a) Litigation – New Mexico Educational Retirement Board v. Renaissance Private Equity Partners et al (session closed pursuant to NMSA 1978, Section 10-15-1(H)(7): Rod Ventura, General Counsel; David Urias, Freedman Boyd Hollander Goldberg Urias & Ward, P.A.

b) Discussion of sealed litigation (session closed pursuant to NMSA 1978, Section 10-15-1(H)(7)

c) Limited Personnel Matters (session closed pursuant to NMSA 1978, Section 10-15-1(H)(7), compensation of Chief Investment Officer

Chairwoman Cameron moved that the board go into executive session pursuant to Section 10-15-1(H)(7) for purposes of discussing pending litigation and pursuant to Section 10-15-1(H)(2) for the purpose of discussing limited personnel matters. Mr. Aguilar seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Aguilar; Mr. Eichenberg; Mr. Magid.

Against: None.

13. ACTION FROM EXECUTIVE SESSION: 12:45 P.M.

Chairwoman Cameron moved that the board come out of executive session. The only matters discussed during the executive session were pending litigation and limited personnel matters, as set forth on the agenda. Mr. Aguilar seconded the motion, which passed by unanimous voice vote.

Mr. Aguilar moved that the board approve the \$175,000 settlement with the Aldus parties and the \$180,000 settlement with Saul Meyer in the matter of New Mexico Educational Retirement Board v. Renaissance Private Equity Partners et al, subject to review by the New Mexico Attorney General's Office and final action by New Mexico State Courts. Mr. Magid seconded the motion, which passed unanimously by voice vote.

Mr. Goff moved to grant Bob Jacksha a \$20,000 salary increase effective April 22, 2017, and to move his job range to Range 60, and a second salary increase of \$20,000 effective April 21, 2018, contingent upon a satisfactory evaluation of his performance through April 20, 2018. Mr. Aguilar seconded the motion, which passed by unanimous voice vote.

14. PROCESS FOR ANNUAL EVALUATION OF EXECUTIVE DIRECTOR JAN GOODWIN:
MARY LOU CAMERON, BOARD CHAIR

Chairwoman Cameron stated that she would email an evaluation tool no later than April 23 to members of the Evaluation Committee (comprising herself, Mr. Goff and Mr. Aguilar) with a list of the current goals. Those will be returned to her by June 1, and the committee will then compile the results and present them to Ms. Goodwin at the June board meeting.

15. NEXT MEETING: FRIDAY, JUNE 23, 2017 -- ALBUQUERQUE

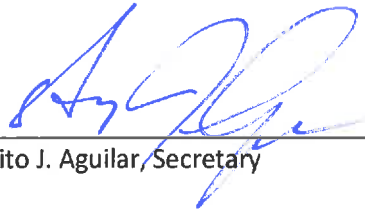
16. ADJOURN

Its business completed, the Educational Retirement Board adjourned the meeting at 12:45 p.m.



Russell Goff, Vice Chairman

ATTEST:



Hipolito J. Aguilar, Secretary