

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ACTION SUMMARY

December 9, 2016

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

**REGULAR MEETING**

December 9, 2016

**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 Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico. A quorum was present.

**Members Present:**

Ms. Mary Lou Cameron, Chairwoman  
Mr. H. Russell Goff, Vice Chairman  
Mr. Hipolito J. Aguilar, Secretary  
Dr. Donald W. Duszynski [left at 11:30 a.m.]  
Mr. Larry Magid

**Members Excused:**

The Hon. Tim Eichenberg, State Treasurer

**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  
Mr. Lawrence Esquibel, Chief Information Officer

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Jason Ostroski, CliftonLarsonAllen  
Mr. Tom Rey, CliftonLarsonAllen  
Ms. Billie Blair, Contract Communications Consultant  
Ms. Mary Frederick, Contract Communications Consultant  
Ms. Judith Beatty, Recorder  
[See sign-in sheet.]

**b. Approval of Agenda**

The agenda was reordered and renumbered, with Executive Session (Item 12) to immediately follow Item 6.

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

**c. Approval of Minutes – Board Meeting of October 21, 2016**

**Mr. Goff moved approval of the October 21 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

**d. Introduction of Guests**

Chairwoman Cameron welcomed guests and staff.

**2. CONSENT AGENDA**

**a. Board Travel**

Mr. Goff and Mr. Magid stated that they would be attending the NEPC conference in January.

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

**3. OPEN MEETINGS ACT RESOLUTION FOR 2017: SUSANNE ROUBIDOUX, DEPUTY GENERAL COUNSEL**

Ms. Roubidoux requested approval of this resolution, as required by the Open Meetings Act on an annual basis.

**Mr. Goff moved approval of the resolution. Dr. Duszynski seconded the motion, which passed unanimously by voice vote.**

**4. AUDIT COMMITTEE REPORT: MARY LOU CAMERON, BOARD CHAIR**

Chairwoman Cameron reported that the Audit Committee met on November 17. She said CLA expects to issue a clean opinion on the financial statements. There were four findings, one of which was a significant deficiency in investment accounting. The other three findings were compliance and best practice issues, and NMERB has taken steps to ensure that none of these items will repeat next year.

**5. PRESENTATION OF JUNE 30, 2016 AUDIT REPORT: CliftonLarsonAllen**

CLA representatives Thomas Rey and Jason Ostroski made a presentation on the audit results, with the following highlights:

-- CLA expects to issue an unmodified "clean" opinion on the financial statements as well as the schedule of revenues and expenses. No material weaknesses were identified.

-- One significant deficiency was identified in investment accounting, which was associated with an adjusting journal entry that was part of the reconciliation process. In essence, the general ledger did not match up with the investments portfolio and the result was an understatement in asset value. The processes are being adjusted and management is taking steps to correct how investments will be reconciled between the custodial bank and what is recorded in the general ledger and then shown in the financial statements going forward.

-- There were three compliance and other matters. Two "other matters" were best practices issues rather than control weaknesses: 1) on accuracy and completeness of census data (data analytics), where 559 members had been terminated but were listed as active in the census data. Management has put processes in place to address it. CLA has worked with the actuary and determined it would have very immaterial impact on the total pension liability, so no adjustments were made. 2) The need to formalize a data recovery plan, which is currently in draft form. The final area, 3) cash receipts were not recorded or deposited in a timely manner, resulted in additional training of staff to provide backup in the case of absence and improved daily cash reporting .

-- There was one significant accounting policy addition this year, when GASB issued a standard on fair value of investments (GASB 72). This standard did not change the fair value of any of the investments; it only enhances the disclosure process.

-- There was one audit adjustment, which was related to the difference between the custodial bank asset value and what was reported in the general ledger. This was a \$72 million adjustment (understatement).

-- There were no passed audit adjustments.

-- Management was very cooperative and professional during the audit process.

Responding to a question from Mr. Aguilar regarding the \$72 million reconciliation issue and when it was identified, Mr. Ostroski clarified that there were timely reconciliations occurring throughout the year; the issue was with how they were being done. The records at the custodial bank were accurate, and it was a matter of interpreting them in the general ledger, and it was the way the process was set up. He said it was essentially double counting the receivables and payables when the entry was booked into the general ledger. He said the issue is now understood, so it will be corrected going forward.

Addressing how this will be corrected, Ms. Goodwin stated that, once the CFO comes up with the correct amount for investments for the total portfolio, the CFO will send an email to the head of investment accounting to ensure that the numbers agree.

Mr. Aguilar asked if the funded ratio ties to the funded ratio in the actuarial report, or is there another basis for this calculation. Mr. Ostroski responded that GASB 67 separated financial reporting and accounting from funding, so now there are two ratios. He said the financial statements show the accounting ratio, which is at market value at June 30, versus the funded ratio, which takes

smoothing into account. While those two numbers eventually converge, the funded ratio will rise or fall with market volatility.

Mr. Rey confirmed that the NMERB's actuarial funded ratio did improve, and the 64.2 percent matches the actuarial valuation. The GASB 67 funded ratio actually decreased, however, because there is no smoothing of gains and losses.

Mr. Aguilar noted that the State Auditor's Office wants to move the deadline for state agencies from December 1 to November 1, which he feels will put agencies under a lot of duress. He said this proposal is out for public comment, and suggested the board oppose it.

Ms. Goodwin responded that the NMERB has written a joint letter with PERA opposing this change and requesting that it remain the same. In addition, NMERB has asked its auditors to send a letter to the State Auditor on this. She said staff also plans to express the NMERB's concerns during the public comment hearing on January 12.

Mr. Aguilar asked CLA representatives how many special directives they received from the State Auditor this year to test specific things. He said he was asking this question because the State Auditor is starting to expand his scope without any legal authority, and it is causing problems around the state.

Mr. Rey responded that there was compliance testing done in accordance with the State Auditor mandate that CLA would never otherwise do for the NMERB's financial statements.

Mr. Rey also noted that meeting the proposed November 1 deadline would be especially challenging given the NMERB's investments in alternatives, since June 30 values aren't really in until October, and this also puts pressure on the actuaries to do their valuations.

**Mr. Magid moved to accept the audit, as presented. Mr. Goff seconded the motion, which passed unanimously by voice vote.**

## **6. INVESTMENT REPORTS: BOB JACKSHA, CIO**

### **a. September Quarterly Performance Report**

[Presenter: General advisor Allan Martin, NEPC.]

Mr. Martin presented this report.

-- Despite the low return environment, this was a very strong quarter and the NMERB is above its assumed rate for the 1-year, 5-year and 30-year time period. Versus its peers, the NMERB is in the top 12 percent on a 1-year basis, the top 3 percent on a 3-year basis, and the top 28 percent on a 10-year basis.

-- Over the past five years, the fund returned 9.2 percent per annum, outperforming the policy index by 60 basis points in addition to outperforming the fund's actuarial rate of return of 7.75 percent and ranking in the 41st percentile of the InvestorForce Public Funds > \$1 Billion universe.

-- Over the last three years, the fund returned 7.0 percent per annum, outperforming the policy index by 90 basis points and ranking in the 3rd percentile of its peer group.

-- For the year ending September 30, 2016, the fund experienced a net investment gain of \$1.12 billion, which includes a net investment gain of \$425 million during the third quarter.

-- The fund now stands at \$11.685 billion at September 30, which is at an all-time high.

Mr. Aguilar commented that these numbers are very significant, and this is extraordinary news.

Responding to a request from board members, Mr. Jacksha said he would meet with Ms. Goodwin to discuss ways of disseminating this information to the constituency and others.

Mr. Martin noted that the NMERB is in the top three or four private equity funds that NEPC tracks in a universe of 30-40 funds. He added that the NMERB's private equity results, opportunistic credit results and real asset results have been "outstanding." He said he saw nothing in the portfolio that was troublesome or substandard.

#### **b. Investment Committee Report**

Mr. Jacksha reported on yesterday's Investment Committee meeting.

-- The committee approved a \$150 million investment in Orchard's Taiga Fund.

-- The committee discussed the private equity report for June 30. The quarter was up about 3.8 percent. Since inception, the portfolio has earned about 12.5. In addition, distributions just reached \$1 billion – a new milestone.

#### **c. Other Investment Reports**

Ms. Goodwin stated that, at the October board meeting and then at the subsequent Investment Committee meeting, there was a discussion about the misalignment between the actuarial investment number and the NMERB's investment numbers. She said staff met on this, and will continue to do what it has done in the past. When Mr. Jacksha announces the June 30 investment results, the March 31 alternative investment valuation will be included. The final audit report will have the new number with the June 30 valuations of the alternative investments.

### **7. EXECUTIVE SESSION: 10:25 a.m.**

(a) **Pending litigation: (session closed pursuant to NMSA 1978, Section 10-15-1(H)(7), CBL & Associates Properties, Inc.**

(b) **Limited Personnel Matters (session closed pursuant to NMSA 1978, Section 10-15-1(H)(2), compensation of Executive Director and Deputy Director**

Chairwoman Cameron moved that the board go into executive session for the purpose of discussing pending litigation and limited personnel matters. Mr. Magid seconded the motion, which passed on the following roll call vote:

**For:** Chairwoman Cameron; Vice Chair Goff; Secretary Aguilar; Dr. Duszynski, Mr. Magid.

**Against:** None.

**[Board was in executive session until 12:05 p.m.]**

Chairwoman Cameron moved that the board come out of executive session, noting that the only matters discussed in executive session were pending litigation in accordance with Section 10-15-1(H)(7), and limited personnel matters in accordance with Section 10-15-1(H)(2). Mr. Magid seconded the motion, which passed on the following roll call vote:

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

**Against:** None.

**[Note: Dr. Duszynski left the executive session at approximately 11:30 a.m.]**

#### **8. ACTION FROM EXECUTIVE SESSION**

Mr. Magid moved to rescind all previous board actions approved in calendar year 2016 regarding compensation for Jan Goodwin. Mr. Goff seconded the motion, which passed unanimously by voice vote.

Mr. Magid moved to change Jan Goodwin's job classification to Deputy Director of Investments, pay range 60, at the hourly rate of \$91.21, to be effective upon approval by DFA. Mr. Goff seconded the motion, which passed on the following roll call vote:

**For:** Chairwoman Cameron, Vice Chair Goff, Mr. Magid.

**Against:** Secretary Aguilar.

#### **9. DISCUSSION AND POSSIBLE BOARD ACTION: USE OF INDEPENDENT COUNSEL FOR CONSULTATION WITH THE BOARD: MARY LOU CAMERON, BOARD CHAIR**

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Chairwoman Cameron said there has been some discussion about using an independent counsel for consultation with the board when needed, as there are occasions when the board needs to have an independent opinion. While this situation has not arisen, there could be a situation where counsel would be faced with representing the Board of Trustees as well as the Executive Director, which would put in-house counsel in a difficult position.

Ms. Goodwin clarified that Ian Lanoff of the Groom Law Group, the board's fiduciary attorney, is on a fee-based contract and would be able to act as independent counsel for certain other needs that arise.

Responding to Mr. Aguilar, Ms. Goodwin said she did not believe the contract with Groom Law Group included employment law. Mr. Ventura agreed. Ms. Goodwin said the contract covered governance issues, fiduciary matters, and tax issues.

Chairwoman Cameron commented that, based on the discussion, she felt comfortable that any potential issues could be satisfactorily addressed through the contract with Mr. Lanoff.

**10. 2017 LEGISLATIVE PROPOSAL ON INVESTMENT STAFF CLASSIFICATION:  
JAN GOODWIN AND BOB JACKSHA**

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Ms. Goodwin reported that, after the October meeting, when the board approved two pieces of legislation, she and General Counsel Rod Ventura met with DFA, which brought up concerns about giving raises to non-investment staff. She and Mr. Ventura then met with Chairwoman Cameron to see if they should modify the legislative proposal before proceeding to IPOC, and Chairwoman Cameron recommended that the proposed legislation only include investment staff. She said IPOC subsequently endorsed that legislation. In summary, it removes investment staff from under the State Personnel Office and the CIO from under the Governor's exempt salary plan, so the board would have the flexibility to set salary ranges and salaries for investment staff.

Mr. Ventura said the relevant change is under paragraph G of the Act, which states: "the chief investment officer of the educational retirement board and those employed in the investment division of the board as portfolio managers, investment analysts or supervisors." Previously, the paragraph listed the executive director, deputy director and general counsel.

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

**11. AGE & SERVICE RETIREMENTS: MONICA LUJAN, MEMBER SERVICES MANAGER**

Ms. Lujan presented this report, noting a grand total of 290 retirements during the period of 10/1/2016 – 11/30/2016.

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

**12. DISABILITY RETIREMENTS: RICK SCROGGINS, DEPUTY DIRECTOR**

Mr. Scroggins presented this report.

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



**13. DIRECTOR'S REPORT: JAN GOODWIN, EXECUTIVE DIRECTOR**

**a. RHCA Update**

Ms. Goodwin reported that the NMRHCA went through a successful open enrollment period, with many people currently on the Premier Plan opting to migrate to the lower cost plan, which represents a cost savings for them and for the NMRHCA.

**b. Other**

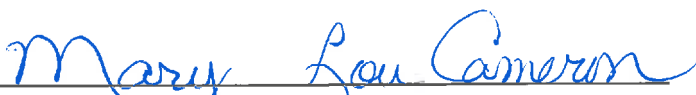
- Ms. Goodwin reported that the NMERB is now able to have first checks for new retirees automatically deposited. This represents an improvement in service for them.
- Ms. Goodwin noted that retirees have the option of having different things deducted from their benefit check, including their Retiree Health Care insurance premium and their NMAER and NEA dues. However, because of changes made by DFA in their cash remediation project, it will become more cumbersome for the NMERB to do that, and the NMERB is exploring possibilities with NMRHCA, NMAER and NEA on how the collections could be made by them. She commented that there are many hours spent on reconciliation; additionally, NMRHCA premiums go up every January and the NMERB is flooded with phone calls from members asking why their check was less. The NMERB estimates that about 15 percent of the phone calls it receives over the course of the year are related to the NMRHCA. She commented that staff wants to make this transition as smooth as possible for all parties, so they will work diligently with those groups.

Mr. Aguilar said premium rates for the Affordable Care Act are expected to increase significantly, and asked how that will impact the NMRHCA. Ms. Goodwin responded that rates through the NMRHCA are expected to increase by about 8 percent, which is much less than on the open market.

**14. NEXT MEETING: FRIDAY, FEBRUARY 17, 2017 – SANTA FE**

**15. ADJOURN**

Its business completed, the Educational Retirement Board adjourned the meeting at 12:30 p.m.

  
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Mary Lou Cameron, Chairwoman

ATTEST:



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Hipolito J. Aguilar, Secretary