



STATE OF NEW MEXICO
Educational Retirement Board

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The ERB is concerned about reports that the ERB 'lost' \$700,000 by incorrectly estimating the fees that would be paid on an investment manager contract that was terminated for poor performance. In October 2009, that manager's contract was amended to provide for a lower base fee, plus additional performance based fees. The new fee schedule would take effect only if the contract remained in force until October 1, 2010. If the contract did not remain in effect until October 1, 2010, the ERB would be required to pay the higher fee in the original contract. Staff used the lower fee to estimate what the ERB would pay on contract termination. When they recommended terminating the contract before October 1, 2010, staff overlooked that clause. In other words, the ERB ending up paying the same amount of fees that it originally was obligated to pay under the contract. Neither the failure to revise the estimated fee on the budget nor paying the fee as agreed resulted in a "loss" to the Educational Retirement Fund.

After the old manager was replaced on August 1, 2010, during August and September 2010 the new manager *outperformed* its benchmark by approximately \$1,173,000 or approximately \$593,000 more than the fee that was paid to old manager. Given the prior poor performance of the old manager, had the ERB left that manager in place until October 1, 2010 it ran the risk of continued poor performance. That continued poor performance would not have been good for the Educational Retirement Fund. Even after paying the higher fee, replacing the old manager increased ERB's assets. The new manager continues to provide good investment returns for the Fund.

The ERB strives to minimize investment fees because fees reduce the net performance of the Fund's investments. But minimizing fees should not come at the expense of investment performance. Investment returns increase the ERB's assets and enables the Fund to pay benefits to current and future retirees. A low fee provides no benefit if it is more than offset by poor performance.