A guest editorial in the November 29, 2017 edition of the Albuquerque Journal made several assertions about inadequacies in the investment operations of New Mexico's public pension funds, the Educational Retirement Board (ERB) and Public Employees Retirement Association (PERA).

In order to address this, let's start at the top. The stated mission of the ERB is: "Providing secure retirement benefits for New Mexico's Educational retirement system." That mission informs and guides all of our activities, including investing. Our board performs its fiduciary duties in this regard by setting our investment allocation and approving investments that will fund our members' retirement benefits. We invest solely for the benefit of the participants in the fund. Our strategies reflect this mission. We do not invest for the benefit of anyone else including the governor. Any innuendo to the contrary is flat out wrong.

The guest editorial suggests that the funds should be invested in low-cost index funds that represent stock and bond market indexes. We believe that is appropriate for some asset classes and in fact invest in some stock market indexes. A strategy of only investing in market indexes worked well in the bull market of the recent past. Unfortunately, we can't invest in yesterday's returns, we must deal with **expected future** returns. ERB follows a common practice for public pension plans in conducting regular asset allocation reviews. This process entails projecting future returns, volatilities, manager fees, and correlations for various public and alternative asset classes. Our projections lead us to the conclusion that for at least the next few years, stocks will produce lower returns than they have in the past. The results of this review show that the expected return of a portfolio largely represented by market indexes of 65% stocks, 30% bonds, and 5% real estate is expected to result in a return of 5.5% over the next 5-7 years, short of our required 7.25% return. Instead of relying just on stocks and bonds, we feel adequate returns must be sought from a diverse variety of sources and our portfolio is deployed accordingly. The expected return of our portfolio, after the payment of manager fees is 7.6%. The details of this review conducted in 2016 are available on our website (www.nmerb.org).

The guest editorial goes on to allege that the ERB fund has somehow "underperformed" in the last five years. We beg to differ. We publish quarterly performance reports on our website. For the five-year period ending June 30, 2017, our portfolio returned 8.7% per year, after the payment of manager fees, while a global market index of 60% stocks and 40% bonds only returned 6.3%. Actual performance by the ERB portfolio, resulted in more than a $1 billion advantage over the index portfolio over those five years. We can also compare the ERB portfolio performance to other U.S. public pension funds. Here as well, ERB does better than the median fund return in all periods longer than a year. Like many of the claims in the editorial, the claim of underperformance has no actual basis in fact.

Regarding manager fees, while they are important, they are not the most important factor, the net return is the most important factor. That is the focus of our strategy.

ERB does use two strategies to mitigate fees to the extent possible, however. We manage about 27% of our assets internally (some in index funds) at a fraction of the cost of external management. We also employ co-investment and separate account structures in high cost asset classes at about half the regular cost. Together, these strategies save about $25 million in fees annually.

In closing, the ERB prudently invests its funds for the sole benefit of the members of our plan. We do so in the best manner possible given the ERB's circumstances and expected market conditions.