

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ACTION SUMMARY

February 17, 2017

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REGULAR MEETING

February 17, 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 9:10 a.m. at the Public Education Department, Mabry Hall, 300 Don Gaspar Avenue, Santa Fe, New Mexico. A quorum was present.

Members Present:

Ms. Mary Lou Cameron, Chairwoman
Mr. H. Russell Goff, Vice Chairman
Mr. Hipolito J. Aguilar, Secretary [not present 9:30 to 10:30 a.m.]
The Hon. Tim Eichenberg, State Treasurer
Dr. Donald W. Duszynski
Mr. Larry Magid

Members Excused:

None.

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. Reese Fullerton, GenQuest
Ms. Judith Beatty, Recorder
[See sign-in sheet.]

b. Approval of Agenda

The following items were withdrawn:

2. Swearing in of New Board Member
5. NM High School Coaches Association, Thomas Mabrey

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

c. Approval of Minutes – December 9, 2016

Mr. Aguilar moved approval of the December 9 minutes, as submitted. Mr. Goff seconded the motion, which passed unanimously by voice vote.

d. Introduction of Guests

Chairwoman Cameron welcomed guests and staff.

3. CONSENT AGENDA

a. Board Travel

Dr. Duszynski requested approval to attend part 2 of the CAPP program on October 21 and 22.

Mr. Eichenberg said parts 1 and 2 of the CAPP program are also available in July. Schedule permitting, he would like to attend at that time.

Mr. Eichenberg moved to approve travel for Dr. Duszynski to the CAPP program in October, and for himself in July. Mr. Magid seconded the motion, which passed unanimously by voice vote.

4. STRATEGIC PLANNING: REESE FULLERTON

Mr. Fullerton said he hoped the Strategic Plan sufficiently addressed the board's concerns about reaching out to members and employees and making sure that the plan "is something that can be on all staff persons' desks." He said he has taken care to include all of the issues stressed by the board at the September retreat, i.e., outreach, planning, messaging, visiting with legislators early and often, writing op-ed pieces for the newspaper, etc.

Mr. Goff commented that he found the plan to be very comprehensive and he was very pleased with it.

Chairwoman Cameron asked Mr. Fullerton to create a one-page visual or diagram for easy reference so that the board can readily see whether it is staying on task. She recommended that the board check on its progress at each of its regular meetings.

Dr. Duszynski moved for approval of the Strategic Plan for years 2017-2019, as presented. Mr. Goff seconded the motion, which passed unanimously by voice vote.

Mr. Fullerton commended the board for being so engaged in this plan and for offering so much input. He also thanked Ms. Goodwin and staff for their hard work throughout the process.

5. NEW MEXICO HIGH SCHOOL COACHES ASSOCIATION – DISCUSSION

Chairwoman Cameron suggested that Mr. Ventura discuss why this item was removed from today's agenda.

Mr. Ventura stated that Thomas Mabrey, of the New Mexico High School Coaches Association, had asked the NMERB if the association, which has one employee, could become a new NMERB employer.

Mr. Ventura stated that, following review and discussion with tax counsel, it was determined that they could not become a new NMERB employer because they would have to be a governmental entity to take part in a governmental pension plan, and staff discovered that they really didn't have enough supporting documentation to show that they were a governmental agency. The NMERB advised Mr. Mabrey of that, and he withdrew his request.

[Mr. Aguilar stepped away from the meeting at this point.]

6. INVESTMENT REPORTS: BOB JACKSHA, CHIEF INVESTMENT OFFICER

b. December 2016 Quarterly Performance Report

NEPC consultant Allan Martin presented this report, with the following highlights:

- Over the past five years, the fund returned 8.5% per annum net of fees, outperforming the policy index by 90 basis points in addition to outperforming the fund's actuarial rate of return of 7.75%.
- Over the past three years, the fund returned 5.8% per annum net of fees, outperforming the policy index by 80 basis points. Over the same period, the fund's volatility ranks in the 12th percentile of its peers, resulting in a three-year Sharpe Ratio of 1.1, which ranks in the 7th percentile.
- For the year ending December 31, 2016, the fund experienced a net investment gain of \$939.8 million, which includes a net investment gain of \$94.7 million during Q4. Assets increased from \$11.11 billion one year ago to \$11.68 billion on December 31, with \$367 million in net

distributions during the year. The fund returned 8.5%, underperforming the policy index by 60 basis points and ranking in the 15th percentile of its peers.

Mr. Jacksha said final figures were not yet in for January, but the number would be positive.

Mr. Martin commented that the market's upward trend is not expected to continue this way indefinitely. If returns for March and April are significantly above the 7.75% target for the year, the board might consider locking that in, although there would be some cost involved. He added that the good news is the NMERB has very low exposure in the equity markets; so the NMERB would not suffer as much as many of its peers would if there were a market correction.

Mr. Magid asked if the NMERB is authorized to write options against the portfolio. Mr. Jacksha responded that current policy precludes doing that internally, although this is a strategy employed by some of the outside managers.

Mr. Jacksha agreed to add this topic to the Investment Committee March agenda.

In reviewing the total fund attribution analysis for the one year ending December 31, 2016, Mr. Martin said the 60 basis points of underperformance (8.5% return against policy index of 9.1%) was mostly because of manager underperformance versus benchmarks in the US Small/Mid Cap Equity category. This has been disappointing both in the short term and in the longer term, and staff and NEPC have been looking at the possibility of indexing some of that exposure.

Mr. Jacksha added that indexing was something staff was considering at the time it established the new policy index, which put another 1 percent in small/mid cap, but things have been proceeding slowly as the NMERB continues to try to fill vacancies on investment staff. At current staffing levels, taking this on would involve more work than existing staff could reasonably handle.

Mr. Martin noted that the NMERB has \$270 million in the small/mid cap asset class. He commented that are great economies to hiring someone and buying some software to do this in house, and the payback of having a staffer do this versus compensating an index fund is "extraordinarily high."

Mr. Magid added that small and mid cap have always outperformed the general market anyway, so there is a big advantage to doing that.

a. NEPC Consulting Contract

Mr. Jacksha stated that NEPC's contract comes due on September 30, 2017. Staff is bringing this item to the board well in advance of that in the event the board decides to issue an RFP.

Mr. Jacksha stated that he would prefer not to do an RFP because adding a project like this at existing staffing levels would pose a burden on staff. In addition, NEPC is a good partner with the NMERB, and the board has seen the results it has produced.

Mr. Jacksha said the current annual fee through September 30, 2017 would be \$361,289.25. Assuming this contract is extended, it would adjust every year for CPI. He proposed one two-year extension to the NEPC consulting contract, as permitted by policy.

Mr. Goff moved to approve a two-year extension to the NEPC contract. Dr. Duszynski seconded the motion, which passed unanimously by voice vote.

c. Other Investment Reports

None.

7. ALTERNATIVE RETIREMENT PLAN: PAUL AGUILAR, ARP COMMITTEE CHAIR

[Report presented by Mr. Ventura, as Mr. Aguilar was temporarily away from the meeting.]

a. ARP Committee Report

Mr. Ventura presented highlights from the ARP Committee meeting of January 13:

Mr. Ventura reported that Cammack Retirement Group consultants Farhad Mirzada and Denise Burns provided a status report for the third quarter ending 9/30/16. Because the January meeting was originally scheduled at the end of 2016 and then delayed, the fourth quarter report was not on the agenda.

Mr. Ventura said ARP's two main vendors are Fidelity and TIAA. It no longer contracts with a third vendor, Valic, but about 474 ARP members still have their accounts with Valic. He said total assets in the ARP program are approximately \$552 million; of that, \$442.9 million is in TIAA, \$56.5 million is in Fidelity, and \$52 million remains in Valic.

Mr. Ventura stated that no funds in the ARP program are currently under watch.

Mr. Ventura said Cammack discussed defined contribution plans. There are some lawsuits against some 401(k) plans, including in higher education institutions such as Yale University, University of Pennsylvania and Vanderbilt, based on their defined contribution plans and alleged breaches of fiduciary duty. Those lawsuits probably will not affect the NMERB's governmental plan, but Mr. Mirzada wanted to make the ARP Committee aware of them, as there is one law firm that is bringing all of these lawsuits and there is always the chance that they could begin looking at entities like the NMERB.

Mr. Ventura said Cammack recommended that the ARP Committee approve two new passive index options into the investment array of TIAA: the Vanguard 500 Index Fund and the Vanguard Extended Market Index Fund. These funds complement each other in the small/mid cap categories. Fidelity already has similar passive index options, and adding these will make the two programs very comparable.

Mr. Magid moved to approve these recommendations. Dr. Duszynski seconded the motion, which passed unanimously by voice vote.

8. RULES HEARING: INVESTMENT COMMITTEE RULES, RULE 2.82.8.8(B) AND 2.82.1.14

a. Summary of changes and written public comments – Rod Ventura, General Counsel

Mr. Ventura announced that copies of the rules were in the back of the room near the entrance for anyone wishing to review them.

Mr. Ventura stated that notice of today's hearing was published in the *New Mexico Register* and on the NMERB website. In addition, public comment on the rules was permitted from November 1 through January 20.

Mr. Ventura stated that the rule changes, which would affect the Investment Committee, would do the following:

- Change quorum from three members of the committee to "a simple majority of board members serving on the committee."
- Change the rule from allowing up to four members on the committee (chair and up to three members) to a definite three members.
- Add, "chair shall appoint two members" in October (plus the chair).
- Change rule from stating that the chair *may* fill a vacancy when a vacancy occurs to, "If a vacancy occurs, chair *shall* fill vacancy."

Mr. Ventura stated that one comment was received, from Karen Walton, Superintendent Secretary at the Raton Public School District. Ms. Walton stated that she would prefer for the members "to stay at 3. The more eyes the better, more transparency." Mr. Ventura said Ms. Walton may have meant four members and not three, but her point was that there should be more transparency.

b. Oral Public Comments

There was no one wishing to address this matter from the floor.

c. Final Action

Mr. Goff moved to amend ERB Rule 2.82, part 1 and ERB Rule 2.82 part 8, as recommended by ERB staff. Mr. Magid seconded the motion.

Responding to Mr. Eichenberg, Ms. Goodwin said it would not be considered a board meeting if a quorum of the board showed up at an Investment Committee meeting, nor would it be considered a board meeting if there were four board members on the committee. She said this is because the Investment Committee has been delegated certain responsibilities by the board, and can only act on those responsibilities at the Investment Committee.

The motion passed unanimously by voice vote.

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

Ms. Lujan presented the December 2016 and January 2017 Retirement Summary Report. She commented that the total of 292 retirements was consistent with retirement figures during this period in past years.

Ms. Lujan cited two retirements that stood out in the report. One individual had retired at 81.25 years of age after 8 years and 6 months of service. She commented that, like this person, many Americans who reach retirement age continue on with second or third careers when they find new uses for their skills. Another retiree had 45 years of earned service and 5 years of allowed military service.

Chairwoman Cameron suggested that the board send these retirees a letter of thanks and recognition for their years of service and that the board routinely do this in the future.

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

10. DISABILITY ACTIONS: RICK SCROGGINS, DEPUTY DIRECTOR

Mr. Scroggins presented the report on new disability requests, periodic reviews and COLA adjustment requests that occurred in December 2016 and January 2017.

Mr. Scroggins noted that the MMRO has just completed one year under its contract with the NMERB, and staff is very satisfied with the service it is receiving.

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

[Mr. Aguilar returned to the meeting.]

11. NMERB INFORMATION TECHNOLOGY UPDATE: LAWRENCE ESQUIBEL

- a. Server hardware refresh
- b. Oracle database appliance (ODA) migration
- c. Security

Mr. Esquibel presented this report.

Mr. Esquibel said NMERB began placing its hardware at the Santa Fe Simms Data Center on December 3 and has been operating out of that facility since then.

Mr. Esquibel discussed user training, noting that the NMERB issues monthly newsletters with information obtained from MS-ISAC (Multi-State Information Sharing and Analysis Center), which is the

focal point for cyber threat prevention, protection, response and recovery for the nation's state, local, tribal territorial governments.

Mr. Esquibel said annual network assessments are done by RiskSense to see how NMERB is doing with its internal components as well as its external sites. Their most recent score is 742, with a perfect score being 850. He said the last assessment was done in February 2016, and another assessment is expected in late March/early April.

Mr. Eichenberg noted that a score of 700 and above is considered "good." Mr. Esquibel agreed. He commented that NMERB "is in very good shape," according to RiskSense. He said he expected the score to drop somewhat because NMERB has introduced many new items in the past year.

Mr. Esquibel said the NMERB has just acquired a \$10 million cyber security policy through AJ Gallagher to protect the NMERB and its members from any possible future information security breach. This policy will protect the NMERB by providing coverage for breach notification costs and expenses; credit monitoring; media liability; system damage and business interruption expenses; regulatory proceedings; and threats and extortion. He said NMERB would be the first state agency to have this policy, adding that the cost of the insurance will be about \$39,000 per year. If a breach were to occur of the data of NMERB's 153,000+ members, the cost could run as high as \$9.9 million if each record's cost were broken down to \$65. He said the \$10 million policy would cover two breaches within a given year.

Mr. Esquibel added that, if the NMERB were to acquire credit monitoring on its own without the coverage of insurance, one insurer, Identity Guard, offers a policy for \$36 per member, or about \$5.5 million a year for the agency. Under the coverage, the estimated cost would be about \$480,000.

Mr. Esquibel said there has been no appetite at the state level for this type of coverage, and his attempts to reach DoIT and GSD via email were unsuccessful. He stressed that he felt this was the best move for the protection of the agency and its members.

Mr. Esquibel noted that the House passed HB15 yesterday (Data Breach Notification Act), adding that New Mexico was one of three states that did not have this legislation.

Mr. Aguilar and Mr. Eichenberg each expressed reservations about certain aspects of HB15, including a provision allowing for criminal penalties.

12. DIRECTOR'S REPORT: JAN GOODWIN, EXECUTIVE DIRECTOR

a. Legislative Session Update

Ms. Goodwin discussed bills currently at the legislature:

- SB28, statutory cleanup bill, is awaiting a hearing at the Senate Finance Committee.

- SB29, addressing compensation for most of the investment staff, is awaiting a hearing at the Senate Finance Committee.
- SB144, carried by Sen. Craig Brandt, would remove all substitutes from paying contributions. This would not be in the NMERB's interest because long-term substitutes currently pay contributions, and many become full time employees over the course of their career. The estimated cost to NMERB would be about \$1.4 million per year. This bill was tabled last night by the Senate Finance Committee.
- SB2, carried by Senator Sander Rue. Mr. Eichenberg has worked closely with Senator Rue on this bill, which takes all of the transparency efforts that the NMERB has been working on for the last few years and makes them mandatory for all of the state investing agencies. This bill passed the senate floor unanimously this week.

Mr. Eichenberg said he could not speak highly enough of Ms. Goodwin for her efforts and assistance with SB2. He said this legislation would be in everyone's best interest.

b. Equipment Disposal

Ms. Goodwin requested approval of the Asset Disposal List dated February 17, 2017.

Mr. Eichenberg moved for approval. Mr. Goff seconded the motion.

Responding to the Chair, Mr. Esquibel stated that, prior to disposal, these items would be presented to other state agencies to see if there is any interest. He said some items not claimed by the state could go to the Neighborhood Youth Association in Los Angeles to use as training tools for inner city children, if the items are appropriate for training.

Responding to Mr. Aguilar, Mr. Esquibel said the NMERB has purchased a sanitation unit and sanitizes its own drives. All of the items on this list have been sanitized to DOD standards.

The motion passed unanimously by voice vote.

Mr. Jacksha explained that the Neighborhood Youth Association is a supplemental school for disadvantaged youth.

Mr. Martin added that the organization provides after school training and support to disadvantaged youth, and the graduation rate is 100 percent. He said this group has been operating since the early 1900s.

Mr. Aguilar congratulated Mr. Jacksha and Mr. Martin on their work, and thanked Chairwoman Cameron, the Investment Committee and Ms. Goodwin for their work. He commented, "It was a good year in relative terms, and I think it speaks to good sound decision making and good policy by the board."

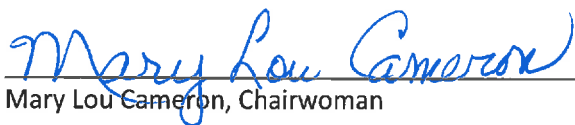
c. Other

Ms. Goodwin reported that NMERB has received the COLA letter this week from Gabriel Roeder Smith. As the board knows, the COLA set each July 1 is based on the CPI. This year, the COLA for people who have 25 years or more of service and are below the median pension benefit of \$1,605 will be 1.17 percent. For all other regular retirees, it will be 1.04 percent, and for disability retirees, it will be 1.3 percent.

13. NEXT MEETING: FRIDAY, APRIL 21, 2017 -- ALBUQUERQUE

14. ADJOURN

Its business completed, the Educational Retirement Board adjourned the meeting at 11:05 a.m.



Mary Lou Cameron, Chairwoman

ATTEST:



Hipolito J. Aguilar, Secretary