

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

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August 26, 2016

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

REGULAR MEETING

August 26, 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
The Hon. Tim Eichenberg, State Treasurer
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. Suzanne Roubidoux, Deputy General Counsel
Mr. Mark Canavan, Real Assets Portfolio Manager
Ms. Dianne Rossbach, CFO
Ms. Lealia Nelson, Outreach Coordinator
Ms. Karla Leyba, Member Services Bureau Chief
Mr. Lawrence Esquibel, Chief Information Officer
Ms. Mary Jane Hogin, Compliance Auditor
Ms. Margaret Riquelmy, Executive Assistant

Others Present:

Mr. Allan Martin, NEPC
Mr. Kevin Force, LESC
Ms. Judith Beatty, Recorder
[See sign-in sheet.]

b. Approval of Agenda

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

c. Approval of Minutes – June 24, 2016

Mr. Aguilar moved approval of the June 24 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. SWEARING IN OF NEW BOARD MEMBER

[None.]

3. ELECTION OF BOARD OFFICERS

Chairwoman Cameron opened the floor for nominations.

Mr. Magid moved to nominate Mary Lou Cameron as Chair. Mr. Aguilar seconded the nomination.

There were no other nominations, and nominations were closed.

Ms. Cameron was re-elected Chair by unanimous voice vote.

Mr. Aguilar moved to nominate Russell Goff as Vice Chair. Mr. Magid seconded the motion.

There were no other nominations, and nominations were closed.

Mr. Goff was re-elected Vice Chair by unanimous voice vote.

Mr. Goff moved to nominate Hipolito Aguilar as Secretary. Mr. Magid seconded the motion.

There were no other nominations, and nominations were closed.

Mr. Aguilar was re-elected Secretary by unanimous voice vote.

4. CONSENT AGENDA: BOARD TRAVEL

No requests.

5. **INVESTMENT REPORTS: BOB JACKSHA, CIO**

a. **Investment Policy Revision**

Mr. Jacksha stated that the Investment Committee reviewed the revisions yesterday and recommended approval by the board.

Mr. Jacksha reviewed the changes, which included revisions to the Asset Allocation table. Also, language was added for a Diversifying Assets category, the existing language for GTAA and Risk Parity was pulled in, and a subcategory called "Other" was created. The strategies and asset classes included under "Other" may include (but are not limited to) reinsurance, royalty strategies, litigation finance, risk premia strategies other than risk parity, and certain hedge fund strategies.

Mr. Goff moved approval of the revised policy, as presented. Mr. Magid seconded the motion, which passed unanimously by voice vote.

b. **Infrastructure Investment Policy Revision**

[Presenter: Mark Canavan.]

Mr. Jacksha reported that this is the first revision to the Infrastructure Investment Policy since 2012. The Investment Committee recommended approval of the revision at yesterday's meeting.

Mr. Canavan reviewed the revisions to the policy.

- Ranges for investment structures were updated to provide more flexibility.
- Increased allocation to co-investment/direct investments to 50% to accommodate a re-up to Caledon Andromeda Investments LP and create a new vehicle
- Ranges for portfolio liquidity have been removed. Liquidity ranges will instead be monitored by Caledon and investment staff and depend on structure-specific considerations
- A new "core-plus" category was added and return expectations were updated to reflect current market conditions
- Geographic policy ranges were updated to better reflect likely exposures to Australia/New Zealand
- Revised co-investment guidelines defined "social means" as social infrastructure such as hospitals, core houses and schools by using public to private partnerships.

Mr. Aguilar asked why the changes include a review of the policy every three years rather than annually. Mr. Jacksha responded that this was his recommendation. He commented that changes do not generally happen more frequently than that, but they could do it more often if there were a reason to do it.

Mr. Goff moved approval of the Infrastructure Investment Policy revisions. Mr. Magid seconded the motion, which passed unanimously by voice vote.

c. June 2016 Quarterly Performance Report

[Presenter: Allan Martin, NEPC.]

Mr. Martin presented this report, with the following highlights:

- Net of fee total fund return was 2.6 percent for the fiscal year. The median return for this fiscal year was a negative 50 basis points among the NMERB's peers.
- This was an extremely difficult period for all public defined benefit plans, and this is the second year in a row where major public funds did not earn their assumed rate.
- Institutional Investor, a very prestigious organization, recognized several of NEPC's clients, including Bob Jacksha, as a CIO for portfolio construction.
- NMERB's fiscal year return of 2.6 percent net of fees is in the top 6 percent of the Investor Force Public Funds peer group, and its 3-, 5- and 10-year returns are in the top 30 percent.
- Over the past 3 years, the fund returned 6.9 percent, ranking in the top 26 percent of its peer group.
- For the fiscal year ending June 30, 2016, the fund experienced a net investment gain of \$301.5 million, which includes a net investment gain of \$295.1 million in the second calendar quarter. Assets decreased from \$11.42 billion one year ago to \$11.37 billion by June 30, with \$351.5 million in net distributions during the year.

d. Investment Committee Report

Mr. Jacksha reviewed action taken at yesterday's Investment Committee meeting:

- Approved a commitment to Z Capital Strategic Partnership in private equity, with \$100 million to their Credit Opportunities Fund and a sidecar fund.
- Approved an investment of \$150 million, 100 dollars to Lone Star Fund X, with \$100 million to their Opportunistic Credit Portfolio and \$50 million, 100 dollars to Real Estate.
- Discussed the Investment Policy revision.
- Made a follow-on commitment of \$100 million to the Caledon Co-investment Fund in infrastructure.
- Discussed a potential secondary limited partnership interest purchase. A limited partner is interested in selling out his interest, and the Investment Committee authorized staff to bid on the purchase.
- Accepted the Proxy Voting Report and reviewed the quarterly commission reports.

e. Other Investment Reports

None.

6. CONTINUATION OF PROPOSED CHANGES TO ERB RULE 2.82.2

a. Recap of proposed changes introduced at April 22 meeting and further discussed at June 24 meeting – Rod Ventura, General Counsel

Mr. Ventura stated that the text of the proposed rule, as originally presented in April, was available for review in the packet along with some suggested changes to the proposed rule. All of the public comments originally submitted in April, through today, were also in the packet.

-- Aggregation of FTEs. The board was asked to add language to the rule that said if an employee is working at two different LAUs, the NMERB could combine the FTEs to determine whether or not they could be an NMERB member.

-- The substitute rule. As it exists now, the wording states that someone who is a short-term substitute who comes in on a day-to-day basis is exempt from being an NMERB member. A “long term” substitute who comes in to fill in a position, however, would be an NMERB member. The wording made this difficult to understand, and people were interpreting the language in different ways. The NMERB suggested eliminating the substitute rule and having everyone follow the basic rule: If you were more than .25 FTE, you would be an NMERB member.

Mr. Ventura said the school districts had two concerns: 1) how do they determine what a substitute’s FTE is at the very beginning of their work period; and 2) potentially high cost, as Rio Rancho Public Schools (the only commenter initially) said it would run them \$60,000 annually.

Mr. Ventura said the board asked staff to poll the larger school districts about possible cost impact. APS, the only district that responded, said it would cost them \$700,000+ per year. Mr. Ventura commented that there might have been some flaws in that data, as APS was assuming that all of their substitutes would be .25 FTE, but this information was nonetheless brought back to the NMERB Board. There was also a side issue regarding 1099s and W2s and whether they would be independent contractors or not. The board asked staff to talk to the LFC and LESC about budget impact.

Mr. Ventura said staff did talk to the LFC and LESC as well as several school districts. Staff learned that there is no consensus on how substitutes are addressed in the schools, and they are not quite sure how to best approach the substitute rule as a result. As far as budgets go, staff does not know what the impact would be on school budgets without additional data.

Mr. Ventura asked the board to set aside the substitute part of the rule today pending staff’s ability to collect more data and more fully understand the problem, but to adopt the section of the rule addressing FTEs.

b. Oral public comments

Charles Boyer, NEA-New Mexico, said they support not changing the substitute rule. He said it is pretty clear that someone who is substituting for someone in order to fill a vacancy is not a substitute, and that a substitute is someone who is filling in for an employee on a day-to-day basis.

Tom Sullivan, superintendent of the Moriarty-Edgewood School District, said he is on the board of the New Mexico Retiree Health Care Authority, so appreciates the hard work of the NMERB Board in dealing with solvency and solvency-related issues. He said Mr. Ventura contacted him, and he has also spoken with Ms. Goodwin and Mr. Goff, and appreciated not changing the substitute rule. He commented that “a typical substitute teacher is probably a parent who is trying to spend a little bit more time keeping track of his or her own child as they are migrating through the school system, and I don’t think they go into it viewing it as a career that a pension attached to it 30 years in the future.” Because of that, they will likely have withdrawn whatever monies were withheld. He added that some people do view substitute teaching as a career, though, and perhaps the board should be looking at an opt-in provision in those cases. He said he was concerned that the language could serve as a disincentive because substitute teachers are not paid particularly well as it is. He said a 10 percent reduction in a monthly check could be a discouragement.

Mr. Sullivan said the bigger hit would be to the local school districts. He said his finance director did some quick math and calculated it would be in the range of \$25,000, and that would not have been budgeted for. He asked the board to keep this in mind, as it is a tough economic environment for the school districts and could amount to an unfunded mandate if it were not timed in a way that they could approach the legislature and be sure there were revenues to cover it.

There was no further public comment.

c. Final Action

Mr. Aguilar moved to adopt the changes to Rule 2.82.2, incorporating changes recommended by staff, allowing for the aggregation of a person’s employment with multiple local administrative units when calculating FTE, plus additional technical cleanup language, but to specifically not accept at this time any changes to the rule regarding substitute teachers. Mr. Goff seconded the motion, which passed unanimously by voice vote.

7. FY18 BUDGET APPROPRIATION REQUEST: DIANNE ROSSBACH, CFO

Ms. Rossbach reviewed the proposed FY18 appropriation request, totaling \$31.8 million.

Ms. Rossbach stated that there are 10 vacancies: four in Investments, two in Accounting, three in Member Services, and one on Executive staff. All positions are in the recruitment process. She said the process is time consuming and it is sometimes difficult to find people with the appropriate credentials through the State Personnel Office, so some recruiting is occurring outside the state. She said the Accounting position will require someone with fiduciary background, and the NMERB is looking in other states for investment professionals.

Mr. Aguilar observed that the request includes additional funds of \$300,000 to \$400,000 for personal services and employee benefits. He asked why this amount is growing. Ms. Rossbach responded that it is partly because of the additional positions within Investments, partly because of board support for exempt wage increases at the executive level, and partly because of the NMERB's need to hire Investment staff at a more logical and appropriate level than that set by the State Personnel Office.

Mr. Aguilar commented that it is not a "ton of money," but wondered why the NMERB is adding more money into salaries for FY18 in a reduced revenue environment when those positions are already set in the FY17 budget. Ms. Rossbach responded that, in the FY17 budget, the decision was to apply a 5.9 percent vacancy rate, and no vacancy rate has been applied to the FY18 budget. She said three positions in FY17 were not fully funded.

Mr. Aguilar said the state is looking at a \$330 million revenue shortfall, and while he recognizes that the NMERB fund is not part of the general fund, "perception is perception is perception." He commented that it was "disingenuous" for the board to not come in with a flat budget because it could always do a budget adjustment at midyear if necessary. He said the board would be sending a message to the state that "we really don't care" in this reduced revenue environment.

Mr. Magid moved to approve the proposed budget, as presented. Mr. Goff seconded the motion.

Mr. Eichenberg said he agreed with Mr. Aguilar's comments about perception, but "because of where we are and where we want to go, we need to put our needs out there in front and then see what the legislature says." He said he has a 5 percent vacancy rate on his staff, making it very difficult to get things done. He commented that he thought it was important that people understand that the NMERB is doing its job and is working hard, and that sometimes it costs a few dollars more.

Dr. Duszynski agreed with Mr. Eichenberg's comments. He added, "Perception is something we need to get over in the state of New Mexico, because we're never going to go anywhere if we don't. We've simply got to point out what our needs are and fight to get those needs satisfied." He commented that the state is never going to progress until it starts valuing its employees and paying them appropriate salaries.

Mr. Aguilar said he appreciated the comments, but wished to point out that the NMERB has expended less than 91 percent of its budget appropriation over the last five years.

The motion passed by voice vote, with Mr. Aguilar voting against the motion.

8. EMPLOYER AUDIT UPDATE: MARY JANE HOGIN

Ms. Hogin made a presentation on Employer Contributions Reporting by Local Administrative Units. The report included topics covered during compliance visits and LAU compliance visits process and follow-up efforts.

Ms. Rossbach commented that this is a new compliance effort, and the NMERB wants to make sure that all of the schools have a good baseline and are well trained.

9. DISABILITY RETIREMENTS: RICK SCROGGINS, DEPUTY DIRECTOR

[Presenters: Rick Scroggins and Karla Leyba.]

Mr. Scroggins and Ms. Leyba reviewed the status of disability retirements for the months of June and July.

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

10. AGE & SERVICE RETIREMENTS: KARLA LEYBA, MEMBER SERVICES BUREAU CHIEF

Ms. Leyba presented this report. There were a total of 707 retirements during June and July.

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

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

a. Retirement Season Update

Ms. Goodwin reported that there were 1,169 retirements in FY16, fewer than in the prior year, when there were 1,253 retirements.

b. Audit Update

Ms. Goodwin reported that the new auditors, CliftonLarsonAllen, have been on site. This is their first year, and they are doing very well.

c. Retiree Health Care Update

Ms. Goodwin reported that the NMRHCA Board held its annual retreat in July. A topic of discussion during the meeting was the steep increase that is expected in diabetes expenses for Type 2 diabetes patients. She said there will be a diabetes summit in the fall to see what the board can do to reduce these expenses, which are expected to increase by 50 percent over the next five years.

d. Refund Interest Rate – 7/1/2016 – 6/30/2017

Ms. Goodwin stated that the refund interest rate for people making withdrawals of contributions is 1.21 percent, which is determined by the 5-year Treasury Note rate as of 3/31/2016. She stated that interest is only due on contributions that have been on deposit for more than one year.

e. Other

Ms. Goodwin stated that possible legislative items would be discussed at the October board meeting. Staff is working on three different possibilities: 1) changes to the Return to Work rule exception to require that any retiree who returns to work has to pay contributions; 2) a technical bill that would look at the statute to see if anything outmoded should be updated, e.g., removing “provisional members,” which do not exist anymore; and 3) a bill to change Investment staff from classified employees to exempt employees. Ms. Goodwin stated that she and NMSIC Investment Officer Steve Moise recently met with the State Personnel Office to discuss changing the status of NMERB investment staff positions from classified to exempt, which would require a statutory change.

12. EXECUTIVE SESSION: 11:40 A.M.

- a. **Limited personnel matters [session closed pursuant to NMSA 1978, Section 10-15-1(H)(2)]**
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- b. **Pending Litigation: update on CBL & Associates Properties, Inc.; State ex rel. Foy v. Vanderbilt Capital Advisors; Hill v. Vanderbilt Capital Advisors; Hammes v. Vanderbilt Capital Advisors; NMERB v. Renaissance Private Equity Partners; In re Austin Capital Management, LTD., Securities & Employment Retirement Income Security Act (ERISA); AFSCME, et al v. State of NM, ERB & PERA.**
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Chairwoman Cameron moved that the board go into executive session for the purpose of discussing limited personnel matters, as permitted by the Open Meetings Act, Section 10-15-1(H)(2), and for the purpose of discussing pending litigation regarding various legal actions in accordance with Section 10-15-1(H)(7). Mr. Magid seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Mr. Goff; Mr. Aguilar; Dr. Duszynski, Mr. Magid.

Against: none.

13. ACTION FROM EXECUTIVE SESSION: 12:40 P.M.

Chairwoman Cameron moved that the board come out of executive session. The only matters discussed during executive session were limited personnel matters as permitted by the Open Meetings Act, Section 10-15-1(H)(2), and to discuss pending litigation in accordance with Section 10-15-1(H)(7). Mr. Goff seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Mr. Goff; Mr. Aguilar; Dr. Duszynski, Mr. Magid.

Against: none.

Mr. Magid moved to reclassify the position of Executive Director of ERB to the job classification of Senior Investment Officer under the Governor’s Exempt pay plan. Dr. Duszynski seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Mr. Goff; Dr. Duszynski, Mr. Magid.

Against: Mr. Aguilar.

Mr. Magid moved to reclassify the position of Deputy Director of ERB to the job classification of Chief of Staff under the Governor’s Exempt pay plan. Mr. Goff seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Mr. Goff; Dr. Duszynski, Mr. Magid.

Against: Mr. Aguilar.

14. NEXT MEETING: SEPTEMBER 22 AND SEPTEMBER 23 – ALBUQUERQUE

The meeting was scheduled at 8:30 a.m. on both days.

15. NEXT MEETING: FRIDAY, OCTOBER 21, 2016 – ALBUQUERQUE

Executive Assistant Margaret Riquelmy was presented with a card and the board’s thanks for her excellent service. Chairwoman Cameron commented that Ms. Riquelmy would be greatly missed.

16. ADJOURN

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

Mary Lou Cameron, Chairwoman

ATTEST:

Hipolito J. Aguilar, Secretary