

**ACTION SUMMARY**

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**September 11, 2009**

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EXECUTIVE SESSION

None.

NEXT MEETING: OCTOBER 23, 2009

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**REGULAR MEETING**  
**September 11, 2009**

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at approximately 9:00 a.m. at the Prairie Star Restaurant, 288 Prairie Star Road, Santa Ana Pueblo, New Mexico.

**ROLL CALL – QUORUM PRESENT:**

**Members Present:**

Mr. Bruce F. Malott, Chairman  
Mr. Gary B. Bland, Secretary  
Ms. Mary Lou Cameron, Vice-chair  
Dr. Veronica Garcia [arriving 9:40 a.m.]  
Mr. H. Russell Goff  
Mr. James B. Lewis  
Dr. Beulah M. Woodfin

**Members Excused:**

None.

**Legal Counsel Present:**

Mr. Chris Schatzman, General Counsel

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Ms. Linda Kissko, Executive Assistant  
Ms. LeAnne Larrañaga-Ruffy, Investment Officer  
Mr. Vincent Lujan, Member Services Manager  
Ms. Clara Mares, Human Resources  
Mr. Steve Neel, Portfolio Manager  
Mr. Jeff Riggs, Deputy Director  
Mr. Greg Trujillo, IT Director  
Mr. Bob Westervelt, CFO

**Others Present:**

Ms. Michelle Aubel, LFC  
Mr. Allan Martin, NEPC  
Ms. Judith Beatty, Recorder  
[Also see sign-in sheet]

a. **Approval of Agenda**

Mr. Lewis moved approval of the Agenda, as published. Mr. Goff seconded the motion, which passed by voice vote. [Dr. Garcia was not present.]

b. **Approval of Minutes: June 26, 2009**

Mr. Lewis moved approval of the June 26 Minutes, as presented. Ms. Cameron seconded the motion, which passed by voice vote. [Dr. Garcia was not present.]

Dr. Woodfin referred to page 11, which stated that Mr. Martin agreed to try to negotiate a lower fee with Bridgewater, and asked if he was successful.

Mr. Jacksha responded that he and Mr. Martin negotiated with Bridgewater and ultimately accepted an alternative fee schedule.

c. **Introduction of Guests**

Guests were introduced.

**2. CONSENT AGENDA – BOARD TRAVEL**

Ms. Cameron stated that she might be attending an NEA benefits forum scheduled next month in Washington, D.C.

Mr. Malott said he was pleased to report that he, the Director and Dr. Woodfin have all passed the CAPPP Sections 1 and 2 examinations.

**3. ELECTION OF OFFICERS**

Mr. Lewis nominated Bruce Malott as Chairman, Ms. Mary Lou Cameron as Vice Chair, and Gary Bland as Secretary.

Dr. Woodfin seconded these nominations.

Dr. Lewis moved that the nominations cease and the nominees be elected by acclamation.

**Dr. Woodfin seconded the motion and the officers were elected by acclamation. [Dr. Garcia was not present.]**

#### **4. INVESTMENT REPORTS**

##### **a. 2nd Quarter Performance Report**

Mr. Martin presented the Fiscal Year 2009 Executive Summary (as of 6-30-09).

Mr. Martin stated that he presented a detailed version of this report at the August Investment Committee meeting.

Mr. Martin noted that the equity and bond markets have gone up another 10% since this report was completed. Reviewing U.S. economy charts on pages 38 and 39, Mr. Martin commented that the absence of bad news is being interpreted in various sectors as good news, but there is still weakness in the economy, although it is less weak than previously. He said it is possible there will be positive GDP growth in the third quarter, and while NEPC's view is that the last three months of the markets will not be repeated going forward, there are still significant issues in the economy and there may be some retrenchment.

Reviewing an overview of the market environment, Mr. Martin said all of the quarterly returns in the major asset classes are positive with the exception of private equity and real estate, and it is likely those negative numbers will continue. He said all of the annual returns, however, are substantially in negative territory. He commented that the S&P 500 was down 26% in the one-year period, and has generated a negative 2.2% per annum over the last ten years—ranking it as the worst decade in S&P 500/U.S. large cap stock market history.

Mr. Martin reported that, over the last 12 months, the Fund experienced a gross investment loss of \$1.5 billion (despite a very strong quarter), with total assets increasing from \$6.2 billion at the beginning of the quarter to \$7.1 billion on 6/30/2009.

Mr. Jacksha stated that the Fund was now at approximately \$7.7 billion.

Mr. Martin also reported that, over the past five years, the Fund returned 2.4% per annum—clearly below the 8% target—trailing its policy index by 0.3% and ranking in the 46th percentile of the Independent Consultant Cooperative's Public Funds Universe. He said that, for the fiscal year ending 6-30-09, the Fund returned -17.3%, trailing its policy benchmark by 1.9%, and ranking in the 57th percentile of public funds. He noted that the Fund posted a 14.1% return for the quarter, outperforming its policy index by 1.9% and ranking in the 15th percentile of public funds.

In reviewing Non-U.S. Emerging Market highlights, Mr. Martin said NEPC is recommending that Alliance be monitored closely. He said there has been some turnover at the top—Lou Saunders, their chairman, was ousted by their owner and is now starting his own company and is likely to take a lot of clients away from Alliance. He stated that, while Mr. Saunders wasn't directly involved in the management of the international emerging markets team, the combination of organizational instability and a disappointing long term record warrants a closer look.

As a follow up to discussion yesterday about proposed Investment Policy language calling for managers to appear before the Board, Mr. Jacksha said he would begin scheduling these appearances, with Alliance Bernstein Emerging Markets and Rothschild at the top of the list.

Noting that WAMCO made some poor decisions early on and the Investment Committee decided to keep them with the bet that the markets would return, Mr. Malott asked what NEPC recommends at this point.

Mr. Martin responded that he thought WAMCO's risk controls in their processes were seriously flawed and that they should be terminated; however, he thought the ERB should wait another three to six months to allow the distressed assets WAMCO holds to return to a more normal market.

Mr. Martin stated that, while the hedge fund managers produced disappointing results for the year, first quarter results are up 4% and NEPC believes that the improvement shown by all of the managers in the first quarter will be sustained.

Mr. Martin noted that almost all of the very big leaders in the public fund business did poorly over the year, i.e., CalPERS, Pennsylvania School Employees, Texas Teachers, San Bernardino County, Missouri School Employees, and others.

Mr. Martin pointed out that, when a fund moves into real estate and private equity, it is moving into less liquid asset classes. He said what happened with Harvard, Stanford, Yale and the universities in particular was that they became enamored of those asset classes and took their eye off the ball in terms of liquidity and then had to sell assets at a discount. He commented that the ERB has modest liquidity in its portfolio, which is very important—if there is ever a black swan event, the ERB does not want to be forced to sell assets when the market is undervaluing them. He said the liquidity in the ERB portfolio is more than adequate to fund pension payments as well as make future commitments.

Mr. Martin and staff agreed to prepare a comprehensive analysis reflecting cash outflow in the portfolio in pension payments and commitments with a comparison to existing assets.

Responding to questioning from Dr. Woodfin on redemption from Austin, Mr. Martin said Austin's original proposal was to charge 1.5% to liquidate the portfolio, which was unacceptable. He said they have now offered a 40% discount from that, and NEPC is continuing to negotiate.

[Dr. Garcia joined the proceedings.]

**b. July Flash Report**

Mr. Jacksha reported that the markets continued to rally in July, with the month up almost 5.7%, and the ERB continued to have valued added from the managers.

Mr. Jacksha also reported that the Fund had since gone up by about \$300 million.

**c. Investment Committee Update**

Mr. Neel reported that, in August, the Investment Committee rescinded two commitments to the private equity program: Sevin Rosen and Lee Equity Partners. He said the rescissions were necessary because NEPC had done a new pacing plan and the buckets to be addressed by these two funds were full for the year.

Mr. Neel said ERB staff was unable to successfully negotiate terms with a third partnership, NGP Energy Technology Partners. Mr. Jacksha added that NGP would not conform to the normal institutional terms that one sees in a private equity contract.

Mr. Neel additionally reported that the Investment Committee approved two real estate commitments with Lone Star, each at \$25 million.

**d. GoldenTree Asset Management Contract Approval**

Mr. Jacksha stated that NEPC is recommending a \$50 million allocation to GoldenTree CLO Opportunities Fund to take advantage of this opportunity in the Collateralized Loan Obligation market. He stated that NEPC has used this firm before with other clients in this very strategy, and has done a number of site visits. He said ERB staff plans to make a site visit next week, if possible.

Mr. Jacksha highlighted the differences between this investment and the investment in Vanderbilt, since Vanderbilt was a CDO, which was a similar structure:

- Collateral: Vanderbilt was in subprime mortgage-backed bonds, which is what caused that investment to perform poorly. GoldenTree is in a different asset class, senior bank loans issued by corporations. The ERB has not seen evidence of the excesses seen in the subprime mortgage-backed bonds.
- Security in the CDO/CLO being purchased: Vanderbilt was an equity tranche, which was the first loss tranche, and thus the highest risk. GoldenTree is further up in the capital structure and these securities are protected from initial losses by the subordinated pieces like the equity and the lower-rated bonds.
- Pricing: Vanderbilt turned out to be priced at the top of the market. GoldenTree may not be at the bottom of the market cycle, but it is near the bottom and is at a discounted price.
- Expected returns: GoldenTree said returns would perhaps be as high as 40%, which staff feels is somewhat optimistic.

Mr. Jacksha said the Investment Committee unanimously approved this commitment.

Mr. Malott asked that the Board either approve this commitment unanimously or else he felt the commitment should not go forward.

Dr. Garcia observed from GoldenTree's slide presentation that they would seek to source assets across the capital structure with a projected (original) rating dispersion of 5-15% in BBB/BB. She asked how old this data was.

Mr. Jacksha responded that the report was probably prepared as recently as last week.

Mr. Jacksha stated that this opportunity is limited in size in total. He said GoldenTree is only going to accept a total of \$200 million and then will shut it down, and the ERB's piece of this is \$50 million. Mr. Martin added that another state is putting in \$50 million, and GoldenTree thinks they have an identified buyer for the rest.

Mr. Martin commented that this is a manager that NEPC has done extremely deep due diligence on, with the skill-set and with a limited market opportunity in a separate account. He said there is a high return expectation, and the ERB is protected if there is a down-dip because the lower tranches will absorb first losses.

**Dr. Garcia moved that the Educational Retirement Board approve a commitment of \$50 million plus fees and expenses to a GoldenTree CLO separate account. The commitment is subject to New Mexico state law, Educational Retirement Board policies and negotiation of final terms and**

conditions and completion of appropriate documents; with the understanding that they have approval to execute a contract with the caveat that staff make a due diligence visit.

Ms. Cameron seconded the motion, which passed on the following roll call vote:

For: Mr. Malott; Ms. Cameron; Mr. Bland; Dr. Garcia; Mr. Lewis; Mr. Goff; Dr. Woodfin.

Against: None.

**e. Discussion of ERB Policies Regarding Third Party Placement Agent Fees and Political Donations.**

Mr. Jacksha stated that the Board held a working session yesterday on this draft policy and the consensus was to defer action until some changes could be made. He said staff hopes to bring that version to the Board at the October meeting.

Mr. Jacksha asked Board members to email any additional suggestions for changes to him and Mr. Schatzman.

Mr. Jacksha said staff contemplated including a section on political donations in the draft, but discarded the idea because political donations are in fact legal and banning them outright may not be possible.

Mr. Schatzman stated that he has been reviewing other state statutes, and many are overly simplistic or else take a "blunderbuss approach." He stated that he would like to find a policy that is workable for the ERB.

Mr. Jacksha stated that there was also concern that the Board could adopt a policy on political donations and then have the SEC supersede it with their own requirements.

Ms. Goodwin commented that the Board is looking at imposing a full disclosure requirement rather than an outright prohibition.

Mr. Jacksha noted that the Board began yesterday's discussion with the acknowledgement that the ERB's philosophy on third party placement agents is the same in terms of disclosure—who they are, what they are doing, what they are being paid, how they are being paid, and so forth. He said the basis of this is that it will be disclosed at the time of consideration of the investment, and it will then be summarized in quarterly reports to the Board, all of which will be available to the public.

Mr. Schatzman stated that staff is trying to come up with a policy that not only has disclosure, but also workable enforcement features—not something that sounds good but is very difficult to live with and very difficult for the agencies to work with.

Mr. Bland commented that the SIC's recently adopted policy was draconian because it effectively eliminates one-half to two-thirds of the private equity market and about half of the hedge fund market.

**f. Revised Investment Policy**

Mr. Jacksha referred to a draft of the new Investment Policy and a two-page document describing all of the changes. He said the Board discussed the revised policy at length and asked for a few additional changes, including a requirement that new managers be brought before the Board periodically. He stated that the revised version will be brought to the Board in October, if possible.

**5. ACTUARIAL EXPERIENCE STUDY: GABRIEL ROEDER SMITH**

GRS representatives Chris Conradi and Leslie Thompson gave a slide presentation: Actuarial Experience Study for the Six-year Period Ending June 30, 2008.

Board members also received a draft Actuarial Experience Study prepared by GRS and dated June 30, 2009.

Ms. Thompson stated that GRS modeled ERB's target asset allocation against four investment consulting firms' capital market assumptions, including NEPC's, and noted that the average net real return is above GRS's 5.00% assumption. Therefore, she said, GRS recommends no change to the 5.00% net real return assumption or the nominal 8.00% net investment return assumption.

Mr. Conradi said GRS uses a five-year asset smoothing method. He stated that this is an assumption that a lot of boards are looking at very hard in order to see if they can get relief from big contribution increases, especially in states where contributions are determined actuarially rather than set by statute. He said many actuaries are setting artificial limits around their asset smoothing value, i.e., they can't be more than 120% of market or less than 80% of market. He commented that a lot of systems are now at 130% or 135% of market, and so they are having to take a very large hit all at once this year. He said that is not true in the ERB's case.

Mr. Conradi said some systems have asked about expanding the smoothing period past five years. He stated that GRS is required to either stay fairly short on the smoothing method or else keep fairly close to market—one or the other. He said they feel five years is as long as they can go and GRS is very comfortable that the ERB is in the right place with this.

LFC representative Michelle Aubel asked how furloughs and a reduced workforce would affect the plan.

On the matter of furloughs, Mr. Conradi responded that, unless something is done in the legislation to account for the impact on the retirement system (which some people have done), it means that less money will be collected and that would put the fund in a worse position. He said people would lose 4-5% of their annual salary because of furlough days, but most of that would be made up because those people would be retiring on average well into the future.

Mr. Conradi added, though, that many of the states that have enacted furloughs have said that people who retire get to count the salary in their final average salary calculation.

Ms. Thompson asked if furloughs harm the plans, and Mr. Conradi responded yes—they take away the employer contribution on the pay and the benefits essentially stay the same.

Speaking to Ms. Aubel's question about a reduced workforce, Ms. Thompson said slowing down the hiring would slow down the savings that GRS was predicting as a result of the new hire structure.

The report's conclusions were:

- Recommended no assumption changes at this time, except
  - Need to implement new retirement rates for new tier subject to 30-and-out;
  - Board should adopt current assumptions for valuations as of June 30, 2009, and thereafter, until next experience study.

**Ms. Cameron moved to accept the report. Mr. Bland seconded the motion, which passed by voice vote. [Dr. Garcia was not present during the vote.]**

## **6. DISABILITY RETIREMENTS**

### **a. New Applicants (Permanent & Continuing)**

### **b. COLAs**

**Mr. Goff moved approval of items a and b. Ms. Cameron seconded the motion, which passed by voice vote. [Dr. Garcia was not present during the vote.]**

### **c. Appeals**

None.

## **7. AGE & SERVICE RETIREMENTS**

**Mr. Bland moved to accept the report. Mr. Goff seconded the motion, which passed by voice vote. [Ms. Cameron was not present during the vote.]**

## **8. ALTERNATIVE RETIREMENT PROGRAM**

Ms. Goodwin stated that one of the pieces of legislation approved by the Board in December was to make some changes to the Alternative Retirement Plan.

Ms. Goodwin said one change allowed members who had made contributions for seven years to ARP to transfer to the regular defined benefit plan. She stated that the question then arose of how one would calculate how many service credits the member would have to have before retirement, i.e., did the years in the defined contribution (ARP) count or not.

Ms. Goodwin said the statute that was eventually passed was ambiguous, however. She stated that staff asked the actuaries to opine on whether allowing the service credit from the ARP years to count towards their retirement eligibility would materially harm the fund, and Gabriel Roeder Smith's response (in the packet) concluded that it would not.

Ms. Goodwin stated that the ERB would use GRS's interpretation provided the Board gave its approval.

**Dr. Woodfin moved to accept an interpretation of the amendment to §22-11-47 to allow the accumulated service in the ARP to be counted toward satisfying the service requirements for retiring from the defined benefit plan**

**on the basis that it does not increase the retirement benefits or increase the actuarial liability of the defined benefit plan.**

**Dr. Garcia seconded the motion, which passed by voice vote.**

#### **9. .25 FTE SERVICE CREDIT AND RETIREMENT/WARDEEN CROWLEY**

As background, Mr. Schatzman said the Board reviewed a case in June regarding the .25 or less FTE requirement, where it was proposed that an individual with 20+ years of service be excluded from retirement because of a skipped semester, and the Director addressed that issue and the ERB is working with that individual to let her proceed with her retirement.

Mr. Schatzman said Wardeen Crowley's case came up this past spring. He said Ms. Crowley has worked since 1994 with UNM and CNM, and unfortunately the ERB procedure under past directors with the .25 service requirement was neither clear nor uniformly enforced. He stated that, as Ms. Crowley applied for retirement, the proposal was made to withdraw her service credit. He said the Director asked how this occurred, and apparently the ERB had not audited the member service requirement for 15 years. He said Ms. Crowley paid in under her defined benefit contributions, she taught under .25, and only when she applied for retirement was she told she would not have retirement.

Mr. Schatzman stated that he took this matter to Chris Conradi to see if this would affect the unfunded accrued actuarial liability. He said GRS bases its actuarial liability for retirement on the total members and their total years of service, and they do not discount part of the liability by some assumed number of ineligible members and ineligible service requirements, so there is no extra liability.

Mr. Schatzman stated that ERB has not had a process of auditing service requirements or giving guidelines to local administrative units, and there have been varying interpretations of this issue over the years. Because there is no additional liability and the ERB believes in this case that there is an element of inequitable treatment of the members to allow them to know what guidelines they can expect to be imposed on their retirement applications, and because the ERB has not worked as closely in the past with LAUs, he said staff would ask the Board to grant Ms. Crowley her full service credit and allow her to retire. He said she would then have 14.25 years of service and a pension of just under \$229 per month. He commented that this would be a typical figure in cases like this.

Mr. Schatzman said staff will be working with the LAUs in order to come up with a more workable policy.

Ms. Cameron expressed concern that the ERB could be establishing precedent by singling out this applicant when potentially there could be other such cases.

Mr. Schatzman responded that there would be no actuarial impact; based on his discussions with former Benefits director Steve Moreno and Assistant General Counsel Robert Shulman, there was a belief that this would cause a large actuarial liability to the Fund. He said he asked Mr. Conradi to verify the accuracy of this.

Mr. Conradi stated that, from GRS's perspective, if a member has already been given the service, they are included in the actuarial liabilities, so if it is already built in. He said the Board's decision has to be based on the legality, the precedent issue and equity to the member.

From an equity standpoint, Mr. Malott commented that he didn't like changing the rules, but it seemed outrageous to think that somebody could work for several years and receive statements thinking they were getting a retirement benefit, only to find out that there would be no benefit at the time of retirement.

Dr. Garcia agreed that it was unfair to the employee, and supported this change.

Dr. Garcia commented that the ERB may be seeing more of this as so-called boutique schools, or charter schools, increase in number around the state. She said charter schools tend to hire people who specialize in one area to teach one class or two classes, and sometimes they don't meet the .25 FTE criteria.

Dr. Woodfin said this could present an additional load to Member Services, but perhaps the ERB should approach the charter schools with information about eligibility for the retirement program.

Dr. Garcia stated that the PED's Charter School Division could address this, and asked Ms. Goodwin to send her a formal request so that the PED could begin pulling together the necessary information.

**Ms. Cameron moved to approve the .25 FTE Service Credit and Retirement for Wardeen Crowley. Dr. Woodfin seconded the motion, which passed by voice vote.**

## **10. FISCAL 2010 OPERATING BUDGET**

Mr. Riggs gave a summarized review of the 2010 budget request, which was submitted to DFA on September 1. He stated that the requested budget was for \$28,639,000 and represented a .3% increase over the current year's operating budget.

Dr. Garcia asked if this budget reflects the recently imposed 3% cutback, and Mr. Riggs responded that the ERB has not received a request for a 3% budget reduction.

**Mr. Goff moved for approval of the FY 2010 operating budget. Mr. Lewis seconded the motion, which passed by voice vote. [Dr. Garcia was not present during the vote.]**

**11. DIRECTOR'S REPORT**

**a. ERB Update**

Ms. Goodwin reported that the ERB has hired Jeannie Esquibel as the new Outreach Director.

Ms. Goodwin also reported that the ERB website is now up and running, with some changes that make it easier for people to navigate.

**b. NMRHCA Update**

Ms. Goodwin reported that the New Mexico Retiree Health Care Authority has changed the structure of their health insurance plan, going from three plans to two. She said letters describing the switch enrollment have already gone out to the members.

**12. EXECUTIVE SESSION**

None.

**13. NEXT MEETING: OCTOBER 23, 2009 -- ALBUQUERQUE**

**14. ADJOURN**

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

A handwritten signature in black ink, consisting of a large initial 'B' followed by a series of connected loops and a final horizontal stroke.

\_\_\_\_\_  
Bruce Malett, Chairman

ATTEST:

\_\_\_\_\_  
Gary B. Bland, Secretary