

**NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD  
ALTERNATIVE RETIRMENT PLAN  
INVESTMENT POLICY**

**Approved on October 23, 2015  
By the New Mexico Educational Retirement Board**

## **Statement of Purpose**

The purpose of this Alternative Retirement Plan (“ARP”) Investment Policy is to outline objectives which will guide the Alternative Retirement Plan Committee (“Committee”) in its selection and monitoring of the investment options in the ARP. The Investment Policy is intended to incorporate sufficient flexibility so as to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements.

A primary objective of the ARP is to provide participants with a diverse set of investment options which encompass a variety of risk/return characteristics among which participants in the ARP can diversify their portfolios.

## **ARP Committee Responsibilities**

The ARP Committee shall discharge its duties solely in the interest of ARP participants and their beneficiaries, with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

## **Use of Consultants/Service Providers**

The ARP Committee may, in its sole discretion, retain the services of outside consultants and other professionals. The functions of these professionals may include, but are not limited to, the following:

- rendering their recommendations and insights on plan investments as well as the policies regarding investment option selection and monitoring ;
- providing reviews of the competitiveness of the Plans’ investment options;
- providing reviews of the Plans’ utilization and asset allocation; and
- providing guidance on changes to applicable law and public policy.

## **Selection of the Investment Options**

In selecting investment options for the Plan(s), the ARP Committee shall take into account some or all of the following criteria, as the Committee deems appropriate:

- the option’s track record;
- performance as compared to an appropriate benchmark and/or an appropriate peer group(s);
- risk measures versus those of the benchmark and/or peer group;
- risk-adjusted return measures as compared to those of the benchmark and/or peer group;

- organizational structure and stability of fund personnel;
- manager tenure;
- the fees and expenses assessed by the investment option, as well as the impact of offering the investment option on the overall fees and expenses associated with managing the Plans; and
- qualitative characteristics, including, but not limited to, management strategy, turnover, and recent portfolio activity in view of current market conditions.

### **Monitoring of Investment Options**

The ARP Committee shall monitor the investment options as circumstances warrant. As part of its monitoring process, the Committee may consider the following:

<b>Criteria</b>	<b>Measure</b>	<b>Goal(s)</b>
Performance	<ul style="list-style-type: none"> <li>▪ 3-, 5-, &amp; 10-year record</li> <li>▪ 3-, 5-, &amp; 10-year record</li> </ul>	<ul style="list-style-type: none"> <li>▪ reasonable vs. peer group</li> <li>▪ reasonable vs. appropriate benchmark</li> </ul>
Risk	<ul style="list-style-type: none"> <li>▪ 3-year standard deviation</li> </ul>	<ul style="list-style-type: none"> <li>▪ reasonable vs. peer group</li> </ul>
Risk-adjusted performance	<ul style="list-style-type: none"> <li>▪ 3-year Sharpe ratio</li> </ul>	<ul style="list-style-type: none"> <li>▪ reasonable vs. peer group</li> </ul>
Expense ratios	<ul style="list-style-type: none"> <li>▪ Total expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consistent with peer group median</li> </ul>
Investment objective/style	<ul style="list-style-type: none"> <li>▪ Style purity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared</li> </ul>

The ARP Committee may, from time to time as warranted, modify these criteria and goals, or may consider other criteria and goals, all within the ARP Committee's sole discretion as it deems appropriate.

Investment options that do not meet the ARP Committee's expectations may be placed on "watch." Investment options that consistently do not meet the Committee's expectations may become candidates for replacement. Before deciding to remove or substitute an investment option, however, and in light of its fiduciary responsibilities, the ARP Committee may consider the following:

- the investment option's long-term investment performance on a rolling basis;
- recent changes, such as investment option restructurings or management changes designed to correct deficiencies;
- the appropriateness or relevance of an investment option's stated peer group, since funds may be misclassified or poorly classified;
- the investment option's adherence to a stated investment style, whether or not that investment style has been in or out of favor;

- unusual market circumstances or volatility;
- prospectus investment constraints, such as socially responsible mandates; and
- the degree to which the investment option has reduced or controlled risk, which might constrain the investment option's ability to outperform other options.

The ARP Committee is authorized in its sole discretion to remove an investment option if, in the opinion of the Committee, the investment option is no longer suited for the Plan(s) or the Plan participants, without regard to whether the investment had previously been placed on "watch."

### **Selection and Monitoring of the Default Investment Options**

The ARP Committee is authorized to designate the Plans' default investment options (*i.e.*, the options into which contributions will be directed on behalf of participants who fail to make affirmative investment elections). In so doing, the ARP Committee will apply the general selection and monitoring principles described in this Investment Policy. In addition, the ARP Committee's selection and monitoring of default investment options shall be consistent with the United States Department of Labor's standards for the selection and monitoring of "qualified default investment alternatives."

### **Selection of Target Date Funds**

Target date funds shall be selected for the plan utilizing the following steps as general guidelines with the understanding that the target date universe is very broad and each target date suite of funds differs from the others. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.

The selection process may include, but is not limited to, the steps below:

- The ARP Committee decides what the primary objectives are in relation to risk management - whether or not minimizing risk on a static scale at retirement is desired (*i.e.*, managing the glide path "to" retirement) versus maximizing to maximize savings "through" life expectancy with a more aggressive glide path after retirement;
- Consider participant demographics in order to help define overall risk tolerance. Factors that may be considered are average age of population, overall investment knowledge, and current plan usage of target date, hybrid funds, or asset allocation suites;
- Determine diversification of asset classes. The ARP Committee may consider a broad range of assets classes and whether or not the target date chosen should include various types of assets classes that would normally not be considered under a core line up. These asset classes typically have lower correlations to the core line up and may include, but not be limited to, the following: real estate, commodities, high yield debt, emerging market equity and debt, inflation hedging, and long/short equity strategies;

- Inception of the target date fund should be at least three years though can consider less;
- A review of expense fees in comparison to averages and as related to overall plan cost; and
- Performance comparison to a custom style benchmark in addition to category averages.

### **Monitoring of Target Date Funds**

The monitoring process may include, but is not limited to, the steps below. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.

- Review of the glide path to ensure consistency with reason that funds were chosen;
- Review performance relative to custom style benchmark in addition to category averages;
- Review underlying holdings in comparison to relative Morningstar peer groups or applicable strategy; and
- Review qualitative assessment on management of the funds in an effort to demonstrate consistency with overall strategy.

### **Selection of Fixed Interest/Stable Value Options**

In selecting any fixed interest/stable value option, the ARP Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion (should the Committee choose to offer such an option):

- financial strength ratings of the guarantor provided by the major ratings agencies;
- interest rate history and minimum guaranteed contract rate;
- contract liquidity provisions;
- current and historical market to book value ratio (stable value funds only); and
- comparison between fixed interest accounts (*i.e.*, those backed by general assets) and stable value accounts (*i.e.*, those backed by separate account).

### **Monitoring of Fixed Interest/Stable Value Option**

The ARP Committee shall monitor any fixed interest/stable value option as frequently as circumstances warrant. As part of its monitoring process, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion:

- financial strength ratings of the guarantor provided by the major ratings agencies;
- current interest rates; and
- current market to book value ratio (stable value funds only).

### **Summary Statement**

This ARP Investment Policy shall guide the ARP Committee and shall remain in effect until amended by the New Mexico Educational Retirement Board. Nothing contained in this ARP Investment Policy shall provide to any participant or beneficiary the right to enforce the terms of this ARP Investment Policy, and the ARP Committee shall have full and complete discretion as to how it selects and monitors the investment options offered under the ARP and the application of this ARP Investment Policy to any specific situation.