

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**ACTION SUMMARY**

**November 9, 2017**

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APPROVAL OF AGENDA	Approved	3
SWEARING IN OF NEW BOARD MEMBER CHRISTOPHER RUSZKOWSKI	Sworn	3
<u>CONSENT AGENDA</u> : Board Travel	None	3
BRIDGEWATER: OUTLOOK AND CURRENT STATE OF GLOBAL MARKETS: PATRICK DIMICK AND BOB SMITH	Presentation	3
BIG DATA AND Artificial Intelligence (AI) IN INVESTING: BEN HUNT	Presentation	3
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**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**ANNUAL RETREAT MEETING**

**November 9, 2017**

**1. CALL TO ORDER: QUORUM PRESENT**

The Annual Retreat of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

**Members Present:**

Ms. Mary Lou Cameron, Chairwoman  
Mr. H. Russell Goff, Vice Chairman  
Mr. Larry Magid, Secretary  
Secretary Christopher Ruszkowski [sworn in later]  
Dr. Donald W. Duszynski  
The Hon. Tim Eichenberg, State Treasurer [left at noon]

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Rick Scroggins, Deputy Director  
Mr. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Ms. Kay Chippeaux, Deputy CIO, Public Securities & Credit  
Mr. Pete Werner, Fixed Income Portfolio Manager  
Mr. Roderick Ventura, General Counsel  
Ms. Monica Lujan, Member Services Director  
Ms. Liz Lorang, Executive Assistant  
Mr. Lawrence Esquibel, Chief Information Officer

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Sam Austin, NEPC  
Ms. Judith Beatty, Recorder  
[See sign-in sheet.]

b. **Approval of Agenda**

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

c. **Introduction of Guests**

Chairwoman Cameron welcomed staff and guests.

2. **SWEARING IN OF NEW BOARD MEMBER: SECRETARY CHRISTOPHER RUSZKOWSKI**

Secretary Ruszkowski was sworn in as Board Member.

3. **BRIDGEWATER: OUTLOOK AND CURRENT STATE OF GLOBAL MARKETS**

Mr. Jacksha introduced portfolio strategist Patrick Dimick and client portfolio manager Bob Smith, who made a presentation: "Global Outlook."

[Slide presentation was in the board packet.]

Summary points:

- Eight years of aggressive monetary stimulation has created beautiful deleveragings and fueled one of the best bull markets in 100 years.
- This bull run did not come without cost;
  - It lowers forward looking long term returns quite significantly.
  - It helped to create economic conditions that necessitate a tricky transition to tightening.
- Tactical views; the transition will ripple through asset classes at different times, creating opportunities.
- Regardless of how the near term plays out, the intermediate/longer term looks especially scary; the next downturn will be a mess.

4. **BIG DATA AND AI IN INVESTING: BEN HUNT**

Dr. Hunt, chief investment strategist with Salient Partners, L.P., made a presentation to the board.

**5. ASSET ALLOCATION AND MODERN PORTFOLIO THEORY: ALLAN MARTIN**

Mr. Martin made a presentation to the board.

**6. LEGISLATIVE PROPOSAL: JAN GOODWIN, EXECUTIVE DIRECTOR**

Ms. Goodwin presented a draft bill titled, "Relating to Public Information; Exempting from Public Disclosure Certain Information Concerning Public Security."

Ms. Goodwin commented that everyone is aware these days of the threats that cybersecurity issues pose. While the New Mexico Educational Retirement Board is charged with the fiduciary duty of being a good steward of the ERB's data and information, the current legal structure in New Mexico does not afford an opportunity for staff to candidly inform the board what they are doing to safeguard the confidential information maintained by ERB. In order to be able to do that, staff is proposing two changes: 1) a change to the Open Meetings Act that would allow the board to go into executive session to discuss cybersecurity issues; and 2) an amendment to the Inspection of Public Records Act (IPRA), which would exempt documents that deal with cybersecurity from being subject to IPRA.

Ms. Goodwin said she and Mr. Ventura met earlier this week with Governor Martinez's chief of staff, Keith Gardner, in order to get a message for this bill because the upcoming legislative session is a 30-day session and only budgetary issues can be discussed unless there is a message from the Governor or that the bill is judged germane. She added that the meeting with Mr. Gardner was very productive.

Ms. Goodwin stated that she would like to make a presentation to the Investments and Pensions Oversight Committee early next week for their endorsement.

Mr. Eichenberg said he read the draft bill, and appreciated that Ms. Goodwin had taken this initiative.

Mr. Ventura said he sent a copy of the draft bill to the Foundation for Open Government and hopes to meet with them within the next few days.

There was no objection to Ms. Goodwin's request to move forward with the draft bill and to present it to the Investments and Pensions Oversight Committee next week.

Chairwoman Cameron said this item would be placed on the December board agenda.

**7. NMERB STATE TOUR – PRELIMINARY REPORT;  
JAN GOODWIN, EXECUTIVE DIRECTOR**

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Ms. Goodwin reported that she and Mr. Scroggins went to the northern part of New Mexico last week and this week have visited Santa Fe, Gallup and Albuquerque as part of the NMERB State Tour. Next week they would travel to southwestern New Mexico. After Thanksgiving, they will visit the southeastern part of the state. Despite broadly publicizing the tour, they have been speaking to fairly small crowds. She commented that the information being disseminated is being very well received, however.

[Mr. Eichenberg left the meeting.]

**8. GASB 67 AND 68 DISCLOSURES: JAN GOODWIN, EXECUTIVE DIRECTOR;  
RYAN FALLS, GABRIEL ROEDER SMITH**

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[Mr. Falls was on the telephone.]

Ms. Goodwin stated that, because of the change in the board's inflation assumption, there is going to be a change in the NMERB's net pension liability under GASB 67, which Mr. Falls would discuss.

Ms. Goodwin reviewed a table of what the numbers have been historically since 2015, when GASB 67 was implemented. The numbers are important because, under GASB 68, each of the ERB's employers picks up their proportionate share of the net pension liability and has it as an item in their financial statements. This has been occurring for the last two years. Because there was such a big change this year, she has asked Mr. Falls to explain it to the board today. This issue came up at the last LFC meeting, and so it will be discussed at next week's IPOC meeting as well. The NMERB is undertaking a communication effort among all of the employers so they understand why their numbers will go up so much.

Mr. Falls made a presentation.

- The GASB Statements 67 and 68 change pension accounting and financial reporting standards for state and local governments. They disconnect pension accounting from pension funding.
- Require employers to recognize the Net Pension Liability (NPL) on their balance sheet.
- Require employers to recognize a new measure of the Pension Expense (PE) on their income statements, which would be different from their actuarially determined contributions (ARC).
- One of the biggest changes had to do with the discount rate used to calculate the plan liability. The "Single Discount Rate" is a blend of two rates: long-term expected

investment return to the extent projected assets are sufficient to pay future benefits; tax-exempt municipal bond rate to the extent projected plan fiduciary net position is not sufficient: 3.80% on 6/3/15, 2.85% on 6/30/16, and 3.56% on 6/30/17.

Mr. Falls stated that, on June 30, 2016, the NMERB had a net unfunded liability of \$7.2 billion (based on the 7.75% discount rate). On June 30, 2017, based on the new blended 5.9% single discount rate, the net pension liability is \$11.1 billion. He added that it shouldn't indicate that there is anything substantially different in the health of the plan; those decisions should be made based on the funding valuation.

Ms. Goodwin noted Mr. Falls' comments that the NMERB was hitting the crossover point now because of lower expected earnings. She asked if it wasn't also largely due to the lower inflation assumption and therefore the lower contributions that would be coming in. Mr. Falls said that was correct.

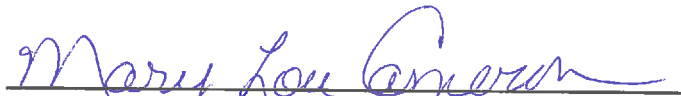
Mr. Falls said the NMERB would be facing a communication challenge in explaining the following to employers and employees:

- The new very large liability on the balance sheet.
- Annual changes in liability and pension expense and why pension expense number is actually pension income in some years.
- Nothing has structurally changed with the health of the plans nor has the nature of the employer's obligation to the plan changed.
- Why accounting numbers do not equal funding numbers and which ones are right.

Ms. Goodwin said the NMERB will be sending word out to all of the employers. She added that this is something they will be reporting this on their FY18 audited financial statements, allowing a one-year lag and giving the NMERB time to answer questions and concerns.

## 9. ADJOURN

The retreat concluded at 12:55 p.m.

  
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Mary Lou Cameron, Chairwoman

ATTEST:

  
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Larry Magid, Secretary