

ACTION SUMMARY

INVESTMENT COMMITTEE

January 22, 2015

<u>Item</u>	<u>Action</u>	<u>Page #</u>
APPROVAL OF AGENDA	Approved	2
<u>APPROVAL OF MINUTES</u>		
October 30, 2014	Approved	3
December 11, 2014	Approved	3
INTRODUCTION OF GUESTS	New staff introduced	3
TRUSTEE REQUEST FOR ACTUARIAL STUDIES	Tabled	3
REAL ESTATE AND REAL ASSETS RFP	Approved	5
ISS CLASS ACTION MONITORING SERVICE ADDITION	Approved	5
FIXED INCOME POLICY REVISION	Approved	6
FIXED INCOME MANAGEMENT UPDATE	Informational	6
OTHER INVESTMENT REPORTS AND DISCUSSION	None	

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

January 22, 2015

1. a. Call to Order

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at 2:05 p.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron [by telephone]
Mr. Larry Magid
Dr. Beulah Woodfin [by telephone]

Members Excused:

None.

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Bob Jacksha, CIO
Mr. Steve Neel, Deputy CIO
Mr. Mark Canavan, Real Assets Portfolio Manager
Ms. Christine Ortega, Investment Financial Analyst
Mr. T. Spencer Wright, Fixed Income Portfolio Manager
Mr. Russell Mills, Alternative Investments Portfolio Manager

Others Present:

Ms. Judith Beatty, Recorder

b. Approval of Agenda

Ms. Cameron moved approval of the agenda, as published. Dr. Woodfin seconded the motion, which passed unanimously by voice vote.

c. Approval of Minutes of 10/30/14

Mr. Jacksha stated that a redlined version of the minutes was in the packet.

Ms. Cameron moved approval of the minutes of the October 30, 2014 meeting, as amended. Dr. Woodfin seconded the motion, which passed unanimously by voice vote.

d. Approval of Minutes of 12/11/14

Mr. Magid moved for approval of the December 11, 2014 minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously by voice vote.

c. Introduction of Guests

Mr. Jacksha introduced Spencer Wright, who has joined the ERB as fixed income portfolio manager.

Mr. Wright stated that he was previously at the State Treasurer's Office, where he was in charge of general fund investments.

Ms. Ortega introduced Russell Mills, who will be handling alternative investments.

Mr. Mills stated that he was previously at DFA, and prior to that was involved in property management.

2. TRUSTEE REQUEST FOR ACTUARIAL STUDIES

Chairman Goff stated that, in follow up to his presentation at the Investment Committee at the December 11 meeting, Board Member Brad Day has submitted a list of five different actuarial studies, with varying scenarios, that Mr. Day would like the committee to consider having done.

Ms. Cameron asked if staff knows of other pension plans in the U.S. doing studies of this kind.

Ms. Goodwin and Mr. Jacksha responded that they are not aware of any.

Chairman Goff said the only stress test he knows of was one being proposed by the Texas teachers pension fund, but that is about their health care plan.

Chairman Goff added that he recently read about the San Bernardino retirement fund, which gradually reduced their rate of return from 8.16 percent to 7.5 percent over an extended period. There has been a negative impact on the fund and their liability has gone up significantly as a result. He said he has a concern with the risk free discount rate, since he has not seen any positive reports about it.

Dr. Woodfin expressed concern that none of Mr. Day's scenarios include an assumed rate of inflation. She asked if actuarial studies do include an assumed inflation rate of 3 percent.

Ms. Goodwin responded yes. She added that the actuaries are currently working on the experience study, where they will take an in-depth look at all of the different rates that are factored into the valuation.

Ms. Cameron wondered if it would make more sense to have the experience study done first, since then the results could be factored into the studies being requested by Mr. Day. Otherwise, additional work might be necessary after the experience study is completed to factor in new information.

Chairman Goff said his concern is not to duplicate work and add to the cost.

Dr. Woodfin said she can understand some of Mr. Day's concerns in terms of questions that legislators could ask, but wondered if it would be possible to ask the actuaries to look at some of the scenarios that Mr. Day has discussed as part of the experience study.

Ms. Goodwin asked Dr. Woodfin if she was suggesting that the ERB share Mr. Day's thoughts on wage inflation and payroll growth with the actuaries to see if they are similar to what they are coming up with. Dr. Woodfin responded yes; and if they are not similar to what the actuaries are coming up with, to ask them to incorporate Mr. Day's issues. This would not only save the ERB time and money, it would also satisfy Mr. Day's concerns.

Mr. Magid agreed with Dr. Woodfin. He said it would make sense to use information from the experience study in order to not duplicate studies.

Ms. Cameron moved to table the request from Mr. Day until the ERB receives the experience study, and then come back with further input on what the ERB would run based on the numbers presented. Dr. Woodfin seconded the motion.

Mr. Jacksha ask if it would be correct to state that the Committee is not saying that scenario testing is inappropriate, but simply that it should have more information since it is doing an experience study, and then decide what to do around the information received from that study.

Ms. Cameron moved this as a friendly amendment. Dr. Woodfin agreed to the amendment.

The motion, as amended, passed unanimously by voice vote.

3. REAL ESTATE AND REAL ASSETS RFP

Mr. Canavan reviewed his memorandum to the Investment Committee, which requested authorization to initiate an RFP process for standard investment consultant services related to real estate and natural resources. He said the original contract was initiated in 2007 with ORG. The contract was transferred to RAPM in 2011, whose team was originally part of ORG. Since then, the contract has been extended twice and has received the maximum allowed by the old Investment Policy for extensions. The final extension will expire on April 19, 2015. In advance of that, staff is requesting authorization today to develop and issue the RFP.

Dr. Woodfin moved that the Investment Committee authorize staff to conduct an RFP process for the selection of a Real Estate and Natural Resources Consultant. Mr. Magid seconded the motion, which passed unanimously by voice vote.

4. ISS CLASS ACTION MONITORING SERVICE ADDITION

Ms. Ortega stated that, earlier this year, the ERB contracted with Institutional Shareholder Services (ISS) to monitor class action litigations and file on NMERB's behalf when appropriate, based on holdings and transactions data provided to them by the NMERB's current and previous custody banks. The current contract with ISS states that the firm will file claims in relevant class actions in the United States, Canada, and the Netherlands. She said there has been a heavy increase in the need to provide services for filing in other countries, and ISS has now provided a service that will file for NMERB in Australia, UK, and Germany.

Ms. Ortega said ISS will charge an additional \$5,000 for this service, and requested approval to amend the NMERB's contract with ISS to allow for this additional cost.

Mr. Jacksha said staff previously informed the Investment Committee of this contract, but did not request authorization inasmuch as it was a small services contract. With the additional \$5,000, it is now over the threshold and requires approval from the committee.

Dr. Woodfin asked if this kind of situation will become more common as the NMERB becomes more involved with international equities. Mr. Jacksha responded probably.

Dr. Woodfin asked if ISS is the appropriate agent to handle the NMERB's interests in these sort of circumstances, and Mr. Jacksha responded that staff believes so, especially because the NMERB is already engaged with them.

Ms. Cameron moved that the Investment Committee approve the amendment of the current contract with Institutional Shareholder Services to add class action filing services for cases in Australia, Germany and the United Kingdom for an additional cost of \$5,000 per year.

5. FIXED INCOME POLICY REVISION

Mr. Wright requested the committee's recommendation of a revision to the Core Fixed Income Policy, which was adopted by the Board in October.

Mr. Wright said the policy contains language requiring electronic trading platform service providers to have minimum capitalization levels identical to those required of the NMERB's broker counterparties, at a minimum capitalization of \$50 million. When the NMERB utilizes an electronic trading platform between the NMERB and its broker counterparties, it is essentially a software service that matches NMERB with securities at the best price. He said the messaging services are not actually the trade counterparties, however. A change in the policy would allow those software platforms to not have the \$50 million worth of net equity on their balance sheets because they are simply acting as matchmakers between the NMERB and counterparties, and so the capitalization requirement is unnecessary.

Dr. Woodfin asked if there is any chance that removing this requirement would "come back to haunt us." Mr. Jacksha responded that he did not believe so.

Mr. Magid moved that the Investment Committee recommend approval by the New Mexico Educational Retirement Board of the following wording for paragraph XIV.C. in the Core Fixed Income Investment Policy: "XIV.C. The Staff may use electronic trading platforms to facilitate trades." Dr. Woodfin seconded the motion, which passed unanimously by voice vote.

6. FIXED INCOME MANAGEMENT UPDATE

Mr. Wright presented an update on how the NMERB is bringing the Fixed Income Portfolio in house.

Mr. Wright said staff has done a lot of work in getting electronic trading systems and analytical systems in place so they can look at the portfolios and see how they compare to the benchmarks being used for those portfolios. He said the first reports were provided by the Aladdin system yesterday, and will allow staff to analyze which securities it wants the existing managers to keep and which to liquidate prior to the date the assets will transfer. He said staff is working to make the transition process as seamless as possible and foresees no problem in meeting the February 28 timeline.

7. OTHER INVESTMENT REPORTS AND DISCUSSIONS

None.

8. NEXT MEETING: THURSDAY, FEBRUARY 26, 2015

The committee agreed to schedule the meeting at 1:00 p.m.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 3:00 p.m.

Accepted by:



H. Russell Goff, Chairman