

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

REGULAR MEETING

February 15, 2019

1. a. ROLL CALL: QUORUM PRESENT

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at 10:00 a.m. at the Public Education Department, Mabry Hall, 300 Don Gaspar Avenue, Santa Fe, New Mexico. A quorum was present.

Members Present:

Ms. Mary Lou Cameron, Chairwoman
Mr. H. Russell Goff, Vice Chairman
Mr. Larry Magid, Secretary
The Hon. Tim Eichenberg, New Mexico State Treasurer
Dr. Karen Trujillo, Secretary-designee, Public Education Dept. [sworn in at meeting]
Mr. David Craig
Dr. Donald W. Duszynski

Members Excused:

None.

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Roderick Ventura, Deputy Director
Mr. Bob Jacksha, Chief Investment Officer
Ms. Susanne Roubidoux, General Counsel
Ms. Liz Lorang, Executive Assistant
Ms. Norma Henderson, Chief Financial Officer
Mr. Lawrence Esquibel, Chief Information Officer
Ms. Karla Leyba, Bureau Chief, Member Services
Ms. Monica Lujan, Director, Member Services

Others Present:

Mr. Allan Martin, NEPC
Mr. Sam Austin, NEPC
Mr. Jason Ostroski, CliftonLarsonAllen
Ms. Judith Beatty, Board 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.

c. Approval of Minutes – December 7, 2018

Mr. Goff moved for approval of the December 7 minutes, as submitted. Dr. Duszynski seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairwoman Cameron welcomed staff and guests.

2. CONSENT AGENDA

a. Board Travel: Dr. Duszynski: CAPPP II Training in Boston, June 19-22, 2019

Mr. Eichenberg moved for approval of this request. Mr. Magid seconded the motion, which passed unanimously.

3. [Deferred to later in agenda.]

4. PRESENTATION OF JUNE 30, 2018 AUDIT REPORT: CLIFTON LARSON ALLEN (CLA)

Engagement Principal Jason Ostroski presented the audit report, with the following highlights:

- CLA issued an unmodified clean opinion on the financial statements.
- Limited procedures were performed, and no opinion rendered, on management's discussion and analysis, required supplemental information, and the Introductory, Investment, Actuarial, and Statistical sections.
- Limited procedures were performed and an unmodified in relation to opinion was rendered on the other supplemental schedules.
- Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements was performed. No material weaknesses or significant deficiencies were identified.
- Total Pension Liability as a percentage of Net Position decreased from 52.95 percent in 2017 to 52.17 percent in 2018.
- Active members increased from 59,495 in 2017 to 60,358 in 2018.
- Covered payroll decreased from \$2.73 billion in 2017 to \$2.68 billion in 2018.

- No change in contribution rates from 2017 to 2018.
- Investment income: 8.38 percent money-weighted rate of return in 2018.
- Retirees increased from 47,340 to 48,919 in 2018.
- There was a minimal change in the net position of the percentage of the total pension liability in 2018.
- CLA has begun work on auditing the GASB 68 schedule update and the final report on the schedules will be issued in March 2019.

Mr. Goff moved approval of the 2018 Audit Report, as presented. Mr. Magid seconded the motion, which passed unanimously.

3. SWEARING IN OF NEW BOARD MEMBER – KAREN TRUJILLO, Ph.D.

Dr. Trujillo was sworn in. She said she was honored and humbled to be a member of the ERB. Because of her busy schedule, she said Mr. Craig would be attending the meetings on her behalf for the time being.

5. INVESTMENT REPORTS: BOB JACKSHA, CIO

[Presenters: Mr. Jacksha and NEPC advisor Allan Martin]

c. December 2018 Quarterly Performance Report

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

-- Since preparation of this report, the S&P 500 is up 9.6 percent for January and the first part of February, so the ERB has since recovered nearly all that it lost in December. Nonetheless, CY 2018 finished on a negative note for the S&P 500 at -4.3 percent for the year, down 13.5 percent in the quarter, the sixth worst result in the history of the stock market.

-- The median public fund > \$1 billion lost about 4 percent. Only three funds in the U.S. had positive results, and the ERB was one of them, an extraordinary achievement. Net of fees, it generated 63 basis points, while the average peer lost 4 percent.

-- Over the past five years, the fund returned 6.3 percent per annum, ranking in the 2nd percentile of the InvestorForce Public Funds > \$1 billion universe and underperforming the actuarial assumed rate of 7.25 percent.

-- Over the past three years, the fund returned 7.5 percent per annum, ranking in the 5th percentile of its peer group.

-- For the year ending December 31, 2018, the fund experienced a net investment gain of \$95.2 million, which includes a net investment loss of \$432.6 million during the quarter. Assets

decreased from \$12.9 billion 12 months ago to \$12.5 billion on December 31, 2018, with \$464 million in net distributions for the year. The fund returned 0.6 percent, outperforming the policy index by 28 basis points and ranking in the 4th percentile of its peers.

Mr. Jacksha said the month of January would close at \$12.8+ billion, roughly up 3 percent, for a positive return for the fiscal year.

a. **NEPC Contract Adjustment**

Mr. Jacksha stated that, as NEPC's contract comes due in December, this is a discussion item today with possible action at the next meeting. Staff has previously discussed a contract adjustment because NEPC has been doing some extra work.

Mr. Martin stated that, when NEPC was reselected four or five years ago, it did not anticipate the work it would end up doing in the diversifying asset category, which is 5 percent of the portfolio and has kept NEPC very busy in recent months. The hope is that NEPC can be compensated for this activity as well as ongoing activity in this area, a matter that is under discussion with staff and the ERB's legal counsel.

b. **Real Asset Investment Policy Revision**

Deferred to next meeting.

d. **Investment Committee Report**

Mr. Jacksha reported that the Investment Committee met this morning, and took the following action:

-- Approved a request for information (RFI) process to conduct manager searches for Developed International Markets equities and Emerging Markets.

-- Approved an exception to the Investment Services Procurement Policy for the Developed Markets contract with BlackRock, which is for an EAFE index.

-- Approved an extension of contracts for an additional two years with Robeco and Parametric, who are emerging markets managers.

-- Approved a renewal of a service agreement with QED with a small change in the terms.

-- Approved a two-year extension for the Top Tier private equity consultant contract.

e. **Other Investment Reports**

None.

**6. IT EQUIPMENT DISPOSAL LIST: LAWRENCE ESQUIBEL,
CHIEF INFORMATION OFFICER**

Mr. Esquibel requested approval for the disposal of seven laptops, one desktop, and one HP tape drive.

Mr. Eichenberg moved for approval. Dr. Duszynski seconded the motion, which passed unanimously.

7. DISABILITY RETIREMENTS: KARLA LEYBA, BUREAU CHIEF, MEMBER SERVICES

Ms. Leyba reported that there are 842 disability recipients at the current time with an average monthly benefit of \$570. Since MMRO began working with the ERB in January 2016, there have been 226 applicants for disability benefits.

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

8. AGE & SERVICE RETIREMENTS: MONICA LUJAN, DIRECTOR OF MEMBER SERVICES

Ms. Lujan reported that, during the two-month period of December 2018 and January 2019, there were two disability retirements under age 60 and three over age 60. There were 45 reciprocities, and a total of 277 normal retirements, for a total of 327 applications processed during the two-month period.

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

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

a. Retirement Health Care Update

Ms. Goodwin commented that the New Mexico Retiree Health Care Authority (NMRHCA) is facing a number of challenges. With a funding ratio of less than 15 percent, they are due to run out of money within 20 years. In order to partially address that, HB 95, sponsored by Rep. Tomás Salazar, would increase employer contribution rates by 1 percent and employee contributions by .5 percent. Unfortunately, it appears that bill is not moving forward, so the NMRHCA will have to come up with a more global way of dealing with this in the next couple of years.

b. Agency Activities

Ms. Goodwin stated that the report on agency activities since the last board meeting could be found in the board book.

c. Legislative Update

Ms. Goodwin reported that the legislative session has passed the halfway point, and things are going well so far. She presented the following highlights:

-- SB 14/HB 360 have had positive committee hearings, and both are sitting in their respective finance committees. They will continue to remain there until the budget is passed, as there is cost associated with having the short-term substitute teachers be members, and also having the Return to Work exception people have employee and employer contributions.

-- SB 439, carried by Sen. Sedillo-Lopez, would add two new members to the ERB Board of Trustees. American Federation of Teachers would elect one, and the second position would be a Governor appointee with a background in public education.

Dr. Duszynski commented that the UNM Retiree Association (UNMRA) is in favor of increasing the number of board members, with a representative from each of the major research institutions on the board rather than just one representative. He said he felt the number of gubernatorial appointees should be reduced and the number of members from other institutions increased, and that he would be encouraging UNMRA members to express those views to legislators.

-- Sen. Padilla is considering a bill that would automatically increase ERB and PERA contribution rates if the funds are taking longer to get to fully funded status. The ERB is working in the interim with the stakeholder group as well as someone from the legislature, and hopefully someone from the executive branch, to come up with something that would work for the ERB and stay on the path to full funding within 30 years without additional changes.

-- SB 57, sponsored by Sen. Sander Rue, would increase transparency in reporting. ERB staff has consulted with PERA and SIC to come up with something that is acceptable to all three agencies.

d. Actuarial reporting options

Ms. Goodwin noted that the last actuarial audit was five years ago. Typically, the ERB does an actuarial audit every five years and an experience study every other year. She proposed to do an actuarial audit based on the 2019 actuarial valuation, which will take place in June 2019, and an experience study based on the 2020 actuarial valuation. She commented that GRS actuarial consultant Ryan Falls said he would be happy to do an experience study based on the 2018 actuarial valuation, but feels it would not add much value.

Board members concurred with Ms. Goodwin's suggestion.

e. Other

Ms. Goodwin announced that the COLA for retirees with 25 years or more service credit, and whose monthly benefit is less than or equal to \$1,627.76, will have an annual adjustment of 1.8 percent. This will take place in July. All other non-disability retirement benefit recipients will have an annual adjustment of 1.6 percent, and disability recipients will have a COLA of 2 percent.

10. EXECUTIVE SESSION: 11:15 a.m.

- a. Deliberations regarding the Hearing Officer's Recommended Decision in the Administrative Appeal of Andy C. Saucedo (deceased) (session closed pursuant to NMSA 1978, Section 10-15-1(H)(3): Attorney General's Office**

- b. **Update on Litigation – *Cooperative Educational Services v. NMERB and Jan Goodwin*, Case No. D-101-CV-2017-02205 (session closed pursuant to NMSA 1978 Section 10-15-1(H)(7). Rod Ventura, Deputy Director, and Susanne Roubidoux, General Counsel.**

- c. **Update on Litigation – *New Mexico Educational Retirement Board v. Renaissance Private Equity Partners et al* (session closed pursuant to NMSA 1978, Section 10-15 1(H)(7). Susanne Roubidoux, General Counsel, and Rod Ventura, Deputy Director**

Chairwoman Cameron moved that the Board go into Executive Session pursuant to Section 10-15-1(H)(3) of the Open Meetings Act for the purpose of discussing and deliberating on the administrative appeal of Andy C. Saucedo, and pursuant to Section 10-15-1(H)(7) for the purpose of discussing pending litigation. Mr. Goff seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Mr. Eichenberg; Mr. Craig; Dr. Duszynski.

Against: None.

11. **ACTION FROM EXECUTIVE SESSION: 11:45 a.m.**

Chairwoman Cameron moved that the Board come out of Executive Session. The only matters discussed during the Executive Session were the administrative appeal of Andy C. Saucedo and pending litigation matters. Dr. Duszynski seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Mr. Eichenberg; Mr. Craig; Dr. Duszynski.


Against: None.

Mr. Goff moved that, in the matter of Andy C. Saucedo, the board reaffirm its August 29, 2018 decision. Mr. Magid seconded the motion, which passed unanimously.

12. NEXT MEETING: FRIDAY, APRIL 19, 2019 -- ALBUQUERQUE

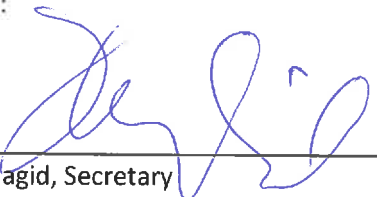
13. ADJOURN

Its business completed, the Educational Retirement Board adjourned the meeting at 11:45 a.m.



Mary Lou Cameron, Chairwoman

ATTEST:



Larry Magid, Secretary