MINUTES OF THE

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ARP COMMITTEE

December 7, 2017

I. ROLL CALL & APPROVAL OF AGENDA

A meeting of the Alternative Retirement Plan (ARP) Committee 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. A quorum was present.

Members Present:
Mr. Larry Magid, Chair
Dr. Donald Duszynski

Members Excused:
Mr. David Craig

Staff Present:
Ms. Jan Goodwin, Executive Director [by telephone]
Mr. Rick Scroggins, Deputy Director
Mr. Roderick Ventura, General Counsel
Ms. Susanne Roubidoux, Deputy General Counsel
Ms. Monica Lujan, Member Services Director

Others Present:
Mr. Farhad Mirzada, Director, Cammack Retirement Group
Ms. Denise Burns, VP, Head of Investments, Cammack Retirement Group
Ms. Charmaine Claire for Judith Beatty, Recorder

II. REVIEW AND APPROVAL OF MINUTES: August 25, 2017

Dr. Duszynski moved approval of the August 25 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

III. ALTERNATIVE RETIREMENT PLAN 101 – REVIEW OF LAW, OPERATIONS AND PROCESSES – SUSANNE ROUBIDOUX, DEPUTY GENERAL COUNSEL FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP

Ms. Roubidoux made this presentation, which covered the statutes, regulations and oversight of the ARP; ERB duties and the duties of the committee; the ARP participants; contributions; comparison of the ARP Plan and the ERB Plan; and the role of ARP consultant Cammack Retirement Group.

Ms. Roubidoux stated that, for ARP participants, 3 percent of the 13.9 percent employer contribution is remitted to the ERB Fund, and the remaining percentage is contributed directly to the carrier as the employer contribution. For ERB participants, the entire 13.9 percent is remitted to the ERB Fund.

Chair Magid asked why 3 percent goes to a benefit that the ARP participants don't accrue. Ms. Roubidoux said this was a mandate under the Educational Retirement Act. Mr. Ventura stated that, when they created the ARP statutes in 1991, there was a concern that there would be no money going into the ERB Fund from people going with the ARP Plan, and so the legislature created the 3 percent surcharge. Mr. Mirzada noted that the Oklahoma State system also has a surcharge, but the schools, not the participants, cover it. He said the surcharge and who pays it varies from state to state.

Mr. Mirzada and Ms. Burns presented an overview of the services that Cammack provides. Mr. Mirzada said Cammack's services are plan oversight and governance; investment selection and monitoring; plan design; benchmarking and RFP services; vendor management; and retirement readiness strategies. Cammack has been in the business for 50 years and provides services to clients with plan assets totaling more than $90 billion.

Chair Magid asked if Cammack views target date funds as something more than a marketing ploy, Ms. Burns responded yes. She said Cammack does comprehensive target date fund analysis every year and continues to monitor the funds throughout the year for any changes in strategy, manager change, and/or glidepath changes. Target date funds tend to be a plan option where people will stay the long course; if the market corrects, they will buy low and will continue to contribute. If they stay with a target date, performance is much better than if they were to do asset allocating themselves. She added that it does give them a decent asset allocation upon and after retirement.

Mr. Mirzada added that before target date funds were introduced in general, a lot of plan participants would end up choosing money market or try to diversify by putting equal amounts of money in several funds. Target date funds are becoming more prevalent, and the Department of Labor has given institutions and plan sponsors fiduciary protection in having these types of options within the program, as long as the proper disclosures are sent to participants. For ERISA plan sponsors that select target date funds as the Qualified Default Investment Alternative (QDIA), if a participant defaulted and received the proper notification and disclosure the plan sponsor can rely on the DOL QDIA regulations should the participant realize an investment loss, and sue the plan sponsor for defaulting the participant into a target date fund. Mr. Mirzada added that because plan participants do not review their portfolios or asset allocation often, a simple solution type product that provides a diversified portfolio makes sense to them. However, Mr. Mirzada further responded by noting that Target Date funds are not essentially a perfect solution because it is not customized to the individual; the goal of these types of funds is to provide diversification to the investor, which will in turn become more conservative as the investor reaches the target date selected.

Mr. Mirzada also stated that other products are available, such as managed accounts that can customize to the individual; Mr. Mirzada has approached TIAA and Fidelity and asked them to show him their ten-year performance on their managed account programs compared to the target date funds, and the latter outperformed each one.

Chair Magid commented that people really need advice, particularly in this current environment for people who have a risk-based portfolio that is heavy on bonds. He said equities could also go south, so people could lose money on both ends of a risk-based portfolio.

Ms. Burns agreed that capital market assumptions are much lower going forward than they have been in the past ten years. She commented that it is important to manage expectations and educate people by suggesting they increase their contribution or open up a supplemental plan.

Mr. Mirzada said Cammack is looking at a communication strategy for plan participants to address these issues. This would involve looking at the entire pool of ARP participants and identifying pockets of people who need advice. For instance, people who are 25 to 35 years old are in the "accumulation stages" and could use help in making appropriate investment choices for their particular demographic.

Chair Magid recalled that the committee discussed this at its previous meeting and asked what progress has been made since then.

Mr. Mirzada responded that Cammack first worked with Mr. Ventura and Ms. Roubidoux to obtain salary information. The added wrinkle is that, because Cammack is using TIAA's plan outcome assessment tool for the calculations, Cammack needed Fidelity and Valic assets to aggregate everything and come up with an accurate picture, and this has taken additional time. He said they plan to have the work done by the first quarter of 2018 and then will meet with NMERB staff to review the output report before reporting back to the ARP Committee. Information is being disseminated already to plan participants, but the piece they are working on now will provide more information at a granular level, and identify the groups with need.

Mr. Mirzada commented that ARP plan's Revenue Credit Account have the funds in its balance accounts to pay for a comprehensive communication strategy, if necessary. He said he has talked to Fidelity and TIAA about how concerned the ARP Committee is about plan participants who are in money market funds, for instance, and the need for targeted communication.

IV. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW: SEPTEMBER 30, 2017

Ms. Burns presented highlights.

Ms. Burns reviewed an investment analysis of CREF Stock R2. The fee for NMERB's share class is 43 basis points, which was recently reduced by 6 basis points. The CREF Composite Benchmark is 70 percent Russell 3000/30 percent MSCI All Country World Index ex U.S. Investable Market. It is an equity fund that is all market cap and all geographies, and has four main portfolio management "sleeves." She noted that Morningstar changed the stock from Large Cap Equity U.S. to Allocation (85 percent plus equity), but also had the option of going into the Global category. She said she disagreed with the Allocation choice, because the other managers in the Allocation category make active decisions to include fixed income, which in a bear market can make up 20 percent of the portfolio. As a result, the Morningstar rating went from 2 stars to 4 stars. She said the fund has a large pool of assets ($123 billion) so does not have the ability to substantially outperform the benchmark, so the goal is 50-60 basis points. If one compares the expense ratio with a mutual fund, and the fact that it is very index-like, it seems very expensive; however, it is a variable annuity and is relatively inexpensive (compared to Valic's), and the participant has the ability to annuitize upon retirement.

Ms. Burns said Cammack is recommending that TIAA Real Estate, a variable annuity whose principal strategy is to purchase direct ownership interests in income-producing prime real estate, be put on watch. The fund manager, Gerry Casmir, has left TIAA. Randy Giraldo has been named the new lead portfolio manager, who has decided to change how the fund is managed. While the previous managers all used very low leverage (30-35 percent) and TIAA would have about 20 percent, Giraldo wants to raise it to 30 percent, which is the maximum, although conceivably new properties could be purchased with 50 percent leverage. This is another reason why Cammack put this fund on watch.

Responding to a suggestion from Chair Magid, Mr. Mirzada said Cammack would look into the T. Rowe Price Capital Appreciation Fund.

Mr. Mirzada clarified that committee approval is not necessary for funds to be put on watch.

V. <u>DISCUSSION ABOUT NEWS ARTICLES</u>

Mr. Mirzada noted that *The New York Times* released various articles containing a number of statements regarding TIAA and its business operations and practices. Cammack's summary points were on page 88 of Cammack's report.

Mr. Mirzada said TIAA did reach out to Cammack before the articles were released. He commented, however, that he felt TIAA's responses to the statements in the articles were more fluff than substance. He said Cammack spoke with TIAA's senior leadership team about its concerns and the need for more direct responses.

Ms. Burns noted that most of the criticism was about TIAA's wealth managers and the practices of the retail advisers within their individual investment centers. Mr. Mirzada commented that, in the past, retail advisers were very aggressive with plan participants, and the concern is that this practice continues. He said Cammack isn't yet sure whether sales practices have changed more recently. He added that TIAA initially told Cammack that they were not aware of any whistleblower lawsuit with the SEC, and there was a retraction printed in *The New York Times;* however, a second article clarified that it was a whistleblower complaint, which is pending. As Cammack gets more information from TIAA and New York's attorney general, it will share that with NMERB.

VI. DISCUSSION/POSSIBLE ACTION ON TIAA AND FIDELITY COMMUNICATION CAMPAIGNS WITH ARP PARTICIPANTS

Mr. Ventura said the next ARP meeting would take place in early spring, at which time Cammack should provide additional information on progress on an ongoing communication plan.

VII. OTHER BUSINESS

None.

VIII. ADJOURNMENT

The meeting was adjourned at 11:15 a.m.

Accepted by:

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Larry Magid, Chair