

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ARP COMMITTEE

TELEPHONIC/VIRTUAL MEETING

December 8, 2020

I. a CALL TO ORDER/ASCERTAIN QUORUM

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order at 1:00 p.m. via teleconference. A quorum was present.

Members Present:

Mr. Larry Magid, Chair
Dr. Donald Duszynski
Mr. Russell Goff

Members Excused:

None

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Roderick Ventura, Deputy Director
Ms. Susanne Roubidoux, General Counsel
Ms. Mariana La Roche, Communications & Outreach Director

Others Present:

Mr. Jared Hardin, Senior Account Manager, Cammack Retirement Group
Mr. Michael Sanders, Senior Consultant, Cammack Retirement Group
Ms. Denise Burns, Vice President, Head of Investments, Cammack Retirement Group
Ms. Judith Beatty, Recorder

b. APPROVAL OF AGENDA

Dr. Duszynski moved approval of the agenda, as published. Mr. Goff seconded the motion, which passed unanimously by roll call vote.

2. REVIEW AND APPROVAL OF MINUTES: May 21, 2020

Dr. Duszynski moved approval of the May 21, 2020, minutes, as submitted. Mr. Goff seconded the motion, which passed unanimously by roll call vote.

3. WELCOME NEW COMMITTEE MEMBER: RUSSELL GOFF

Chairman Magid welcomed Mr. Goff to the committee.

4. ALTERNATIVE RETIREMENT PLAN 101 – AN OVERVIEW OF ARP

Ms. Roubidoux presented an overview of the Alternative Retirement Plan, which included comments by Mr. Hardin about Cammack’s duties as ARP consultant.

**5. FIDUCIARY TRAINING FOR DEFINED CONTRIBUTION PLAN SPONSORS:
JARED HARDIN, SENIOR ACCOUNT MANAGER, CAMMACK RETIREMENT
GROUP
MICHAEL SANDERS, PRINCIPAL, CAMMACK RETIREMENT GROUP**

Mr. Hardin made a slide presentation: “Fiduciary Focus: A DC Plan Training Module for Applying Fiduciary Best Practices.”

On the issue of fiduciary risk management, Dr. Duszynski noted that, at the December meeting last year, Farhad Mirzada talked about higher education institutions that have been targeted in the past with certain lawsuits, and had suggested that NMERB consult with Groom Law Group, which it did. He asked if there is insurance to protect NMERB board members from any risks they might have personally.

Ms. Goodwin responded that New Mexico statute states that board members would be held harmless as long as they are acting within the scope of their duties. The GSD Risk Management Division would provide any defense if there were a lawsuit.

Chairman Magid pointed out that there is a big distinction between the state providing the defense in a lawsuit versus an insurance policy that would pay for any damages.

Mr. Sanders responded that, typically with government-sponsored plans, a committee member would not be held liable for any of the things in a class action lawsuit against a plan, including any settlements.

Mr. Hardin discussed actions to manage risk. He stressed the importance of completing action items efficiently, particularly because the ARP Committee meets only twice a year, and putting something off until the next meeting can mean six months or more.

Mr. Hardin also stressed the importance of making decisions that can easily be defended. Cammack has seen committee members on the witness stand who have had a hard time explaining why or how a certain decision had been made. The meeting minutes should record all significant meeting actions, as well as the rationale for making them.

Mr. Hardin said the committee should understand the extent to which third parties, such as investment advisors and other service providers, serve as fiduciaries. The committee cannot outsource all its fiduciary responsibility, and ultimately the committee is responsible for the overall operation of the plan. It can hire investment advisors and TPAs to assist with those duties, but the committee should understand how far the TPAs go with their responsibilities.

Mr. Hardin said the committee should not spend too much time on investments at the expense of other investment responsibilities. Its responsibilities also include the plan design, plan audit, following the plan documents, and the like.

6. INTERIM UPDATE: JARED HARDIN, SENIOR ACCOUNT MANAGER, CAMMACK RETIREMENT GROUP

Mr. Hardin presented a summary of some items he has discussed with Ms. Roubidoux since the last meeting.

- **Revision of Fidelity enrollment guide**

Mr. Hardin said Fidelity had been getting some questions from membership, especially around the fees that are paid for the plan. Fidelity wanted to update the enrollment guide to be more inclusive of that information, so he and Ms. Roubidoux worked together to update the guide, gave them some information about the fees, but also updated various other elements of the enrollment guide to make sure that plan participants get all of the information they need.

- **Fidelity revenue credit account disbursement -- \$100,000**

Mr. Hardin said the credit account is reviewed annually, and this year, \$100,000 went back to participants. Last year, in approximately April, almost \$800,000 was sent back to participants from TIAA.

- **TIAA and Fidelity e-delivery procedures**

Mr. Hardin reported that the Department of Labor recently submitted their final ruling on electronic delivery of plan documents by plan sponsors, who can elect e-delivery as a default rather than mailing out statements, notices, etc. It is anticipated that the record keepers will jump on this ruling, since it represents a huge savings for

them. In the September-October timeframe this year, Fidelity implemented their e-delivery procedures. Anybody who had an email address on file who was not receiving electronic delivery of their confirmation statements was switched over to e-delivery and notified that they could elect to go via paper at no charge. TIAA hasn't defaulted anybody yet and are expected to provide an update next year on how they will implement e-delivery.

7. ARP ACCOUNT CONFIGURATION: JARED HARDIN, SENIOR ACCOUNT MANAGER, CAMMACK RETIREMENT GROUP

Mr. Hardin stated that this issue doesn't impact the committee, but there are some back issues on TIAA's side that need to be addressed. Proposed changes to the ARP account configuration in TIAA's system will improve the experience for plan participants as well as staff.

Mr. Hardin made a presentation regarding how the ARP plan is configured in TIAA's system. Under the current account configuration at TIAA, the ARP is being record-kept under the "New Mexico Publics" umbrella along with all other retirement plans offered by the individual institutions. This has led to administrative and reporting issues. For example, many questions or issues related to the institutions' plans are directed to NMERB for approval in error; and because an ARP plan exists for each of the institutions, TIAA must complete any plan-related or investment changes for each plan up to 12 times rather than completing the change once. Under the proposed account configuration, the ARP would be record-kept as its own plan separate from any other plan offered by the participating institutions, but all administrative duties would remain in place for both NMERB and the insinuations.

Responding to Mr. Goff, Mr. Hardin said the proposed configuration would be very similar to what Fidelity already has in place.

Ms. Roubidoux added that Mr. Hardin and Nicolette Dixon at TIAA have assured her that this account configuration change would not impose additional duties on NMERB staff.

Dr. Duszynski moved that the ARP move forward with the proposed changes to the ARP account configuration in TIAA's system as presented, and that appropriate communications be drafted to inform participants and employers of the configuration changes. Mr. Goff seconded the motion, which passed unanimously by roll call vote.

8. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW – SEPTEMBER 30, 2020; JARED HARDIN, SENIOR ACCOUNT MANAGER, CAMMACK RETIREMENT GROUP; MICHAEL SANDERS, PRINCIPAL

The review will discuss the following areas:

- **Total assets in the plan by fund**
- **Plan Demographic and Investment Analysis**
- **Economic Review**
- **Investment Analysis**
- **Quality of investments offered**
- **Fees and excess revenue**
- **Fund Lineup Recommendations**

Mr. Hardin presented an overview of assets in the plan by fund.

-- As of September 30, 2020, the ERB ARP plan held approximately \$820 million in combined total assets, an increase of \$44 million (5.7 percent) from the previous quarter ending balance. The top three asset category holdings are in Large Cap Equity (23 percent), Target Date Funds (21 percent) and Fixed Income and Hybrid (15 percent).

TIAA Program

-- Total plan assets under the program were approximately \$633 million. Assets under this vendor are invested across 27 different mutual or variable annuity funds (target date funds included as one investment).

-- Following funds were highlighted for discussion:

- PIMCO Total Return Instl – Continue on Watch (recommended for watch Q4 2019)
- Templeton Global Bond R6 – Replace (recommended for watch A1 2020)
- Oakmark International Institutional – Continue on watch (recommended for watch Q1 2020)
- CREF Stock R2 – Place on Watch
- TIAA-CREF Lifecycle TDF Series – Place on Watch

Fidelity Program

-- Total plan assets under the program were approximately \$137 million for quarter ending September 30, 2020. Assets are invested across 18 different mutual funds and one fixed option (target date funds included as one investment). The top three asset category holdings of the contract are in the Target Date Funds (51 percent), Large Cap Equity U.S. (25 percent) and Bond (8 percent).

-- The following funds were highlighted for discussion:

- PIMCO Total Return Instl – Continue on Watch (recommended for watch Q4 2019)

- Templeton Global Bond R6 – Replace (recommended for watch Q4 2018)
- Oakmark International Institutional – Continue on Watch (recommended for watch Q1 2020)

VALIC Program

-- Total plan assets under the program were approximately \$50 million for the quarter ending September 30, 2020. Assets under this vendor are invested across 59 different variable annuity subaccounts by 361 account holders.

Other discussion:

Noting a concern raised at the last meeting was about how some participants are solely allocated to capital preservation options such as stable value or money market, Mr. Hardin referred to Investment Utilization Statistics for TIAA as of 9/30/2020 (page 46), which reflects that only 2 people are solely invested in stable value, and only another 10 or 15 people have nearly all of their assets in stable value. He said 436 participants are invested in CREF Money Market R2, but 70 are invested solely in that fund. While this is fairly typical, this could be something to dig into a little bit further to make sure that the age range of these 70 people is appropriate. He said the same holds true for TIAA Traditional, with 1,531 participants in the fund with 253 solely invested in it. This is also very typical of what Cammack sees.

Chairman Magid expressed concern that if the people with large concentrations in these very conservative positions are in the older age bracket, and they die, their beneficiaries might question what why they didn't have better investment advisors. He asked about liability. Mr. Hardin responded that there could be liability there, but the beneficiaries would have to know the whole history of the person's investments. He said it is fairly typical and normal for an older person to pass away and be invested in stable value

Mr. Hardin noted that a number of TIAA participants have 10 to 15 investments, which is very likely people just picking investments out of the blue, and which Cammack would analyze as overutilization. This could be an area of survey or communication with plan participants to suggest they take a look at their allocations through the consultants at TIAA or their own personal advisor.

Mr. Hardin stated that the Investment Utilization Statistics for Fidelity show that there is no one solely invested in the Guaranteed Interest Account, and there are only 8 people overall in the account, so the Fidelity allocation is looking good.

Mr. Sanders reviewed Retirement Plan Trends for Q3 2020.

Mr. Sanders stated that, on October 30, 2020, the Department of Labor issued guidance on ESG investing, basically saying that it shouldn't be done in an ERISA plan. During the public comment period, the industry weighed in with 7,600 form letters. In the final rule, the DOL took all mention of ESG out and just said there has to be a financial reason for investment decisions. In a back-ended way, the DOL said someone can't use an ESG fund because it doesn't invest in fossil fuels, and then allow it to do poorly because of that.

Mr. Sanders added that this might flip in the future under the incoming administration, however, where they will allow ESG funds to be used for ESG reasons. He said this is important to him, because some of Cammack's clients' entire mission is to focus on the environment, for instance, and not be forced to invest in companies that are against their mission.

Ms. Burns presented the Plan Allocation and Economic Review.

Mr. Hardin said the PIMCO Total Return Institutional recommendation was made because of a manager change.

Dr. Duszynski moved to continue PIMCO Total Return Institutional on Watch. Mr. Goff seconded the motion, which passed unanimously by roll call vote.

Ms. Burns noted that, in the utilization count reviewed by Mr. Hardin earlier, there were 244 participants in the Templeton Global Bond fund, which is usually very low utilization.

Mr. Goff moved to replace Templeton Global Bond R6 in both TIAA and Fidelity's investment lineup and move the current assets and all future contributions to that investment to the Qualified Default Investment Alternative, which is the Target Date series of each vendor. Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

Ms. Burns said there are 64 securities in the Oakmark International fund, which is considered to be a fairly concentrated portfolio, and it was mostly the European financials and the European automakers, with Daimler being the biggest detractor to performance in the first quarter. Their strategy was not in vogue in the first quarter, with people looking at growth and not caring about intrinsic value. The fund has increased by 22.3 percent in the last three months, so is showing some improvement because valuations are now being recognized.

Mr. Hardin said dips in performance or volatility in performance are normal for this fund. Cammack did bring replacement options for the committee to consider, so the decision is whether to continue Oakmark on watch and wait for performance to come back up, or to replace it with one of the investment options offered by Cammack.

Responding to Mr. Goff, Mr. Hardin said Oakmark was first put on watch in Q1 2020. Ms. Burns added that the fund was doing especially well prior to Q1. She said Cammack normally keeps a fund on watch for four quarters, and makes a decision on whether to remove it from watch in the fifth quarter.

Mr. Goff said he would recommend continuing on watch.

Mr. Goff moved to continue Oakmark International Institutional on Watch. Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

In reviewing TIAA-CREF Lifecycle and CREF Stock R2, Ms. Burns reviewed underlying fund changes to the Target Date series. In September 2020, TIAA-CREF Lifecycle funds began implementing changes to enhance the composition of the underlying equity funds. TIAA-CREF Quant Large-Cap Growth, TIAA-CREF Quant Large-Cap Value, and TIAA-CREF Quant International Equity were fully divested and the following funds were added as new underlying equity strategies: Nuveen Santa Barbara Dividend Growth Fund, TIAA-CREF Large-Cap Growth Index Fund (temporary), and Nuveen International Growth Fund. In addition, several key investment personnel would be leaving the firm as part of a voluntary separation package, including Tom Franks and Susan Hirsch. Because there were a lot of changes, this has been put on watch, although performance has been quite good.

Mr. Goff moved that the committee adopt the recommendation to place TIAA-CREF Lifecycle TDF Series on watch. Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

Dr. Duszynski moved to adopt Cammack's recommendation to place CREF Stock R2 on watch. Mr. Goff seconded the motion, which passed unanimously by roll call vote.

Ms. Burns reviewed the Fidelity investment analysis.

9. OTHER BUSINESS

None.

10. ADJOURNMENT: 4:00 p.m.

Mr. Goff moved for adjournment. Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

Accepted by:

Larry Magid, Chair

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