



State of New Mexico
Educational Retirement Board

701 Camino de los Marquez Santa Fe, New Mexico 87505
Toll Free 1(866) 691-2345 Main Office (505) 827-8030



MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ARP COMMITTEE
TELEPHONIC/VIRTUAL MEETING

May 14, 2021

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:

Mr. Lawrence Esquibel, Deputy Director
Mr. Rick Scroggins, Interim Executive Director
Ms. Susanne Roubidoux, General Counsel
Ms. Monica Lujan, Member Services Director
Ms. Elena Cardona, Deputy General Counsel

Others Present:

Mr. Jared Hardin, Financial Advisor, CAPTRUST
Mr. Michael Sanders, Principal, CAPTRUST
Mr. Ray McGrath, Investment Strategist, CAPTRUST
Ms. Judith Beatty, Recorder

b. APPROVAL OF AGENDA

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

2. REVIEW AND APPROVAL OF MINUTES: December 8, 2020



Dr. Duszynski moved approval of the December 8, 2020, minutes, as submitted. Mr. Goff seconded the motion, which passed unanimously.

3. CAMMACK RETIREMENT GROUP MERGER WITH CAP FINANCIAL PARTNERS (“CAPTRUST”)

Mr. Hardin referred to the CAPTRUST executive summary, noting that the joining of forces between Cammack Retirement Group and CAPTRUST will better position them to serve their clients through a variety of enhanced services. There will be no disruption or change in the services provided to the NMERB, no changes to their fees, and no changes to the investments used by the NMERB’s plan(s). Benefits from the merger include enhanced fee benchmarking data to assess recordkeeping services; increased scale of clients on recordkeeping platforms to optimize plan fees and services; and an expanded investment team.

Dr. Duszynski noted a brief discussion at the December meeting about the Department of Labor (DOL) position on ESG funds. He recently attended a seminar on pension bridges, where three-quarters of the program touched on ESG investments, climate change, sustainability, and the risks and opportunities thereof. Mr. Sanders had commented in December that the DOL took all mention of ESG out in the final rule but the rule could change under the incoming Biden administration that would allow ESG funds to be used for ESG reasons.

Dr. Duszynski noted that Texas recently passed a measure to divest from anything that threatens oil and gas industries. Chairman Magid agreed that a lot of pushback could be expected from the rule change.

Mr. Sanders said this happened following a school shooting years ago, where many school systems wanted to make sure there were no weapons manufacturers in their funds, while other school systems were considering arming their teachers. CAPTRUST doesn’t want to create a situation for clients where they will have to deal with two sides of an issue; and with a DC plan, it’s important that people have the ability to choose. CAPTRUST’s approach is to educate their committees on which funds have exposure to weapons manufacturers, for instance, so they can direct interested participants to lineups that do not have any exposure to those areas.

4. INTERIM UPDATE: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST

Mr. Hardin presented this interim report.

- **ARP account configuration at TIAA**

-- TIAA’s system reconfiguration project for the ARP accounts, approved by the committee during the last meeting, was completed in April 2021. The process went very



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smoothly. This project consolidated the ARP accounts in TIAA's system into one account that encompasses all participating institutions and participants. This change will lead to administrative improvements and efficiencies for both the NMERB and TIAA.

- **Templeton Global Bond R6 (FBNRX) fund replacement**

- The fund change approved by the committee to remove this fund from the investment menu and map all existing balances and future contributions to the Default Option, the age-appropriate target date fund, was completed by both Fidelity (on April 15, 2021) and TIAA (on April 27, 2021).

- **CREF Money Market fee waiver extension**

- In late December 2020, TIAA received approval from the insurance regulators to continue to waive fees for CREF Money Market through June 30, 2021. TIAA provided communication to participants in early 2021 regarding the extension. The continuance of any additional fee waiver after June 30, 2021, if allowed, will be confirmed and communicated separately.

- **TIAA Forced Required Minimum Distribution (RMD)**

- In March 2021, TIAA notified impacted plan sponsors that some qualified retirement plans were not included in their forced RMD service. This service automatically distributes RMD amounts to those RMD-eligible participants who do not elect to take distribution on their own. To help plan sponsors with participants where this applies, in May 2021, TIAA filed an Employee Plans Compliance Resolution System group Voluntary Correction Program (VCP) application to ensure these participants and plans(s) are brought into compliance.

- TIAA identified 5 ARP plans and approximately 34 participants impacted by this issue.
- The NMERB affirmatively consented to the use of TIAA's forced RMD service to ensure future RMDs are distributed.
- CAPTRUST and NMERB will continue to follow up with TIAA to ensure previously missed RMDs are corrected once the results of TIAA's VCP are provided.

- **TIAA required revenue negotiations**

- The required revenue (record keeping fee) portion of NMERB's contract with TIAA will expire December 31, 2021. This provides NMERB the opportunity to negotiate a possible decrease in fees given the increase in plan assets and improvements in administration.



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CAPTRUST, along with NMERB personnel, will lead negotiations with TIAA over the coming months. The negotiated required revenue amount will be presented to the committee for approval during the next meeting.

5. CAPTRUST DUE DILIGENCE REVIEW – MARCH 31, 2021
-- JARED HARDIN, FINANCIAL ADVISOR; MICHAEL SANDERS, PRINCIPAL

• **Program Overview**

Mr. Hardin presented a streamlined program overview:

- Total Program Assets of \$880 million: \$713 million in TIAA program (+3%) and \$168 million (+6%) in Fidelity program.
- Restricted Assets/Mappable Assets: \$434.5 million/\$279 million in TIAA; \$567,000/\$167.5 million in Fidelity. The Restricted Assets bodes well when negotiating for lower fees with TIAA because they are retaining most of the assets. However, if the ARP Committee wanted to move away from TIAA, those assets could not be moved automatically, so the new provider would be bidding on the \$279 million.
- Revenue Credit Account Balances, used to pay for plan administrative fees, or are returned to participants on an annual basis: TIAA, \$324,071; Fidelity, \$150,510.

Chairman Magid asked if anything could be done to begin the process of moving the assets out of VALIC. Mr. Hardin responded that the committee can't act to move the assets out, because the participants control them, but CAPTRUST has worked with other clients on outreach campaigns to educate participants about their VALIC accounts. Most of them are paying higher fees on their balances at Valic than they would be at Fidelity or TIAA.

Chairman Magid recommended to Mr. Hardin that an educational campaign be made a priority this year.

Mr. Sanders cautioned that the educational campaign can't include giving advice. He added that many participants are very complacent and resistant to change, so it can be very frustrating.

Chairman Magid said an overview of total program assets, with an increase of 3% and 6% in TIAA and Fidelity respectively in the first quarter, pales in comparison to what the market did. In light of those numbers, he said it should be obvious to VALIC participants that their assets are misallocated.



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Mr. Sanders said it is important to keep in mind that the percent increase or decrease of total plan assets includes contributions, distributions and market returns. It is not simply representative of just market returns. Distributions from the plan, which occur each quarter, will always lessen the total growth of plan assets.

Chairman Magid asked if those numbers could be broken down between withdrawals and market return. Mr. Sanders responded that they would ask TIAA to run that report, which would be more accurate than what CAPTRUST could provide.

- **Industry Updates**

Mr. Hardin said the DOL has been focusing most recently on missing participants. DOL provided additional guidance earlier this year, including information it will request when conducting investigations of plans and their terminated vested participants. Investigators want to determine if there are systematic errors in data and procedures for missing participants and uncashed checks.

Mr. Hardin said the DOL recently released notice that it will not enforce two current rules impacting ESG investments. The rules required that only pecuniary (financial) factors be used for the selection of investment options within ERISA-covered plans. Additional guidance is expected later this year.

Mr. Hardin said cybersecurity has been a hot topic for record keepers for a long time. In April, the DOL released guidance for plan sponsors, plan fiduciaries, record keepers and plan participants on best practices. Plan sponsors and participants can take a few simple steps to reduce their risk. On data plan sharing, some service providers need access to little, if any, participant data. Even record-keepers and third-party administrators may be obtaining more data than they need, so data sharing should be reviewed accordingly. With respect to cybersecurity insurance, retirement plan sponsors should confirm that coverage extends to plan assets, and the plan's fiduciary liability insurance policy should be reviewed to determine whether it provides cyber-liability coverage.

Mr. Hardin said the DOL released tips in April to assist plan sponsors in reviewing the cyber security efforts of their service providers. He commented that some participants in plans never register for their online account, so they would not know if their account was breached or hacked on the recordkeeper's side. CAPTRUST can get reporting from TIAA on how many participants are registered for online access. Once registered, participants should be encouraged to monitor their account regularly and keep their contact information updated regularly.



Mr. Sanders added that some people believe that, by not having an online account and just getting paper statements, they have protected themselves from breaches. What they don't realize is that the opposite is true.

- **Economic Review**

Mr. McGrath presented the economic review. He noted that most asset classes have posted solid returns so far in 2021.

- **Investment Analysis**

Mr. McGrath presented the investment analysis and scorecard.

- **Fund Lineup Recommendations**

Mr. McGrath reviewed CAPTRUST'S investment recommendations:

- PIMCO Total Return Instl: Remove from watch. Leadership changes have not caused any disruptions to the fund's performance.
- Fidelity Small Cap Discovery: Place on watch due to the fund's underperformance versus peers and its benchmark during 2020. Stock selection has struggled amidst rising market volatility.
- Oakmark International Institutional: Remove from watch. The watch recommendation was due to the fund's underperformance in 2018. Performance improved throughout the remainder of 2020, primarily due to the outperformance of the cyclical and value sectors, and they are up 85% in 2021.
- DFA Emerging Markets I: Place on watch due to the fund's underperformance versus peers and its benchmark since 2017.
- CREF Stock R2: Remove from watch. The fund was on watch due to VSP-related management changes. This is a team-managed approach, and CAPTRUST feels confident that their process remains intact.
- TIAA-CREF Lifecycle TDF Series: Remove from watch. The fund was on watch due to VSP-related management changes. This is a team-managed approach, and CAPTRUST feels confident that their process remains intact.

Dr. Duszynski moved that the committee adopt CAPTRUST's recommendations for the investment watch list, as follows:

- **PIMCO Total Return Instl – Remove from watch**
- **Fidelity Small Cap Discovery – Place on watch**



- **Oakmark International Institutional – Remove from watch**
- **DFA Emerging Markets I – Place on watch**
- **CREF Stock R2 – Remove from watch**
- **TIAA-CREF Lifecycle TDF Series – Remove from watch.**

Mr. Goff seconded the motion, which passed unanimously.

[CAPTRUST representatives signed off from the meeting.]

**6. PROFESSIONAL SERVICES CONTRACT FY22 – CAPTRUST:
SUSANNE ROUBIDOUX, GENERAL COUNSEL**

Ms. Roubidoux said NMERB has had a one-year contract with Cammack since approximately 2012, and they have always done a great job with their services. They merged into CAPTRUST earlier this year, and the transition has been seamless. She added that the NMERB is very fortunate that Jared Hardin and Mike Sanders continue to be part of the team assigned to the ARP, as they are extremely responsive and very easy to work with. She said Mr. Hardin in particular works very well with the people at TIAA and Fidelity.

Ms. Roubidoux said their contract expires June 30, and the committee’s practice has been to approve a one-year contract for the next fiscal year, which would be from July 1, 2021, to June 30, 2022. Compensation remains the same at \$58,000 per year. The scope of work remains the same as in the current contract.

Responding to Mr. Goff about why this contract didn’t have a longer term, Ms. Roubidoux said the committee traditionally approves this consulting contract for a one-year term only, although she was not entirely sure why. Chairman Magid commented that he felt a shorter term kept people on their toes.

Mr. Goff moved that the ARP Committee approve a professional services consultant contract with CapFinancial Partners, LLC in the amount of \$58,000 for a one-year term for FY22, subject to and contingent upon New Mexico State Law, Educational Retirement Board policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Dr. Duszynski seconded the motion, which passed unanimously.

**7. PROPOSED AMENDMENT TO ARP OPERATIONS MANUAL:
SUSANNE ROUBIDOUX, GENERAL COUNSEL**

- **ARP employer remittance to the NMERB fund increases to 4.25% beginning July 1, 2021 and 5.25% beginning July 1, 2022 (Senate Bill 42, signed April 5, 2021)**



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Ms. Roubidoux said this amendment to the ARP Operations Manual is required because of changes made by the 2021 legislature. For the past several years and currently, the employer contribution rate is 14.15%. Of that amount, an ARP employer contributes 10.9% to the ARP participant's account and 3.25% to the NMERB fund. Senate Bill 42 (SB 42), signed in April 2021, increased the employer contribution by 1% beginning July 1, 2021, and another 1% beginning July 1, 2022. Thus, the employer contribution will be 15.15% beginning July 1, 2021 and 16.15% beginning July 1, 2022 and thereafter.

Ms. Roubidoux said that for ARP employers, the 1% increase is paid to the NMERB fund, not the participant's account. The employer's contribution to the participant's account remains unchanged at 10.9%. Per SB 42, beginning July 1, 2021 an ARP employer will contribute 4.25% to the NMERB fund (5.25% beginning July 1, 2022) and 10.9% to the participant's account (no change).

Ms. Roubidoux said the ARP Operations Manual cites the 3.25% rate in three places. To make it more elegant from a drafting perspective, references to the percentage are being omitted, and the new rate schedule is cited in Article II.A (ERB Fund Administration) and the percentage is omitted altogether in Article III (Contributions) and Article VI (Reporting).

Dr. Duszynski moved that the ARP Committee recommend that the board approve the proposed changes to the ARP Operations Manual, as presented. Mr. Goff seconded the motion, which passed unanimously.

8. OTHER BUSINESS – SCHEDULING THE NEXT MEETING (FALL 2021)

The committee agreed to meet on December 3.

9. ADJOURNMENT: 3:15 p.m.

Mr. Goff moved for adjournment. Dr. Duszynski seconded the motion, which passed unanimously.

Accepted by:



Larry Magid, Chair