

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD OF TRUSTEES

REGULAR MEETING

April 21, 2023

1. a. ROLL CALL: QUORUM PRESENT

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. at the Albuquerque Public Schools Headquarters, 6400 Uptown Boulevard, N.E., Albuquerque, New Mexico. A quorum was established following roll call.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron, Vice Chair
Mr. Larry Magid, Secretary [telephonically]
Mr. John Kreienkamp, designee for Hon. Laura Montoya, NM State Treasurer
[sworn in during meeting]
Mr. Max Baca
Dr. Donald W. Duszynski
Dr. Matías Fontenla
Mr. Antonio Ortiz
Mr. Mario Suazo

Members Excused:

None.

Staff Present:

Mr. David Archuleta, Executive Director
Ms. Sandra Alva, General Ledger Manager
Mr. Ben Chang, Jr., Portfolio Manager
Mr. Randall Cherry, Deputy General Counsel
Mr. Lawrence Esquibel, Deputy Director
Ms. Renee Garcia, Communications Director
Mr. Bob Jacksha, Chief Investment Officer
Mr. Charles Kassiech, Jr. Portfolio Manager
Ms. Destiny Martinez, Executive Assistant
Ms. Renada Peery-Galon, ASD Director/Chief Financial Officer
Mr. Steve Neel, Deputy Chief Investment Officer
Ms. Susanne Roubidoux, General Counsel
Mr. Adam Squire, Compliance Officer/Jr. Portfolio Manager

Ms. Monica Lujan, Member Services Director
Ms. Jenna Vigil, Benefit Services Bureau Chief

Others Present:

Mr. Allan Martin, Investment Advisor, NEPC
Mr. Kory Hoggan, Moss Adams
Ms. Judith Beatty, Board Recorder

b. Approval of Agenda

Mr. Baca moved approval of the agenda, as published. Ms. Cameron seconded the motion, which passed unanimously.

c. Approval of Minutes: December 9, 2022

Ms. Cameron moved approval of the minutes of the December 9, 2022, meeting. Dr. Fontenla seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed guests and staff.

2. SWEARING IN OF NEW BOARD MEMBERS

John Kreienkamp was sworn in as designee of New Mexico State Treasurer Laura Montoya.

3. STAFF INTRODUCTION

a. Renada Peery-Galon, Administrative Services Director/Chief Financial Officer

Mr. Archuleta stated that Ms. Peery-Galon joins the NMERB from the Public Regulation Commission, where she served in a similar capacity.

b. Randall Cherry, Deputy General Counsel

Mr. Archuleta stated that Mr. Cherry joins the NMERB from the General Services Department, where he served as General Counsel, and previously was Director of the Risk Management Division.

c. Renee Garcia, Communications Director

Mr. Archuleta said Ms. Garcia joins the NMERB from Abrazo Homes.

d. Ben Chang, Jr., Portfolio Manager

Mr. Archuleta stated that Mr. Chang joins the NMERB from the Alaska Permanent Fund Corporation, where he was senior associate for private markets and alternatives. He has his bachelor's degree in quantitative economics from Tufts University, where he graduated magna cum laude.

e. Charles Kasscieh, Jr. Portfolio Manager

Mr. Archuleta said Mr. Kasscieh joins the NMERB from First American Bank, where he was senior portfolio manager. He received his MBA from Anderson School of Management.

f. Adam Squire, Compliance Officer/Jr. Portfolio Manager

Mr. Archuleta stated that Mr. Squire previously served as senior tax accountant for Moss Adams and was at REDW before that. He is a licensed CPA and received his BBA from Anderson School of Management.

4. CONSENT AGENDA: BOARD TRAVEL

No requests.

5. BOARD MEMBER TRAVEL PROCESS TUTORIAL: RENADA PEERY-GALON, ASD DIRECTOR/CFO; SANDRA ALVA, GENERAL LEDGER MANAGER

Mr. Archuleta stated that NMERB has instituted some new travel practices and guidelines.

Ms. Peery-Galon and Ms. Alva made a slide presentation. [Presentation is in board book.]

6. PRESENTATION OF JUNE 30, 2022, AUDIT REPORT: MOSS ADAMS, LLP

Kory Hoggan, partner with Moss Adams, presented a report on the Financial Statement Audit dated June 30, 2022.

Mr. Hoggan said no material weaknesses or significant deficiencies were identified, and NMERB management and staff were open, helpful, and responsive to audit requests and discussion points. He commented that this was impressive because of the number of vacancies and turnover the NMERB was experiencing.

Mr. Kreienkamp moved to accept the report. Dr. Duszynski seconded the motion, which passed unanimously.

7. RETIREMENTS: MONICA LUJAN, MEMBER SERVICES DIRECTOR; JENNA VIGIL, MEMBER SERVICES BUREAU CHIEF

a. Disability Retirements

Ms. Vigil reported that a total of 50 disability retirements were reviewed in CY 2022. A total of 4 cases have been reviewed during CY 2023, with 2 cases closed during the February-March period.

b. Age & Service

Ms. Lujan reported Age & Services retirements for the December-January and February-March periods:

- For the December-January period, there were 5 disability applications processed for members under 60, 27 reciprocity applications and 265 normal retirement applications, for a total of 297 applications processed during the bimonthly period.
- For the February-March period, there was 1 disability application processed for a member over 60, 22 reciprocity applications and 377 normal retirement applications, for a total of 400 applications processed during the bimonthly period.
- For both reports, there were 50 members with over 30 years of service and two members with over 40 years of service, one of whom was ENMU's Chancellor Dr. Patrice Caldwell, who retired with 42 years of service. Communications Director Renee Garcia organized a heartfelt celebratory presentation recognizing Dr. Caldwell at ENMU in March.

Ms. Cameron moved approval of Item a (Disability Retirements) and Item b (Age & Service). Dr. Duszynski seconded the motion, which passed unanimously.

9. DIRECTOR'S REPORTS: DAVID ARCHULETA, EXECUTIVE DIRECTOR

a. Retiree Healthcare Update

Mr. Archuleta said the NMRHCA has reported that their funded status sits at 33.33 percent as of June 30, 2022, with \$1.1 billion in assets, representing a significant improvement from where they were just 10 years ago. He said proposed legislation in this session that would have increased the contribution rate failed, as it has in previous years.

b. Agency Activities

Mr. Archuleta presented highlights from his report:

- NMERB signed a temporary lease agreement with GSD's Facilities Management Division for space behind the Camino de Los Marquez main office location to

accommodate the need for ten office spaces, at a cost of \$1,800.00 per month. This was in order to comply with the return-to-work requirements issued by SPO on February 2. Ten of twelve FTE employees in the NMERB's IT Division are now located there.

- Mr. Archuleta thanked Deputy Director Lawrence Esquibel for teaching a course on pensions and other post-employment benefits, sponsored by NMSU's Cooperative Extension Service.
- NMERB experienced a spike in the number of calls to the Member Services Call Center from January through March, partly as a result of some tax deduction information sent out in January. The NMERB continues to struggle filling some of the critical roles in the Customer Service positions it has in the Call Centers. There has been turnover, and some employees have been let go, putting a strain on the people who are left. He said there was an issue with the tax deductions in the tables that were uploaded in January not being correct, and in February there was a slight increase in the deductions that people saw in their checks, which generated more calls. The issue has since been resolved.
- Effective April 3, NMERB implemented an alternative work schedule (AWS) for certain positions that allows staff to work eight 10-hour days, eight 9-hour days, and one 8-hour day in a pay period. Twenty-nine employees (36 percent of staff) have opted to participate in AWS.
- NMERB staff will be holding a rapid hire event on April 25-26 to fill 11 of the vacant positions in IT, Member Services, and investment groups.
- About 5,000 retirees have been approved for Return to Work under one of the four different options the NMERB has available, 1,500 of which fell under the one-year layout that was reported to the NMERB last year as having worked. The NMERB is notifying them that they are grandfathered under the current plan and allowed to remain participating in the plan following the sunset of this program later this year, absent a withdrawal from the program.

c. **FY24 Refund Rate**

Mr. Archuleta stated that the FY24 Refund Rate will be 2.24 percent.

d. **July 1, 2023 COLA Adjustment & Anti-Spiking Threshold**

Mr. Archuleta stated that the COLA adjustment as of July 1, 2023, will be 3.6 percent for retirees with 25 or more years of service credit and whose monthly annuity is less than or equal to the median benefit amount (as of June 30, 2022) of \$1,720.56. All other eligible retirees will receive an annual adjustment of 3.2 percent and all disability retirees who have been retired for

at least three years will receive 4 percent. He noted that PERA's anticipated COLA for FY24 is .5 percent, but that also bumps up the NMERB's future obligations.

e. Legislative Update

Mr. Archuleta reviewed a list of bills that passed in the 2023 legislature that would affect the NMERB. Highlights:

- SB 20: Educational Retirement Board Changes. Allowed eligible employees of Southeast NM College to participate in the Alternative Retirement Plan. Also aligned the required minimum distribution age to the IRS code of 1986.
- HB 304: Allows a supplemental needs trust to be named as a survivor or beneficiary by a retiree. This allows retiree's disabled dependents to be able to continue to receive money from the trust without affecting their ability to qualify for social security disability benefits.
- SB 144: Gives the authority for the NMERB to sell its office complex on Camino de Los Marquez to GSD for the Public Regulation Commission for \$2.5 million. Last year's appraisal came in at \$2.2 million, but the tax rolls show that the building is worth just under \$1.9 million. The NMERB will be negotiating the sale of the building over the course of next year with plans to move into the new facility in the middle of FY25. The NMERB received an additional \$4.5 million, which brings the total up to \$15 million approved for construction of the new office facility.

f. Other

Mr. Archuleta stated that SB492, introduced by Sen. George Muñoz, would have extended the current 36-month Return to Work (RTW) allowance from 36 consecutive or non-consecutive months to 60. Although it passed the House Education Committee, it was never scheduled before its second House committee, although there was a fair amount of support for it. He anticipates there will be another attempt to extend the 36 months to 60 or to remove the cap altogether. The NMERB has consulted with the actuaries to discuss what impact this could have on the trust fund. There is anecdotal evidence that the extended payout over a long period of time to employees leaving as soon as possible would be offset by the non-refundable contributions, but there isn't any real way to determine at what point this would become detrimental to the fund. The NMERB will continue examining this between now and the next meeting.

Mr. Archuleta said Mr. Baca has stated that he wishes to discuss some issues with the board about the NMERB's Return to Work laws, rules, and process. Mr. Archuleta said he has spoken with Stan Rounds at the Superintendents Association and Matt Pahl at Public Charter Schools of New Mexico about how RTW can be improved. There have been a number of violations this year, and NMERB has gone through reports about exactly how many violations

have occurred in any given fiscal year, but it has been a challenge tracking that. There are suspensions of pensions going out, but not all are related to RTW.

Mr. Baca commented that, in reviewing the list of 370, he counted 77 employees who were below 50, and half of those were below 40. The chance that these employees will go back to work is much higher. An employee processing retirement paperwork also has to fill out a form about RTW, and they may forget all about it, only to return to work and receive a letter later from the NMERB saying they're in violation and have to pay back the money. He suggested that employees in a certain age group be automatically flagged in the system as a possible RTW candidate to prevent this from happening.

Mr. Archuleta said the NMERB will have an internal discussion about where it sees any opportunities to improve the process and report back to the board at the June meeting.

Ms. Cameron commented that many educators may not realize that if their plan is to return to work after they retire, they would make more money if they were to just keep teaching and delay their retirement. The NMERB really needs to help the employees to understand the advantages on either side.

**9. DISPOSAL OF INFORMATION TECHNOLOGY EQUIPMENT:
LAWRENCE ESQUIBEL, DEPUTY DIRECTOR**

Mr. Esquibel presented a list of IT items for disposal. The list includes a handful of laptops dating back to 2010-2016 and two fireproof safes used to store backup tapes.

Mr. Baca moved for approval. Dr. Fontenla seconded the motion, which passed unanimously.

10. INVESTMENT REPORTS: BOB JACKSHA, CIO

a. December 2022, Quarterly Performance Report

[Presenter: Allan Martin, NEPC]

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

- Over the past 5 years, the fund returned 7.1 percent per annum.
- Over the past 3 years, the fund returned 7.0 percent per annum.
- For the year ending December 31, 2022, the fund experienced a net investment loss of \$893.8 million, which includes a net investment loss of \$480.4 million during the quarter. Assets decreased from \$16.7 billion 12 months ago to \$15.3 billion on December 31, 2022, with \$456.3 million in net distributions during the year. The fund returned -5.5 percent, outperforming the policy index by 115 basis points and ranking in the 5th percentile of its peers.

Mr. Jacksha noted that the changes made in the last asset allocation are not yet reflected in this report. Since this report, the NMERB is at the tail end of eliminating Emerging Market debt as well as equities, and has significantly reduced risk parity.

b. Investment Committee Report

Mr. Jacksha reviewed actions taken at the February 16, 2023, meeting:

- Accepted Q4 Proxy Voting Report.
- Reviewed the Q2 Private Equity report and Q2 Real Estate and Natural Resources Report.
- Reviewed Q4 Commission Report.
- Reviewed the Q4 Derivatives Report. Maximum for the quarter was 2 percent, well under the policy limit of 20 percent.

c. Staff Selection Committee Report

Mr. Jacksha reviewed actions taken at the SSC since December 2022 board meeting:

December:

- Approved a \$25 million commitment to EIG Breakwater for the Real Assets portfolio. This is a single asset fund to acquire an interest in an oil and gas exploration and production business.
- Approved a \$50 million for EQT Infrastructure Fund VI for Real Assets. This is a global infrastructure fund the NMERB has invested in previously. It has returned about 24 percent to date.
- Approved Stonepeak Real Estate for \$75 million for the Real Estate portfolio. NMERB has invested in Stonepeak's infrastructure funds in the past. They have done well. This is their move into real estate.

January

- Approved Lone Star Real Estate Fund VII for \$75 million. This is a global real estate strategy. The NMERB has invested in a number of Lone Star funds since 2008.
- Approved \$100 million for VGO Special Situations Fund III for the Opportunistic Credit portfolio. This is European private credit that invests in distressed and special situations. The NMERB has not invested with this manager before, but the NMERB is putting more emphasis on this type of fund, as there are some issues with banking and lending and credit is getting tighter. When that happens, private credit can often find more opportunities, especially in distressed.

February

- Approved a four-year investment services contract extension for the Blackrock Aladdin system used internally for fixed Income portfolio management. The NMERB has used this since it brought it in house.
- Approved \$25 million for Stonepeak Infrastructure Credit for the Real Assets portfolio. This is an add-on for a Separately Managed Account. The NMERB approved \$25 million in April 2017 and another \$25 million in July 2019.
- Approved \$50 million in Tiverton AgriFinance III for the Real Assets portfolio. They do equity and debt investments in the agriculture sector. The NMERB is in one of their previous funds. The NMERB invests in agriculture as an inflation hedge.
- Approved \$50 million to the Water Asset Management Emporia Fund for the Real Assets portfolio. NMERB has invested in two previous funds.

March

- Approved \$150 million in the Aero Opportunities Leasing Fund for the Other Diversifying Assets portfolio. This is an aircraft leasing fund. The NMERB is in the first fund.
- Approved \$150 million in EIG Separately Managed Account in Diversifying Assets. They will invest in energy and energy transition infrastructure and traditional energy products (oil and gas). The NMERB has invested in several of their funds before.
- Approved \$50 million in Enhanced Timber Opportunities for the Real Assets portfolio. They invest in timber and timberland primarily in the Southeast, Mideast and Southwest U.S. The NMERB has been in previous funds.
- Approved \$50 million in U.S. Agriculture. This is a Separately Managed Account. They acquire and operate US farmland properties.
- Approved an extension of the PitchBook investment services contract. This provides information on private market investments that the NMERB uses on a regular basis.

April

- Approved \$40 million for the Blackrock Sierra Blanca Fund. This is the NMERB's private equity co-investment fund. This is an add-on. The NMERB has previously invested \$100 million in this fund, and has done several other Blackrock private equity co-investment funds, which has worked out very well for the NMERB.
- The NMERB had three managers in Emerging Markets, and the contracts came up for approval for renewal with the committee, which renewed two and canceled one. This will put the NMERB in line with its target. It extended RBC Global and UBS and discontinued Neuberger Berman.
- Approved \$75 for Realterm European Logistics Fund II for the Real Estate portfolio. This invests in European logistics facilities that are warehouse and trans shipping facilities. The NMERB has been in several previous funds with Realterm.

d. Other Investment Reports

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[None.]

11. NEXT MEETING: FRIDAY, JUNE 23, 2023 -- ALBUQUERQUE

12. ADJOURN: 11:10 a.m.



Russell Goff, Chairman

ATTEST:



Larry Magid, Secretary