



**MINUTES OF THE  
NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ARP COMMITTEE MEETING**

**June 15, 2023**

**1. a. ROLL CALL: QUORUM PRESENT**

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order at 9:00 a.m. via teleconference/virtual meeting. A quorum was present.

**Members Present:**

Mr. Larry Magid, Chair  
Dr. Donald Duszynski  
Mr. Mario Suazo

**Members Excused:**

None.

**Staff Present:**

Mr. David Archuleta, Executive Director  
Mr. Lawrence Esquibel, Deputy Director  
Mr. Rick Scroggins, Assistant Director  
Ms. Susanne Roubidoux, General Counsel  
Mr. Randall Cherry, Deputy General Counsel  
Mr. Robert Shulman, Assistant General Counsel  
Ms. Monica Lujan, Director, Member Services

**Others Present:**

Mr. Jared Hardin, Financial Advisor, CAPTRUST  
Mr. James Duffy, Senior Analyst, CAPTRUST  
Ms. Emily Wrightson, Principal, CAPTRUST  
Ms. Judith Beatty, Board Recorder

**b. Approval of Agenda**

**Dr. Duszynski moved approval of the agenda, as published. Chairman Magid seconded the motion, which passed unanimously.**

**2. REVIEW AND APPROVAL OF MINUTES: December 8, 2022**

**Dr. Duszynski moved approval of the December 8, 2022 minutes, as presented. Mr. Suazo seconded the motion, which passed unanimously.**

**3. INTERIM UPDATE: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST**

Mr. Hardin discussed ARP activities since the December meeting.

- **Completion of Revenue Credit Account disbursements**

Revenue credit account disbursements were initiated in December with \$35,000 disbursed to TIAA participants and \$10,000 to Fidelity participants.

- **Completion of Fidelity High Income replacement**

Replacement of Fidelity High Income fund with the MainStay MacKay High Yield fund. This was completed in May 2023.

- **Initiation of Vanguard Inflation-Protected Securities share class change**

Closing Vanguard Inflation-Protected Securities Fund admiral shares and mapping 100% of assets and allocations to Vanguard Inflation-Protected Securities Fund institutional shares. This was initiated in March-April 2023 for completion in June.

- **Addition of Luna Community College to TIAA platform**

Luna Community College (LCC) has been an ARP Institution for many years but wasn't set up on TIAA's platform until approximately March 2023. TIAA has conducted outreach and training with LCC representatives on using the TIAA platform for ARP.

- **Addition of Southeast New Mexico College to TIAA and Fidelity platforms**

The 2023 Legislature added Southeast New Mexico College as an ARP Institution effective 7/1/23. TIAA and Fidelity are working on setting up SENMC on their platforms.

#### **4. SECURE ACT 2.0: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST**

- **Review of mandatory and optional provisions and how they may impact the ARP.**

Mr. Hardin stated that the impact of Secure Act 2.0 on the ARP is minimal as the ARP is a mandatory, pre-tax only 401(a) plan with no catch-up or Roth contribution component and other plan requirements are set by the Educational Retirement Act and IRS Code. He stated there are two provisions in SECURE 2.0 that apply to ARP participants: the increase in the required minimum distribution (RMD) age to 73 for participants who turn 72 between 1/1/23 and 12/31/32, and to age 75 for those who attain age 74 after 12/31/32; and the reduction in excise tax for missed RMDs from 50% to 25%.

#### **5. DEFINED CONTRIBUTION QUARTERLY REVIEW: March 31, 2023, JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST; JAMES DUFFY, SENIOR ANALYST, CAPTRUST**

- **Industry Updates**
- **Economic Review**
- **Program Overview**
- **Service Provider Plan Review**
- **Investment Analysis and Expense Review**
- **Target Date Fund Evaluation**
- **Fund Lineup Recommendations**

Mr. Hardin and Mr. Duffy presented the program overview and industry updates.

##### **Investment Analysis and Expense Review**

Mr. Hardin reviewed an analysis of the share classes currently utilized within the ARP's investment menu with the goal of confirming the most appropriate share class given the alternative strategies available. He stated various share classes of the same investment option may exist due in part to the investment manager's processes to manage inflows, revenue sharing, or investor types.

CAPTRUST's analysis identified both the gross expense ratio of each fund, which is what participants see and what is used when the expense ratio is displayed, and the net investment fee (i.e., net expense ratio), which is the gross expense ratio minus any revenue sharing paid to the recordkeeper for administrative services that is included in the quarterly fee reconciliation.

Mr. Hardin stated, in some cases, the share classes providing the lowest net expense include a significant amount of revenue sharing thus making its gross expense ratio much higher. Based on industry best practice in terms of fee equality, transparency, and plan administration, Mr. Hardin stated CAPTRUST has generally recommended the elimination of revenue sharing, where possible, and utilization of the lowest net cost share class available without use of revenue sharing.

The analysis included three categories:

(1) Investments utilizing the lowest net expense share class. Most investments fall into this category. These investments are utilizing the lowest net expense share class without the use of revenue sharing. Mr. Hardin stated that Oakmark International R6 fund is available at 75 basis points, 4 basis points less than Oakmark International Institutional fund, without the use of revenue sharing. No change is recommended because Oakmark International is currently on the watchlist and has been on and off the watchlist from time to time.

(2) Investments that do not meet the requirements to utilize a lower net expense share class. This category includes the Vanguard index funds, which require assets exceeding \$100M per fund to qualify for a lower cost share class.

(3) Investments that do not utilize the lowest net expense share class. Mutual funds in this category have share classes available with a lower net expense ratio but require utilization of revenue sharing. In many cases, the gross expense ratio for the share class exceeds 100 basis points due to the significant amount of revenue sharing included (e.g., Columbia Select Mid Cap Growth). If these share classes were utilized, the Committee would be trading mostly minor reductions in net expense for drastically increased grossed expense ratios and additional administrative processes for the recordkeeper. Additionally, due to the timing for reconciliation of the revenue share amounts, participants distributing their balances prior to the recordkeeper's quarterly reconciliation process would not be credited with the excess revenue from these investments. In other cases, the difference in net expense is only a few basis points (e.g., T. Rowe Price Blue Chip Growth). Utilization of these share classes would trade fee transparency for a minor reduction in net expense.

Mr. Hardin also noted the reduction in expense ratio across all the Fidelity Freedom K6 target date fund vintages effective April 1, 2023. This reduction has helped to decrease the gap in net expense in comparison to the revenue-sharing share classes. Currently, the fixed and variable annuities include revenue sharing, which cannot be changed or altered. Mutual fund share classes utilizing revenue sharing were previously removed from the investment menu except for Cohen & Steers Instl Realty Shares and Fidelity Small Cap Discovery in the Fidelity program.

Mr. Hardin said each ARP investment is utilizing the most appropriate share class for it at this time and no changes are recommended.

**Fund Lineup recommendations / Watchlist:**

- **DFA Emerging Markets I: Remove from Watch**
- **Oakmark International Institutional: Remain on Watch**
- **PIMCO Total Return Instl: Remain on Watch**
- **T Rowe Price Blue Chip Growth I: Remain on Watch**

**Dr. Duszynski moved for approval of CAPTRUST's investment watchlist recommendations. Mr. Suazo seconded the motion, which passed unanimously.**

- **Target Date Fund Evaluation**

Mr. Hardin stated that CAPTRUST expressed its concerns a year ago regarding the TIAA CREF lifecycle actively managed target date funds that the ARP TIAA program is currently utilizing. The same concerns have emerged this year. CAPTRUST didn't recommend replacing the funds last year because of the significant impact it would create on plan participants and suggested reevaluating the funds in June 2023.

Mr. Hardin said there has been a lot of legal scrutiny on target date funds regarding their proprietary nature as well as fees and performance when compared to alternatives.

Mr. Hardin referred to a list of 31 active, hybrid and passive mutual fund target date series that CAPTRUST views as appropriate for its clients.

Mr. Hardin reviewed TIAA-CREF manager performance. For the 5- and 10-year periods, the current TIAA target date funds are underperforming, with mixed performance for the 3-year period and minimal top decile performance YTD. Because this is the default investment option for the ARP plans, and because it holds so many assets, CAPTRUST gives the long-term performance higher weight because so many participants choose or are defaulted to this option.

Responding to Chairman Magid, Mr. Hardin said the default was set at least 15 years ago. Because target date funds are utilized as the default investment option for nearly every single plan, this is not a concern. A bigger concern is that the default option is underperforming.

Mr. Hardin said the Fidelity Freedom Income K6 funds are outperforming its passively managed counterparts in other passive strategies and matching or

outperforming its other actively managed peers. This is the case for recent performance as well as for the 5-year and 10-year periods.

Mr. Hardin said CAPTRUST hasn't yet made a replacement recommendation regarding TIAA's underperformance, but because of this analysis and the litigation environment, many of CAPTRUST's clients have taken a more proactive stance about replacing target date funds. The Committee could choose to either continue monitoring the funds with another analysis in December 2023 or replace them.

Chairman Magid asked for a comparison of the 31 mutual fund target date funds on page 112 of the meeting book. Mr. Hardin said that any funds not included on the list wouldn't be recommended because either their total AUM (assets under management) isn't large enough or their performance doesn't warrant it.

**6. RECORDKEEPING SERVICES AGREEMENTS WITH TIAA AND FIDELITY – RECOMMENDATION TO EXTEND TERM: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST; SUSANNE ROUBIDOUX, GENERAL COUNSEL**

Mr. Hardin said the RecordKeeping Services Agreements with TIAA and Fidelity expire on 12/31/23. In 2020-2021, CAPTRUST negotiated a significant reduction in fees for the ARP from TIAA and Fidelity. CAPTRUST recommends extending the term of both contracts by either two or three years. In the interim, CAPTRUST recommends issuing an RFP or RFI, which would allow CAPTRUST to survey the field of record keepers to benchmark the plans' services and fees.

Ms. Roubidoux recommended extending the term of both contracts by four years to allow time for NMERB to draft an RFP. She stated that changing a provider would require input of the ARP institutions which would require additional time to properly complete that process.

**Mr. Suazo moved approval of extending the term of the RecordKeeping Services Agreements with TIAA and Fidelity for an additional four years for each Agreement, 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.**

[CAPTRUST representatives signed off.]

**7. RETIREMENT PLAN ADVISORY SERVICES AGREEMENT FY24 – CAPFINANCIAL PARTNERS, LLC D/B/A CAPTRUST FINANCIAL ADVISORS: SUSANNE ROUBIDOUX, GENERAL COUNSEL**

Ms. Roubidoux stated that the current investment advisory services agreement with CAPTRUST expires on June 30, 2023. The Committee reviewed the proposed agreement for FY24 with a term of one year beginning July 1, 2023. Compensation would increase by about \$5,000 to \$60,000 a year, which is paid from the revenue credit accounts at TIAA and Fidelity through the fees that participants pay.

Chairman Magid stated that paragraph 2.1 of the agreement states that CAPTRUST reduces their fees based on fees they receive from the investment companies. He said anyone in the brokerage business receives compensation from the fund companies, so it is possible CAPTRUST is directly receiving additional fees. If they are receiving fees, there should be an accounting for it. Ms. Roubidoux stated she would ask Mr. Hardin about this provision in the agreement and report back to the Committee.

**Dr. Duszynski moved approval of the Retirement Plan Advisory Services Agreement with CapFinancial Partners LLC, d/b/a CAPTRUST Financial Advisors, with compensation of \$60,000 per year and term of one year beginning July 1, 2023, subject to and contingent upon New Mexico state Law, Educational Retirement Board policies, negotiation of final terms and conditions and completion of appropriate paperwork. Mr. Suazo seconded the motion, which passed unanimously.**

**8. PROPOSED AMENDMENTS TO ARP OPERATIONS MANUAL: SUSANNE ROUBIDOUX, GENERAL COUNSEL**

- **Add Southeast New Mexico College to list of ARP Institutions (2023 N.M. Laws, Ch. 87; Senate Bill 20; signed 4/4/23)**

Ms. Roubidoux said the legislature turned New Mexico State University Carlsbad branch into Southeast New Mexico College (SENMC) effective 7/1/2021. The bill failed to add SENMC to the list of ARP Institutions in the Educational Retirement Act. In 2023, the legislature corrected the omission. The ARP Operations Manual will need to be amended to reflect the changes.

**Mr. Suazo moved approval of the proposed amendments to the ARP Operations Manual as presented and that the amendments be presented to the NMERB Board for their final review and adoption. Dr. Duszynski seconded the motion, which passed unanimously.**

**9. OTHER BUSINESS: SCHEDULE THE FALL 2023 ARP COMMITTEE MEETING**

The Committee reviewed available dates for the fall ARP meeting.

**Mr. Suazo moved scheduling the next meeting for Thursday, December 7, 2023. Dr. Duszynski seconded the motion, which passed unanimously.**

**10. ADJOURN: 11:40 a.m.**

Accepted by:

---

Larry Magid, Chair

DRAFT