

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ARP COMMITTEE

TELEPHONIC/VIRTUAL MEETING

December 7, 2023

I. a CALL TO ORDER/ASCERTAIN QUORUM

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

Members Present:

Mr. Max Baca, Chair
Dr. Donald Duszynski
Mr. Mario Suazo

Members Excused:

None.

Staff Present:

Mr. David Archuleta, Executive Director
Mr. Lawrence Esquibel, Deputy Director
Mr. Bob Jacksha, Chief Investment Officer
Mr. Randall Cherry, General Counsel
Ms. Renada Peery-Galon, ASD Director/Chief Financial Officer
Ms. Ariana Wakefield, Executive Assistant

Others Present:

Mr. Jared Hardin, Financial Advisor, CAPTRUST
Mr. Michael Sanders, Financial Advisor, CAPTRUST
Ms. Judith Beatty, Recorder

b. APPROVAL OF AGENDA

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

2. REVIEW AND APPROVAL OF MINUTES: June 15, 2023

Dr. Duszynski moved for approval of the June 15, 2023, minutes. Mr. Suazo seconded the motion, which passed unanimously. [Abstaining: Mr. Baca.]

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

Mr. Hardin presented highlights of items addressed since the June meeting.

- **Completion of Vanguard Inflation-Protected Securities share class change**
- **Addition of Southeast New Mexico College to TIAA and Fidelity platforms**
- **Fidelity recordkeeping fee reduction**

Mr. Hardin stated that, in June, CAPTRUST moved the Vanguard Inflation-Protected Securities share class from the investor share class to the Admiral share class in the institutional share class. In addition, Luna Community College and Southeast New Mexico College were added to the TIAA and Fidelity platforms respectively. Finally, Fidelity offered a reduction of recordkeeping fees on their side of 1 basis point down to 4 basis points. This would be effective on January 1, 2024.

**4. DEFINED CONTRIBUTION QUARTERLY REVIEW – SEPTEMBER 30, 2023
JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST
MICHAEL SANDERS, FINANCIAL ADVISOR, CAPTRUST**

- **Fiduciary Overview**

Mr. Hardin presented an overview of the ARP Committee's fiduciary duties.

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

Mr. Hardin stated that the 1% fee being charged for plan administration expense is being deposited into the revenue credit accounts. Annually in December, CAPTRUST determines whether there is excess money sitting in those accounts that can be returned to participants. CAPTRUST recommends retaining one year's worth of estimated plan expenses in each of the credit accounts across TIAA and Fidelity. CAPTRUST has determined that it will need about \$65,000 total between the two programs for 2024 administration expenses. The current balance is \$90,750 on the TIAA side and \$37,000 on the Fidelity side, and anticipated 2024 plan administration

expenses are \$52,000 and \$13,000 respectively. The proposed reimbursement amounts are \$38,750 on the TIAA side and \$24,000 on the Fidelity side.

Mr. Hardin recommended that the committee retain funding in the Revenue Credit Account for one year of anticipated plan administration expenses per program (\$65,000 total) and reimburse the participants as follows: \$38,750 on the TIAA side and \$24,000 on the Fidelity side.

Dr. Duszynski so moved. Chairman Baca seconded the motion, which passed unanimously. [Mr. Suazo was not present during the vote.]

Mr. Hardin noted that Luna Community College and Southeast New Mexico College were the two most recent additions to the ARP. TIAA and Fidelity have worked with the participants to prepare them for the program.

Mr. Sanders made a presentation on the Plan Investment Review and Investment Review/Investment Policy Monitor, and reviewed the scorecards for TIAA and Fidelity.

Mr. Suazo moved that the committee approve CAPTRUST's recommendations for the investment watchlist, as follows:

- **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 seconded the motion, which passed unanimously.

Mr. Hardin stated that, although a Target Date Fund (TDF) comparison was addressed last June, CAPTRUST proposes to do a deep dive every one to two years as part of the standard fiduciary due diligence process. Because of the litigious environment that higher educational institutions have been under over the past few years, CAPTRUST has also been reviewing TDFs and evaluating them from a fiduciary risk perspective as well. The litigation has targeted TDFs either because they are proprietary investments to the record keeper if they have any underperformance or if there are higher fees, especially if there are revenue sharing arrangements. Although there has been no litigation against public institutions such as the NMERB because there are higher hurdles involved and litigators are looking for quick hits and settlements, CAPTRUST prefers to offer some education and background for the committee from a risk management perspective and fiduciary perspective.

Mr. Hardin stated that CAPTRUST recently studied the evolution of the TDF industry and examined glidepath data to highlight trends. Key takeaways were that the variation between TDF glidepaths has decreased over the past 10 years, and the average difference in equity exposures is now 30-48% smaller than it was in 2013. They are

looking increasingly similar to each other, and the proportion of distinct glidepaths is also shrinking in relation to the total number of TDF series.

Mr. Hardin stated that CAPTRUST has consequently altered the peer groups used in its TDF monitoring process. As of September 30, 2023, the peer groups used in client reports have been changed from Morningstar risk-based peer groups (categorized as aggressive, moderate, or conservative by vintage year) to broader, year-based peer groups.

Mr. Hardin reviewed TDF select manager glidepaths with Morningstar indexes (TIAA-CREF Lifestyle Series; American Funds Target Date Retirement Series; TIAA-CREF Lifecycle Index Series; T. Rowe Price Retirement Series; and Vanguard Target Retirement Series).

Mr. Hardin noted that American Funds has a very low equity exposure to start participants and this continues all the way through the accumulation phase, then ramps it up after somebody has retired. This is a unique strategy, as most TDF managers recommend exposing participants to the highest levels of equity exposure when they are first starting out.

In looking at the current TDF funds performance against competitors, Mr. Hardin commented that performance is mixed, but there is no drastic underperformance. Some of the performance, coupled with the fiduciary risk of litigation environment, has caused more concern than normal among plan sponsors.

Mr. Sanders noted that many clients have moved towards passive TDFs because they are worried about fees and potential litigation, and passive TDFs have performed in line with or better than their actively managed counterparts. As a result, many people are moving into something lower cost where performance matches the benchmark and is guaranteed rather than moving into something that tries to beat the benchmark and costs more.

Mr. Sanders said he did not know what the ARP Committee's appetite was for changing the default. As Mr. Hardin had indicated, American Funds pairs up well with a defined benefit plan, where there is less risk at the start, while TIAA designed their glidepath with higher education in mind.

Mr. Hardin said CAPTRUST sees no need for a change right now, but wanted to present this information as the baseline for future discussion.

5. OTHER BUSINESS: SCHEDULE THE SPRING 2024 ARP COMMITTEE MEETING

The next meeting was scheduled virtually on Thursday, June 27, 2024, 9:00 a.m.

Chairman Baca asked that the June agenda include an update on cybersecurity and AI.

Dr. Duszynski stated that Lovelace was hacked and held for ransom on Thanksgiving Day, and their cybersecurity system was trashed. He said cybersecurity seems to be in place for the suppliers, but wondered how well protected NMERB is when that data is transmitted to it.

Mr. Archuleta responded that, at any of the conferences and trainings the NMERB staff has attended, they are reminded that eventually there will be a breach. NMERB regularly tests its systems and its safety and regularly receives above average (800+) scores. NMERB also uses the Department of Information Technology and its protocols.

Mr. Esquibel added that cybersecurity and protection of member data is one of the NMERB's top priorities and it never lets its guard down. The NMERB is constantly vigilant and has an excellent IT team in place that works diligently to protect member data.

6. ADJOURNMENT: 11:20 a.m.

Accepted by:



Max Baca, Chair