



NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD OF TRUSTEES

SPECIAL MEETING

January 9, 2025

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

A Special Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:30 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 [virtual]
Hon. Laura M. Montoya, NM State Treasurer [virtual]
Mr. Max Baca
Dr. Matías Fontenla
Ms. Renee Ward [sworn in during meeting]
Dr. Reilly White [virtual]

Members Excused:

Mr. Antonio Ortiz
Secretary Stephanie Rodriguez

Staff Present:

Mr. David Archuleta, Executive Director
Mr. Lawrence Esquibel, Deputy Executive Director
Ms. Renada Peery-Galon, ASD Director/CFO
Mr. Steve Neel, Deputy Chief Investment Officer
Ms. Rita Lopez, Manager, Investment Accounting
Mr. G. Alan Myers, Senior Portfolio Manager (Public Markets & Credit)

b. **Approval of Agenda**

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

2. SWEARING IN OF NEW BOARD MEMBER: RENEE WARD

Ms. Ward, Deputy Secretary of the Department of Finance & Administration, was sworn in as board member, taking the place of Larry Magid.

3. CONSENT AGENDA: BOARD TRAVEL

Mr. Baca requested approval to attend the NEPC conference on February 3-5 in Phoenix.

Chairman Goff moved approval of this request. Dr. Fontenla seconded the motion, which passed unanimously.

4. STAFF PRESENTATION: STEVE NEEL

Mr. Neel distributed a report to board members and presented an overview of the Evaluation Committee recommendation of the RFP for a custodian bank. Members of the Evaluation Committee were himself; Lawrence Esquibel, Deputy Executive Director; Renada Peery-Galo, CFO and ASD Director; Alan Myers, senior portfolio manager (Public Markets & Credit); and Rita Lopez, manager of investment accounting.

Mr. Neel noted that the custodian bank contract is one of the few contracts that go to the Board of Trustees for approval. He also noted that the contract is under the Investment Services Procurement Policy, which provides a little more flexibility by allowing investment staff to make commitments in private equity, etc.

Mr. Neel stated that custodian banks have the characteristics of an oligopoly in that there are only four to five organizations to choose from, all of them bulge bracket banks. Only a select few can conduct this business. Pricing power is suspect, but there are huge barriers to entry because of the structures and technology associated with this.

Mr. Neel said the RFP was issued on September 3, with proposals due at the end of October. There were three respondents, with one stepping out of the process: BNY Mellon, State Street, and Northern Trust. The Evaluation Committee convened in November and conducted formal interviews via Teams. Following the interview, reference calls were conducted. He contacted Northern Trust, Mr. Esquibel contacted BNY Mellon, and Mr. Myers contacted State Street.

Mr. Neel stated that the Evaluation Committee deliberated and individually rank-scored the proposals based on the following criteria: 25% to the organization, staff qualifications and experience; 20% to services provided; 20% to relationships and management; 20% to resources and technology; and 15% to the fee. Following a robust discussion, the committee did not reach consensus. They rank-ordered this from 1 to 3. Three thought Northern Trust was the best and two thought State Street, but of the three that were ranked, State Street was a close second to Northern Trust. As a result, the committee agreed to bring this to the Board of Trustees for a final decision.

Mr. Neel said a complete writeup on the financial proposals will be covered in executive session. It was important to note that State Street has since amended their financial proposal, which may preempt what is memorialized in the document.

Mr. Neel said it is worth noting there are friction costs associated with transition. NMERB has 200-300 separate partnerships where the appropriate wiring instruction must be made at the general partner level. In addition, staff is accustomed to working with a certain system now, so there will be a learning curve associated with new systems.

5. FINALIST PRESENTATION – NORTHERN TRUST

Northern Trust representatives Deidre Frank, Greg Johnson, Julie Gonsch, Melanie Pickett, Kathryn Stevenson, and Bradley Blackwell made a presentation.

6. QUESTIONS

Ms. Pickett noted that their fee proposal called for a flat annual fee for custody plus all the ancillary services such as administration of alternative assets, performance measurement, private market analytics, document management, and compliance. They are proposing today to waive the onboarding fee for the Front Office Solutions product and provide a credit of one year of fees to be spread out across the four-year term.

Treasurer Montoya asked what Northern Trust has done in the past year to minimize risk for some of their clients.

Mr. Johnson responded that they strive for straight-through processing, since anytime any manual data capture is introduced, it opens the door for risk. They identify those points of manual intervention and try to automate the processes as much as possible to eliminate or minimize any potential risk they might have as a custodian for the client user. On the client side, they work to minimize their client's risk when they are compiling reports that potentially could impact their publication of their annual financial statements.

Ms. Pickett added that one difference between Northern Trust and NMERB's current custodian bank is that Northern Trust has one system. Having been a client of both, she understands having to reconcile data between the systems sometimes falls on the client between custody accounting performance compliance. Those are all one dataset at Northern, so a lot of the risk of things not matching or seeding gets eliminated.

Treasurer Montoya said they talked about the recon on June 30 and what would be needed on the accrual. She asked what transition they have done recently and how long did that process take and were there any issues with the recon when they did the transfers.

Ms. Gonsch responded that the \$40 billion state plan (case study) came from State Street. Whenever State Street finalizes the June statement is when they can start the process. She creates a reconciliation calendar, so NMERB knows when to expect the reconciliations to be completed. Of all the transitions she has done from State Street, she has never had an issue reconciling based on the information they have provided.

Treasurer Montoya asked if they customize the documents or the needs of staff and what they are requesting based on their needs and recon.

Mr. Johnson responded that this is when they introduce any specific procedures, customizations and reporting requirements for individual users. Ms. Gonsch added they know all of NMERB's State Street monthly reports, the names of them and what the name is as Northern Trust and would walk NMERB staff through all of it.

In terms of how long the transition would take, Ms. Gonsch said it depends on when State Street would deliver the June statement. If it were a July transition, they would be able to do the reconciliation towards the end of August. The full transition, with State Street cleared out completely, can linger on for a few months after the transition date, depending on the assets. She said NMERB should be receiving statements from State Street with some residual accruals for at least two or three months.

Ms. Pickett stated that NMERB would not be paying Northern until the assets are on record. Ms. Gonsch added that if all assets are delivered on July 1 from State Street, she could comfortably say six months, making sure everything has been moved over, and accruals are set up and removed from record. Knowing NMERB's asset mix, however, she thought it would be shorter.

Treasurer Montoya noted that Northern Trust has 224 clients that are public funds or pension funds with 25.8 percent assets, and asked how many of them have been Northern clients for more than five years. Ms. Pickett responded the large majority. They have probably brought in 250 new names over the last five years and lose very few clients on an annual basis.

Treasurer Montoya said Northern's proposal (page 24) states that the annual cost of Custody Services is \$550,000 and for Front Office is \$345,000, for a total of \$895,000, and then shows GASB Reporting Fees for Year 1 and Year 2+ as \$904,000 and \$901,500 respectively. She asked if that is the total cost of the proposal, or are there other fees outside of that, such as the transition fee.

Ms. Pickett clarified that this fee proposal supersedes the one that Northern submitted as part of their RFP. There would be a 1.5 percent inflation adjustment on an annual basis on the \$550,000 only.

Mr. Archuleta said NMERB received a page today that differs from the proposal board members have. This would be their best and final proposal.

Ms. Gonsch explained that they simplified the \$550,000 custody flat fee and the \$345,000 front office solutions flat fee and just aggregated it into the \$895,000. This was the result of a back-and-forth discussion with Mr. Myers prior to their presentation. They initially said there was an onboarding fee for front office solutions when they submitted their proposal but didn't have an estimate for it. They later estimated the cost at \$350,000 and decided to waive it and offer a credit of one year of fees of the \$895,000 but spread out across each year of the four-year term. This brings the annual fee down to \$671,250.

Mr. Baca commented that AI hasn't yet rolled into their systems and software. He asked if Northern would be charging for AI-related services as it becomes more prevalent. Ms. Pickett responded that Northern's goal is to use AI for productivity and reduce costs and remain competitive. That should lower the cost, not raise it.

Dr. Fontenla asked if the flat fee of \$895,000 includes everything with no variable fees. Ms. Pickett responded that it wouldn't include the inflation fee or if NMERB wants to add brand-new services that aren't included in the scope.

Mr. Myers noted that, historically, NMERB has grown by 12 to 14 alternative new investments per year. He asked if the flat fee would be amended to reflect that. Ms. Pickett responded no.

Responding to Treasurer Montoya, Ms. Pickett said slightly more than 50 percent of their team is female. When they have a new position, they have a diverse crew of people making the selections on finalists.

Responding to Treasurer Montoya, Ms. Pickett said in the last year they had a third-party vendor that everyone uses for securities lending that had a breach. They had no downtime because of that outage and were up and running with their continuity immediately afterwards.

7. BREAK

8. FINALIST PRESENTATION – STATE STREET

State Street representatives Aleph Granados, Chris Coleman, Chris Bregoli and Kim Moynihan made a presentation.

9. QUESTIONS

Dr. Fontenla noted State Street's offer to go down 20 percent and asked how that would be structured.

Mr. Coleman responded that NMERB's fee schedule is a variable fee schedule with each service carrying a specific cost. In considering where they could make cuts, State Street made the most cuts in private assets because this is where they automated a lot of the technology they were using. There is a 20 percent annual reduction in the overall number.

Responding to Mr. Baca, Mr. Coleman said NMERB has been paying State Street about \$950,000 annually for the last several years, and that number will now go down to about \$750,000 and will be fixed for the duration of the contract. If they offer a new technology tool that NMERB is interested in, for instance, or changing the operating model, they'd be happy to add that to NMERB's services or change things around.

Responding to Dr. Fontenla on the fee schedule, Mr. Coleman said that within some of the categories of the fees being charged, the fees might tick up depending on the number of portfolios being serviced.

Mr. Baca asked where State Street's competitors would say that can't compete with them.

Mr. Granados responded that asset servicing is foundational to State Street, whether it is global custody or daily processing, which takes an entirely different discipline and suite of technologies, and that is ingrained in them. He said they service more registered mutual funds and ETFs than anybody in the business because of that daily discipline. He said their competitors would say they are the biggest, most disciplined and most technologically advanced in the daily processing space.

Mr. Baca asked where State Street thinks it could make internal improvements.

Mr. Granados responded that on the smaller end of the market, they are built for that daily rigor, and there an expense to that. When it comes to some of the smaller portfolios, particularly in the wealth or individual investor space, it is very tough for them to compete with the smaller end of the market. They are planning to address this in 2025 through acquisition.

Mr. Baca asked if State Street has experienced a security breach in the last five years when they have had to notify clients that data was compromised.

Mr. Granados responded that there have been instances of individual client data breaches where a document or email was shared that shouldn't have been. They are doing quite a bit with AI and robotics to address it.

Mr. Baca noted the number of years some team members have been with State Street and asked how they handle succession.

Mr. Granados responded that they are very methodical and detailed about succession planning and present that to their board of directors every year. They have a lot of rigor around training, as well, and making sure they have employees in place who can backfill.

Mr. Baca noted Mr. Bregoli's comments that over the past 13 years he has passed on new innovation to New Mexico because of the new software. He asked what other technology he has implemented that has benefited New Mexico.

Mr. Bregoli responded that he provided a digital trading platform, which replaced the previous system of faxing in instructions for trades, etc.

Mr. Baca asked how many clients they have lost over the last three years. Mr. Granados said they would provide that information later.

Treasurer Montoya asked why State Street did not fill out the questions posed to them on page 14, specifically: Clients Gained in 2024, Clients Lost in 2024, and Reasons for Loss. Ms. Moynihan said that was an oversight and they would provide the information.

Treasurer Montoya asked how they have minimized risk for clients in the last year. This would be any type of risk, e.g., technology, AI, audit, breaches, etc.

Mr. Granados responded that they want to move clients to communicating with them electronically, specifically when they give State Street instructions. They want to move away from anything manual, emails or faxes, and move them to electronic platforms through My State Street. This reduces operational risk because they can put a lot of security around who can enter those transactions or approve them.

Treasurer Montoya referred to Table 2 on page 3, which reflects that State Street's return on equity for 2024 was 9.8 percent. She asked if that was for a quarter or for the full year.

Mr. Granados responded that they would have to provide this information later.

Treasurer Montoya asked if they have any issues over the last couple of years with respect to any audit issues any clients have had with reconciliation.

Mr. Coleman responded that they interact directly with clients' auditors on an annual basis to provide any audit reporting that may be needed. That is fully audited at State Street before being delivered to the audit firm, and they work directly with them to get the correct responses. He was not aware of any audit issues with the NMERB plan.

Treasurer Montoya asked when State Street sends its monthly investment statements to NMERB staff. Mr. Granados responded that the current month-end close they have with the team is where they are auditing through a month-end period. They work with the internal teams to audit all the funds in the NMERB portfolio.

Treasurer Montoya asked what the usual closure date is from month to month. Mr. Coleman responded that they typically close on the tenth business day, although for alternatives they go to the fifteenth business day of the month.

Treasurer Montoya asked what the makeup of State Street's top leadership is in terms of diversity, equity, and inclusion.

Mr. Granados responded that State Street has been lauded for its commitment to DEI. He said the makeup depends on role function and division within State Street, but the leadership team has annual goals on the DEI side to make sure they are upholding what they advertise to the marketplace and what they promise to the board of directors and their constituents. They could provide specific metrics later.

Responding to Mr. Baca, Mr. Granados said they would provide information later regarding the number of women employed at the EVP level and above.

Treasurer Montoya observed that State Street has a lot fewer pension fund clients and asked if that number has gone up or down over the last five years.

Mr. Coleman responded that there has been significant growth for them in the pension space on a global basis. The makeup of their client base reflects that they service many of the large complex plans around the world.

Regarding Treasurer Montoya's earlier question about how many clients State Street has lost over the last three years, staff stated that the technical proposal submitted by State Street indicates that they lost 32 clients and gained 21 clients between 2022 and 2024.

Treasurer Montoya asked how many of them were pension fund clients. State Street agreed to provide that information later.

10. STAFF WRAP-UP

[None.]

11. EXECUTIVE SESSION

**Deliberations regarding contents of competitive sealed proposals solicited
for Custody Banking Services Pursuant to NMSA 1978, Section 10-15-1(H)(6)**

Treasurer Montoya moved to enter executive session to discuss the contents of competitive sealed proposals for Custody Banking Services. Dr. Fontenla seconded the motion, which passed unanimously.

[The board was in executive session from 12:30 to 1:25 p.m.]

Treasurer Montoya moved to come out of executive session. The only matter discussed in executive session was to discuss the contents of competitive sealed proposals for Custody Banking Services. Mr. Baca seconded the motion, which passed unanimously.

12. APPROVAL OF CUSTODIAL BANK

Mr. Baca moved that the board authorize NMERB staff to negotiate an agreement in the proposed custody bank contract with Northern Trust Bank. In the event that mutually agreeable terms and conditions cannot be reached with Northern Trust Bank, that the board authorize NMERB staff to negotiate an agreement in the proposed custody bank contract with State Street. Treasurer Montoya seconded the motion, which passed unanimously.

13. ADJOURN: 1:30 p.m.



Russell Goff, Chairman

ATTEST:



Max Baca, Secretary