



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

February 18, 2022

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. via teleconference/webinar. A quorum was established following roll call.

Members Present:

Mr. H. Russell Goff, Chair

Ms. Mary Lou Cameron, Vice Chair

Mr. Larry Magid, Secretary

Dr. Donald W. Duszynski

Dr. Matías Fontenla

Ms. Katarina Sandoval, Deputy Secretary, Public Education [present 9:10-10:00 a.m.]

Mr. Mario Suazo, Higher Education Dept.

Members Excused:

The Hon Tim Eichenberg, New Mexico State Treasurer

Staff Present:

Mr. David Archuleta, Executive Director

Mr. Rick Scroggins, Assistant Director

Mr. Lawrence Esquibel, Deputy Director

Mr. Bob Jacksha, Chief Investment Officer

Mr. Steve Neel, Deputy Chief Investment Officer, Alternative Assets

Ms. Francine Jacquez, Portfolio Manager, Public Securities & Credit

Mr. Prakash Bhakta, Chief Information Officer

Ms. Sara Brownstein, CFO

Ms. Mariana LaRoche, Communications & Outreach Director

Ms. Karla Leyba, Member Services Bureau Chief

Ms. Susanne Roubidoux, General Counsel

Others Present:

Mr. Allan Martin, Investment Advisor, NEPC

Ms. Judith Beatty, Board Recorder

b. Approval of Agenda

Ms. Cameron moved approval of the agenda, as published. Mr. Magid seconded the motion, which passed unanimously by roll call vote. [Not present: Ms. Sandoval and Mr. Suazo]

c. Approval of Minutes: December 10, 2021

Dr. Duszynski moved approval of the minutes of the December 10, 2021, meeting. Mr. Magid seconded the motion, which passed unanimously by roll call vote. [Not present: Ms. Sandoval]

d. Introduction of Guests

Chairman Goff welcomed staff and guests.

2. INTRODUCTION OF DAVID ARCHULETA, EXECUTIVE DIRECTOR: RUSSELL GOFF, CHAIR

Chairman Goff introduced Executive Director David Archuleta to the board. Mr. Archuleta comes to the board from the New Mexico Retiree Health Care Authority. He joined the NMRHCA as Deputy Director in 2013 and served in that capacity until 2017, when he became Executive Director and served in that capacity until January 2022.

3. CONSENT AGENDA

a. Board Travel

Chairman Goff and Ms. Cameron said they would like to attend the NCTR conference in Tucson on October 9-12.

Dr. Duszynski moved approval of the Consent Agenda. Dr. Fontenla seconded the motion, which passed unanimously by roll call vote.

4. PRESENTATION OF JUNE 30, 2021, AUDIT REPORT: MOSS ADAMS LLP

[Presenters: Kory Hoggan and Aaron Hamilton]

Messrs. Hoggan and Hamilton made a slide presentation [pages 20-27 in board book.]

Mr. Magid moved to accept the Audit Report. Ms. Cameron seconded the motion, which passed unanimously by roll call vote.

5. PROPOSED RULE CHANGE: SUSANNE ROUBIDOUX, GENERAL COUNSEL

a. 2.82.1 NMAC General Provisions

Ms. Roubidoux stated that, in 2021, the Governor signed Senate Bill 303 (SB303), which increased the size of the NMERB Board of Trustees from seven members to nine members, adding the secretary of higher education (or designee) and a member elected by the American Federation of Teachers New Mexico (AFT-NM). Because NMERB rule 2.82.1 NMAC contains several references to a seven-member board, the purpose of the proposed rule amendment is to update references to a nine-member board and make minor changes to improve clarity. She said there is also a minor technical change to the Investment Committee rule, which is unrelated to SB303.

Ms. Roubidoux said today's meeting is the first step in the public rulemaking process, when the board is asked to review the proposed rule amendments. The next step involves publishing the proposed amendments in the New Mexico Register, the Sunshine Portal and the NMERB website, then scheduling and conducting a public rule hearing. At the hearing, the board will consider written and oral comments from the public and may adopt the final amendments after the conclusion of the hearing.

Ms. Cameron moved approval of the proposed amendments to Rule 1 as presented, and directed the Executive Director to publish a Notice of Proposed Rulemaking and the proposed rule amendments in the New Mexico Register, the Sunshine Portal and the NMERB website, and schedule a public rulemaking hearing at the next available opportunity. Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

**6. UPDATE ON NMERB BUILDING PROJECT:
LAWRENCE ESQUIBEL, DEPUTY DIRECTOR**

Mr. Esquibel reported that, since December, the team has worked on selecting the exterior and schematic design of the interior aspects of the building, working closely with architects Dekker Perich Sabatini (DPS). The design process has involved working with DPS to review floor plan layouts and options for the exterior. DPS has spent most of their time on a site analysis, maximizing all aspects of the property to address the positioning of the building on the property along with outside parking needs. He said DPS has been provided with an archeological survey, certificate that no prairie dogs are living on the property, and a preliminary geological survey. A final report is expected within three weeks.

Mr. Esquibel stated that current discussion is focused on the mechanical aspects of the building. The construction document phase begins today and will take 90 days, followed by the bidding and permitting process.

Mr. Esquibel said the team is in the final stages of contracting with Calvin Steckler, who will serve as project manager, and was highly recommended by the GSD Facilities Management Division as well as DPS.

Mr. Esquibel stressed that the team and architects are keenly aware of ongoing supply chain issues, inflation impacts, and pressures on the construction industry

workforce and projects already in the construction pipeline ahead of the NMERB project. Current construction costs are running at \$423 per square foot and are increasing by 1.5 percent per month. The team expects that a third request for additional funding will be necessary to complete this project. At the current time, they are looking at areas where costs can be cut.

7. INVESTMENT REPORTS: BOB JACKSHA, CIO

a. Investment Policy Revision

[Presenters: Bob Jacksha, Francine Jacquez, and Steve Neel]

Ms. Jacquez reviewed the following change:

-- Removed the requirement in the NMERB's policy procedures that there be written acknowledgement of the accuracy of the master trust bank's statements and performance results provided by the consultant, NEPC, for all of the Separately Managed Accounts. This is no longer considered necessary because of other compensating controls in place.

Mr. Neel reviewed the following changes:

-- In January 2022, the Institutional Limited Partners Association (ILPA) discontinued publishing their private equity benchmarks, which comprised fellow institutional investors such as NMERB. In response, staff and NEPC conducted a survey of benchmark providers and determined the best benchmark is State Street's private equity index, which is compiled through State Street's custody services and is made up of institutional investors.

-- Updating the hyperlink to the CFA Code of Ethics under Roles and Responsibilities for the Investment Division.

Ms. Cameron moved to approve the changes to the Investment Policy Statement. Dr. Fontenla seconded the motion, which passed unanimously by roll call vote.

Dr. Duszynski moved approval of the changes to the Private Equity policy. Mr. Magid seconded the motion, which passed unanimously by roll call vote.

b. Derivatives Report – Q3 and Q4 2021

[Presenter: Francine Jacquez]

Ms. Jacquez presented an update on the cash overlay performance as of December 31, 2021, representing the first six months of the program. [Page 113 of board book.]

Ms. Jacquez noted that, as of December 31, there was an \$11.4 million cumulative gross gain since inception (July 1, 2021). Although performance has been volatile, this is a long-term strategy for the NMERB; and over a longer time horizon, the NMERB expects to earn more from this strategy than it would from cash. It should also be noted that, per the Investment Policy, portfolio leverage is limited to derivatives and shall not exceed 20 percent of the total value of the portfolio. Ms. Jacquez stressed that staff is active in monitoring the amount of portfolio leverage being utilized to ensure that it doesn't exceed the 20 percent. The Investment Policy also requires a quarterly requirement to report the derivative performance. Currently, the only derivative usage is from the cash overlay program.

Ms. Jacquez referred to a graph reflecting the percent of cash exposure (page 117), which is derivative usage over both Q3 and Q4 2021. During this period, total exposure averaged 1.61 percent with a maximum amount of 3.58 percent, well below the Investment Policy limit of 20 percent.

c. December 2021 Quarterly Performance Report

[Presenter: Allan Martin]

Mr. Martin presented the Q4 report, with the following highlights:

- Over the past 5 years, the fund returned 11.1 percent per annum.
- Over the past 3 years, the fund returned 14.0 percent per annum.
- For the year ending December 31, 2021, the fund experienced a net investment gain of \$3.0 billion, which includes a net investment gain of \$751 million during the quarter. Assets increased from \$14.2 billion 12 months ago to \$16.7 billion on December 31, 2021, with \$515.1 million in net distributions during the year. The fund returned 21.4 percent, outperforming the policy index by 594 basis points and ranking in the 3rd percentile of its peers.

d. Investment Committee Report

Mr. Jacksha reported that the Investment Committee met this morning and addressed the following items:

- Went over the Investment policy changes and recommended approval to the board.
- Approved the quarterly Proxy Voting Report.
- The Q3 and Q4 Derivatives Report was included as an information item.
- Reviewed the quarterly commission reports.

e. Staff Selection Committee Report

Mr. Jacksha and Mr. Neel reviewed actions taken by the Staff Selection Committee at its December and January meetings. Mr. Neel noted that the SSC approved nine commitments totaling \$600+ million.

- Approved an additional \$25 million commitment to TPG Thematic Advantage Core-Plus Fund for the Real Estate portfolio. This was an upside to a prior commitment. The SSC previously approved a \$125 million commitment to this manager in September 2021.
- Approved a \$100 million commitment to Oak Hill Advisors Strategic Credit Fund III for the Opportunistic Credit portfolio. The NMERB previously invested \$100 million in OHA Strategic Credit Fund II in 2017.
- Approved a \$150 million commitment to Cloverlay Bravo II, a Separately Managed Account (SMA) that focuses on economically advantaged co-investments. This is a recommitment. The prior SMA was approved in 2020.
- Approved a \$75 million commitment to Raith III for the Real Estate portfolio. Raith focuses on opportunistically capitalizing on distressed situations and relative value opportunities across capital structures. This is a valued relationship with NMERB, dating back to 2014, when NMERB helped anchor this platform.
- Approved a \$75 million commitment to TPG Real Estate Partners Fund IV for the Real Estate portfolio. The fund seeks to opportunistically take advantage of a variety of themes and potential market dislocations. The manager identifies research driven themes based on property type and geography to proactively source opportunities.
- Approved a \$50 million commitment to Top Tier Capital Partners SMA for the Private Equity portfolio. This is a Separately Managed Account focused on venture growth opportunities associated with high value venture GPs. The relationship with Top Tier dates back to 2015.
- Approved a commitment of \$60 million to Battery Ventures Fund XIV and Battery Ventures Select Fund II for the Private Equity portfolio. Battery Ventures is known as a top decile venture performer. Battery invests in assets across the venture and buyout ecosystem from seed to growth stage, focusing primarily on technology in the U.S. and Europe.
- Approved a \$50 million commitment to Real Term Logistics Fund IV for the Real Estate portfolio. Real Term seeks to invest in mission critical logistic assets in infill locations that have high barriers. NMERB's relationship with Real Term dates back to 2013.
- Approved a \$40 million commitment to SV Biotech Crossover Opportunities Fund I for the Private Equity portfolio. This is a crossover fund that focuses on precision medicine opportunities where the IPO is envisioned within the next 12 months. This is a longstanding relationship dating back to 2016.

f. Other Investment Reports

None.

8. DISABILITY RETIREMENTS: KARLA LEYBA, BUREAU CHIEF, MEMBER SERVICES

Ms. Leyba presented the December-January status report on disability claims. She reported 2 cases in preliminary review, 11 pending receipt of final information, 114 closed cases, and 15 pending periodic review, for a total of 142.

Ms. Cameron moved to accept the Disability Retirement Report, as presented. Mr. Suazo seconded the motion, which passed unanimously by roll call vote.

9. AGE & SERVICE RETIREMENTS: KARLA LEYBA, BUREAU CHIEF, MEMBER SERVICES

Ms. Leyba reported on the December-January period. During the bimonthly period, there were four disability applications (under age 60) processed, 31 reciprocity applications, and 437 regular retirement applications. This represents an uptake from last year at this same time. Generally, January is a larger month for the NMERB because most people like to end the calendar year and start fresh in January.

Mr. Suazo moved acceptance of the Age & Service Retirements report, as presented. Dr. Duszynski seconded the motion, which passed by unanimous roll call vote.

10. DIRECTOR'S REPORT: DAVID ARCHULETA, EXECUTIVE DIRECTOR

a. Retiree Healthcare Update

Mr. Archuleta reported that HB 74 and SB 112 are identical bills. It was determined that HB 74 was not germane and SB 112 was tabled in Senate Public Affairs. This is important because this sought an increase in employee/employer contributions paid into the NMRHCA trust fund.

Mr. Archuleta also reported that the trust fund balance has grown to \$1.15 billion, which is significantly improved from prior years, and which should translate into improved solvency for the program.

Mr. Archuleta said he participated in the NMRHCA's PBM (Pharmacy Benefit Manager) RFP, and there should be an announcement about the PBM in short order.

b. Agency Activities

Mr. Archuleta said the board book (pp. 261-264) contains a comprehensive review of items occurring in each of the different NMERB departments.

c. Legislative Update

Mr. Archuleta reported on the following legislation:

i. SB 36

Mr. Archuleta said this is on its way to the Governor's Office to become law. It boosts employer contributions to the NMERB by 2 percent; so instead of growing to 16.15 percent of payroll next year, it will grow to 17.15 percent of payroll beginning in FY 23. The number will bump up to 18.15 percent of payroll in FY 24. This will move the program closer to achieving 100 percent funded status within 33 years.

Mr. Archuleta said he hoped the board would schedule a resolution at its next regular meeting, thanking Sen. Mimi Stewart for her bringing this forward, as well as Rep. Figueroa for making sure it found its way to the finish line.

ii. HB 73/SB 172

Mr. Archuleta reported that this passed both chambers of the legislature. This creates a new category of Return to Work employees after the 90-day layout period. The 36-month cap remains in place, although there was a proposal to eliminate it altogether and another proposal to extend it to 72 months.

iii. HB 77

Mr. Archuleta reported that this was not determined to be germane. The legislation would have required PERA, NMERB, SIC and STO to develop plans to create classifications and pay ranges for the investment professionals in these agencies.

d. July 1, 2022 COLA Adjustment and Anti-Spiking Threshold

Mr. Archuleta said GRS has notified the NMERB that this year's COLA adjustment will total 2.3 percent.

e. Other

With respect to House Bill 2, Mr. Archuleta said the NMERB received the LFC recommendation, which was the lower of the two received. The budget for FY 23 tops out at just over \$30 million, representing a 6 percent increase versus the 15 percent the NMERB had requested.

Mr. Archuleta noted that the 7 percent increase in compensation in House Bill 2 applies to all state employees, including all NMERB employees. It provides for a 3 percent pay increase for all budgeted positions beginning the first pay period in this fiscal year after April 1, 2022, and a 4 percent increase in the first pay period after July 1, 2022.

Mr. Archuleta said Senate Bill 1 bumped up minimum salaries for schoolteachers in Tiers 1, 2 and 3, from \$40,000 to \$50,000, \$50,000 to \$60,000, and \$60,000 to \$70,000, respectively. There is a slightly negative impact on the NMERB's solvency in the short term, but the hope is that it will ultimately have a longer-term positive impact.

Mr. Archuleta said Senate Bill 222 provided \$5 million in capital outlay funds to cover the third phase of the NMERB's office building project.

11. EXECUTIVE SESSION: 10:45 a.m.

- a) Pending litigation in which the Board is or may become a participant (session closed per § 10-15-1(H)(7)). Update regarding:**
 - i) *NMERB v. Debbie Romero and DFA*, Case No. A-1-CA- 40106 (appeal from D-101-CV-2021-00353), Mark T. Baker (Peifer, Hanson, Mullins & Baker, P.A.), legal counsel to the Board; and**
 - ii) *Jan H. C. Goodwin v. Governor Lujan Grisham et al.*, Case No. Case No. 1:21-cv-00483-JHR-KK (U.S. District Court, New Mexico). Luke A. Salganek (Miller Stratvert P.A.), legal counsel to the Board.**
 - ii) *In re Credit Default Swap Antitrust Litig.*, Case No. 1:21-cv-00606. Brian E. McMath, Assistant Attorney General, New Mexico Office of the Attorney General.**

- b) Pursuant to NMSA 1978, Section 10-15-i(H)(6): Contents of Competitive Sealed Proposals Solicited Pursuant to the Procurement Code**

Chairman Goff moved that the board go into executive session for the following purposes:

- a) Discussion of pending litigation in which NMERB is or may become a participant (session closed per § 10-15-1(H)(7)) of the OMA), specifically:**
 - i) *NMERB v. Debbie Romero and DFA*, Case No. A-1-CA- 40106 (appeal from D-101-CV-2021-00353);**
 - ii) *Jan Goodwin v. Governor Lujan Grisham et al.*, Case No. 1:21-cv-00483-JHR-KK; and**
 - ii) *In re Credit Default Swap Antitrust Litig.*, Case No. 1:21-cv-00606; and**

- b) Pursuant to Section 10-15-1(H)(6): Contents of Competitive Sealed Proposals Solicited Pursuant to the Procurement Code.**

Dr. Duszynski seconded the motion, which passed unanimously by roll call vote.

[The board came out of executive session at 11:30 a.m.]

Chairman Goff moved that the board come out of executive session. The only matters discussed in executive session were:

- a) Three pending court cases in which NMERB is or may become a participant, specifically (i) NMERB v. Debbie Romero/DFA; (ii) Jan Goodwin v. Governor Lujan Grisham et al.; and (iii) In re Credit Default Swap Antitrust Litigation; and
- b) Contents of Competitive Sealed Proposals Solicited Pursuant to the Procurement Code.

Mr. Magid seconded the motion, which passed unanimously by roll call vote.

12. ACTION FROM EXECUTIVE SESSION

Chairman Goff moved that the board ratify the decision of Executive Director David Archuleta to seek appointment of NMERB as lead plaintiff in the securities class action case *In re Credit Default Swap Antitrust Litigation*, Case No. 1:21-cv-00606.

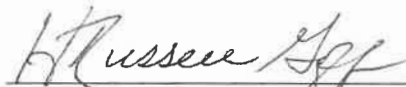
Dr. Fontenla seconded the motion, which passed unanimously by roll call vote.

Ms. Cameron moved that the board ratify the decision by the actuarial services RFP evaluation panel in their selection of the most advantageous offer and instruct them to proceed with the final items in the contract subject to the appropriate department and state approval.

Dr. Fontenla seconded the motion, which passed unanimously by roll call vote.

13. NEXT MEETING: APRIL 22, 2022 – ALBUQUERQUE OR VIRTUAL MEETING

14. ADJOURN: 11:35 a.m.



Russell Goff, Chairman

ATTEST:



Larry Magid, Secretary