

**New Mexico Legislative Council Service
Fiduciary Review for the
Educational Retirement Board
Listing of All Recommendations with Priorities**

Below is a complete list of the recommendations that are included in the review. For ease of reference, the page number of the report where the topic is discussed is provided. We have also listed the initial step required to address the recommendation, if the Board chooses to do so. The Board has the ultimate authority to prioritize, accept, modify, and reject any and all recommendations based on the ERB's needs and resources.

	Recommendations	Requirement	Priority
1	Seek a statutory change requiring new Board member orientation and more hours of ongoing education, including annual fiduciary training. (see page 8)	Statutory Change	*
2	Provide by policy a specific orientation and formalized ongoing education for Investment Committee members. (see page 8)	Board Policy Enhancement	
3	Continue to ensure all new Board members receive a timely and thorough orientation session as well as annual training on fiduciary responsibilities. (see page 9)	Board Policy Enhancement	
4	Examine the intent of the Prudent Investor Act and its application to ERB and determine whether protections provided under the Education Retirement Act, the Torts Claims Act, or other laws are appropriate. (see page 10)	Board Discussion	
5	Amend the statute to include a definition of who is a fiduciary. (see page 10)	Statutory Change	
6	Update and formally approve the "Board Policies and Procedures" document so that it is a comprehensive governance manual that can be distributed to new Board members. (see page 11)	Board Policy Enhancement	
7	Create a more detailed position description for individual Board members and distribute it during the election and appointment process. (see page 13)	Board Policy Enhancement	
8	Create comprehensive charters for the Investment Committee, the Audit Committee, and the Evaluation Committee. (see page 14)	Committee Charter Development	
9	Evaluate whether an ex-officio member should be allowed to designate a specific person to attend, participate, and vote at meetings. (see page 14 and 15)	Board Discussion	
10	Modify the language in the ERB Standards of Conduct to require that third party disclosure regarding gifts, entertainment, and travel is required on an annual basis. (see page 16)	Board Policy Enhancement	

	Recommendations	Requirement	Priority
11	Have the Audit Committee review disclosure forms so that any conflicts of interest can be appropriately managed as ERB business is conducted. (see page 16)	Process/ Procedure Enhancement	
12	Require Board members and staff to annually acknowledge in writing that they have read and will comply with their respective ERB Standards of Conduct. (see page 17)	Board Policy Enhancement	
13	Conduct annual training regarding the ERB Standards of Conduct to highlight the importance of ethical standards and conflicts of interest. (see page 17)	Process/ Procedure Enhancement	
14	Clarify who has responsibilities to monitor compliance. (see page 17)	Board Discussion	
15	Modify the composition of the Investment Committee to only include Board members. (see page 18)	Committee Composition Change	*
16	Discuss what value an accountability matrix may have in documenting and clarifying roles and responsibilities. (see page 20)	Board Discussion and possible Document Creation	
17	Ensure there is a comprehensive and unambiguous position description for the Executive Director and for the CIO, and review and update them as necessary. (see page 19 and 20)	Position Description Enhancement	*
18	Amend contracts with ORG and Courtland and clearly specify that each consultant is a fiduciary for the services they provide, the consultants work for the Board, and the consultant's standard of care is that of a prudent investor. (see page 20)	Contract Modification	*
19	Seek staffing autonomy to allow the ERB to fill all investment positions without being bound by state personnel procurement practices. (see page 22)	Statutory Change	*
20	Fill the vacant positions on the investment staff as soon as possible. (see page 22)	Hire Staff	
21	Re-evaluate the staff size in light of portfolio complexity, internal management, and oversight of alternative investments. (see page 22 and 23)	Evaluation of Current Practices	
22	Seek budget autonomy but maintain fiduciary standards, transparency, and reporting requirements. (see page 23 and 24)	Statutory Change	*
23	Consider working with an independent external party to monitor and benchmark investment related costs. (see page 25)	Modification of Existing Practices	

	Recommendations	Requirement	Priority
24	Complete an asset liability study to either confirm or adjust, as appropriate, the long-term target allocations of the fund. (see page 30)	Asset Liability Study	*
25	Ensure the Board receives ongoing education and information related to the risks in the alternatives portfolio, specifically regarding the absolute return strategies. (see page 34)	Modification to Existing Practices	
26	Evaluate the suitability of global mandates for equities. (see page 35 and 36)	Statutory Change	
27	Ensure thorough education and analysis is presented and discussed with the Board or Investment Committee regarding the asset classes included or contemplated for the portfolio. (see page 36)	Modification to Existing Practices	
28	Re-visit Global Tactical Asset Allocation to ensure the Board is comfortable with the approach being utilized. (see page 36)	Board Discussion and/or Policy Enhancement	*
29	Establish and document a prudent rebalancing process. (see page 37 and 38)	Board Policy Enhancement	
30	Tighten the allowable ranges for each asset class. (see page 38)	Board Policy Enhancement	
31	Re-evaluate the tactical asset allocation authority granted to staff. (see page 38)	Board Discussion and/or Policy Enhancement	*
32	Revise the stated investment objectives in the IPS to include earning an appropriate risk adjusted return compared to the policy portfolio. (see page 39)	Board Policy Enhancement	
33	Explore the benefits of risk budgeting with consultants. (see page 39)	Staff/ Consultant Analysis and Board Discussion	
34	Enhance the Strategic Plan to include goals to achieve investment objectives. (see page 39 and 40)	Board Strategic Plan Enhancement	
35	Update and improve the IPS with the assistance of the consultant. (see page 40)	Board Policy Enhancement	

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36	Have the investment consultant periodically assess internally managed assets to determine whether the performance and costs remain more beneficial than managing the same assets externally. (see page 44)	Evaluation of Current Practices	*
37	Ensure that internal controls are in place to adequately safeguard the internally managed assets. (see page 43)	Modification of Existing Practices	
38	Evaluate whether Board members and staff should be subject to a personal trading policy requiring disclosures. (see page 44)	Evaluation of Current Practices	
39	Formally approve the Board policies and Staff Code of Conduct, which include Insider Trading Policies. (see page 44)	Board Discussion and Policy Approval	
40	Consider whether passive management is appropriate for additional asset classes. (see page 47)	Board Discussion	
41	Complete an equity structure review that evaluates the number and types of managers, as well as any style or market segment biases in the portfolio. (see page 48 and 49)	Evaluation of Current Structure	*
42	Complete a fixed income structure review that evaluates the portfolio structure from an allocation, quality, risk, and liability standpoint. (see page 49)	Evaluation of Current Structure	*
43	Ensure manager structure is periodically reviewed by the Investment Committee and/or Board. (see page 49)	Board Policy Enhancement	
44	Evaluate whether a formal RFP process remains the most efficient and effective way to conduct manager searches. (see page 49 and 50)	Board Discussion and Possible Practice Modification	
45	Incorporate manager selection guidelines within the Investment Policy Statement and supporting documentation. (see page 51)	Board Policy Enhancement	
46	Ensure documentation of the search process is maintained and analysis presented to the Board is complete and useful. (see page 51)	Additional Reporting	
47	Seek statutory authority to hire the custodian bank. (see page 52)	Statutory Change	*

	Recommendations	Requirement	Priority
48	Consider tightening the acceptable sub-asset class minimum and maximum target ranges within alternatives to align with industry peers. (see page 53)	Board Policy Enhancement	
49	Seek a statutory change to allow discussions and materials of private market investments with proprietary investment strategies to be kept confidential. (see page 54)	Statutory Change	
50	Consider updating policy to delineate the roles and responsibilities with regard to investment monitoring and asset sub-classes within the alternative asset classes. (see page 54)	Board Policy Enhancement	
51	Obtain independent, audited cash flow information in order to reconstruct manager performance (see page 56)	Evaluation of Current Practices	
52	Evaluate the HFRI Funds-of-Funds Index as the primary benchmark for the absolute return portfolio. (see page 58 and 59)	Evaluation of Current Practices	
53	Include the GTAA benchmark in the quarterly performance reports. (see page 59)	Board Policy Enhancement	
54	Include the benchmark for real assets in the performance report. (see page 59)	Performance Report Enhancement	
55	Consider delegating placement agent qualification review and usage tracking to an external party. (see page 64)	Modification of Existing Practice	
56	Evaluate whether including additional or different elements in the quarterly performance reports would be useful to the Board. (see page 67)	Board Discussion	
57	Show returns net-of-fees in the performance reports. (see page 67)	Performance Report Enhancement	*

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