

Investments & Pensions Oversight Committee

Senator Roberto “Bobby” J. Gonzales, Chair
Representative Patricia Roybal Caballero, Vice Chair

Investment Overview

August 29, 2024

David Archuleta, Executive Director
Bob Jacksha, Chief Investment Officer



Discussion Items

- Investment Policies
- Investment Policy
- Mission and Goals
- Roles and Responsibilities
- Asset Allocation Targets
- Asset Allocation as of June 30, 2024
- Pension Algebra
- Investment Highlights: June 30, 2024
- Historical Asset Growth
- Investment Performance: June 30, 2024
- Rolling 5-Year Return Rank
- Rolling 5-Year Risk Measure
- Return per Unit of Risk
- Peer Fund Comparison
- 2025 Legislation

Investment Policies

Investments are made consistent the polices approved by the Board of Trustees, which can be found on our website: <https://www.erb.nm.gov/investments/investment-policies/>

Policy	Format
NMERB Investment Policy	PDF
Private Equity Policy	PDF
Real Assets Policy	PDF
Real Estate Policy	PDF
Core Fixed Income Policy	PDF
Placement Agent Disclosure Policy	PDF
Investment Services Procurement Policy	PDF
Campaign Contribution Disclosure Form	PDF

Investment Policy

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Mission and Goals

Mission: Provide secure retirement benefits for New Mexico's educational employees – past, present and future.

Investment Goals:

Return: To earn an inflation-adjusted return sufficient to attain a target funding level over a time-period established by ERB.

Risk: To undertake an appropriate level of risk in light of experience and expectations such that it is neither too low to earn a reasonable return nor so high as to incur undue investment risk given the purpose of the fund. The assets of the fund will be diversified such that the risk of substantial losses within any single asset class or subclass, investment type, industry or sector distribution, maturity date, rating distribution, or geographical distribution is reduced.

Roles and Responsibilities

- The Board of Trustees has an oversight role. This includes approving policies, contracts for a general investment consultant and custody bank; along with reviewing investment performance on a quarterly basis.
- The Board of Trustees have delegated authority to investment staff for the hiring and firing of managers and other consultants as well as all other investment decisions. Exercise of this authority must be within the investment policy guidelines established by the Board of Trustees.
- Investment staff consists of 16 FTE – 10 in Santa Fe and 6 in Albuquerque

Asset Allocation June 30, 2024

	<u>Physical Exposure</u> (\$)	<u>Total Exposure</u> (\$)*	<u>Physical Exposure</u> (%)	<u>Total Exposure</u> (%)*	<u>Policy Target</u> (%)	<u>Policy Range</u>	<u>Within Range</u>	<u>Difference</u>
Equity	\$4,398,438,699	\$4,966,665,499	25.7%	29.0%	28.0%	13% - 55%	Yes	1.0%
U.S. Equity	\$2,869,000,761	\$3,297,760,661	16.8%	19.3%	19.0%	9% - 35%	Yes	0.3%
<i>U.S. Large Cap Equity</i>	<i>\$2,320,482,438</i>	<i>\$2,731,282,038</i>	<i>13.6%</i>	<i>16.0%</i>	<i>15.0%</i>	<i>7% - 30%</i>	<i>Yes</i>	<i>1.0%</i>
<i>U.S. Small/Mid Cap Equity</i>	<i>\$548,518,323</i>	<i>\$566,478,623</i>	<i>3.2%</i>	<i>3.3%</i>	<i>4.0%</i>	<i>0% - 6%</i>	<i>Yes</i>	<i>-0.7%</i>
Non-U.S. Equity	\$1,529,437,938	\$1,668,904,838	8.9%	9.7%	9.0%	4% - 20%	Yes	0.7%
<i>Non-U.S. Developed Mkts</i>	<i>\$757,029,687</i>	<i>\$878,758,927</i>	<i>4.4%</i>	<i>5.1%</i>	<i>5.0%</i>	<i>0% - 10%</i>	<i>Yes</i>	<i>0.1%</i>
<i>Non-U.S. Emerging Mkts</i>	<i>\$772,408,251</i>	<i>\$790,145,911</i>	<i>4.5%</i>	<i>4.6%</i>	<i>4.0%</i>	<i>0% - 8%</i>	<i>Yes</i>	<i>0.6%</i>
Fixed Income	\$3,707,902,496	\$3,749,341,731	21.7%	21.9%	24.0%	2% - 60%	Yes	-2.1%
<i>Core Fixed Income</i>	<i>\$820,678,235</i>	<i>\$862,117,470</i>	<i>4.8%</i>	<i>5.0%</i>	<i>6.0%</i>	<i>2% - 25%</i>	<i>Yes</i>	<i>-1.0%</i>
<i>Opportunistic Credit</i>	<i>\$2,887,216,247</i>	<i>\$2,887,216,247</i>	<i>16.9%</i>	<i>16.9%</i>	<i>18.0%</i>	<i>0% - 35%</i>	<i>Yes</i>	<i>-1.1%</i>
<i>Emerging Mkts Debt</i>	<i>\$8,014</i>	<i>\$8,014</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>--</i>	<i>Yes</i>	<i>0.0%</i>
Alternatives	\$8,720,621,390	\$8,758,695,401	50.9%	51.2%	47.0%	10% - 65%	Yes	4.2%
Diversifying Assets	\$1,361,739,019	\$1,361,739,019	8.0%	8.0%	10.0%			-2.0%
<i>Global Asset Allocation</i>	<i>\$282,670,603</i>	<i>\$282,670,603</i>	<i>1.7%</i>	<i>1.7%</i>	<i>2.0%</i>	<i>0% - 6%</i>	<i>Yes</i>	<i>-0.3%</i>
<i>Other Diversifying Assets</i>	<i>\$1,079,068,416</i>	<i>\$1,079,068,416</i>	<i>6.3%</i>	<i>6.3%</i>	<i>8.0%</i>	<i>0% - 12%</i>	<i>Yes</i>	<i>-1.7%</i>
Real Estate	\$1,575,364,584	\$1,600,182,034	9.2%	9.3%	8.0%	0% - 15%	Yes	1.3%
<i>REITs</i>	<i>\$147,192,559</i>	<i>\$172,010,009</i>	<i>0.9%</i>	<i>1.0%</i>	<i>0.0%</i>			<i>1.0%</i>
<i>Private Real Estate</i>	<i>\$1,428,172,025</i>	<i>\$1,428,172,025</i>	<i>8.3%</i>	<i>8.3%</i>	<i>8.0%</i>			<i>0.3%</i>
Private Equity	\$3,851,473,503	\$3,851,473,503	22.5%	22.5%	17.0%	0% - 35%	Yes	5.5%
Inflation-Linked Assets	\$1,932,044,284	\$1,945,300,845	11.3%	11.4%	12.0%	0% - 25%	Yes	-0.6%
Cash	\$291,496,688	\$291,496,688	1.7%	1.7%	1.0%	0% - 25%	Yes	0.7%
Total	\$17,118,459,273	\$17,766,199,319	100.0%	103.8%**	100.0%			3.8%

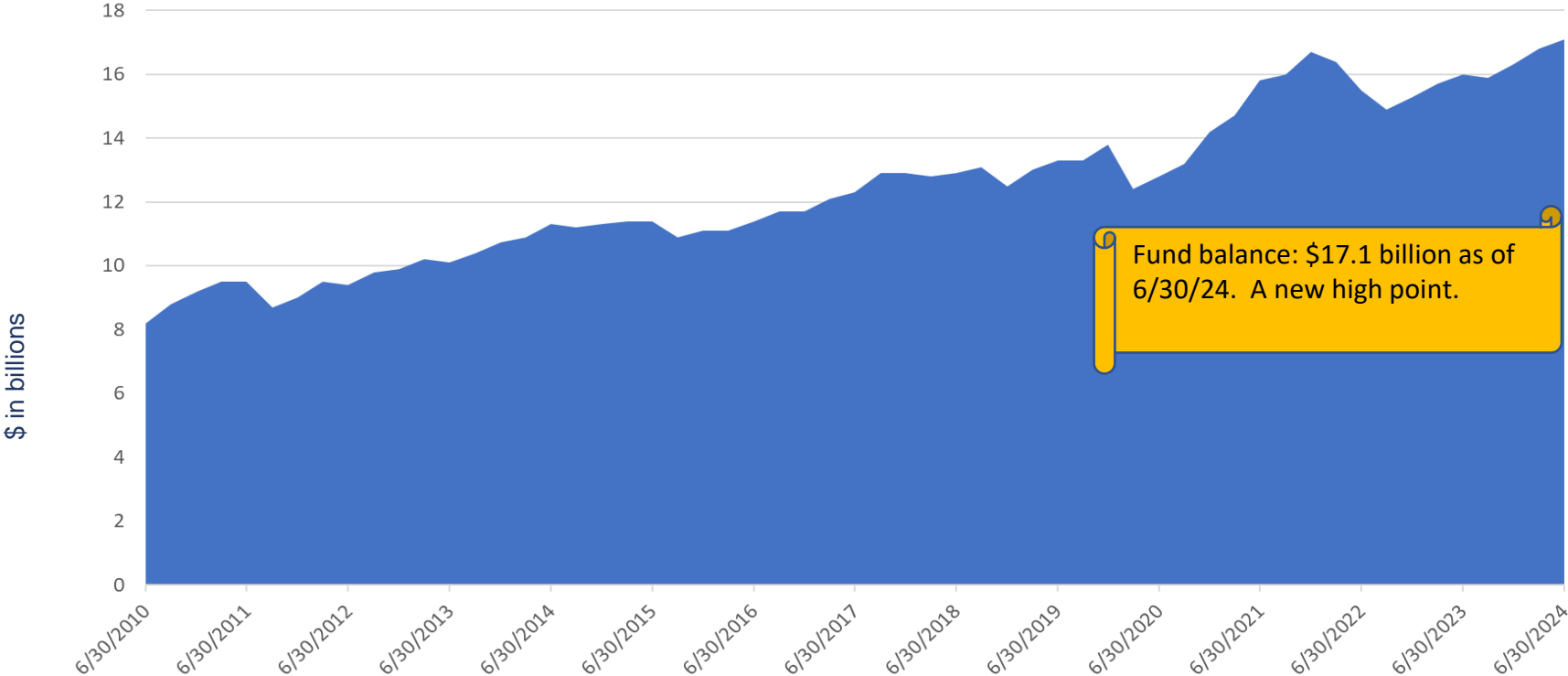
$$C + I = B + E$$

- Legislative changes over the last few years have increased C (Contributions) and altered B (Benefits).
- The result of these changes are that the annual net cash outflow from the fund has decreased.
- The decrease for FY24 vs. FY23 was \$71 million.
- FY23 vs. FY22 \$137 million. Over multiple years, this will help achieve a superior funding position.
- Cash flow is still negative at over \$280 million per year. I (Investment return), of 7% (the actuarial target), is required to make up the gap.

Investment Highlights: June 30, 2024

- The fund has exceeded the actuarial target return of 7% per year in most periods. Results are consistently among the top 10% in the peer group on a risk-adjusted basis.
- The fund reached a new quarterly high of \$17.1 billion as of 6/30.
- For all periods longer than one year, the fund outperformed the median of the public fund peer group as well as the policy index, adding substantial value.
- In the 10-year period, actual results added \$1.3 billion vs. the policy index and \$1.1 billion vs. the median peer fund return.
- The one-year return exceeded 7% but lagged on a relative basis due to an underweight in public equities. This has been addressed recently.

Historical Asset Growth



Investment Performance: June 30, 2024

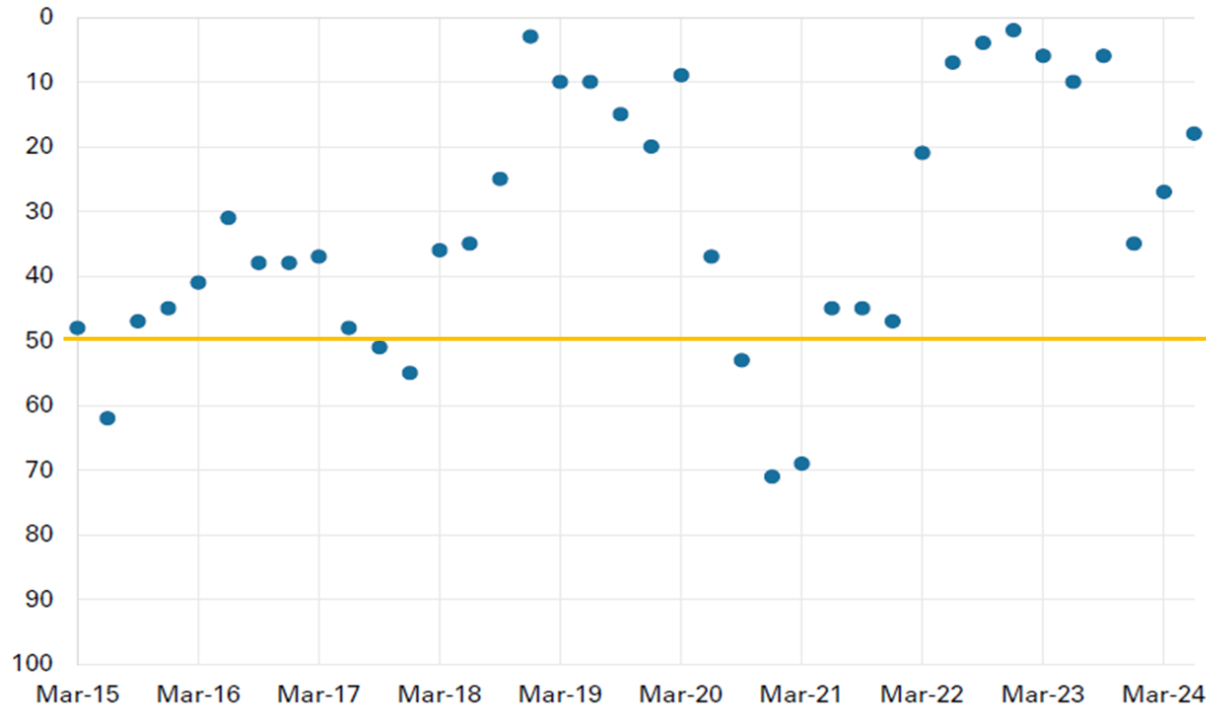
<u>Returns*</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>30 Years</u>
Portfolio	8.64%	4.99%	8.09%	7.41%	7.93%
Policy Index	9.56%	4.55%	7.69%	7.06%	7.17%
Annual Value added	-0.92%	0.44%	0.40%	0.35%	0.76%
Universe Ranking	75	12	18	11	25

*All returns in this presentation are net of external manager fees.



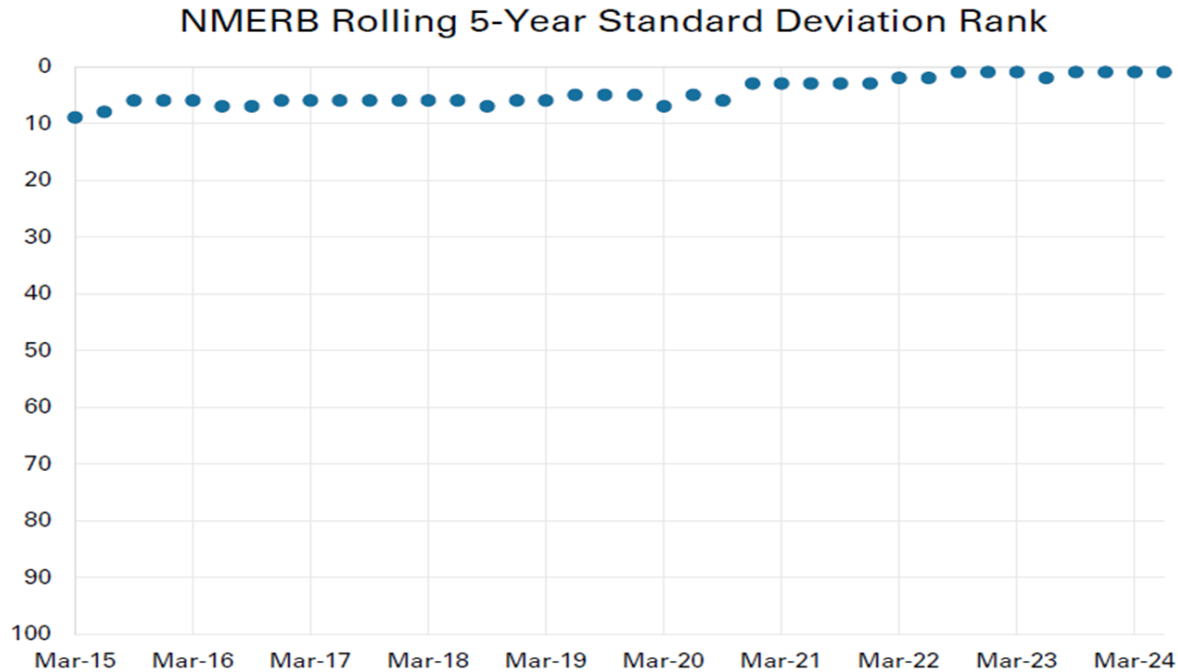
Rolling 5-Year Return Rank

NMERERB Rolling 5-Year Return Rank



Consistently higher than the median public pension fund.....

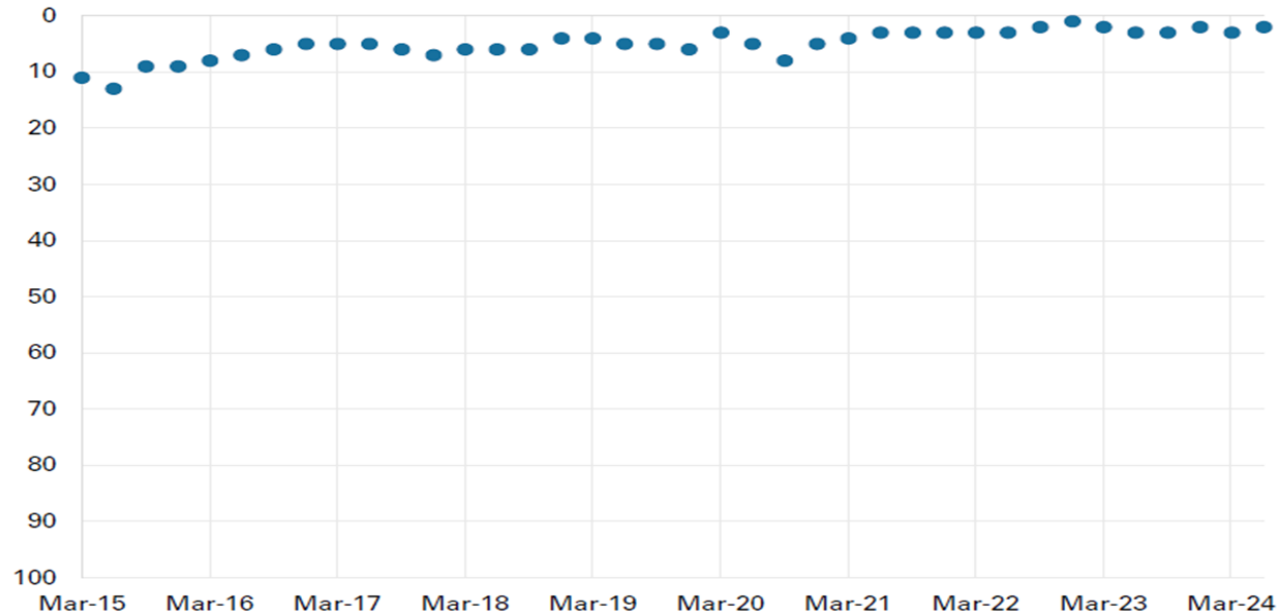
Rolling 5-Year Risk Measure



Lower risk/volatility.....

Return per Unit of Risk

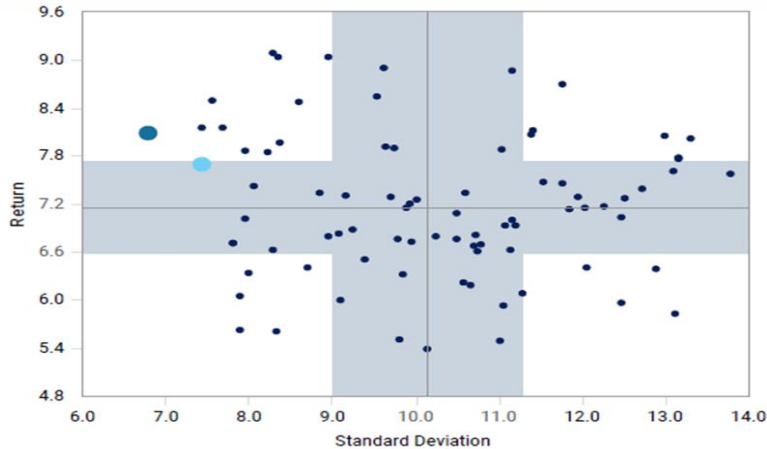
NMERB Rolling 5-Year Sharpe Ratio Rank



.....resulting in superior risk-adjusted returns!

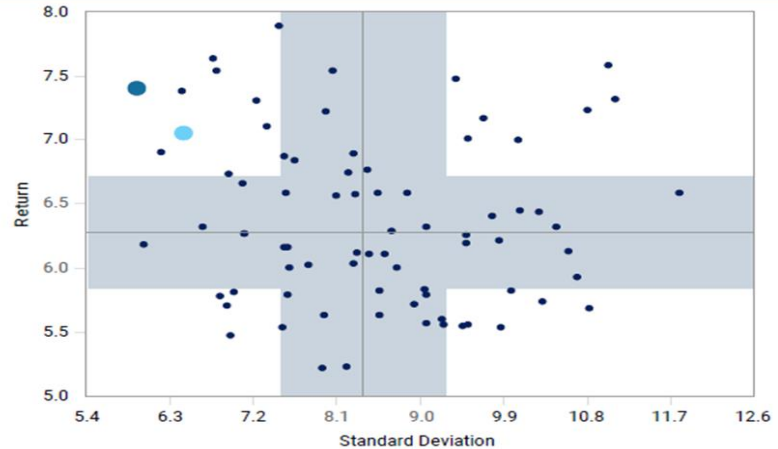
Peer Fund Comparison

5 Years Ending June 30, 2024



● InvMetrics Public DB > \$1 Billion ● Total Fund
● Policy Index

10 Years Ending June 30, 2024



● InvMetrics Public DB > \$1 Billion ● Total Fund
● Policy Index

5 Years Ending June 30, 2024

	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	8.1 (18)	6.8 (1)	0.9 (2)	1.3 (4)
Policy Index	7.7 (31)	7.4 (2)	0.7 (10)	1.1 (11)
InvMetrics Public DB > \$1 Billion Median	7.2	10.1	0.5	0.7

10 Years Ending June 30, 2024

	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	7.4 (11)	5.9 (1)	1.0 (1)	1.5 (1)
Policy Index	7.1 (21)	6.4 (5)	0.9 (8)	1.3 (8)
InvMetrics Public DB > \$1 Billion Median	6.3	8.4	0.6	0.9

Lump Sum Funding Impact

New Mexico Educational Retirement Board
Projected Results as of June 30, 2025
Impact of Lump Sums on Funding Levels
Based on the Actuarial Valuation as of June 30, 2023, Post-Experience Study
Assumes Investment Returns of 7.00%

Lump Sum as of June 30, 2025	Similar Impact Spread Across Two Payments (2025/2026)	Unfunded Accrued Liability	Funded Ratio	Year 90% Funded	Year 100% Funded
\$0.00	\$0.00	\$9.05	66%	2043	2048
\$0.25	\$0.13	\$8.80	67%	2042	2047
\$1.01	\$0.52	\$8.04	70%	2040	2044
\$3.69	\$1.91	\$5.36	80%	2032	2037
\$6.37	\$3.29	\$2.68	90%	2025	2031
\$9.05	\$4.68	\$0.00	100%	2025	2025

\$ in Billions

Projected actuarial accrued liability as of June 30, 2025 is \$26.8 billion. As such, it takes \$2.68 billion for each 10% improvement in the funded ratio.

Increase in Employer Contribution Impact

**New Mexico Educational Retirement Board
Impact of Increased Employer Contributions
Based on the Actuarial Valuation as of June 30, 2023, Post-Experience Study
Assumes Investment Returns of 7.00%**

Projected Payroll in FY 2026 \$3.9 Billion
Estimated Cost of 0.25% Contribution
Increase During FY 2026 \$9.7 Million

Employer Contribution Starting July 1, 2025	Year 90% Funded	Year 100% Funded
18.15%	2043	2048
18.40%	2043	2047
18.65%	2043	2047
18.90%	2042	2046
19.15%	2042	2046

Cost of Potential 13th Check

**New Mexico Educational Retirement Board
Cost of Potential Thirteenth Check Approaches
Based on the Actuarial Valuation Data as of June 30, 2023**

Assumes Thirteenth Payment of Monthly Benefit Amount July 1, 2025, Limited to Amount Shown

	Require annuitant be COLA Eligible at July 1, 2025?	Limit on 13th Check	One-time Cost \$ in Millions
Scenario 1	N	None	\$124
Scenario 2	Y	None	\$100
Scenario 3	Y	\$3,500	\$90
Scenario 4	Y	\$2,500	\$79
Scenario 5	Y	\$1,500	\$58

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