



Transparency through Publications and Policies

Investments and Pensions Oversight Committee

Representative Tomás E. Salazar, Chair

Senator George K. Muñoz, Vice-Chair

August 10, 2018

James Maxon, MPA Chair

Dominic Garcia, Chief Investment Officer

Anna Williams, CPA, Chief Financial Officer

Transparency through Board and Committee Meetings

- Beginning in November 2017, PERA started to video stream Board and Committee meetings live.
- Since 2013, Board and Committee meetings have been audio streamed in real time.
- Meeting minutes and recordings are posted online at <http://www.nmpera.org/board-of-trustees/meeting-minutes-and-audio>



Multiple Levels of Review that aid in Financial Transparency Disclosure

PERA has multiple layers of independent oversight and review that provides external verification of assets, liabilities and internal controls that aid in our accountability in providing transparency to the public.

AUDITOR

Contracted independent internal and external auditors

ACTUARY

External actuarial valuations of assets and liabilities

CUSTODY BANK

External custodian bank valuations, reconciliations and performance reporting

CONSULTANT

Independent investment consultations on valuations and performance reporting

Comprehensive Annual Financial Report

- PERA Comprehensive Annual Financial Report (CAFR) is reviewed and released by the Office of the State Auditor.
- PERA's fiscal year 2016 & 2017 Annual Financial Report received an unmodified opinion with no findings.
- PERA's Comprehensive Annual Financial Reports can be found on our website at: <http://www.nmpera.org/financial-overview/comprehensive-annual-financial-report>
- PERA has received 16 consecutive annual awards for “Certificate of Achievement for Excellence in Financial Reporting” by the Government Finance Officers Associations for PERA's annual CAFR.

*GFOA's award program encourages entities to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that provide evidence of “**the spirit of transparency and full disclosure**”*

Popular Annual Financial Report (PAFR)

- For Fiscal Year (FY) 2017, PERA prepared its first Popular Annual Financial Report (PAFR) to supplement the CAFR.
- This is a reader-friendly summary of detailed information contained in the FY 2017 CAFR.
- PERA's PAFR can be found on our website at: <http://www.nmpera.org/financial-overview/popular-annual-financial-report>

SUMMARY COMPARATIVE COMBINED STATEMENT OF FIDUCIARY NET POSITION

Includes all PERA trust funds—PERA, Judicial, Magistrate, and VFF and the Deferred Compensation Plan
 The Comparative Combined Statement of Fiduciary Net Position is a summary of the net assets available to pay future benefit payments and gives a snapshot at a particular point in time.

	As of June 30, 2017	As of June 30, 2016
Total Assets	\$ 16,794,761,911	\$ 15,879,235,351
Total Liabilities	(1,238,769,136)	(1,372,717,218)
Fiduciary Net Position	<u>\$ 15,555,992,775</u>	<u>\$ 14,506,518,133</u>

SUMMARY COMPARATIVE COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Includes all PERA trust funds—PERA, Judicial, Magistrate, and VFF and the Deferred Compensation Plan
 The Comparative Combined Statement of Changes in Fiduciary Net Position shows the inflows and outflows during the year.

	As of June 30, 2017	As of June 30, 2016
Total Additions	\$ 2,241,006,811	\$ 684,089,631
Total Deductions	(1,197,667,540)	(1,131,174,263)
Special Items	-	11,804,997
Net Change	\$ 1,043,339,271	\$ (435,279,635)
Fiduciary Net Position Beginning of Year	14,506,518,133	14,941,153,791
Prior Period Adjustments	6,135,371	643,977
Fiduciary Net Position End of Year	<u>\$ 15,555,992,775</u>	<u>\$ 14,506,518,133</u>

Actuarial Valuation –Transparency

AGGREGATE FUNDED STATUS

For the Fiscal Year Ended June 30th

	2017 (1)	2016 (2)
ALL PERA DIVISIONS		
Actuarial Accrued Liability	\$20.2 billion	\$19.5 billion
Assets Held to Pay Those Liabilities	\$15.1 billion	\$14.7 billion
Unfunded Actuarial Accrued Liability	\$5.1 billion	\$4.8 billion
Funded Ratio	74.9%	75.3%
JUDICIAL FUND		
Actuarial Accrued Liability	\$149 million	\$146 million
Assets Held to Pay Those Liabilities	\$92.1 million	\$90.5 million
Unfunded Actuarial Accrued Liability	\$57.3 million	\$56.5 million
Funded Ratio	61.7%	61.6%
MAGISTRATE FUND		
Actuarial Accrued Liability	\$54.1 million	\$53.5 million
Assets Held to Pay Those Liabilities	\$33.2 million	\$33.1 million
Unfunded Actuarial Accrued Liability	\$20.9 million	\$20.5 million
Funded Ratio	61.3%	61.7%
VFF FUND		
Actuarial Accrued Liability	\$46.4 million	\$45.2 million
Assets Held to Pay Those Liabilities	\$68.0 million	\$64.9 million
Unfunded Actuarial Accrued Asset	(\$21.6 million)	(\$19.6 million)
Funded Ratio	146.6%	143.4%
LEGISLATIVE FUND		
Actuarial Accrued Liability	\$28.1 million	\$27.9 million
Assets Held to Pay Those Liabilities	\$42.5 million	\$40.5 million
Unfunded Actuarial Accrued Asset	(\$14.4 million)	(\$12.5 million)
Funded Ratio	151.4%	144.8%

- The table below shows the funded status and the summarized results of the actuarial valuation for funding purposes as of June 30, 2017 and June 30, 2016.
- The Actuarial Valuation reports can be found at <http://www.nmpera.org/financial-overview/retirement-fund-valuation-reports>

Actuarial Valuation –Transparency (Continued)

- The table contains a summary of the results of the actuarial valuation for financial reporting purposes.
- The GASB 67 Supplemental Reports can be found at <http://www.nmpera.org/financial-overview/gasb-67-supplemental-reports>

COMPONENTS OF NET PENSION LIABILITY		
For the Fiscal Year Ended June 30th		
	2017 (1)	2016 (2)
ALL PERA DIVISIONS *		
Total Pension Liability	\$20.0 billion	\$20.0 billion
Plan Net Position	\$14.8 billion	\$13.8 billion
Net Pension Liability	\$5.2 billion	\$6.2 billion
	73.74%	69.18%
JUDICIAL FUND		
Total Pension Liability	\$176 million	\$191.5 million
Plan Net Position	\$89.6 million	\$84.9 million
Net Pension Liability	\$86.6 million	\$106.6 million
	50.83%	44.34%
MAGISTRATE FUND		
Total Pension Liability	\$65.6 million	\$74.5 million
Plan Net Position	\$32.2 million	\$31.0 million
Net Pension Liability	\$33.4 million	\$43.5 million
	49.10%	41.65%
VFF FUND		
Total Pension Liability	\$48.5 million	\$48.9 million
Plan Net Position	\$66.40 million	\$61.0 million
Net Pension Asset	(\$17.9 million)	(\$12.1 million)
	136.90%	124.76%

Actuarial assumptions—The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017.

Additional Transparency

- PERA also provides information that is posted on the State's Sunshine portal, such as contracts over \$20,000 and employee salaries.
- PERA provides effective mechanisms that enables stakeholders to request and obtain information from us.
- PERA responds to all IPRA requests within the mandated response times.
- Promoting a culture of accountability and ethical behavior for staff through trainings on ethics and implementation of a code of conduct.
- Disclosure to the Board and Legislature on all investment manager expenses, including profit sharing.

PERA Investment Process



Adopted Governance Changes

Responsibility	Decision Mode	Area of Focus	Meeting Frequency	Transparency & Accountability
Board	Strategic	Strategic direction Strategic Asset allocation (“SAA”) Approve plan risk tolerance and active risk budget & target return Performance & program evaluation	6-8 times per year	Public discussion, annual disclosures, and formalization in the PERA Investment Policy Statement
Investment Committee	Strategic	Recommend SAA Recommend Active Risk Budget Benchmarking Adopt Work Plan	3-4 times per year	Regular reporting to the Board
Staff	Implementation	Implement SAA Implement Active Risk Budget (manager selection, diligence, monitoring) Education	Monthly portfolio risk, implementation, and strategy meeting	Regular reporting to the Investment Committee and the Board Required approval of any exceptions to Strategic Asset Allocation and Active Risk Budget
Consultant-Board	Strategic	Strategic direction Strategic Asset allocation Risk budget Benchmarking Advising on program evaluation Education	N/A	Public discussion and regular reporting to Investment Committee and the Board
Consultant-Staff	Implementation	Manager selection, diligence, monitoring	N/A	Semi-Annual Staff Consultant reporting to Investment Committee and the Board

Note: all reporting and discussion presented to the Board and Investment Committee are held in compliance with the Open Meetings Act

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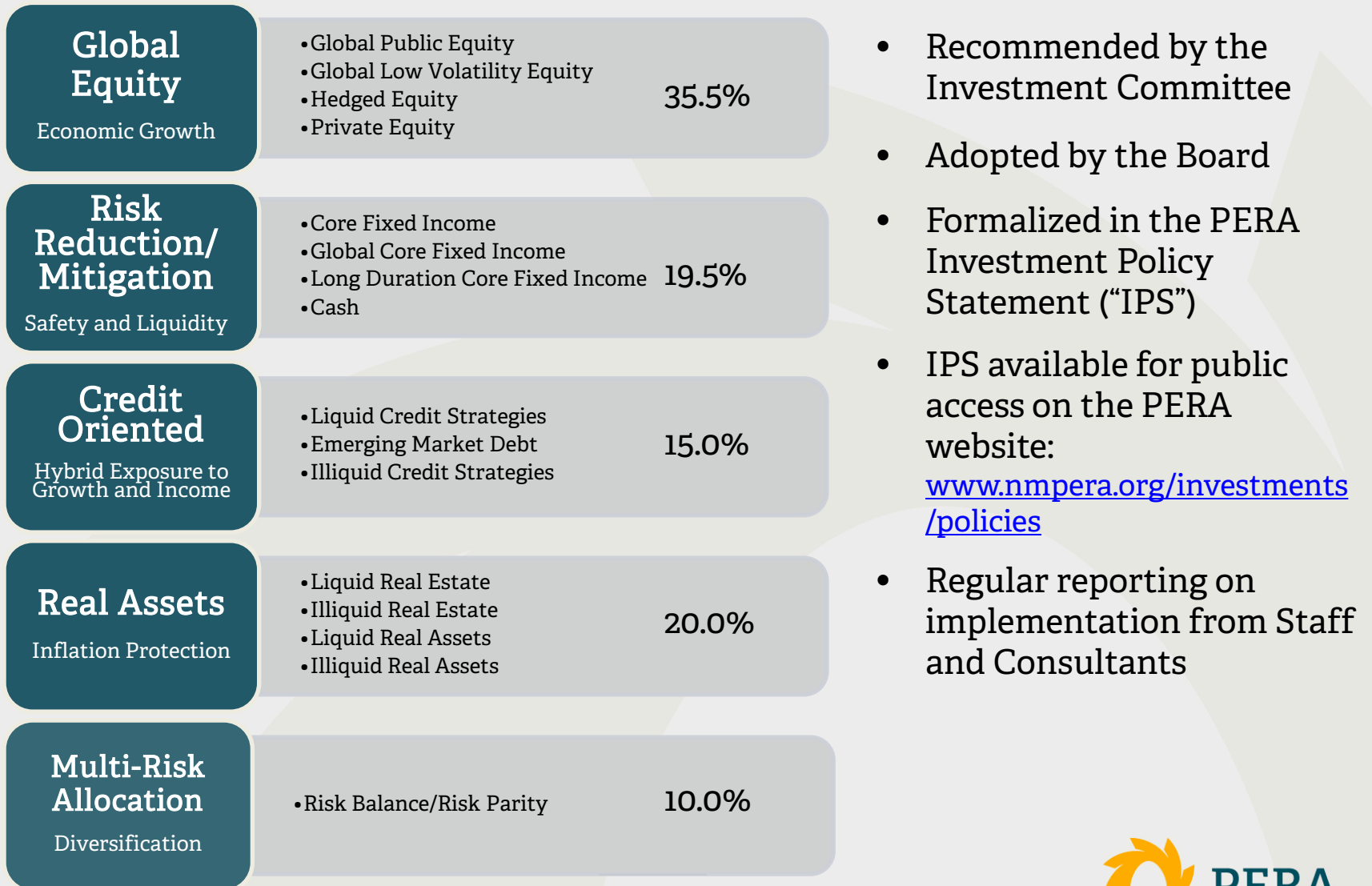


2018 Annual Work Plan

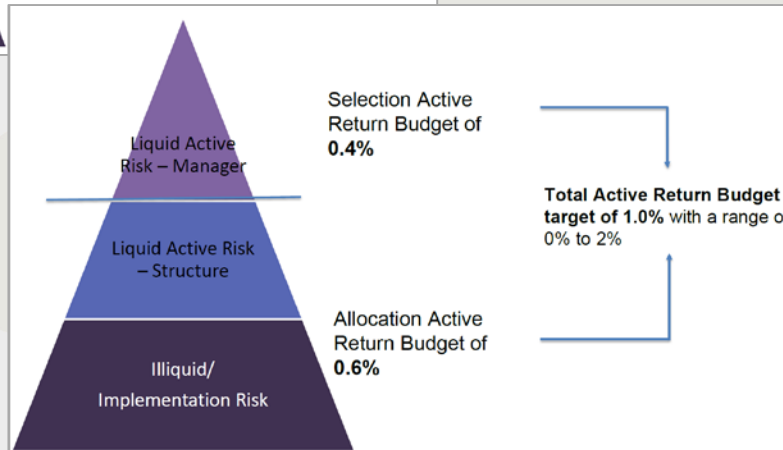
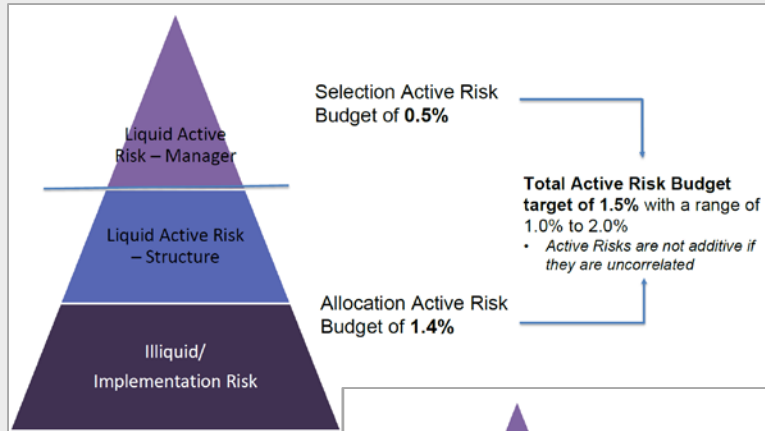
- Reviewed and approved annually by the Board

Month	Investment Committee – Potential Action Items	Board
January	<ul style="list-style-type: none"> • Review & approve 2018 work plan 	
February	<ul style="list-style-type: none"> • No meeting 	<ul style="list-style-type: none"> • Education only: risk budget
March	<ul style="list-style-type: none"> • Review & recommend risk budget • Review & recommend active management target return 	<ul style="list-style-type: none"> • Adopt risk budget • Adopt active management target return
April	<ul style="list-style-type: none"> • No meeting 	<ul style="list-style-type: none"> • Education only: risk balance (strategic asset allocation and reference portfolio 2.0)
May	<ul style="list-style-type: none"> • Review & approve reference portfolio 	
June	<ul style="list-style-type: none"> • No meeting 	<ul style="list-style-type: none"> • Education only: risk balance (strategic asset allocation)
July – annual retreat	<ul style="list-style-type: none"> • Review and recommend strategic asset allocation target updates 	<ul style="list-style-type: none"> • Adopt strategic asset allocation target updates • Retreat: asset liability study & actuarial assumption review
August	<ul style="list-style-type: none"> • No meeting 	
September	<ul style="list-style-type: none"> • Performance & routine updates (not for action) 	
October	<ul style="list-style-type: none"> • No meeting 	
November	<ul style="list-style-type: none"> • Strategic asset allocation target updates (changes if necessary) • Review and approve benchmarks (changes if necessary) 	<ul style="list-style-type: none"> • If necessary, approve strategic asset allocation target changes
December	<ul style="list-style-type: none"> • No meeting 	

Adopted Strategic Asset Allocation



Adopted Active Risk/Return Budget



- Accountability for implementation results
- Allocation: risk attributable to decisions that deviate from the Board approved benchmark portfolio
- Selection: active risk attributable to uncorrelated return streams
- Recommended by the Investment Committee
- Adopted by the Board
- Regular reporting on implementation from Staff and Consultants

Implementation & Manager Selection

- Board approved Procurement Policy for Investment Related Services (available for public access on the PERA website: www.nmpera.org/investments/policies)
- Formalized 5-Stage Manager Selection Process
- Manager selection activity presented to the Investment Committee



Monitoring & Attribution



- Monthly Performance Summary provided to the Investment Committee and Board.
- Quarterly Performance Review provided to the Investment Committee and Board.
- Monthly Performance Summary available for public access on the PERA website.
- Successful FY 2018 internal audit of reconciliation and reporting process.

Investment Fees Transparency

- Net of fee reporting on all presented materials and published performance reports
- Annual fiscal year disclosure of expenses within CAFR and PAFR
- Annual fiscal year disclosure of expenses to Legislative oversight committees
- Annual calendar year comparison of on and off budget expenses relative to peers of similar size and asset allocation

Public Employees Retirement Association Fiscal Year 2017 Management Fees						
Asset Class	Management Fees FY 17	NAV at 6/30/17	Unfunded as of 6/30/2017	NAV + Unfunded as of 6/30/2017	Annl. Cost NAV & Unfunded (in bps) ⁹	Carried Interest Profit Sharing
Global Equity	\$23,914,848	\$7,127,422,769	\$730,300,140	\$7,857,722,909	30	\$20,232,721
Liquid Equity 1	\$6,037,582	\$6,151,968,535	\$0	\$6,151,968,535	10	\$1,368,343
Illiquid Equity 2	\$17,877,266	\$975,454,234	\$730,300,140	\$1,705,754,374	105	\$18,864,378
Risk Mitigation and Reduction ³	\$4,551,048	\$3,749,089,584	\$0	\$3,749,089,584	12	\$0
Credit	\$14,646,227	\$2,106,013,427	\$360,178,836	\$2,466,192,263	59	\$2,752,367
Liquid Credit 4	\$1,082,151	\$302,727,400	\$0	\$302,727,400	36	\$0
Illiquid Credit 5	\$13,564,076	\$1,803,286,027	\$360,178,836	\$2,163,464,863	63	\$2,752,367
Real Assets	\$23,239,950	\$2,067,276,556	\$796,642,949	\$2,863,919,505	81	\$10,769,927
Liquid Real Assets 6	\$3,389,269	\$872,760,096	\$0	\$872,760,096	39	\$0
Illiquid Real Assets 7	\$19,850,681	\$1,194,516,460	\$796,642,949	\$1,991,159,409	100	\$10,769,927
Total FY17	\$66,352,073	\$15,049,802,336	\$1,887,121,925	\$16,936,924,261	39	\$33,755,015
Total FY16					36	
Total FY15					42	
Total FY14					47	

Administration Fees	2.9 bps ⁸
1. Liquid Equity	Includes: Global Public Equity
2. Illiquid Equity	Includes: Buyout Private Equity, Venture Private Equity, Event Driven Hedged Funds, and Equity Long Short Hedged Funds
3. Risk Mitigation and Reduction	Includes: Core Fixed Income and Cash Equivalents
4. Liquid Credit	Includes: Global High Yield Fixed Income, Leveraged/Structured Credit, and Emerging Market Debt
5. Illiquid Credit	Includes: Private Debt, Distressed Debt, Hedged Credit
6. Liquid Real Assets	Includes: REITs and Listed Infrastructure
7. Illiquid Real Assets	Includes: Illiquid Real Estate, Illiquid Real Assets (Energy, Infrastructure, Agriculture), and Market Neutral Hedged Funds
8. Administrative Expenses FY16	Includes: Custody Fees, Consultant Fees, Software & Subscriptions, Legal Fees, and Investment Staff Salaries
9. Basis Point (bps)	Is 1/100 of a percentage