



PERA

Legislative Finance Committee

Representative Patricia A. Lundstrom, Chair

Senator George K. Muñoz, Vice Chair

July 21, 2021

Francis Page, Acting Board Chair

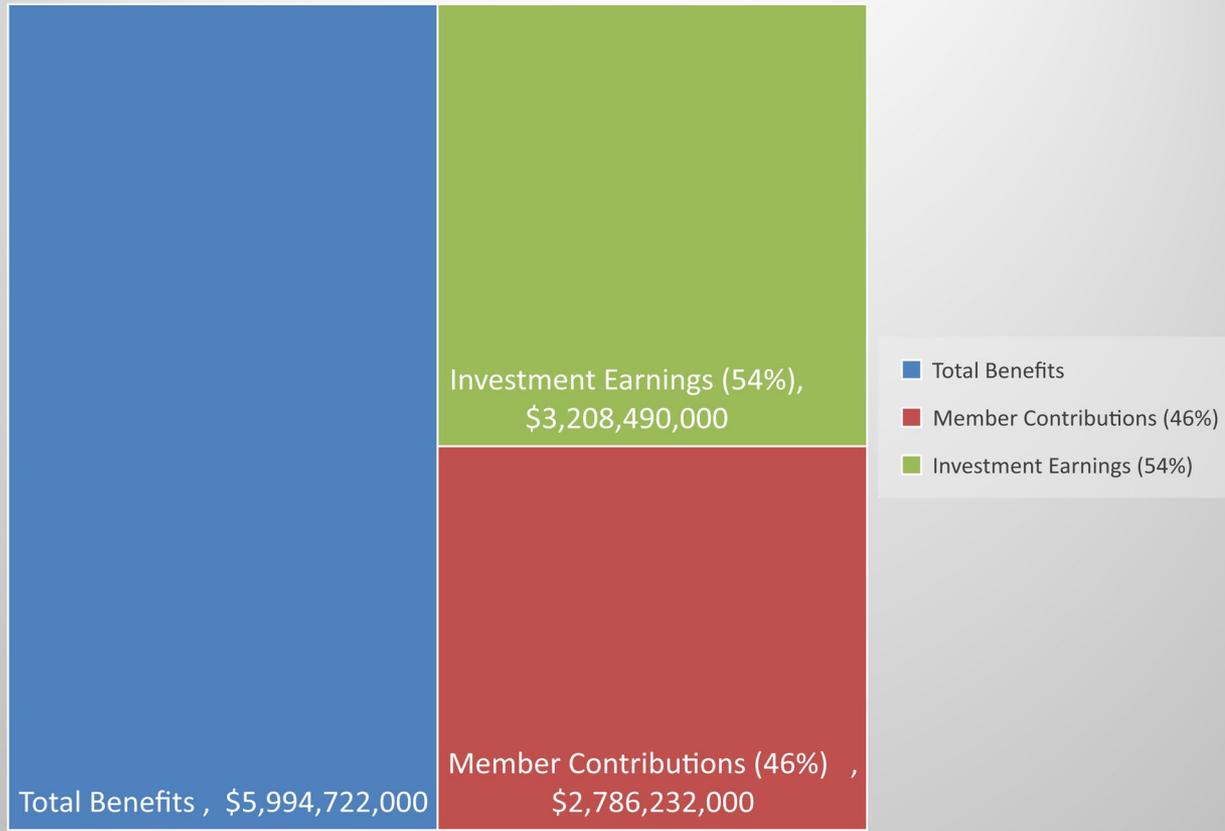
Greg Trujillo, Interim Executive Director

Kristin Varela, Interim Chief Investment Officer

Reporting Review Period: March 31, 2021

Mission to Members: Prudent Management

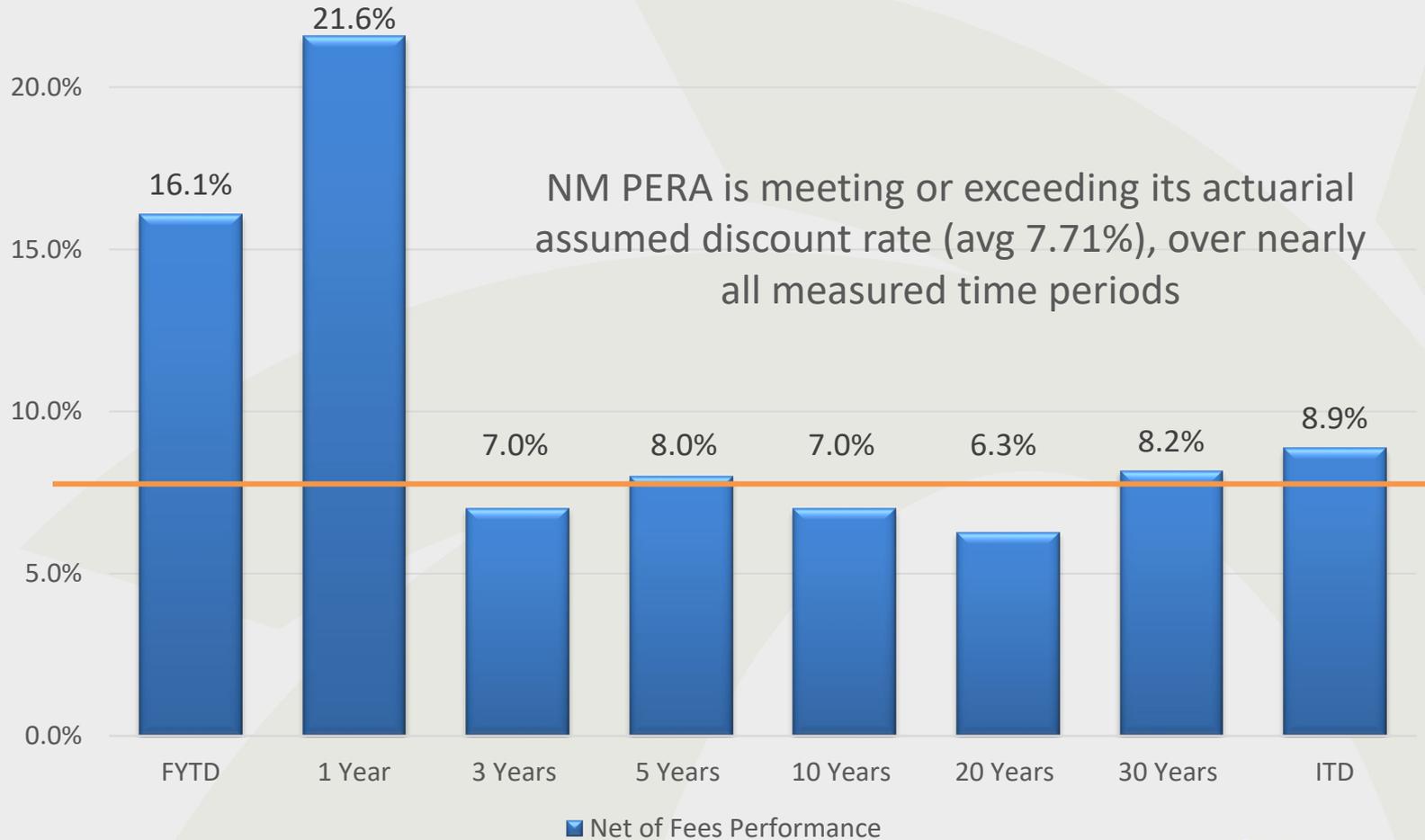
Benefit Payments (5 Year Breakout)



- Paid close to \$6 billion in total benefit payments to our members
- Investment earnings supported 54% of these benefits
- This level of reliance on investment activity requires diversification, liquidity, and comprehensive risk management

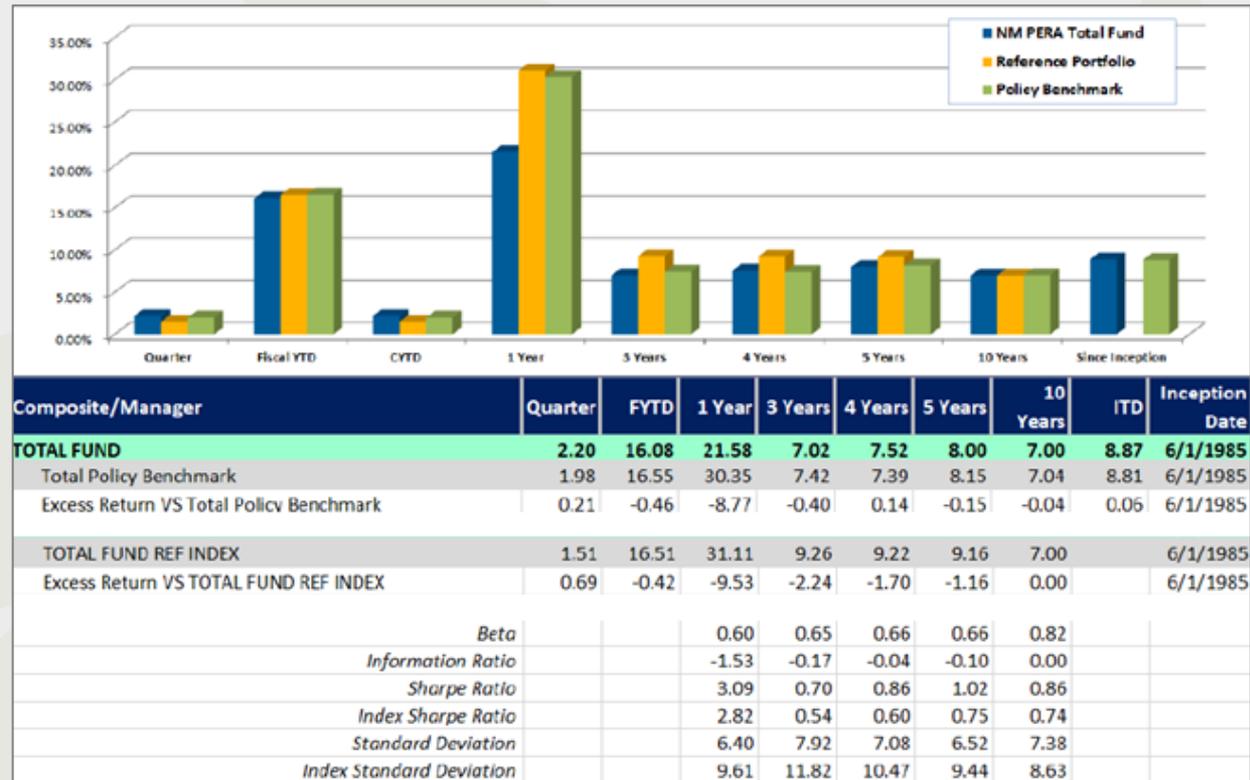
NOTE: Actual benefit flows. April 2016 – March 2021

Scorecard: Assumed Rate of Return



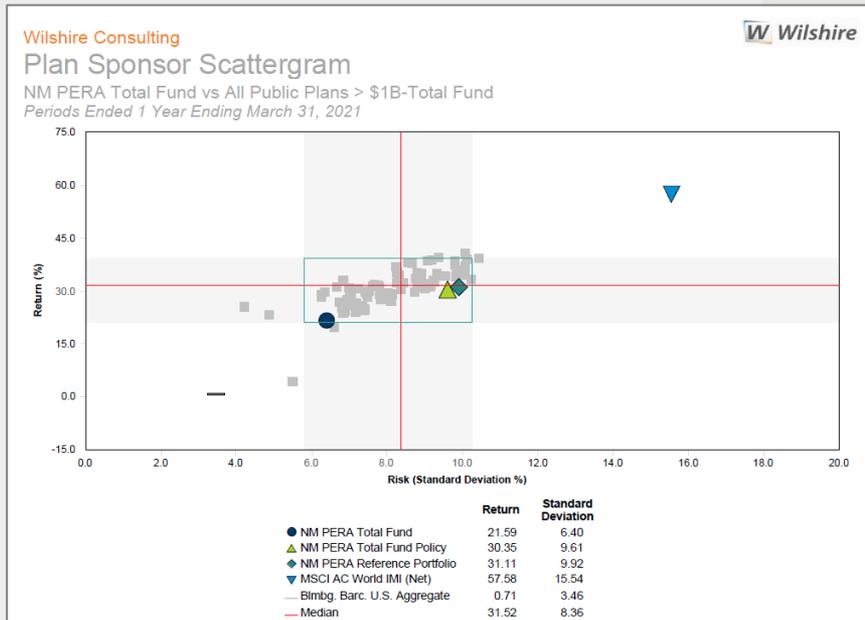
Scorecard: Market Return

- Strong absolute performance
- Relative performance underperformed the benchmark for almost all measured time horizons
- PERA's investment strategy is expected to lag the index during strong market rallies
- Allocation to illiquid assets created larger than normal short-term return dispersions:
 - Lagged publishing of 12/31 valuations
 - Ongoing liquid benchmarking mismatch

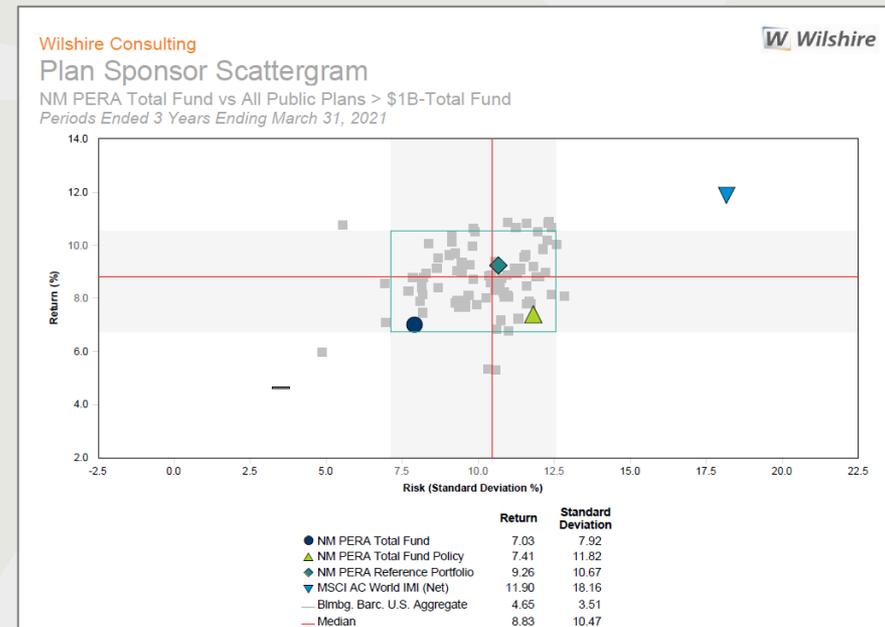


Source: Wilshire Quarterly Performance Report, Q1 2021

Comparison: Risk Adjusted Results

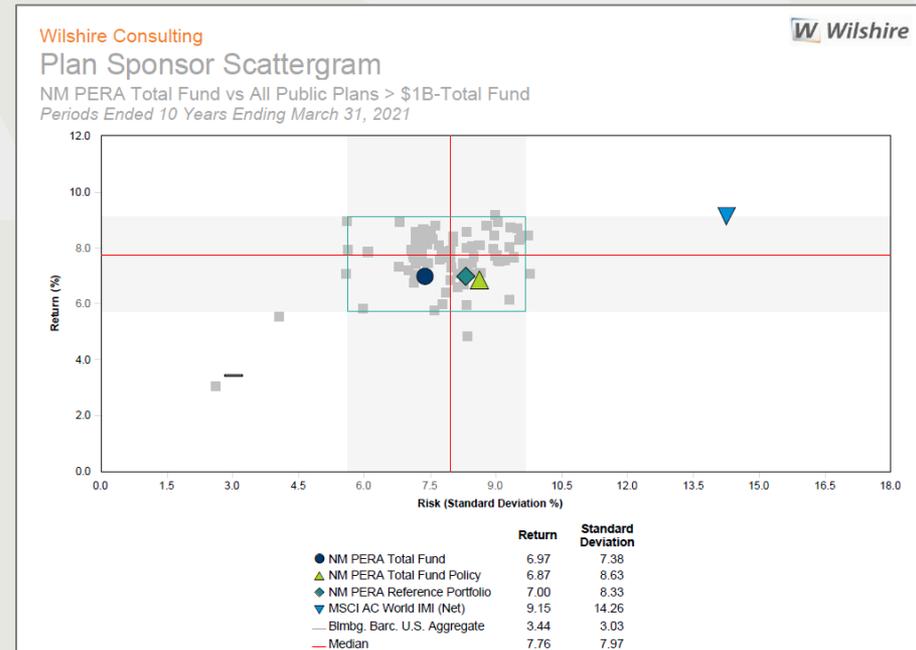
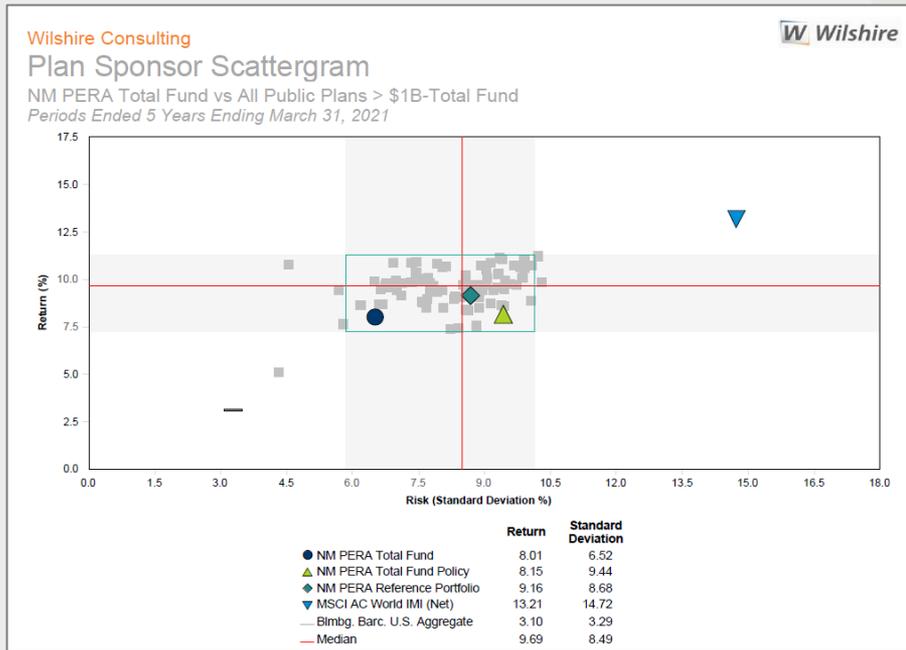


- Peer comparison must consider risk level as well as return



- PERA's asset allocation is highly diversified and efficient, but does target a risk that is close to 20% lower than industry peers

Comparison: Risk Adjusted Results



Comparison: Risk Adjusted Results

PERA ranks near the median in risk-adjusted return efficiency

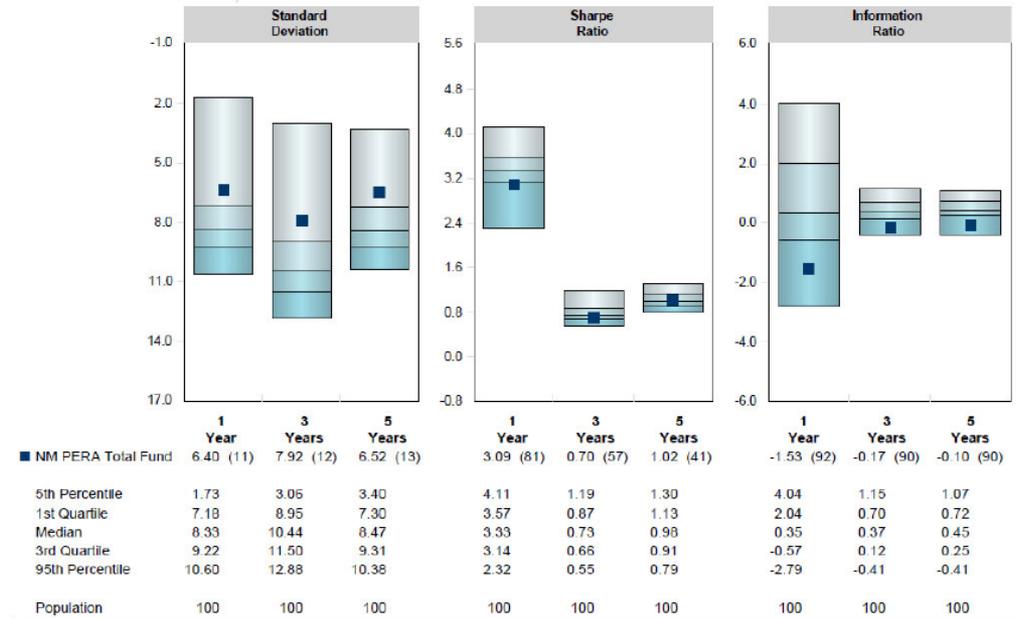
PERA OF NEW MEXICO

Multi-Stats Peer Group Comparison (Public Plans >\$1B)

Plan Sponsor Peer Group Analysis - Multi Statistics

NM PERA Total Fund vs All Public Plans > \$1B - Total Fund

Periods Ended March 31, 2021



Percentiles contain percentile rankings.
Calculation based on monthly periodicity.

Performance is NOF

Source: Wilshire Quarterly Performance Report, Q1 2021

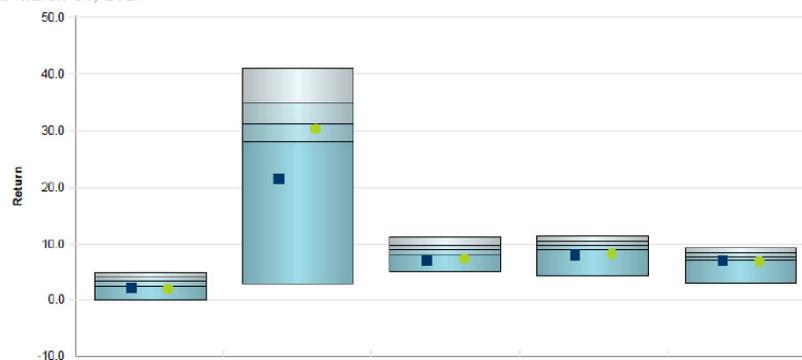
Comparison: Absolute Results

- Absolute returns rank in the bottom decile for all time periods
- PERA maintains a low growth correlation and focuses on achieving the best results per unit of risk allocated
- This strategy does not always equate to top quartile absolute results, especially in equity boom markets
- Is expected to minimize drawdown and preserve capital during times of heightened volatility

PERA OF NEW MEXICO

Peer Group Comparison (Public Plans >\$1B)

NM PERA Total Fund vs All Public Plans > \$1B-Total Fund
Periods Ended March 31, 2021



| | 1 Quarter | 1 Year | 3 Years | 5 Years | 10 Years |
|-----------------------------|-----------|------------|-----------|-----------|-----------|
| ■ NM PERA Total Fund | 2.20 (79) | 21.59 (93) | 7.03 (90) | 8.01 (90) | 6.97 (81) |
| ● NM PERA Total Fund Policy | 1.98 (83) | 30.35 (61) | 7.41 (87) | 8.15 (90) | 6.87 (82) |
| 5th Percentile | 4.97 | 41.02 | 11.13 | 11.33 | 9.19 |
| 1st Quartile | 4.00 | 35.14 | 9.80 | 10.43 | 8.32 |
| Median | 3.32 | 31.51 | 8.83 | 9.69 | 7.74 |
| 3rd Quartile | 2.56 | 28.14 | 8.03 | 8.97 | 7.11 |
| 95th Percentile | 0.02 | 2.82 | 5.12 | 4.35 | 2.92 |
| Population | 101 | 100 | 100 | 100 | 91 |

Percentiles contain percentile rankings.
Calculation based on monthly periodicity.

Performance is NOF

Source: Wilshire Quarterly Performance Report, Q1 2021

Investment Strategy: Diversification

- PERA's investment strategy is rooted in diversification and prudent risk management
- Will perform better than the market in downturns and will lag in market booms

Market Return
(BLUE)



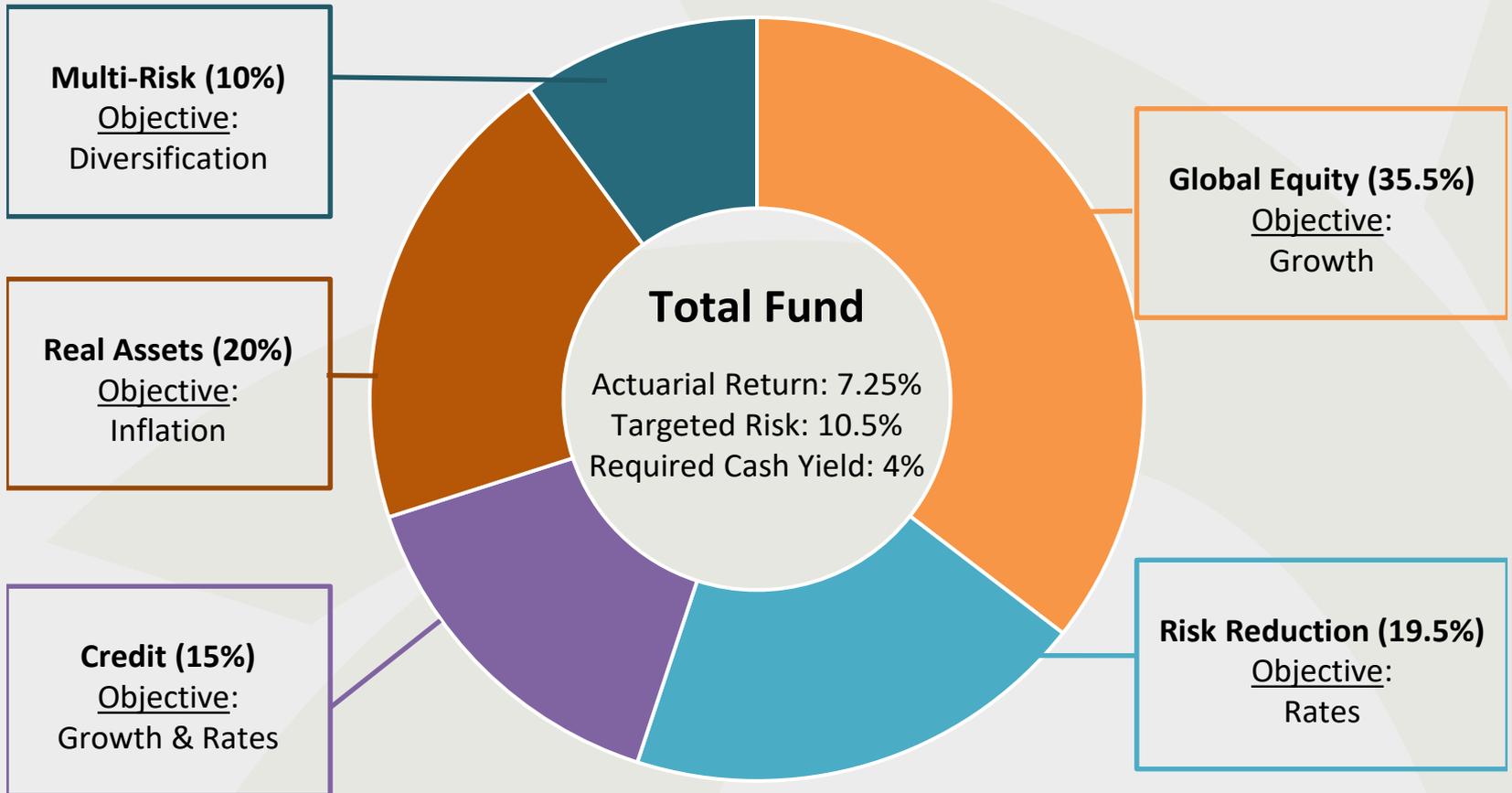
*Compound & produce
better terminal wealth
over time*

NM PERA
(GREEN)

*Keep-up,
but lag in
boom times*

*Minimize
market
drawdowns*

Implementation: Risk Allocation

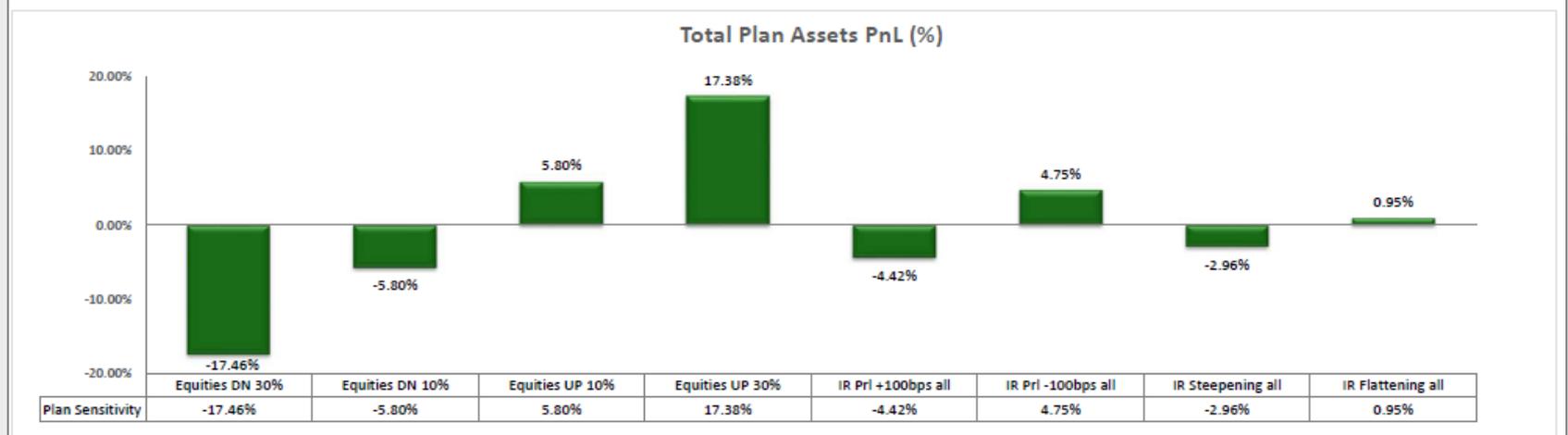


Evolution: Decreased Reliance on Equity



Goal: A Smoother Path

| Total Plan Assets | Plan Assets | Equities DN 30% | Equities DN 10% | Equities UP 10% | Equities UP 30% | IR Prl +100bps all | IR Prl -100bps all | IR Steepening all | IR Flattening all |
|------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|--------------------|--------------------|-------------------|-------------------|
| NM Strategy | 100.00% | -17.46% | -5.80% | 5.80% | 17.38% | -4.42% | 4.75% | -2.96% | 0.95% |
| Credit Oriented Fixed Income | 15.17 % | (0.86 %) | (0.29 %) | 0.30 % | 0.91 % | (0.49 %) | 0.55 % | (0.31 %) | 0.09 % |
| Global Equity | 35.72 % | (9.96 %) | (3.31 %) | 3.30 % | 9.89 % | 0.00 % | (0.00 %) | 0.00 % | 0.00 % |
| Multi Risk Allocation | 9.75 % | (1.50 %) | (0.50 %) | 0.50 % | 1.50 % | (2.46 %) | 2.66 % | (1.59 %) | 0.48 % |
| Real Assets | 20.88 % | (4.77 %) | (1.58 %) | 1.57 % | 4.70 % | (0.29 %) | 0.31 % | (0.21 %) | 0.07 % |
| Risk Reduction & Mitigation | 18.48 % | (0.36 %) | (0.12 %) | 0.13 % | 0.38 % | (1.19 %) | 1.23 % | (0.84 %) | 0.30 % |



Source: BNY Mellon Board Risk Report, March 31, 2021

Note: Hypothetical scenario-based stress testing, reliant on forecasted market expectations

Looking Forward...

May Preliminary Returns:

- The Fund's market value increased by \$387 million, to \$17.4b, a new all-time high
- Across all time horizons, the Fund is exceeding its assumed rate of return (7.25%)
- Continued strong absolute results as well as improved relative results

| As of 05/31/2021 | Fiscal YTD | 1 Year | 3 Year | 5 year | 10 Year | ITD (1985) |
|---|------------|--------|--------|--------|---------|------------|
| PERA Total Fund Returns (Net of Fees)* | 22.67% | 24.06% | 8.65% | 8.94% | 7.35% | 8.98% |
| Policy Benchmark* | 22.81% | 24.87% | 8.90% | 9.09% | 7.21% | 8.92% |
| Value Add | -0.14% | -0.81% | -0.25% | -0.15% | 0.14% | 0.06 |

*Annualized returns

June Early Estimates:

- Early internal fund estimates reflect a NAV of \$17.6b and a FYTD return of approx. 24%.

Appendix

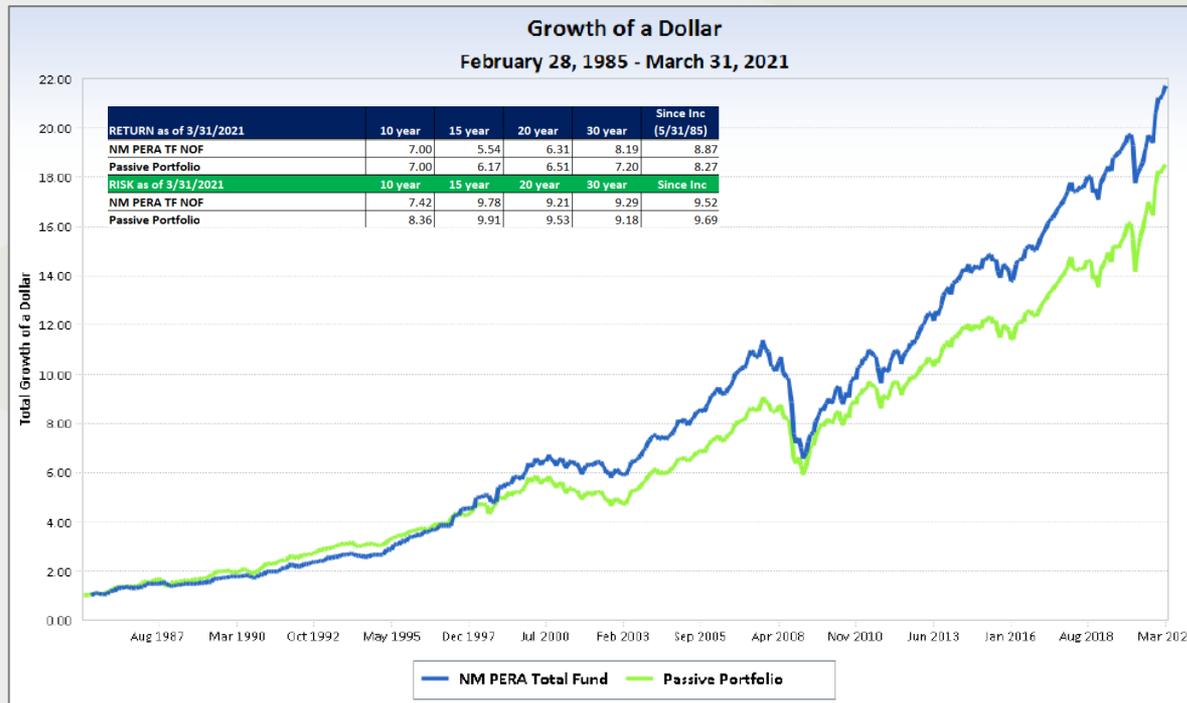
Key Strategic Goals

1. Sustain the Trust Fund for current and future retirees
 - A. Work towards 30-year funding period or unfunded actuarial accrued liability
2. Set Strategic asset allocation to meet the actuarial assumed return over the long-run
 - A. Meet assumed actuarial return within prudent risk parameters
 - B. Maintain sufficient liquidity to meet PERA's obligations
3. Produce returns to meet or exceed benchmarks
 - A. Meet or exceed the Policy Index over the long-term
 - B. Meet or exceed the Reference Portfolio over the long-term
4. Be Cost-Efficient
 - A. Achieve a total investment cost at or below the benchmark cost relative to peers adjusted for fund size, allocations, and strategy

NOTE: Objectives are set in PERA's 5-Year Strategic Plan (2018-2023) & set PERA's performance measures reviewed and monitored by Legislative Finance Committee (LFC) and Department of Finance & Administration (DFA)

Scorecard: Diversification & Complexity

- Reference portfolio is a passive simple benchmark, set at the same risk or volatility as the PERA portfolio: ~62% stock, 38% bond portfolio
- Since inception, PERA has out-performed the passive reference portfolio, reflecting the value of diversification and complexity in strategic asset allocation



Source: Wilshire, March 31, 2021