

**NEW MEXICO  
EDUCATIONAL  
RETIREMENT BOARD**

**IPOC**

**Representative Roybal Caballero,  
Chair  
Senator Gonzales, Vice Chair**

**July 28, 2021**



**Bob Jacksha, Chief Investment Officer  
Rick Scroggins, Interim Executive Director**

**H. Russell Goff, Vice Chair**



## Agenda

Intro to ERB

Investment Philosophy

Updated Performance Numbers

Challenges facing the ERB

## ERB - Background

- ERB is charged with providing secure retirement benefits to employees of New Mexico public schools, institutions of higher learning and certain employees at state agencies who work in educational programs.
- Members: Active 61,091, Retired 51,397.
- The Educational Retirement Act was passed by the NM legislature in 1957.
- Numerous legislative changes over the years, mostly in the areas of benefits, eligibility and contributions.
- Most recently, SB42 increased funding from the employer by 1% for each of FY22 and FY23, ultimately to a level of 16.15%. Employee contribution: 10.7%

## Pension Math

$$C + I = B + E$$

C=Contributions

I=Investments

B=Benefits

E=Expenses

In the long run, cash inflows must equal cash outflow.

## The NMERB Pension Buck

As of June 30, 2019, NMERB income over the last 28 years demonstrates that every dollar spent on educational employee pensions comes from the following sources:



## The “I”: ERB Investments

- Strategic approach: take an acceptable amount of risk to earn our long-term target rate of return: 7%.
- To achieve our goal, we invest in a well diversified portfolio of assets designed to maximize the level of return for the amount of risk taken.
- Assets include public equities and bonds, private equity, opportunistic credit, real estate, real assets, and diversifying assets in markets across the world.
- We use internal staff to invest where applicable (20% of assets), and contract with outside managers for other assets and strategies.
- Current staff in our ABQ and Santa Fe offices: 14, 16 budgeted FTEs.

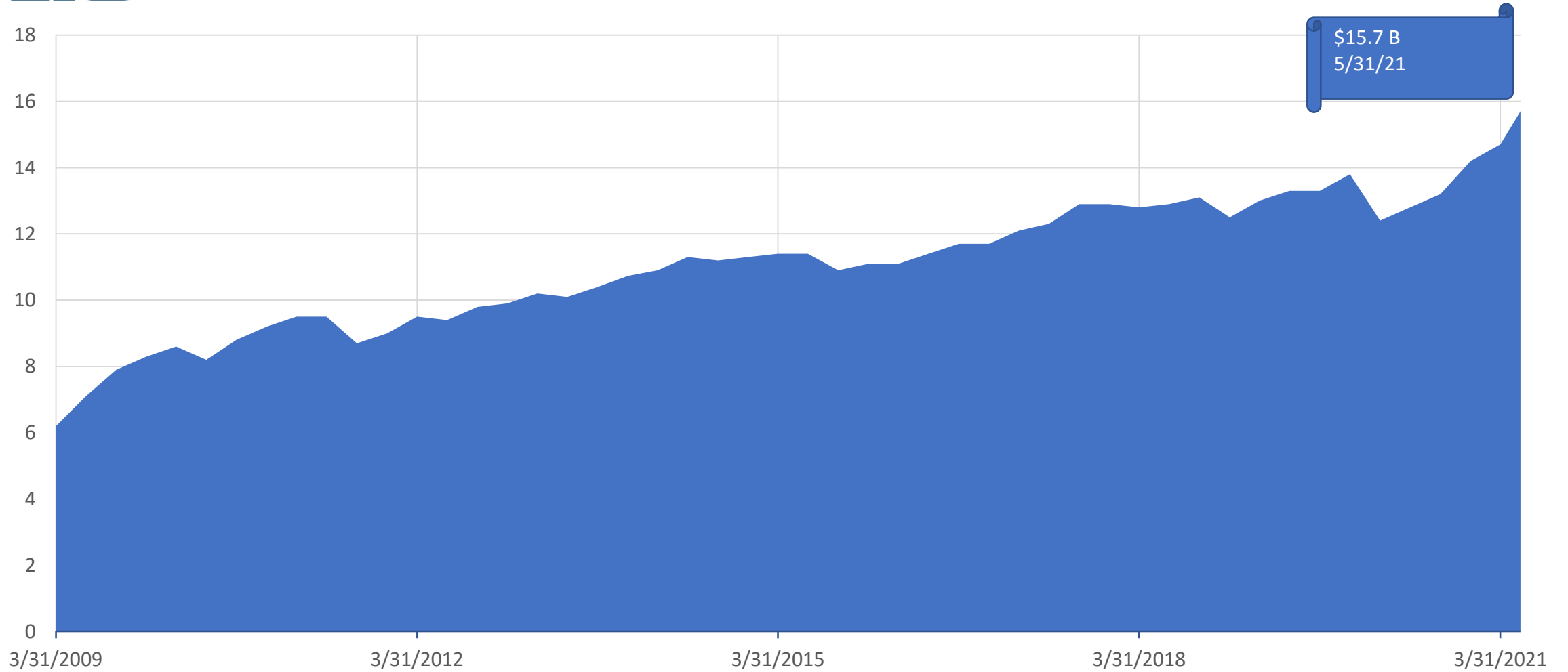


## Asset Allocation – 3/31/21

	<u>Current Mkt Value</u>	<u>Current Allocation</u>	<u>Policy Target<sup>1</sup></u>	<u>Policy Range</u>	<u>Within Range</u>	<u>Difference</u>
<b>Equity</b>	<b>\$4,630,556,417</b>	<b>31.4%</b>	<b>31.0%</b>	<b>15% - 55%</b>	<b>Yes</b>	<b>0.4%</b>
<b>U.S. Equity</b>	<b>\$2,528,503,294</b>	<b>17.2%</b>	<b>17.0%</b>	<b>8% - 30%</b>	<b>Yes</b>	<b>0.2%</b>
<i>U.S. Large Cap Equity</i>	\$2,126,539,909	14.4%	14.0%	7% - 25%	Yes	0.4%
<i>U.S. Small/Mid Cap Equity</i>	\$401,963,385	2.7%	3.0%	0% - 5%	Yes	-0.3%
<b>Non-U.S. Equity</b>	<b>\$2,102,053,123</b>	<b>14.3%</b>	<b>14.0%</b>	<b>5% - 25%</b>	<b>Yes</b>	<b>0.3%</b>
<i>Non-U.S. Developed Mkts</i>	\$766,840,926	5.2%	5.0%	0% - 10%	Yes	0.2%
<i>Non-U.S. Emerging Mkts</i>	\$1,335,212,196	9.1%	9.0%	2% - 15%	Yes	0.1%
<b>Fixed Income</b>	<b>\$3,533,651,095</b>	<b>24.0%</b>	<b>24.0%</b>	<b>10% - 58%</b>	<b>Yes</b>	<b>0.0%</b>
<i>Core Fixed Income</i>	\$763,680,195	5.2%	6.0%	0% - 20%	Yes	-0.8%
<i>Opportunistic Credit</i>	\$2,527,824,657	17.2%	16.0%	0% - 30%	Yes	1.2%
<i>Emerging Mkts Debt</i>	\$242,146,243	1.6%	2.0%	0% - 8%	Yes	-0.4%
<b>Alternatives</b>	<b>\$6,346,022,969</b>	<b>43.1%</b>	<b>44.0%</b>	<b>10% - 65%</b>	<b>Yes</b>	<b>-0.9%</b>
<b>Absolute Return</b>	<b>\$337,483</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0% - 10%</b>	<b>Yes</b>	<b>0.0%</b>
<b>Diversifying Assets</b>	<b>\$1,717,599,706</b>	<b>11.7%</b>	<b>12.0%</b>			<b>-0.3%</b>
<i>Global Asset Allocation</i>	\$370,139,434	2.5%	2.0%	0% - 6%	Yes	0.5%
<i>Risk Parity</i>	\$763,287,687	5.2%	3.0%	0% - 6%	Yes	2.2%
<i>Other Diversifying Assets</i>	\$584,172,585	4.0%	7.0%	0% - 12%	Yes	-3.0%
<b>Real Estate</b>	<b>\$910,010,102</b>	<b>6.2%</b>	<b>8.0%</b>	<b>0% - 15%</b>	<b>Yes</b>	<b>-1.8%</b>
<i>REITs</i>	\$314,805,484	2.1%	2.0%			0.1%
<i>Private Real Estate</i>	\$595,204,617	4.0%	6.0%			-2.0%
<b>Private Equity</b>	<b>\$2,527,716,068</b>	<b>17.2%</b>	<b>15.0%</b>	<b>0% - 24%</b>	<b>Yes</b>	<b>2.2%</b>
<b>Inflation-Linked Assets</b>	<b>\$1,190,359,611</b>	<b>8.1%</b>	<b>9.0%</b>	<b>0% - 16%</b>	<b>Yes</b>	<b>-0.9%</b>
<b>Cash</b>	<b>\$222,305,483</b>	<b>1.5%</b>	<b>1.0%</b>	<b>-20% - 15%</b>	<b>Yes</b>	<b>0.5%</b>
<b>Total</b>	<b>\$14,732,541,618</b>	<b>100.0%</b>	<b>100.0%</b>			<b>0.0%</b>



# Historical Asset Growth

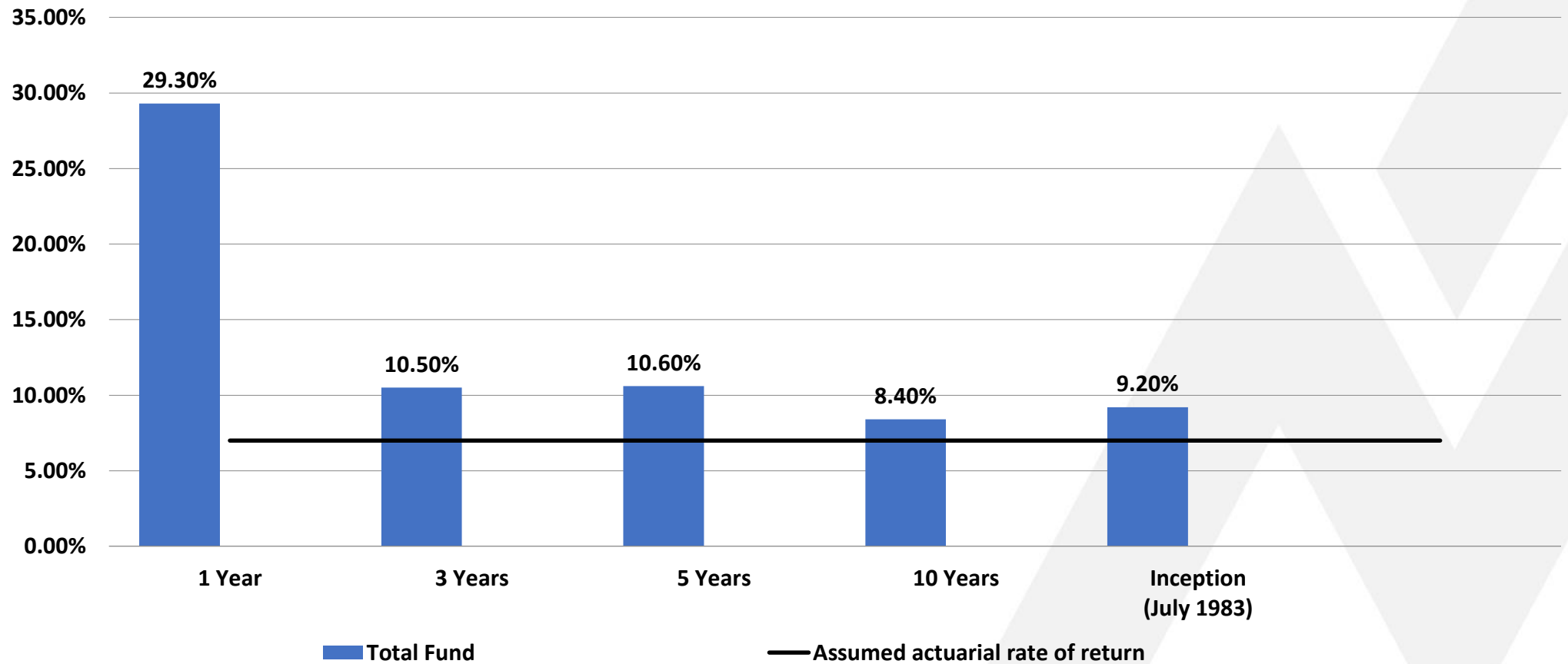






# Actual Return vs. 7% Target

NMERB Annualized Returns  
As of May 31, 2021  
Net of Fees



## Challenges #1: Funding

- Per the last actuarial report dated June 2020, ERB had a funding ratio of 60.4% and unfunded liabilities of \$9 billion.
- While the healthy investment returns for FY21 and increased contributions from SB42 will help improve the situation, further long-term adjustments are necessary to ensure the sustainability of the fund.
- SB42 was the latest in adjustments to the fund. Over the years, Contributions and Benefits have been changed; Investment strategy has been modified and controlling Expenses has always been part of the mission.
- Moody's, a national bond rating firm recently noted ERB's funding issue: "The gap between our tread-water indicator and contributions amounted to roughly 5% of payroll," the report said. This was after the passage of SB42 last session.
- Despite the long-term challenge, this is not an immediate crisis. ERB will be able to meet benefit obligations for many years in the future.

## Challenges #2: Staffing

- To carry out the mission of the ERB, it is critical to have adequate resources.
- This covers both systems and human resources. Not just the right number of people but the right people with applicable experience and education.
- We have recently experienced turnover due to inadequate compensation in Executive Management positions including the Executive Director, Deputy Director, and CFO.
- Currently, the Executive Director position is filled on an interim basis by our retired Deputy Director, Rick Scroggins.
- We have also experienced turnover and difficulty in hiring in several other areas including Investment Division.
- These staffing issues lead to difficulty in implementing new initiatives to advance the mission of the fund.

## Staffing (continued)

- To address this issue over last few years, the Board has approved salary adjustments for several positions in Executive Management and the Investment Division.
- Most salary adjustments have been denied in whole or in part by DFA.
- The Board believes that it has the legal authority to implement these adjustments as provided under New Mexico Statutes and Constitution.
- As such, it has filed a lawsuit to clarify the authority.
- The suit was filed in State court in February of this year.
- Several motions and documents have been filed by both parties, most recently on July 22<sup>nd</sup> a *“Request for Hearing on Plaintiff New Mexico Educational Retirement Board’s Motion for Judgment on the Pleadings”* .



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