



Investments and Pensions Oversight Committee

*Senator George K. Muñoz, Chair
Representative Patricia Roybal Caballero, Vice-Chair*

August 19, 2020

*John Melia, Chair
David Roybal, Vice Chair
Wayne Propst, Executive Director
Dominic Garcia, Chief Investment Officer*

Immediate Impact/Challenges

Governor directs state government agencies to minimize face-to-face contact while continuing service delivery
Public health and safety services unaffected

PERA closed its Santa Fe and Albuquerque offices effective March 16, 2020 shifting employees to remote work and established a skeleton crew to continue onsite activities

- *Much of the staff had remote capabilities available but PERA had to move quickly (72 hours) to provide equipment such as laptops and cell phones to staff, while also identifying staff owned resources until PERA resources could be provided. Since mid March, more than 30 laptops and 8 phones have been issued to staff*
- *Implementation of SB 72 Provisions*
- *Critical areas of immediate priority included:*

Monthly Retiree Payroll – March 24 th	Weekly Refund Cycles
Monthly investment transfers and resumption of capital calls	Answer of member calls, emails, inquiries
Continuation of daily mail/applications	Home schooling/staff vulnerability concerns

Remote Work – New Normal

PERA WORK SCHEDULE: JULY 13th – JULY 17th

MEMBER SERVICES - SF					
6/1 - 6/12	M - F	Call Center	D & D	Payroll/Refunds	Retirements
Physical in Office	8am – 5pm	All			Roberta (M) Holly (Tu – F) 8 - 12
			Arlene (8-2pm)	Jesse	Marshall (8-5)
			Sandra M (Tu/Th) 8am – 12pm		
			Nathan (W/F) 1:30pm – 5:30pm	Sandi N. (W)	
Remote			Sandra M.	Jesse	Sandra Camylle
			Consuelo	Andrea	
			Nathan	Sandi Brenda Christine C.	Jessica L Roberta Ramona
				Vacancy	
Office (as needed)		Melinda	Consuelo	Jesse	Sandra

MEMBER SERVICES - ABQ		
6/1 - 6/12	M - F	ABQ
Physical in Office	8am - 12pm	Vicki/Annette
	7am - 6pm	Dennis
	10 am - 2pm	Ang
	1pm - 5pm (M/Tu)	Ericka
	1pm - 5pm (Tu/W/Th)	Melissa
Remote		Angelique
Office (as needed)		Ang

June Ramp up of Staff in Office

- Full staffing of Call Center – physically distanced, masks required, adoption of Governor’s COVID guidelines – no more than 25% capacity at any time
- Evolving Schedule – modifications sent to staff weekly
- Majority of staff expected to continue teleworking through the end of the year

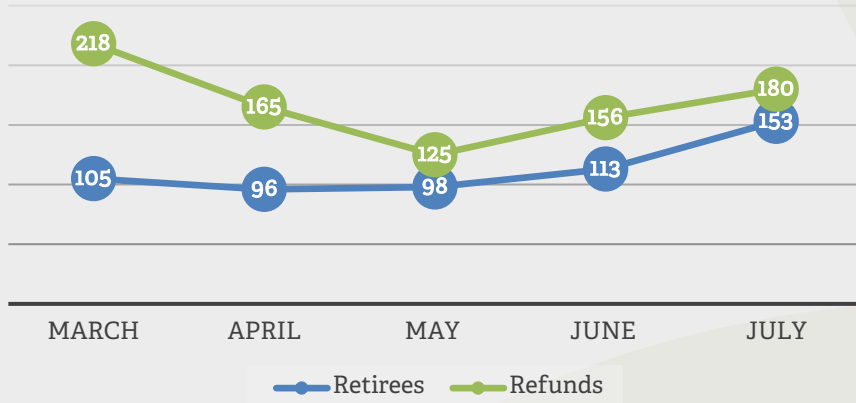
ASD Physically in Office - Keeps Same Schedule as Today					
	Monday	Tuesday	Wednesday	Thursday	Friday
9:30am - 11:30am	Heather	Heather	Heather (All Day)	Heather	Heather
10am - 2pm	Eric	Eric	Eric	Eric	Eric
10am - 2pm		Valerie		Valerie	
1pm - 5pm	Aji		Nicole		Nicole
Remote		Anna	Shauna	Jessica T.	Marlena
		Aji	Rosemary	Samantha	
		Nicole	Dawn	Zarina	
Office (as needed)		Anna	Aji	Jessica T.	

Records						
		Monday	Tuesday	Wednesday	Thursday	Friday
Physical in Office	8am - 12pm	Sheila/Mariah/Gabriel	Sheila/Mariah/Gabriel	Sheila/Mariah/Gabriel	Sheila/Mariah	Sheila/Mariah
	1pm - 5pm	Gabriel/Alison	Gabriel/Alison	Gabriel/Amanda	Alison	Amanda
Remote		Amanda	Amanda	Alison	Amanda/Gabriel	Gabriel/Alison
User Admin/QA						
		Monday	Tuesday	Wednesday	Thursday	Friday
Physical in Office	7am – 3:30pm	Leslie	Leslie	Leslie	Leslie	Leslie
Remote		Jess P/Devi/Renee	Jess P/Devi/Renee	Jess P/Devi/Renee	Jess P/Devi/Renee	Jess P/Devi/Renee
IT - Ad-Hoc - Ron will direct remote/physical requirements as needed - not to exceed 25% capacity at anytime						

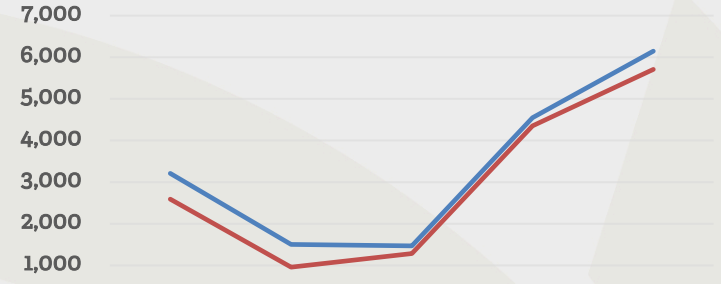
Remote	Investments/Outreach/Legal - remain remote					
	Monday	Tuesday	Wednesday	Thursday	Friday	
Physical in Office	8am - 5pm	Wayne	Dominic/Trish	Wayne/Susan	Dominic	Susan
	1pm – 5pm		GG		GG	

Business Continuity

New Retirees/Refunds by Month

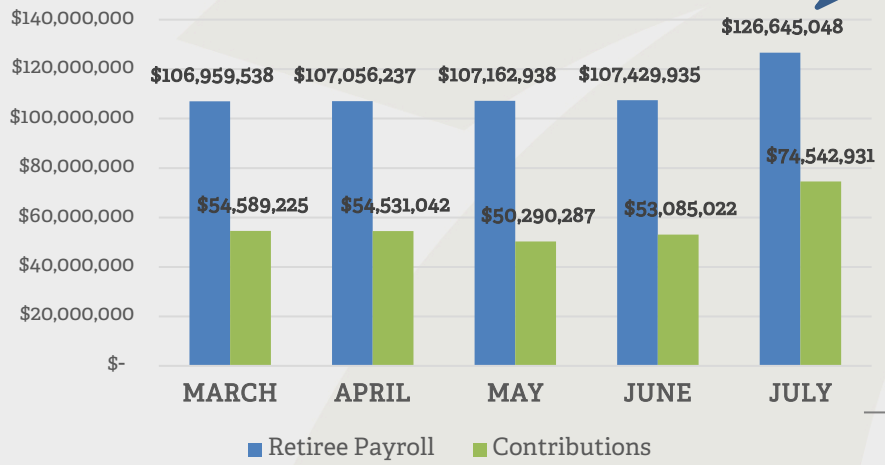


Call Center Statistics



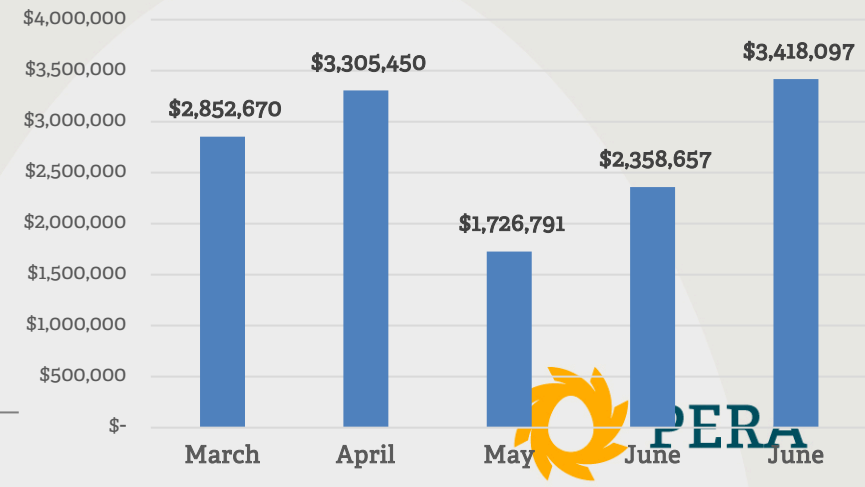
	March	April	May	June	July
— Calls Received	3,209	1,502	1,468	4,548	6,146
— Calls Answered	2,590	956	1,283	4,350	5,708
— % Answered	81%	64%	87%	96%	93%

Retiree Payroll and Contributions



\$17.5 million 13th Check Distribution

Refunds by Month



“Business as Usual” During a Pandemic

Completion of \$3 Million IT Infrastructure Upgrade	Implementation of SB 72
SB 72 Communication to Members: 100,000+ COLA letters/newsletters sent to members	Completion of 2 nd Independent Actuarial Audit
Board and Committee meetings, including PERA’s Disability Committee continue via Zoom	Statewide Retirement Webinars
Re-location of PERA Albuquerque Office with RHCA	COVID Distribution Option added to SmartSave Deferred Compensation Plan
Website Refresh	Conducting Elections for Three PERA Board Seats
Internal Audits completed on Governance and Investment Manager Selection Process	Contribution Accounting Closeout/Actuarial Data Completed

Lessons Learned

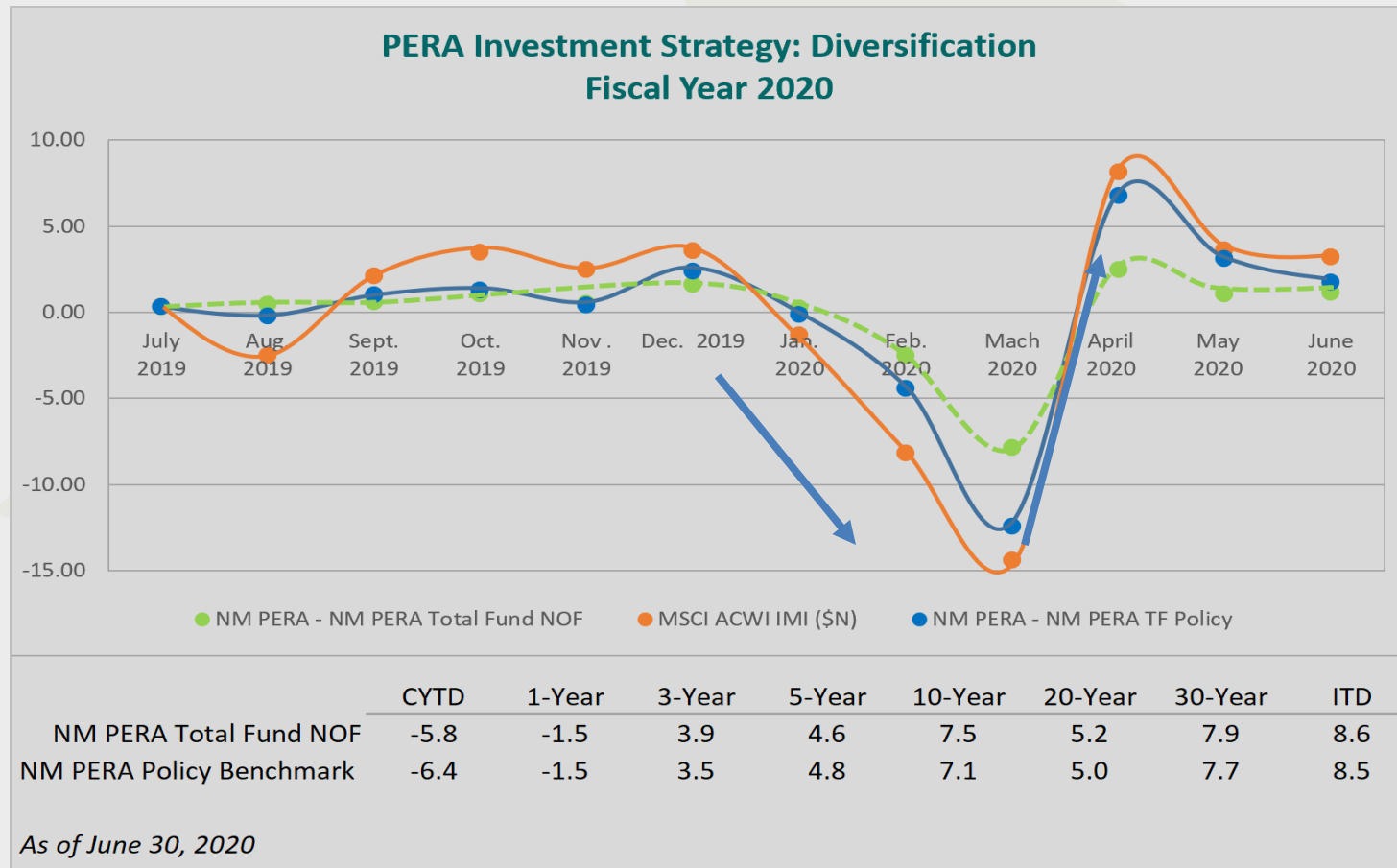
- PERA, like other state agencies, quickly adapted to allow staff to continue their work remotely, however areas of need going forward include:
 - ***Call Center Software/Capabilities***- For our Call Center to function at full capacity a more mobile solution will be required
 - ***RIO Self Service*** – past upgrade initiatives concentrated on data integrity and enhanced functionality for internal staff, this enhanced functionality should be available for members via the self-service portal
- **Areas of strength for PERA Operations:**
 - ***Employer Reporting*** – validations and E-Bill process improvements have allowed PERA's 300+ employers to functions with minimal disruption
 - ***Investment Systems*** – many of the systems utilized by PERA's Investment Division are externally hosted systems which allowed for a seamless transition to remote work
 - ***Business Continuity Plan*** – PERA had a Business Continuity Plan prior to COVID-19, and continues to review and plan for business interruption
 - ***Exceptional IT Staff*** – CIO, Ron Gallegos, and his staff quickly moved agency staff to remote work environment, completed a \$3 million system infrastructure upgrade and re-located ABQ Office to new location
 - ***Stable, Dedicated Customer Service Staff***

PERA Investment Goals Scorecard

PERA Investment Goals	Actual Results
<p>Set Strategic Asset Allocation (Policy Portfolio) to meet the actuarial discount rate (7.25%) over the long-term (10 years and longer).</p>	<p>✓ Exceeded actuarial hurdle rates for 10 years, 30 years, and since data inception (1985)</p>
<p>Produce returns to meet or exceed benchmarks</p> <p>Meet or exceed the Policy Portfolio over the long-term (10 years and longer)</p> <p>Meet or exceed the Reference Passive Portfolio over the long-term</p>	<p>✓ Met or Exceeded Policy Portfolio Benchmark over CYTD, 1 Year, 3 Year, 10 Year, 20 year, 30 Year and Since Inception</p> <p>✓ Exceeded Reference Passive Portfolio over long term</p>
<p>Achieve a total investment cost at or below a benchmark cost relative to peers adjusted for fund size and asset mix.</p> <p>As of 6/30/2020</p>	<p>✓ Compared to 334 Global funds in a custom benchmark cost, PERA is low cost and saves approximately \$27m in fees and costs.</p>

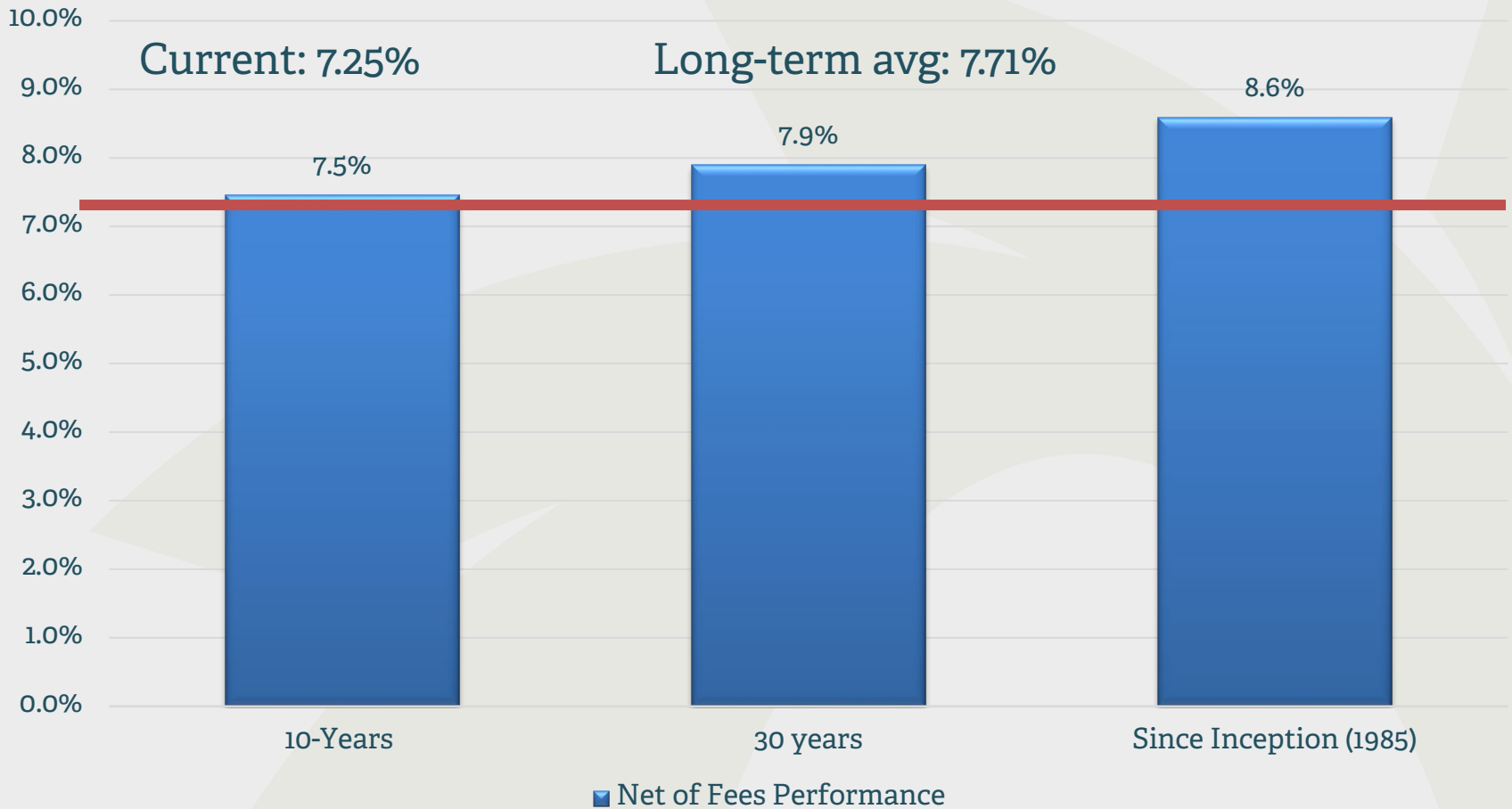
Tale of Two Investment Quarters

- PERA has a lower risk/conservative investment strategy that relies on diversification
- This strategy will perform better than the market in downturns and will lag in market booms
- During the onset of COVID, we experienced an entire market cycle in a short period of time
- Over almost all time horizons, the Fund met or exceeded its Board adopted Policy Benchmark



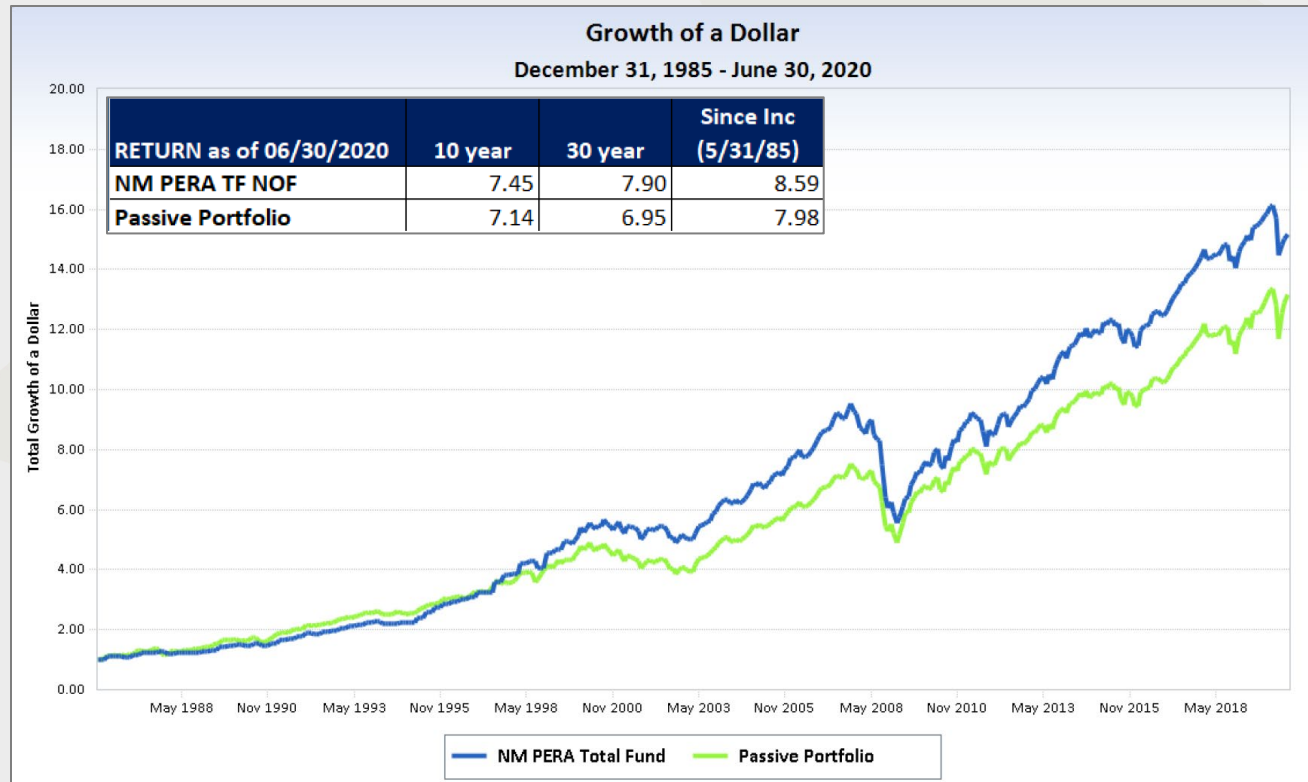
Long Term Actuarial Hurdles

As of June 30, 2020 (Preliminary Performance)



PERA vs. Passive Portfolio

- For the past 30 years, PERA has generated nearly 1% per annum over a passive portfolio at equivalent risk.
- The passive portfolio for the past 10 years is a 58% global stock/42% bond portfolio. Since Inception, the passive portfolio is roughly 62% stock/38% bond portfolio.



Big Picture Going Forward

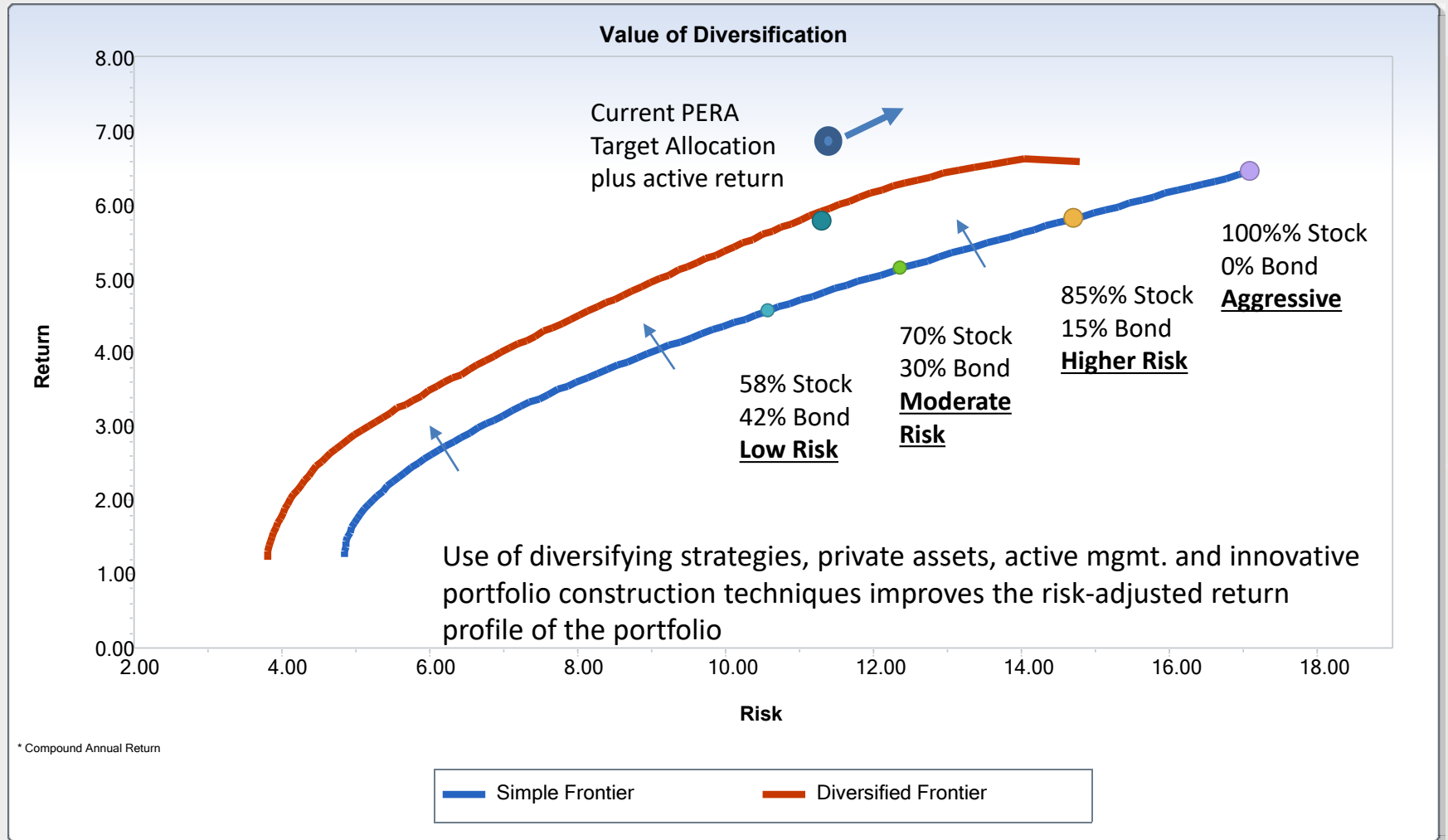
Potential Economic Regimes can vary widely with equal probability

- *Good Times: High Growth, Low Inflation*
- *So, So Times: Low Growth, Low Inflation*
- *Inflationary: High Growth, High Inflation*
- *Stagnation: Low Growth, High Inflation*
- *Depression: No Growth or Negative Growth, deflation*

Investors' Challenge

- Past 30 years Pre-COVID (as of Dec. 2019):
 - *Cash Return =* ~3% returns
 - *60/40 portfolio (over cash)=* ~5.6%
 - *Total Return=* ~8.6%
- *Cash is now ZERO and will be lower for longer; Need to make up 2%-3%.*

10-Year Forward Expected Returns



Work to be Done

- Board has begun a long-term strategic planning process in response to findings of a Governance Audit and will create a standing Governance Committee to address issues raised in the Audit
- Board will develop a new funding policy post passage of SB 72. Implicit in this process will be a review of the current 7.25% investment return assumption, as well as all other current economic assumptions
- Further enhancements to strategic asset allocation, including review of risk tolerance, to meet long-term return goals
- Continued assessment of the impact of SB 72 including completion of FY20 annual actuarial valuations (expected in November)
- Ongoing review and improvement to remote work capabilities with the expectation that we may be in this for a while
- Submission of FY22 appropriation request. As in the past three fiscal years, PERA will submit a flat budget
- Completion of FY20 Comprehensive Annual Financial Report (CARF) and Popular Annual Financial Report (PAFR)