

Investments and Pensions Oversight Committee

Thursday, July 7, 2016

NMERB's Efforts to Enhance Transparency and to Improve Governance Structures

Jan Goodwin, Executive Director

Bob Jacksha, Chief Investment Officer

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

Scope of Today's Presentation

- A discussion of ERB's approach to public transparency
- ERB Governance
- Enhancements to financial reporting

Transparency

As a public entity, NMERB is cognizant of the duty to maintain public trust and transparency. As such, we make information and detailed reports available on our website <http://www.nmerb.org/>, including the following:

- Annual Actuarial and Financial Reports
- Asset Allocation and Asset/Liability Reviews
- Board and Committee Meeting Announcements, Agendas and Minutes
- Board Governance Policy
- Board Strategic Plan
- Funding Policy
- Investment Performance Reports
- Investment Policies
- Member Information
- Transparency Policy

Performance Reports

- Quarterly reports are posted to our website. These include an overall portfolio report and more detailed reports for private equity, real estate, natural resources and infrastructure.
- These reports include the names, assets under management and rates of return for all of our managers over various time horizons.
- The reports also contain comparisons of actual allocations to policy targets.
- In addition, the reports compare performance to various benchmarks and present risk measures and other performance metrics.

Asset Allocation Implementation

New Mexico Educational Retirement Board

Total Fund Asset Allocation vs. Policy Targets

	<u>Current Mkt Value</u>	<u>Current Allocation</u>	<u>Policy Target¹</u>	<u>Universe Median</u>	<u>Difference</u>	<u>Policy Range</u>	<u>Within Range</u>
Equity	\$3,817,548,534	34.3%	35.0%				
U.S. Equity	\$2,244,440,811	20.1%	20.0%	30.5%	0.1%	15% - 30%	Yes
U.S. Large Cap Equity	\$2,003,662,004	18.0%	18.0%	30.5%	0.0%	15% - 25%	Yes
U.S. Small/Mid Cap Equity	\$240,778,807	2.2%	2.0%		0.2%	0% - 5%	Yes
Non-U.S. Equity	\$1,573,107,722	14.1%	15.0%	20.3%	-0.9%	5% - 25%	Yes
Non-U.S. Developed Mkts	\$502,180,875	4.5%	5.0%	17.5%	-0.5%	0% - 10%	Yes
Non-U.S. Emerging Mkts	\$1,070,926,847	9.6%	10.0%	2.8%	-0.4%	5% - 15%	Yes
Fixed Income	\$3,578,625,912	32.1%	28.0%	21.0%	4.1%	10% - 40%	Yes
Core Fixed Income	\$1,003,635,515	9.0%	6.0%	18.0%	3.0%	0% - 15%	Yes
Opportunistic Credit	\$2,384,423,319	21.4%	20.0%	1.6%	1.4%	0% - 30%	Yes
Emerging Mkts Debt	\$190,567,077	1.7%	2.0%	1.4%	-0.3%	0% - 8%	Yes
Alternatives	\$3,606,385,891	32.4%	36.0%	21.1%	-3.6%	10% - 40%	Yes
Absolute Return	\$3,816,094	0.0%	0.0%	6.8%	0.0%	0% - 10%	Yes
Global Asset Allocation/Risk Parity	\$1,109,015,693	10.0%	10.0%	2.7%	0.0%		
Global Asset Allocation	\$544,278,327	4.9%	5.0%	2.7%	-0.1%	0% - 10%	Yes
Risk Parity	\$564,737,367	5.1%	5.0%		0.1%	0% - 10%	Yes
Real Estate	\$839,371,308	7.5%	7.0%	5.5%	0.5%	0% - 10%	Yes
REITs	\$382,030,117	3.4%	4.0%		-0.6%		
Private Real Estate	\$457,341,191	4.1%	3.0%		1.1%		
Private Equity	\$1,204,315,977	10.8%	11.0%	5.0%	-0.2%	0% - 15%	Yes
Inflation-Linked Assets	\$449,866,818	4.0%	8.0%	1.1%	-4.0%	0% - 12%	Yes
Cash	\$143,122,283	1.3%	1.0%	1.6%	0.3%	0% - 10%	Yes
Total	\$11,145,741,106	100.0%	100.0%	94.5%	0.0%		

Other Investment policies cover the following areas:

1. Selection processes for investment managers, consultants and other service providers.
2. Roles and responsibilities of the Board, Investment Committee, staff, managers, consultants, and custody bank.
3. Asset allocation targets, ranges and descriptions of asset classes.
4. Management of our internal Core Bonds portfolio.
5. Proxy voting for stockholdings.
6. Risk controls.
7. Rebalancing of fund assets.
8. Reporting of placement agent activity.

Placement Agent Disclosure

New Mexico Educational Retirement Board Third Party Placement Agent Disclosure

The New Mexico Educational Retirement Board Policy Regarding Placement Agent Disclosures requires that quarterly performance reports to the Board include information regarding any third-party marketers that were used by recipients of investments including any fee, commission or retainer paid by the hired fund to the third-party marketer for services rendered. These fees are not paid by NMERB but are paid by the hired funds for marketing services to the third-party. The following investments were approved by the NMERB Investment Committee during the quarter, with disclosures made under the policy:

Industry Ventures Secondary VIII- was approved for a \$45 million commitment January 21, 2016 as part of the Fund's Private Equity program. Industry Ventures has provided documentation confirming no placement agent was used in connection with the NMERB's investment. Industry Ventures has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Industry Ventures Partnership Holdings IV- was approved for a \$30 million commitment on January 21, 2016 as part of the Fund's Private Equity program. Industry Ventures has provided documentation confirming no placement agent was used in connection with the NMERB's investment. Industry Ventures has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Sigular Guff- was approved for a \$50 million commitment on January 21, 2016 as part of the Fund's Private Equity program. Sigular Guff has provided documentation confirming no placement agent was used in connection with the NMERB's investment. Sigular Guff has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Lone Star Real Estate Fund V - was approved for a \$40 million commitment on February 25, 2016 as part of the Fund's Real Estate program. Lone Star has provided documentation confirming no placement agent was used in connection with the NMERB's investment. Lone Star has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Ares Corporate Opportunities Fund V- was approved for a \$40 million investment on February 25, 2016 as part of the Fund's Private Equity program. Ares has provided documentation confirming no placement agent was used in connection with the NMERB's investment. Ares has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Current Governance Structure

- The ERB Board of Trustees holds regularly scheduled meetings in even numbered calendar months.
- The Board also holds special meetings when appropriate.
- The Board also has several committees.
 - The Investment Committee meets monthly.
 - The Audit Committee meets as necessary to give instructions to and receive reports from the external and internal auditors.
 - The ARP Committee (Alternative Retirement Plan) meets periodically to review the ARP which is available to certain higher education employees.

Authority

- The Board of Trustees approves all ERB policies and actuarial assumptions, selects the General Investment Consultant and the actuary, and hires and evaluates the Executive Director.
- The Investment Committee has authority for hiring all investment managers and investment consultants other than the General Consultant, and approval of other investment services contracts.
- Staff conducts transactions and asset rebalancing within policy parameters approved by the Board. Staff also conducts due diligence and monitoring of managers. The Executive Director has approval authority for small purchase investment service contracts.

- Multiple sessions have taken place with the Board and Investment Committee discussing other models of governance employed by state pension funds.
- In March, ERB held a Board retreat that included input from the Executive Director of the Arizona Public Employees Retirement System.
- The topic was again discussed with the Investment Committee in May. No conclusions have been reached thus far. We expect to schedule a special Board meeting to further discuss this topic sometime in FY17.

In June 2016, the Board adopted a Transparency Policy to formalize current practices

The policy covers:

- Board governance related documents
- Investment related documents
- Financial and actuarial related documents

Institutional Limited Partners Association (ILPA)

Endorsed ILPA Fee Template disclosure- May 2016

- Pension funds that have endorsed
 - CalPERS, CalSTRS, Texas Teachers, Utah, Colorado PERA
- Private equity funds that have endorsed
 - The Carlyle Group, TPG, Silver Lake

New Mexico Educational Retirement Board

FINANCIAL SECTION – Statement of Changes in Fiduciary Net Position

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENT OF CHANGES IN FIDUCIARY NET POSITION As of the Years Ended June 30, 2015 and 2014

	2015	2014
Additions		
Contributions	\$ 687,952,017	631,156,528
Investment income from investing activities		
Net change in fair value of investments	308,403,714	1,278,664,135
Interest income	37,823,427	41,809,254
Dividend income	95,180,820	137,617,862
Total investing activity gain	441,407,961	1,458,091,251
Investing activity expenses:		
Investment advisor fees	(17,095,533)	(13,326,824)
Custody fees	(982,634)	(392,955)
Total investing activity expenses	(18,078,167)	(13,719,779)
Total net investment gain	423,329,794	1,444,371,472
Miscellaneous income		
Penalties	952	734
Interest on restoration of service	1,738,444	2,819,583
Other	6,407,329	(138,859)
Total miscellaneous income	8,146,726	2,681,458
Total additions	1,119,428,538	2,078,209,458
Deductions		
Age and service benefit payments	911,832,776	859,575,335
Refunds to terminated members	32,313,405	34,561,687
Interest on refunds	4,114,576	4,361,396
Administrative expenses	10,597,846	16,617,970
Disability benefit payments	8,922,645	8,716,047
Total deductions	967,781,247	923,832,437
Net increase (decrease)	151,647,291	1,154,377,021
Net position restricted for pensions		
Beginning of the year	11,346,075,824	10,191,698,803
End of the year	\$ 11,497,723,115	11,346,075,824

See Accompanying Notes to Financial Statements

Management fees

Investment fees for 2015 totaled \$129,679,202, of that total \$18,078,167 was covered by the agency's operating budget and \$111,601,035 was deducted directly from investment account balances. The schedule below compares investment fees by fiscal year.

Comparative Investment Fees by Fiscal Year

	2015	2014	2013
Investment Fees Covered by Operating Budget	\$ 18,078,167	13,719,779	17,665,292
Fees Deducted from Account Balances	111,602,035	149,995,760	107,813,519
Total Investment Fees	\$ 129,680,202	163,715,539	125,478,811
Fees as a % of Prior Year	79%	130%	

Future commitments

ERB's investments in limited partnerships are valued at an estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. As of June 30, 2015, ERB's additional future contribution commitments to limited partnerships totaled \$2.232 billion.

Enhancements to Financial Reporting, continued

Example of new level of detail

Financial Section

BASIC FINANCIAL STATEMENTS

Pension Trust Funds

Statements of Changes in Fiduciary Net Position | For Year Ended June 30, 2015

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	\$ 329,752,832	\$ 32,696,686	\$ 362,449,518
Employee contributions	18,099,455	488,193	18,587,648
Member purchases of service credit	1,859,005	0	1,859,005
Service transfer contributions	3,575,815	0	3,575,815
Total contributions	353,287,107	33,184,879	386,471,986
Investment income			
From investing activities			
Investing activity income:			
Net appreciation in fair value of investments	340,000,198	5,177,869	345,178,067
Interest	23,446,164	357,062	23,803,226
Dividends	4,178,590	63,636	4,242,226
Swap (loss)	(520,964,483)	(7,933,778)	(528,898,261)
Other	37,874,646	576,794	38,451,440
Net investing activity (loss)	(115,464,885)	(1,758,417)	(117,223,302)
Investing activity expenses:			
Management fees	(116,252,349)	(1,770,409)	(118,022,758)
Custody fees	(344,128)	(5,241)	(349,369)
Consultant fees	(923,508)	(14,064)	(937,572)
Performance measurement fees	(458,855)	(6,988)	(465,843)
Internal investment activity expenses	(4,274,266)	(65,093)	(4,339,359)
Total investing activity expenses	(122,253,106)	(1,861,795)	(124,114,901)
Net(loss) from investing activities	(237,717,991)	(3,620,212)	(241,338,203)
From securities lending activities			
Securities lending income	46,891	714	47,605
Securities lending expenses:			
Borrower rebates	217,094	3,306	220,400
Management fees	(149,524)	(2,277)	(151,801)
Total securities lending activities expenses	67,570	1,029	68,599
Net income from securities lending activities	114,461	1,743	116,204
Total net investment (loss)	(237,603,530)	(3,618,469)	(241,221,999)
Miscellaneous income	533,001	8,117	541,118
Total additions	116,216,578	29,574,527	145,791,105
Deductions			
Benefits	639,554,106	31,245,906	670,800,012
BackDROP & lump sum benefits	84,439,935	0	84,439,935
Service transfer payments	1,792,495	0	1,792,495
Contribution refunds	2,479,264	0	2,479,264
Administrative expenses	8,077,692	123,015	8,200,707
Total deductions	736,343,492	31,368,921	767,712,413
Net (decrease) in net position	(620,126,914)	(1,794,394)	(621,921,308)
Net positions held in trust for pension benefits			
Beginning of year	9,136,781,826	132,645,657	9,269,427,483
End of year	\$8,516,654,912	\$130,851,263	\$8,647,506,175

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System / Fiscal Year 2015

27



Enhancements to Financial Reporting, continued

Financial Section

ADDITIONAL FINANCIAL INFORMATION

Pension Trust Funds

Schedules of Internal Investment Activity Expenses | Year Ended June 30, 2015

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	\$2,848,813	\$43,385	\$2,892,198
Fringe benefits	912,630	13,898	926,528
Total personnel services	3,761,443	57,283	3,818,726
Professional services			
Attorney services	21,153	322	21,475
Total professional services	21,153	322	21,475
Communications			
Telephone	13,726	209	13,935
Total communications	13,726	209	13,935
Facilities			
Utilities	2,463	38	2,501
Lease expense	56,022	853	56,875
Depreciation	34,962	532	35,494
Facility maintenance	9,349	142	9,491
Vehicle maintenance and operation	107	2	109
Total facilities	102,903	1,567	104,470
Software and equipment			
Computer supplies and software	3,055	47	3,102
Depreciation	9,719	148	9,867
Total software and equipment	12,774	195	12,969
Education, meetings and travel			
Professional development including travel	20,490	312	20,802
Due diligence travel	66,589	1,014	67,603
Total travel and meetings	87,079	1,326	88,405
General administrative			
Research and information services	251,057	3,824	254,881
Membership dues	13,228	201	13,429
Office supplies	1,874	29	1,903
Periodicals and publications	8,753	133	8,886
Miscellaneous expense	276	4	280
Total general	275,188	4,191	279,379
Total administrative expenses	\$4,274,266	\$65,093	\$4,339,359

Enhancements to Financial Reporting, continued

Financial Section

ADDITIONAL FINANCIAL INFORMATION

Pension Trust Funds

Schedules of Administrative Expenses | Year Ended June 30, 2015

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	\$3,985,890	\$ 60,701	\$4,046,591
Fringe benefits	1,635,239	24,903	1,660,142
Total personnel services	5,621,129	85,604	5,706,733
Professional services			
Actuarial services	215,106	3,276	218,382
Attorney services	121,351	1,848	123,199
Auditing services	69,438	1,057	70,495
Banking services	34,373	523	34,896
Consulting services	228,246	3,478	231,724
Total professional services	668,514	10,182	678,696
Communications			
Video production	1,454	22	1,476
Telephone	58,104	885	58,989
Printing	54,600	831	55,431
Postage and mailing	200,410	3,052	203,462
Total communications	314,568	4,790	319,358
Facilities			
Depreciation	109,892	1,674	111,566
Utilities	54,991	837	55,828
Facility maintenance	52,844	805	53,649
Vehicle maintenance	6,696	102	6,798
Total facilities	224,423	3,418	227,841
Software and equipment			
Computer supplies and software	93,225	1,420	94,645
Depreciation	132,607	2,019	134,626
Maintenance agreements	231,890	3,531	235,421
Equipment rental	80,376	1,224	81,600
Loss on sale of equipment	(4,604)	(70)	(4,674)
Total equipment	533,494	8,124	541,618
Education, meetings and travel			
Board travel and meetings	24,081	367	24,448
Professional development including travel	94,577	1,440	96,017
MOSERS sponsored seminars	85,710	1,305	87,015
Due diligence travel	3,025	46	3,071
Tuition reimbursement	11,198	171	11,369
Total education, meetings and travel	218,591	3,329	221,920
General administrative			
Advertising	95,747	1,458	97,205
Research and information services	88,915	1,354	90,269
Insurance	146,109	2,225	148,334
Membership dues	43,764	666	44,430
Business continuity	47,208	719	47,927
Office supplies	8,510	130	8,640
Periodicals and publications	66,259	1,009	67,268
Miscellaneous	461	7	468
Total general	496,973	7,568	504,541
Total administrative expenses	\$8,077,692	\$123,015	\$8,200,707

Enhancements to Financial Reporting, continued

Financial Section

ADDITIONAL FINANCIAL INFORMATION

Schedules of Professional/Consultant Fees | Year Ended June 30, 2015

Professional/Consultant	Nature of Service	Pension Trust Funds			Internal Service Funds		
		MSEP	Judicial Plan	Total	Life and LTD	Deferred Compensation	Total
Operation administrative expenses							
Avtex Solutions, Inc.	Information technology consulting	\$ 12,312	\$ 188	\$ 12,500	\$ 0	\$ 0	\$ 0
Central Bank	Banking	32,814	500	33,314	508	0	508
Charlesworth & Associates	Risk management consulting	7,831	119	7,950	0	0	0
Collector Solutions, Inc	Banking	1,558	24	1,582	166	0	166
Gabriel, Roeder, Smith & Co.	Actuarial	215,106	3,276	218,382	0	0	0
Gamble & Schlemmer, LTD	Governmental consulting	24,625	375	25,000	0	0	0
Huber & Associates	Information technology consulting	4,754	72	4,826	0	0	0
Nexum, Inc.	Information technology consulting	95,693	1,457	97,150	0	0	0
Orion	Strategic planning consulting	23,147	353	23,500	0	0	0
Steproe & Johnson, LLP	Legal counsel	11,951	182	12,133	0	0	0
Thompson Coburn, LLP	Legal counsel	108,415	1,651	110,066	0	3,288	3,288
U.S. Treasury	IRS audit	985	15	1,000	0	0	0
VR Election Services	Board election services	59,886	912	60,798	0	0	0
Williams-Keepers, LLC	Financial audit	69,437	1,058	70,495	4,630	35,500	40,130
Operation administrative expenses subtotal		668,514	10,182	678,696	5,304	38,788	44,092
Internal investment administrative expenses							
CT Corporation	Legal counsel	639	10	649	0	0	0
Parrington Moody Weil, LLP	Trading consultation	4,821	73	4,894	0	0	0
Thompson Coburn, LLP	Legal counsel	15,693	239	15,932	0	0	0
Internal investment administrative expenses subtotal		21,153	322	21,475	0	0	0
Total professional/consultant fees		\$689,667	\$10,504	\$700,171	\$5,304	\$38,788	\$44,092

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on pages 57-58.

NMERB Information

Actuarial - http://nmerb.org/Actuarial_reports.html

Accounting and finance - http://nmerb.org/Annual_reports.html

Investments –

- Performance - <http://nmerb.org/Investments.html>
- Asset Allocation - http://nmerb.org/asset_allocation.html
- Investment Policies – http://nmerb.org/investment_policies.html

Board –

- Policies and Strategic Plan – http://nmerb.org/Boardof_Trustees.html
- Meeting minutes and agendas – http://nmerb.org/Boardof_meetingminutes.html