



Efforts to Enhance Transparency and Improve Governance Structures

Investments and Pensions Oversight Committee

Senator George Munoz, Chair

Representative Monica Youngblood, Vice-Chair

July 7, 2016

Patricia "Patty" French, PERA Board Chair

Wayne Propst, Executive Director

Jon Grabel, Chief Investment Officer



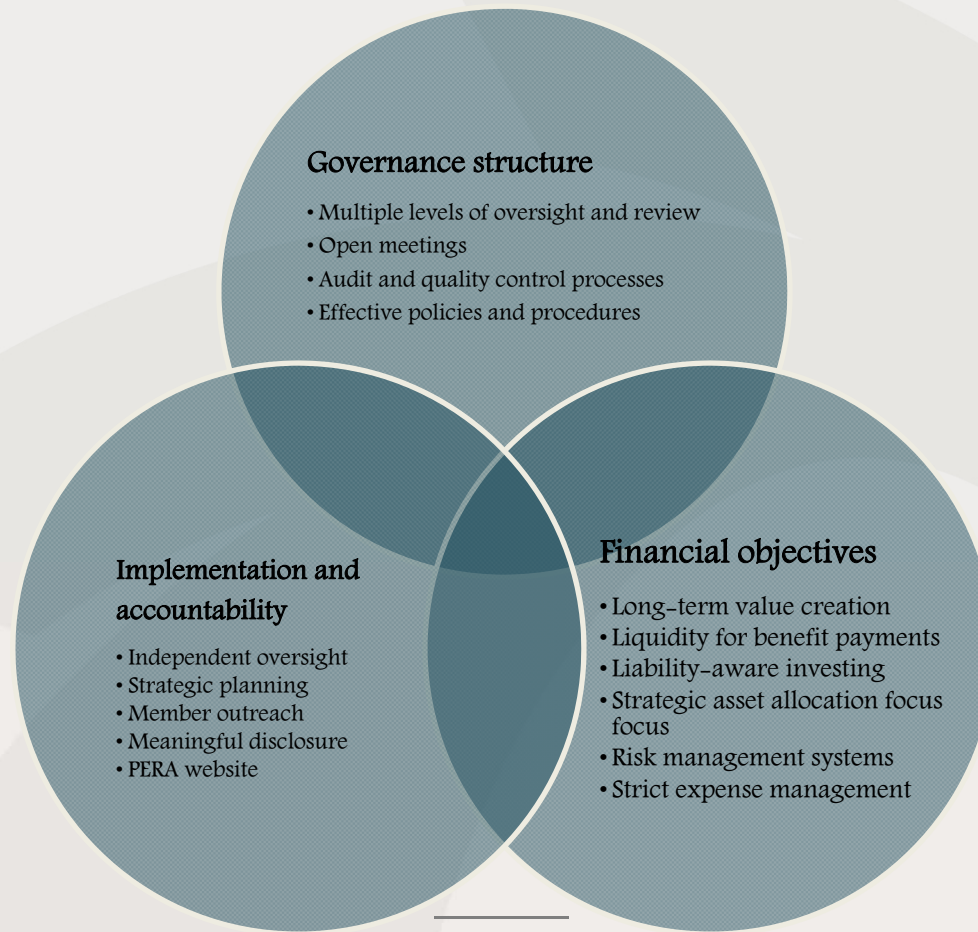
Governance and Transparency

“[M]oney managed collectively for the benefit of others must be managed for the beneficiaries’ exclusive interest in a transparent system with checks and balances”

— Stanford University, SIIF Committee on Fund Governance (Clapman Report, 2013)

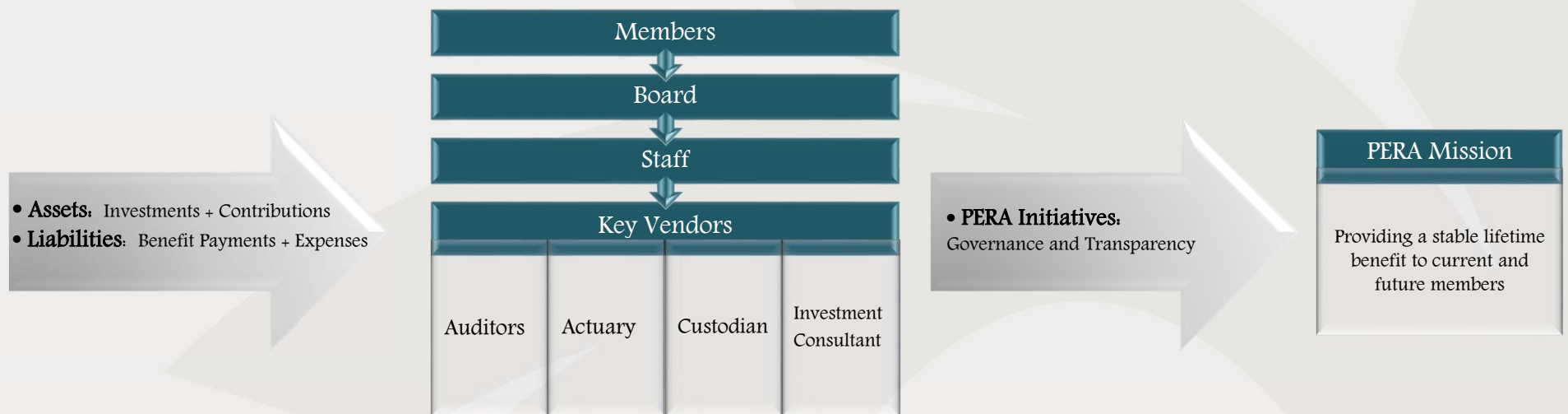
Governance and Transparency: Key Components

PERA is committed to protecting the interests of its members and the Fund by ensuring accountability through full disclosure of information related to governance structures, policymaking, financial condition, investment decisions, portfolio composition and performance.



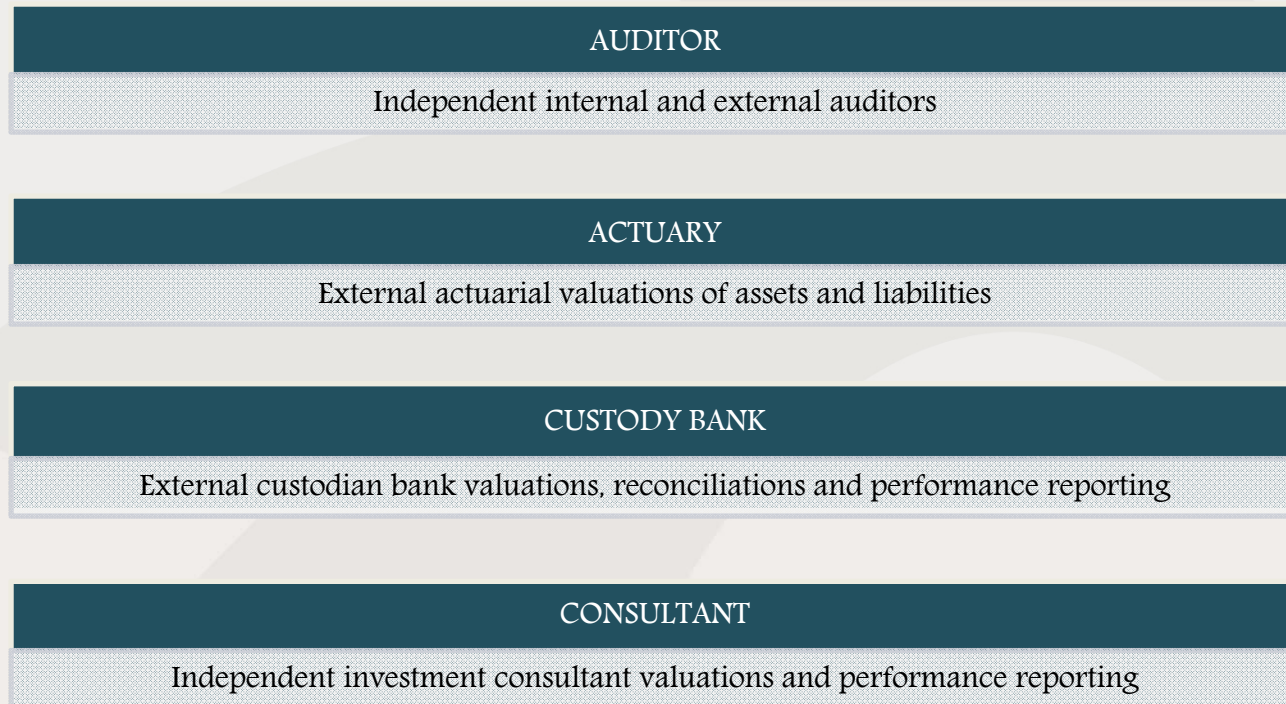
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Governance and Transparency: Organizational Framework



Governance Structures: Multiple Levels of Review

Multiple layers of independent oversight and review provide external verification of assets, liabilities and internal controls



Governance Structures: Open Meetings

- All PERA Board and Committee meetings comply with the Open Meetings Act
- Meetings are streamed in real time and held in different locations throughout the State
- Meeting materials are posted online, including audio of the meeting
- All governance rules are clearly defined and available online, including statutes, regulations, policies and procedures

January 2016

- Board Meeting ([Minutes](#)) ([Audio](#))
- Special Board Meeting ([Minutes](#)) ([Audio](#))
- Investment Committee ([Minutes](#)) ([Audio](#))

December 2015

- Special Board Meeting ([Minutes](#)) ([Audio](#))
- Investment Committee ([Minutes](#)) ([Audio](#))
- Board Meeting ([Minutes](#)) ([Audio](#))
- Legislative Committee ([Audio](#))
- Rules & Administration ([Minutes](#)) ([Audio](#))



LIVE STREAMING

Live Streaming of PERA
Meetings

Governance Structures: Transparency through Audits

- Continual review and evaluation of operations through quality control processes, rigorous documentation and independent internal and external audits

INTERNAL AUDIT FOCUS	
Census Data & Employer Payroll Information	Completed
Custodial Bank Transfer Process	Completed
Benefit Payments & Member Refunds	Completed
Investment Policy Statement Compliance	Completed
Governance, Fiduciary Responsibility and Training	Completed
Years of Service & Wage Eligibility	Planned in FY17
Accounts Payable & 1099 Reporting	Planned in FY17
Recurring Census & Benefit Payment Testing	Planned in FY17

FY 2015 FINANCIAL AUDIT REPORT
Unmodified opinion issued with no findings

Comprehensive Annual Financial Report

- PERA's FY 2015 CAFR contains the following sections: Introductory, Financial, Investment, Actuarial and Statistical
- PERA has received 14 consecutive annually awarded "Certificate of Achievement for Excellence in Financial Reporting" by the GFOA for PERA's annual CAFR. PERA was one of 15 NM entities to receive the award in 2014

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

Analysis of Financial Experience

This table is a reconciliation of the Unfunded Actuarial Accrued Liability (UAAL)

PERA FUND	Experience Gain (or Loss) for Year (in Thousands)							
	2015	2014	2013	2012	2011	2010	2009	2008
UAAL at Beginning of Year	\$4,301,700	\$4,619,200	\$6,176,000	\$4,971,200	\$3,357,700	\$2,354,293	\$924,116	\$930,265
Normal Cost for Year	372,500	403,300	431,900	419,700	430,200	461,700	421,186	409,101
Contributions (net of Refunds)	(573,600)	(544,300)	(516,900)	(528,000)	(509,700)	(531,800)	(524,037)	(471,486)
Interest Accrual and Other Income/ Expenses	309,600	352,700	475,200	381,000	265,400	185,600	69,814	71,925

Comprehensive Annual Financial Reports

▼ Select Year

CAFR 2015
CAFR 2014
CAFR 2013
CAFR 2012
CAFR 2011
CAFR 2010
CAFR 2009
CAFR 2008
CAFR 2007
CAFR 2006
CAFR 2005
CAFR 2004
CAFR 2003
CAFR 2002
CAFR 2001

FY 2015 Schedule of Employer Allocations

GASB 67 & 68 disclosures provide Net Pension Liability (NPL) amounts to participating employers.

NET PENSION LIABILITY			
Fund	FY 2014 NPL	FY 2015 NPL	Difference
PERA	\$3,319,394,159	\$4,260,526,331	\$941,132,172
Judicial	\$41,310,273	\$ 48,049,718	\$6,739,445
Magistrate	\$21,216,149	\$ 30,348,921	\$ 9,132,772
Volunteer FF	(\$21,042,172)	(\$17,625,607)	\$3,416,565
<i>*Schedule of Employer Allocations submitted to OSA for review on 4/22/2016, 4 months earlier than FY14, release date of 5/22/2016</i>			

Included in the disclosures are calculations displaying the sensitivity of the NPL to changes in the discount rate.

FY 2015 PERA Fund	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	\$6,534,375,512	\$4,260,526,331	\$2,371,407,413

Governance Structures: Additional Efforts

- Provision of effective mechanisms for stakeholders to request and obtain information
- PERA responded to 63 IPRA requests during the Fiscal Year to date
- Promoting a culture of accountability and ethical behavior through training, performance evaluation and policy review
- Amended all contracts to require that vendors document compliance with gift reporting requirements and disclose all gifts

Implementation and Accountability: Strategic Planning

- Strategic Planning Process initiated in July 2014 and finalized December 2014. Implementation is ongoing
- Collaborative and inclusive strategic leadership process culminating in the development of a new mission statement, core values and organizational priorities
 - ✓ *Priority 1.1: Improving advocacy and outreach for members*
 - ✓ *Priority 1.2 : Providing clear, transparent information about the status of the Fund*
 - ✓ *Priority 2.1: Improving outreach to employers and members*
- Process included one-on-one interviews with staff and managers, a survey of PERA membership, and an agency wide strategic planning retreat
- Currently planning a follow-up survey of PERA membership in FY17

Implementation and Accountability: Outreach

- Outreach around the state providing general retirement seminars as well as individual retirement counseling meetings
- Monthly standing retirement seminars in Santa Fe and Albuquerque office
- Implementation of regular employer trainings on contribution accounting processes
- Participation at relevant conferences such as NM Association of Counties, NM Municipal League, Volunteer Firefighter Conferences, etc.
- PERA publishes and disseminates a quarterly newsletter to stakeholders
- Regular Viewpoint updates from the CIO published on PERA's website



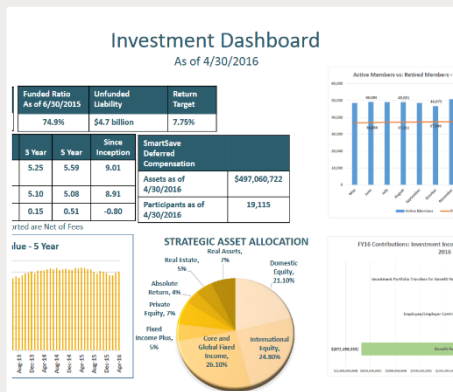
Chief Investment Officer Jon Grabel Viewpoint - The Smart Money

Recently, a leading investment news publication featured a story about how many private equity managers (GPs) gain advantage over their investors, known as limited partners (LPs), through preferential fees and GP-friendly terms. The

Implementation and Accountability: PERA Website

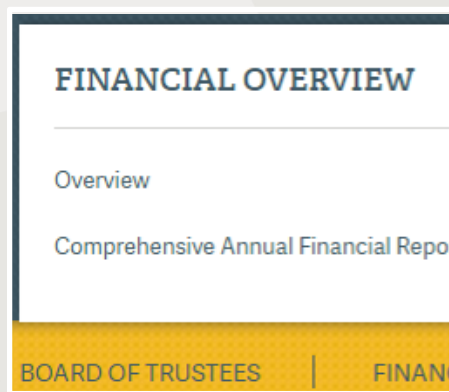
- NMPERA.org features custom content for active members, retirees and employer agencies
- Comprehensive financial disclosures, performance reports and key governance documents

INVESTMENTS



- Monthly updates
- Performance dashboard
- Returns reported net of fees
- CIO Viewpoints
- Policies

FINANCIAL



- CAFR
- Actuarial Valuations
- GASB Reports
- RFPs

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BOARD

Board Membership

The mission of the Board of the Public Employees Retirement Association is to meet its current and future obligations and provide quality



Patricia French

CHAIR, MUNICIPAL MEMBER

Patricia (Patty) French has been employed as an APD Records Supervisor since 1991, serving her third term. She has served on the Committee, Audit and Budget Com

- Meeting materials
- Live streaming
- Audio minutes
- Governance rules and policies



Financial Objectives: Portfolio Focus

Ensuring the ability to pay promised benefits by maintaining an adequate funding status is the primary measure of success for PERA

- Situationally-aware portfolio
- Simplified asset allocation
- Focus on risk-adjusted returns
- Right-sizing expectations
- Reduction of actuarial return assumption under consideration
- Implemented comprehensive risk system to better control the portfolio

Financial Objectives: Investment Policies and Governance

- Long-term value creation requires effective management of capital
- Governance is the primary tool to align interests between PERA and managers of its capital
- PERA completed a comprehensive review of investment policies and procedures, including revision and audit of Investment Policy Statement
 - Clearly define roles and responsibilities
 - Articulate allocation targets and performance measures
 - Distillation of investing principles
 - Codification of investment procedures and processes

Financial Objectives: Asset Allocation

- Strategic asset allocation is the dominant determinant of portfolio risk and return
- Simplified asset categories based on the role each asset plays in a broader portfolio
- True diversification is achieved when combining asset classes that respond differently to various economic environments

		Current*	Target
Global Equity – Economic Growth	<ul style="list-style-type: none"> • Global Public Equity • Global Low Volatility Equity • Hedged Equity • Private Equity 	54.3%	43.5%
Risk Reduction/ Mitigation – Safety and Liquidity	<ul style="list-style-type: none"> • Core Fixed Income • Global Core Fixed Income • Long Duration Core Fixed Income • Cash 	26.1%	21.5%
Credit Oriented – Hybrid Exposure to Growth & Income	<ul style="list-style-type: none"> • Liquid Credit Strategies • Emerging Market Debt • Illiquid Credit Strategies 	6.3%	15.0%
Real Assets – Inflation Protection	<ul style="list-style-type: none"> • Liquid Real Estate • Illiquid Real Estate • Liquid Real Assets • Illiquid Real Assets • Market Neutral Hedge Funds 	13.3%	20.0%

Current % of PERA Portfolio vs. Target SAA

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Financial Objectives: Cost Control and Fee Reduction

PERA is committed to reducing costs and maximizing value and efficiency for its members

- During the prior fiscal year, PERA instituted a fee study and reduced its pro forma investment manager fees by over \$10M
- All returns are presented net of fees and expenses
- Annual disclosure to Board and Legislature of all money manager expenses, including profit sharing.

Expecting more from money managers and key service providers

- PERA transitioned custody banking services, decreasing expenses by 30+% with an increase in service level level
- RFP issued for illiquid investment consultant services
- Revised contracts of money managers and key vendors to require proactive disclosure

Conclusions

Remaining true to PERA's mission:

*“Providing a stable lifetime benefit
to current and future members”*



PERA

Appendix

Appendix: PERA Fund Performance

- The PERA Fund balance was \$13.9 billion on May 31, 2016
- For the Fiscal Year to date, the Fund returned -0.02% (net of fees)
- PERA Fund paid out benefits of \$1.1 billion for the Fiscal Year to date
- PERA Smart Save (457b) balance was \$501 million on May 31, 2016 with 19,204 participants

As of 5/31/2016	Fiscal YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/30/1985
PERA Total Fund Returns Returns (Net of Fees)*	-0.02%	-1.66%	5.28%	5.81%	4.56%	8.99%
Policy Benchmark*	0.32%	-0.94%	5.23%	5.37%	5.33%	8.90%
Value Add	-0.34%	-0.72%	0.05%	0.44%	-0.77%	0.10%

*Annualized returns

Appendix: PERA Assets Under Management

Assets Under Management & Cumulative Benefits Paid

