

# **Investments and Pensions Oversight Committee**

Tuesday, September 15, 2015

## **ERB FY15 Investment Update**

Bob Jacksha, Chief Investment Officer

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

# Fiscal Year Highlights

- Investment earnings for the twelve months ended June 30<sup>th</sup> were approximately \$449 million, a return of 3.9%, net of investment management fees.
- Portfolio returns exceeded actuarial target in some periods measured and fell short in others.
- Actual returns exceeded policy index in all periods measured.
- All-time quarterly high of \$11.4B on March 31<sup>st</sup>, and had approximately the same value on June 30<sup>th</sup>.

# Fiscal Year Highlights - Continued

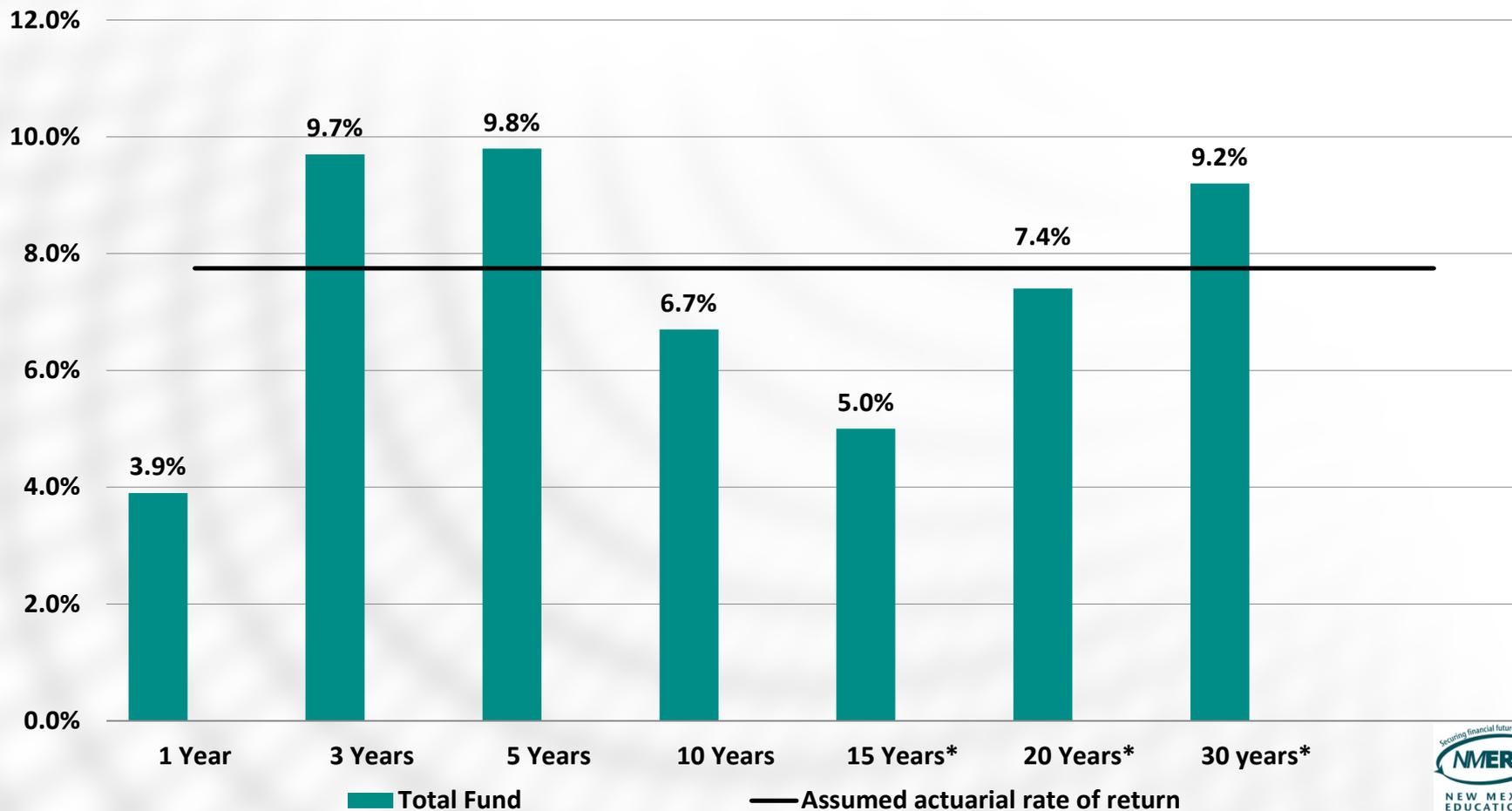
- Private assets generated the best performance for the fiscal year:
  - Private Real Estate returned 19.2%, net of fees.
  - Private Equity returned 17.1%, net of fees.
- The emerging market assets generated the worst:
  - Emerging market debt returned -11.0%, net of fees.
  - Emerging market equities returned -4.9%, net of fees.

# June 30, 2015 Investment Returns

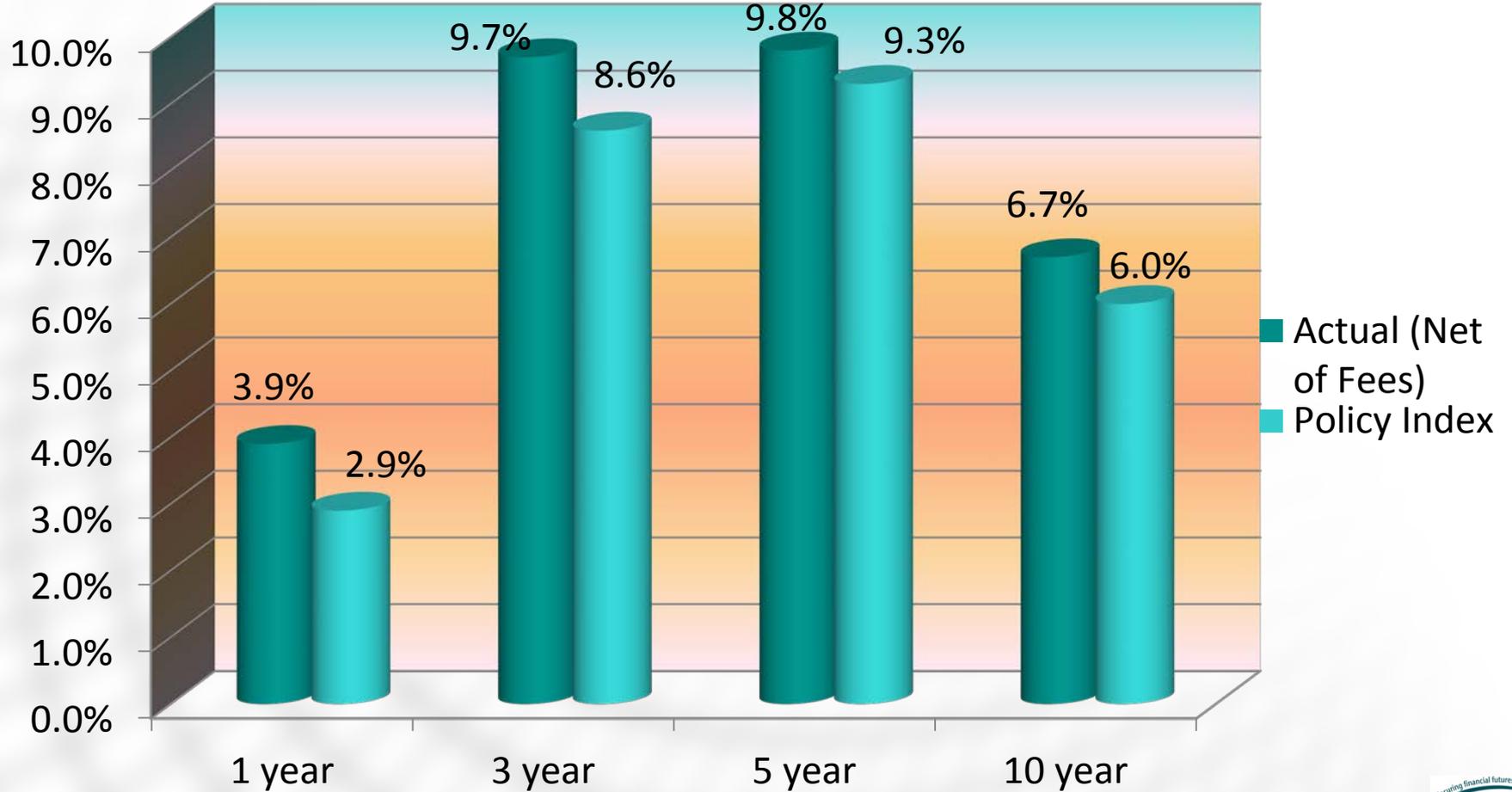
<u>Returns</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>30 Years</u>
Gross of Fees	4.0%	9.8%	10.1%	6.9%	5.0%	7.4%	9.2%
Net of Fees	3.9%	9.7%	9.8%	6.7%	N/A	N/A	N/A

# Return vs. 7.75% Target

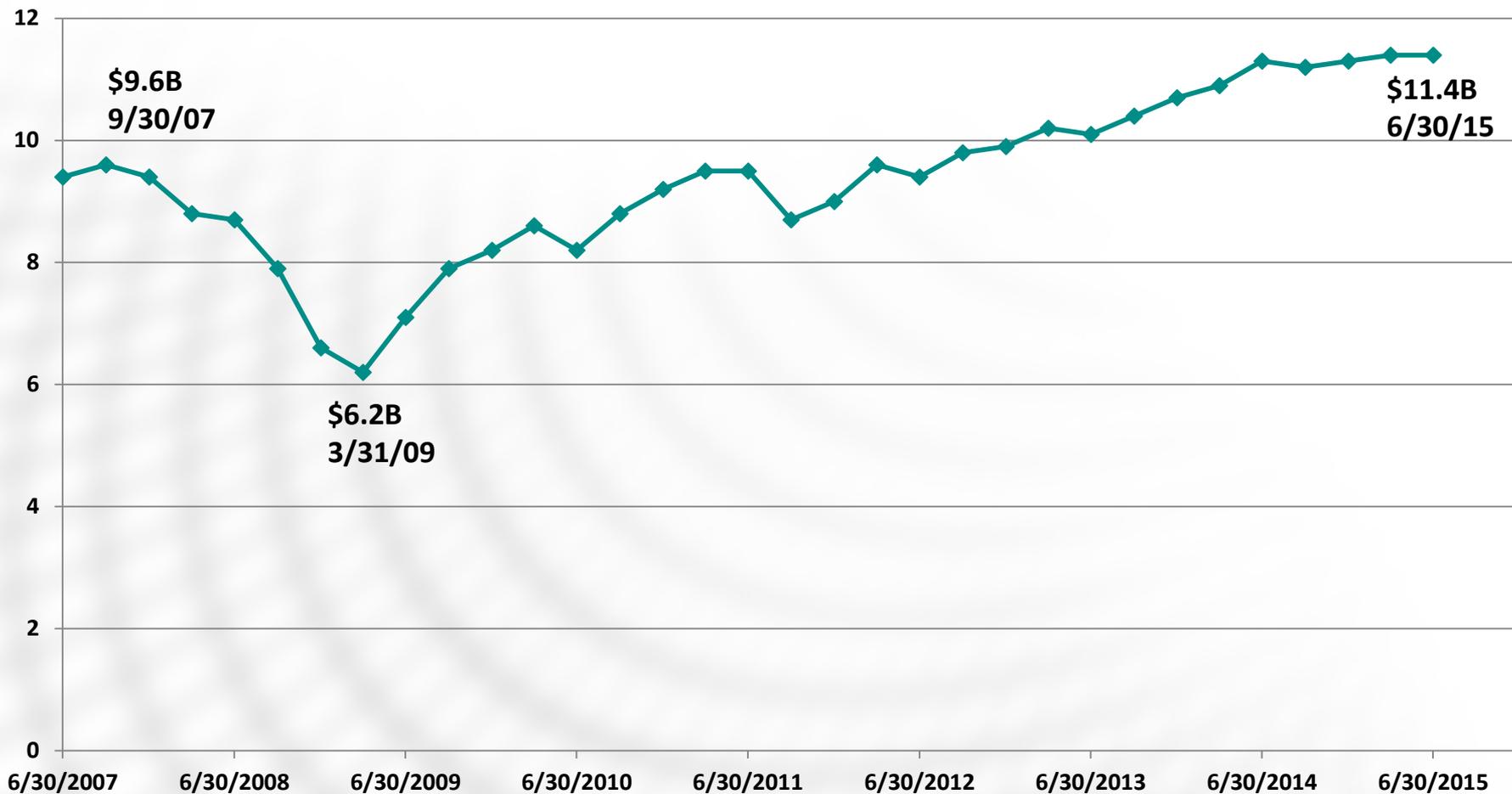
**NMERB Annualized Returns  
As of June 30, 2015  
Net of Fees Except Where Noted\***



# Actual vs. Policy – Periods Ending June 30, 2015



# Quarterly ERB Assets: June 2007-June 2015



# Basic Pension Equilibrium Formula

$$C+I=B+E$$

- C=Contributions from employees and employers
- I=Investment Returns
- B=Benefits paid
- E=Expenses of the Fund

In our case, “I” must equal or exceed 7.75%

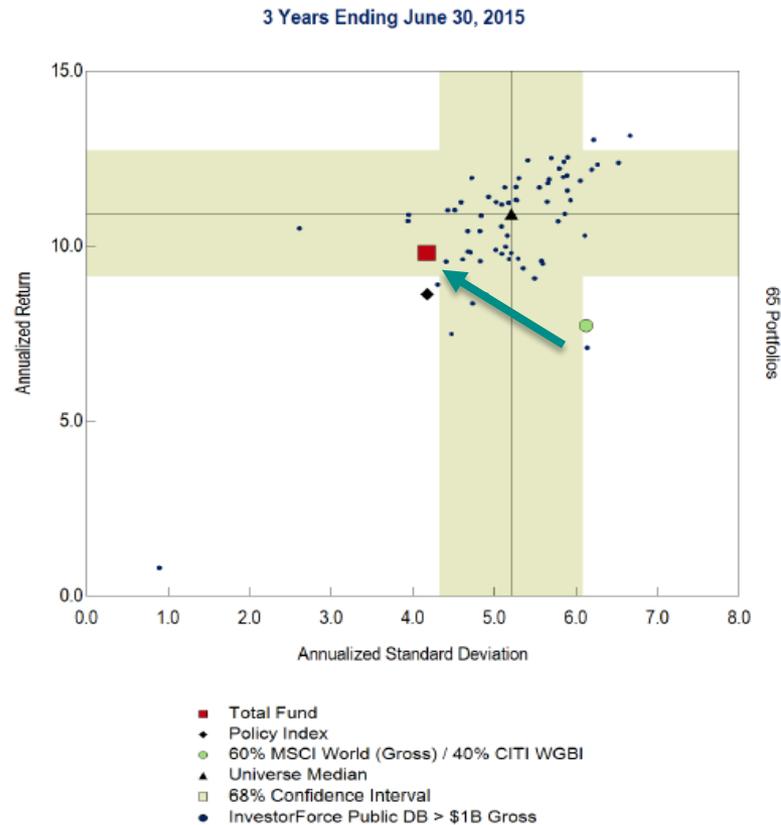
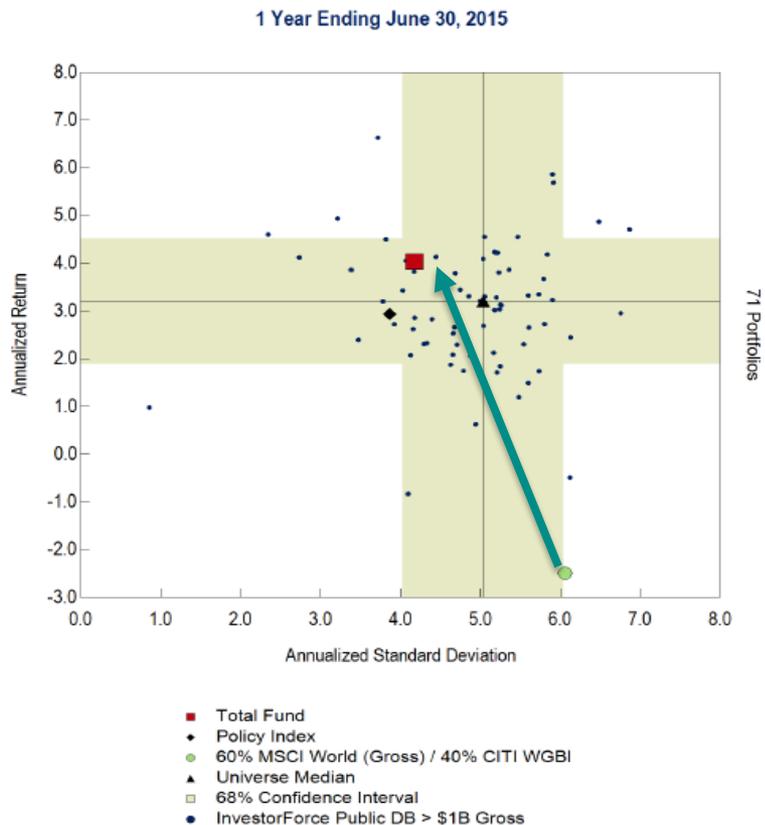
# Strategy to Meet Investment Return Goal

- Goal #1: Achieve a long-term, return at least equal to our actuarial assumption of 7.75%.
- Goal #2: Decrease return volatility through diversification.
- Asset Allocation is the main tool, and **the** primary determinant of investment returns.

# Strategy - Continued

- The target asset allocation is designed to produce the desired result: A long-term return of 7.75%, with a moderate level of volatility.
- It is expected to produce a better long-run risk/return profile than low-fee options. When building portfolios, both risk and return must be considered.
- For example, the expected 30 year return from a 60% Global Equity Index/40% Global Bond Index portfolio is only 6.2%, vs. our expected return of 8.3% (per NEPC 2015 projections) with roughly the same level of volatility.

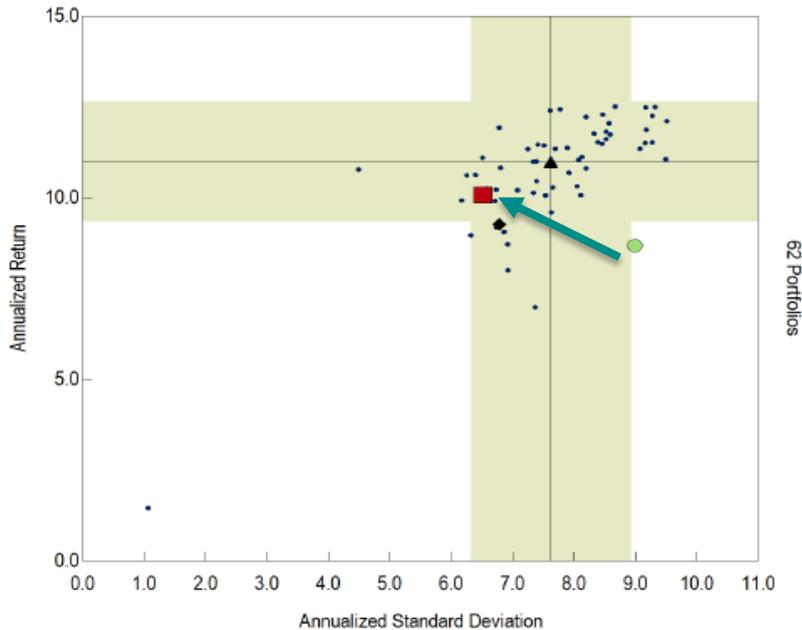
# ERB Portfolio vs. Global Equity/Bond (60/40)



Note: Ranks are based on gross returns.

# Once Again: "Up and to the Left"

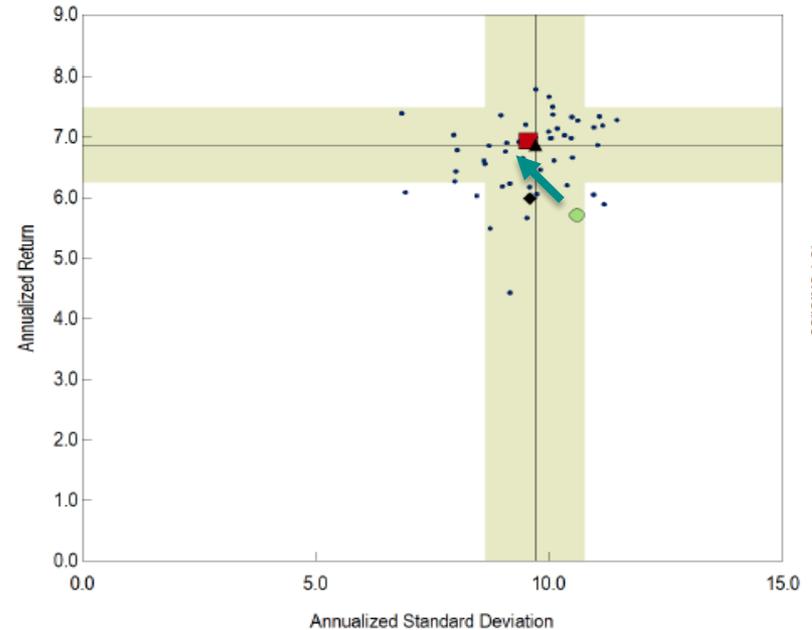
5 Years Ending June 30, 2015



62 Portfolios

- Total Fund
- ◆ Policy Index
- 60% MSCI World (Gross) / 40% CITI WGBI
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce Public DB > \$1B Gross

10 Years Ending June 30, 2015



49 Portfolios

- Total Fund
- ◆ Policy Index
- 60% MSCI World (Gross) / 40% CITI WGBI
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce Public DB > \$1B Gross

Note: Ranks are based on gross returns.

# July and August Update

- The monthly performance for July was positive at 0.6%.
- Assets rose to \$11.5B.
- For August, the opposite was true, major stock indices were down substantially. Bonds were also down slightly.
- August performance is not yet available, but it will be negative.

# Opportunity in Adversity?

- In times of market dislocation and turmoil, assets may become illogically mispriced.
- This happened in 2008 with senior credit assets, some rated AAA with very low credit risk.
- ERB invested \$300mm in July 2008 in a PIMCO Distressed Senior Credit Opportunities Fund. Through termination of the fund in December of 2011, the fund produced an 11% net return per year, resulting in a gain of more than \$100mm.

# Opportunity in Adversity!

- The ERB Private Equity program has returned 13% per year since inception in 2007, measured on an internal rate of return basis, which is a very good result.
- In 2008 and 2009, we specifically targeted a higher allocation in funds investing in the distressed investments. The 2008 and 2009 investments have produced net returns in excess of 20% per year.
- These investments and others like them, resulted in ERB's investment return of 18.2% for the 2010 calendar year being ranked second in its national fund universe.

