

PERA Status Report

Investments and Pensions Oversight Committee

Representative Jim R. Trujillo, Chair

October 13, 2014

Patricia (Patty) French, Board Chair, PERA

Wayne Propst, Executive Director, PERA

Jonathan Grabel, Chief Investment Officer, PERA



NM PERA Fund Performance

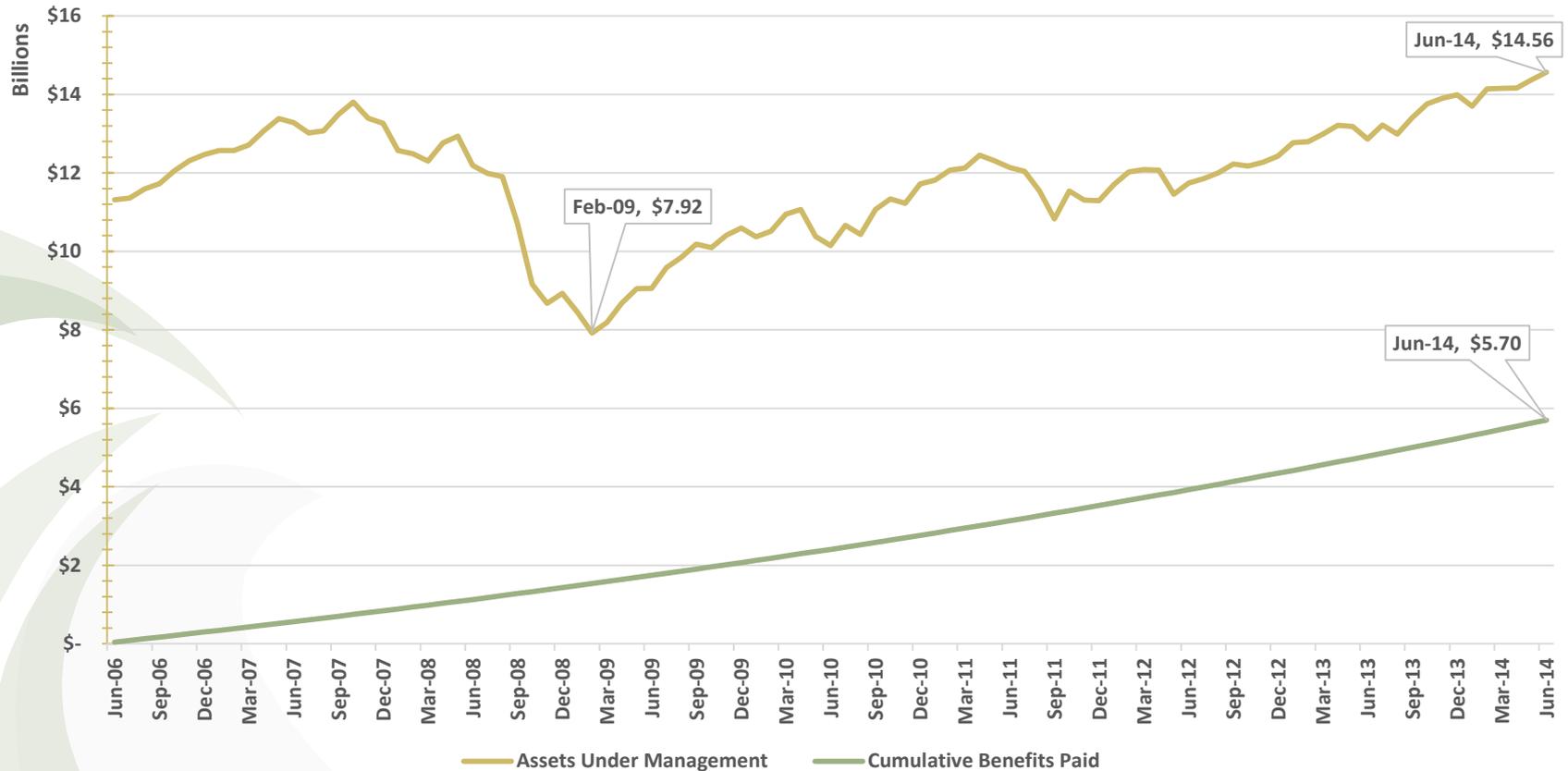
- The PERA Fund balance was \$14.56 billion on June 30, 2014
- 457b Deferred Compensation balance was \$485 million on June 30, 2014
- During Fiscal Year 2014, the Fund returned **+17.03%** (*net of fees*)
- PERA Fund generated investment income of ≈\$2.1 billion during Fiscal Year 2014 (*net of fees*)
- PERA is the 278th largest retirement fund in the world*

As of 6/30/2014	1 Year	3 Year	5 Year	Since Inception
NM PERA Total Fund Returns	17.03%	9.60%	13.10%	9.23%
Policy Benchmark	16.20%	8.46%	11.58%	-
Value Add	0.83%	1.14%	1.52%	-

*The P&I/Towers Watson World 300: Largest retirement funds, Pension & Investments, September 1, 2014

PERA Assets Under Management

Assets Under Management & Cumulative Benefits Paid



Defined Benefit Plan Only

PERA's Mission Is Its Members

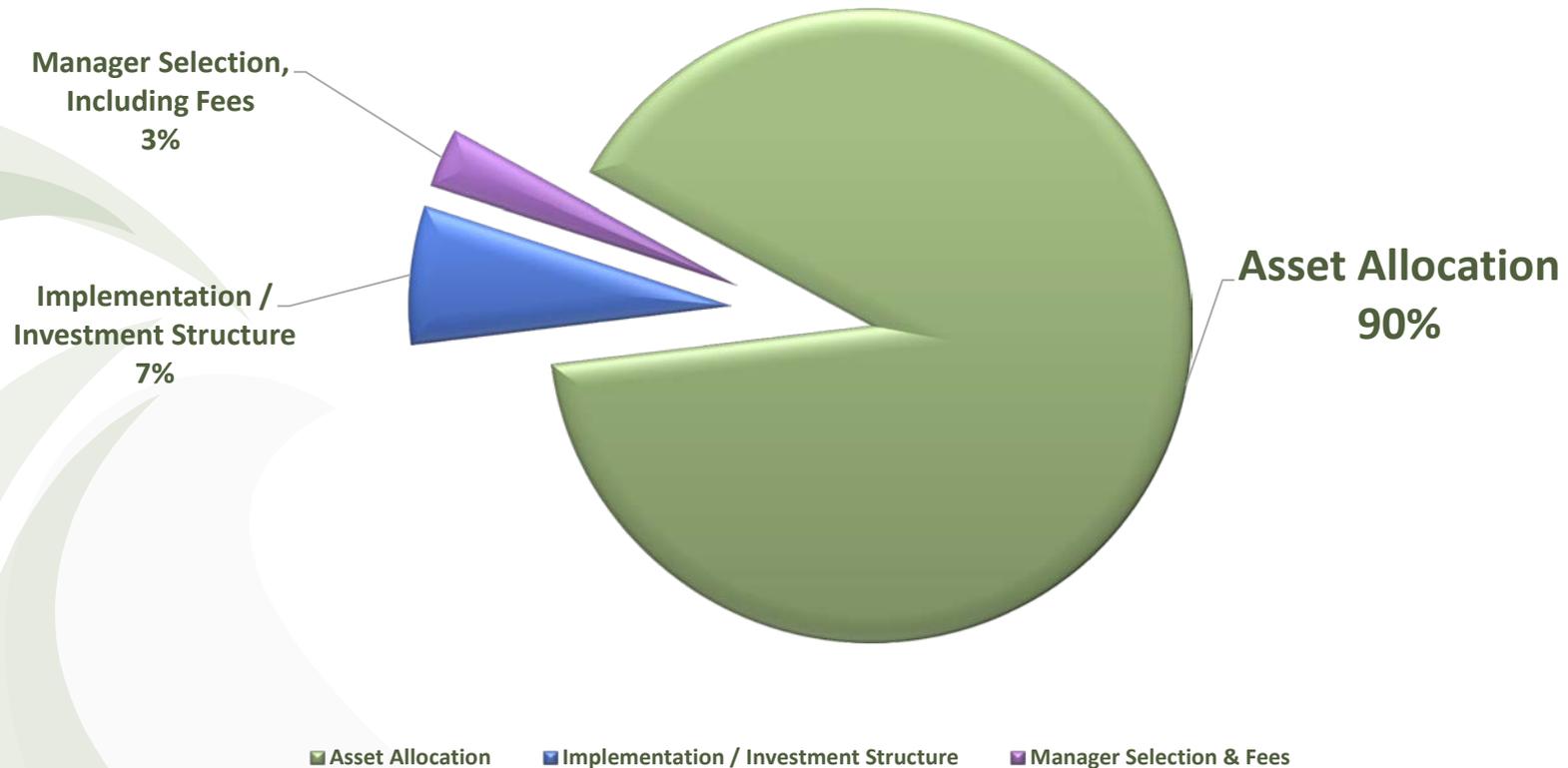
- High Return
 - For the Fiscal Year 2014, the Fund was up +17.03% net of fees
- Low Cost
 - Indexes over 56% of public equities, paying less than 2bps
 - Reviewing the structure of all asset categories and will look to optimize fees
- Low Risk
 - The Fund's total expected volatility is 9.6% vs. the median of 10.0% and a high of 14.0%. (CEM benchmarking universe)
- Mission Focused
 - Sufficient liquidity to pay benefits today and in the future

HIGH RETURN + LOW COST + LOW RISK = PERA

AN EFFICIENT, BEST-IN-CLASS PORTFOLIO

Importance of Asset Allocation

Drivers of Portfolio Returns*



*Source: Wilshire

Fund Strategic Asset Allocation

	Actual as of 6.30.2014*	New Target
Total Equity	59.1%	52.9%
Public Equity	54.9%	45.9%
Private Equity	4.2%	7.0%
Total Fixed Income	26.0%	31.1%
Total Inflation Hedging (Real Assets & Real Estate)	5.9%	12.0%
Total Absolute Return (Hedge Funds & GTAA)	7.72%	4.0%
Expected Median Return (%)	7.07	7.25
Standard Deviation of Return (%)	11.73	11.17
Contribution to Asset Volatility:		
Public Equity	82.1	68.2
Private Equity	7.4	14.2
Fixed Income	3.6	7.9
Inflation Hedging	3.1	7.6
Absolute Return	3.8	2.0

New Asset Allocation Enhancements

- Reducing Domestic Public Equity exposure
 - Eliminating uncompensated risks
- Decreasing the allocation to Absolute Return
- Increasing allocations to Private Equity, Real Estate and Real Assets
 - Diversify risks, reduce correlations and dampen volatility
- Enhancing Fixed Income allocation
 - Focus on core for downside protection
 - New component to better participate in changing interest rate environment
- Revisit all fund benchmarks to better evaluate performance
- Increase focus on risk measurement and management

New SAA Implementation

- Process is data driven with qualitative judgment applied to findings
 - Review all asset category composites
 - Measure asset categories performance through various lenses
 - Risk adjusted
 - Fee adjusted
 - Liquidity adjusted
- Make adjustments based on findings
- Collaboration between Board, staff and consultants

SAA Implementation Status

- Domestic Equity
 - Comprehensive analysis of \$4.5 billion portfolio
 - Identified ways to optimize portfolio (fewer managers, more indexing)
 - New structure
 - Higher expected performance
 - Lower expected risk
 - Lower fee structure (\approx \$3 million)
- International Equity and Fixed Income
 - Comprehensive analysis to begin Fall 2014
- Alternative Assets
 - Focus on continuing to choose the best managers
 - PERA is pro-actively identifying fee breaks
 - Committing early to funds

Implementation of New SAA Will Yield

Better Positioned Portfolio

- Higher Expected Return
- Optimized Cost Structure
- Lower Expected Risk
- Increased Liquidity

Long Term Commitment to PERA Members