MINUTES
of the
FOURTH MEETING
of the
INVESTMENTS OVERSIGHT COMMITTEE

December 1, 2010
Room 307, State Capitol
Santa Fe

The fourth meeting of the Investments Oversight Committee (IOC) for the 2010 interim was called to order by Representative John A. Heaton, chair, on Wednesday, December 1, 2010, at 9:07 a.m. at the State Capitol in Santa Fe.

Present
Rep. John A. Heaton, Chair
Sen. George K. Munoz, Vice Chair
Rep. Donald E. Bratton
Sen. Timothy M. Keller
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. Steven P. Neville
Rep. Henry Kiki Saavedra
Sen. John M. Sapien
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent
Sen. Tim Eichenberg

Advisory Members
Sen. Carlos R. Cisneros
Rep. Miguel P. Garcia
Rep. Roberto "Bobby" J. Gonzales
Sen. Mary Kay Papen
Sen. John C. Ryan
Sen. John Arthur Smith
Rep. Sheryl Williams Stapleton
Rep. Shirley A. Tyler
Rep. Andrew J. Barreras
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Sen. William H. Payne
Rep. Jane E. Powdrell-Culbert
Sen. Michael S. Sanchez
Rep. Richard D. Vigil
Sen. Peter Wirth

Guest Legislator
Rep. Dennis J. Kintigh

Staff
Tom Pollard, Legislative Council Service (LCS)
Doris Faust, LCS
Claudia Armijo, LCS

Guests
The guest list is located in the meeting file.

Handouts

Handouts and written testimony are in the meeting file.

Note: These minutes should be considered to be in draft form. The IOC has not had the opportunity to consider these minutes for approval.

Wednesday, December 1

Representative Heaton welcomed committee members and guests. He advised the members that the meeting would be audiocast and asked that they keep sidebar conversations to a minimum. Next, he requested that the members introduce themselves before speaking, and he asked that they turn their microphones on before speaking and off after speaking.

Representative Heaton asked for a motion to approve the minutes from the August 16, 2010 meeting. A motion to approve the minutes was made and seconded, and the motion passed unanimously.

Educational Retirement Board (ERB) Recent Investment Performance, Outlook for Educational Retirement Fund Solvency and Legislative Proposals

Jan Goodwin, executive director of the ERB, and Bob Jacksha, chief investment officer of the ERB, addressed the members regarding the ERB. Mr. Jacksha began by referring to the handout dated November 18, 2010, which contains the ERB third-quarter 2010 executive summary. He told the members that, recently, the market environment has been good. He directed the members' attention to page 4 of the handout, which provides a summary of the ERB investment results. According to Mr. Jacksha, over the last 12 months, the Educational Retirement Fund experienced a net investment gain of $1.1 billion, which includes a net investment gain of $688.6 million during the quarter. Total assets increased from $7.9 billion in September 2009 to $8.8 billion on September 30, 2010. There was $169.7 million in net distributions during the same period.

Mr. Jacksha said that during the past five years, the fund returned 4.7% per annum, outperforming its policy benchmark by 1.1% and ranking in the fourteenth percentile of the Independent Consultant Cooperative's public funds greater than $1 billion universe. He also noted that the ERB decreased the fund's long-term equity exposure, and as a consequence, if the bull market returns, the Educational Retirement Fund may not perform as well as other funds.

There was a brief discussion regarding how private equities are valued. Mr. Jacksha said that private equities are usually valued pursuant to the Governmental Accounting Standards Board (GASB), which lays out certain criteria. Members advised that the ERB should value its private equity holdings conservatively. When asked why the ERB is moving out of private equities, Mr. Jacksha said it was a decision to diversify the fund's holdings more fully and to minimize the negative impacts during bear markets. Some members questioned further the decision to move away from private equities. Mr. Jacksha clarified that it was a policy decision set into place in 2006 to move away from volatile asset classes.

Ms. Goodwin addressed the members regarding the outlook for the solvency of the ERB. Prior to her presentation, Senator Smith noted that as a result of the proposed plan changes being recommended by the ERB , most of the legislators are getting emails against the proposed changes. He added that the board members should be prepared to support the legislature through the reform process, but he sees that the ERB is still wrestling with the issue.

Ms. Goodwin referred to the handout dated December 1, 2010 relating to the ERB's solvency outlook and the ERB's proposed legislation. She told the members that the ERB has developed preliminary recommendations to improve the ERB's solvency. Those preliminary recommendations would result in a 102% funded ratio (the ratio of the actuarial value of the fund's assets to the actuarial accrued liability) within 30 years. She stressed that the board members believe that all of the ERB members, both current and future, should share the burden of changes intended to make the fund solvent. After the preliminary results received by the ERB's actuaries projected the 102% funded ratio, the board directed the ERB staff to suggest changes that would achieve the GASB recommended 80% funding ratio within the desired 30-year period. She noted that the board would be continuing its work on the proposed plan changes at its December 10, 2010 meeting. She added that the ERB has received many proposals for changes from a variety of groups, including the National Education Association (NEA) and the University of New Mexico (UNM), and from individuals. She said that the staff intends to review all of the proposals.

Next, Ms. Goodwin directed the committee to page 3 of the handout, which graphically displays the actuarial accrued liability of the Educational Retirement Fund from 2000 through 2010. She noted that the actuarial values shown reflect a smoothing period of five years. She noted that the funded ratio stands at 65.7% in 2010. Five years ago, the ratio was at 75.4%. She pointed out that in 2011, the ratio reached an all-time high of 91.9%. The ratio began to decrease as the negative investment experience in fiscal years 2001 through 2003 was phased into the fund's actuarial value of assets. Ms. Goodwin opined that without any changes to the ERB plan, the fund will never meet the recommended 80% funding ratio. She additionally reminded members that according to the GASB standards, the funding period needed to achieve the recommended 80% funding ratio should not exceed 30 years.

When members questioned Ms. Goodwin regarding the cost-of-living adjustment (COLA), she responded that ERB retirees are not eligible for the COLA until they reach the age of 65, unless they are retired on disability. She also noted that the COLA is calculated according to the Consumer Price Index, and it is set at a maximum of 4%.

Next, Ms. Goodwin told the members that the ERB hired the Albuquerque-based polling firm Research & Polling, Inc. to conduct a survey consisting of polling ERB members. The purpose of the survey was to find out what, if any, support polled members might have for certain changes to the ERB plan. The survey was conducted in the week beginning October 30, 2010. The ERB staff provided Research & Polling with contact numbers for 400 randomly selected active members. Of those polled, 35% were higher education employees and 65% percent were K-12 school employees. Ms. Goodwin noted that those percentages reflect the breakdown of the current ERB active membership.

Ms. Goodwin next shared the results of the poll. She highlighted the results, telling the committee members that all of the survey results can be found on the ERB web site. She noted that 35% of those polled approved an increase of member contributions, while only 5% approved a decrease in retirement benefit payments for current employees. According to Ms. Goodwin, 41% of those polled approved a combination of increased member contributions and decreased retiree benefits for current employees for the purpose of providing solvency to the Educational Retirement Fund.

Ms. Goodwin said that members polled are divided on the issues of increasing current members' contributions by 1%. She also noted that members polled are not willing to reduce the multiplier for future service, nor are they willing to reduce the COLA for current workers upon their retirement.

Ms. Goodwin shared the board's recommendations, explaining that the proposed changes would apply to all active members, meaning that as of the effective date of the changes, there would no longer be a two-tiered system for members. Currently, there are Tier 1 and Tier 2 ERB members, with varying requirements and benefits between the two tiers.

The changes proposed by the ERB are as follows:

1) the multiplier would remain at 2.35%;
2) the member contributions would be 8.4% for members earning a salary of $20,000 or less and 9.9% for members earning more than $20,000;
3) the financial accounting standard would be based on the highest seven consecutive years of a member's salary;
4) the years of service requirement for retirement with no benefit reduction would be 35 years;
5) the age plus service requirement would be 60 years plus 30 years of earned service credits (no benefits with less than 30 years). The benefit reduction for retirees below the age of 60 plus 30 years service requirement would be 0.6% each quarter year for a retiree under the age of 60. There is no provision for retirement before the age of 60 with fewer than 30 years of earned service credit;
6) increase the retirement age to 67 plus five years of earned service credit;
7) there would be a "safe harbor" provision for active members who have 22 years of earned service credit as of the effective date of the plan changes; they would be grandfathered to the Tier 1 current requirements; and
8) the employer contribution rate would be increased to 13.9% (the amount currently in statute at Section 22-11-21 NMSA 1978).

According to the ERB actuarial results, the proposed changes to the ERB plan would result in a funding ratio of 101.5% in the year 2040. The actuarial analysis was based on a targeted investment return assumption of 7.75%.

Next, Ms. Goodwin spoke to the committee members regarding the ERB's 2011 legislative agenda. She said that the board's solvency plan changes would be finalized at the board's December 10, 2010 meeting, and she asked for the members' support of that solvency plan in its form of a legislative initiative. She then explained that the ERB is also interested in legislation that would provide for the recommendations received from Ennis Knupp last January. Those recommendations include changing the ERB's custody bank, amending the statutory definition of "fiduciary" and providing that ex-officio board members, specifically the state treasurer and the secretary of public education, may appoint designees to represent them at meetings.

Members asked several questions regarding the various legislative proposals that are currently in concept form only. Members stressed that the committee may endorse concepts but needs to see ideas in bill form prior to final endorsement.

Members inquired as to whether Ms. Goodwin had received a letter from the NEA recommending a delay of action on the issue. Ms. Goodwin said she had not seen the letter. However, she noted that as attractive as delaying action on the issue sounds, the most responsible thing is to fund the ERB now in order to avoid more drastic plan changes later. Ms. Goodwin told the members that the ERB actuaries are working on the proposals offered by the NEA. She noted that if those changes can enable the plan to meet the 80% funding ratio in a 30-year period, the board will strongly consider the proposal.

When asked if retirees were polled in the survey conducted by Research & Polling, Ms. Goodwin said they were not because the ERB is not recommending a change to retiree benefits. Members expressed a concern over the ERB's ability to achieve a meeting of the minds concerning potential changes to the plan. Members also asked if the board's decision regarding plan changes must be a unanimous decision. Ms. Goodwin said that the decision must be approved by a majority of board members.

Next, some members expressed concern over the idea of allowing ex-officio board members to send designees to board meetings. Ms. Goodwin commented that an ex-officio member could send a knowledgeable person in that member's place.

Next, members expressed concern that they do not have an actual proposed bill to review. There was a discussion about holding another meeting after the ERB holds its December 10 meeting and makes its final recommendations. Representative Heaton noted that he will seek approval for another meeting for the IOC. Members discussed possible dates for the meeting and agreed upon December 21, 2010, pending approval by the New Mexico Legislative Council.

Public Employees Retirement Association (PERA) Recent Investment Performance Outlook for PERA Retirement Fund Solvency and Legislative Proposals

Terry Slattery, executive director of the PERA, and Joelle B. Mevi, the PERA's chief investment officer, addressed the committee regarding the PERA's fund performance and solvency as well as the PERA's proposed 2011 legislative initiatives.

Ms. Mevi started by directing the members' attention to the PERA fund's investment performance analysis for the month ending September 30, 2010 with a handout prepared by RV Kuhns & Associates. Included in the handout were various charts and graphs current as of September 30, 2010.

The PERA fund had a market value of $11,066,978,866 as of September 30, 2010. Ms. Mevi continued with a detailed discussion of fund allocation by type of investment and investment managers.

Mr. Slattery provided the members with a handout containing the PERA annual actuarial valuation as of June 30, 2010 as compared to June 30, 2009. The total June 30, 2010 actuarial accrued liability, which included active and deferred vested members, retired members and survivors, is $15,601,461,460. The June 30, 2009 amount was $14,908,279,200.

The handout also contains a calculation of the required contributions as a percentage of PERA employee member salaries. The June 30, 2010 statutory contribution percentage rate, which includes the employer contribution percentage rate and the member contribution rate, was 25.06%.

Additionally, the June 30, 2010 statutory contribution percentage rate of 25.06%, less the ongoing day-to-day costs of 20.65%, left 4.41% available to amortize the PERA fund's unfunded liability as of September 30, 2010. The amortization period required to pay the unfunded liability at this contribution rate was infinite, and a contribution increase, therefore, was required.

Mr. Slattery advised the members that the PERA fund consists of three funds: the state general, municipal police and municipal fire funds. According to the PERA board, all of the funds need the same increase in funding, and the board recommends a total of an 8% increase in contributions implemented incrementally at 2% per year, with one-third of the increase paid by employees and two-thirds paid by employers. The board projects that the recommended increase would set the PERA fund on the path to pay off the unfunded liability in the recommended 30-year time frame. When questioned about the board's "ideal plan" provisions, Mr. Slattery said that the plan includes a reduction in benefits for new employees, which will reduce normal costs over time and will help pay down the unfunded liability.

Members asked what the PERA's current funded ratio is. Mr. Slattery responded that it is 78.5%, and he noted that the GASB recommended ratio is 80%. He further noted that the PERA funding ratio reflects being halfway through the 2008 economic downturn with the associated downturn in the market value of the fund.

Retirement Systems Solvency Task Force (RSSTF) Recommendations to IOC Regarding Proposed Legislation

After a break for lunch, the committee was addressed by Raúl E. Burciaga, director of the LCS, regarding potential legislation endorsed by the RSSTF and referred to the IOC for consideration. Mr. Burciaga reminded the members about the legislation that created the RSSTF. He said that the RSSTF spent a great deal of time learning about the concept of pension fund actuarial solvency. He added that the RSSTF entered into a contract with Buck Consultants, an actuarial firm based in Denver, to review and analyze the actuarial soundness of the PERA and the ERB. Mr. Burciaga explained that David Slishinsky and Michelle DeLange of Buck Consultants had presented most of their findings to the RSSTF and would be issuing a final report in a few weeks.

Next, Ms. Faust, assistant director of drafting services for the LCS, apprised the members regarding the legislative proposals endorsed by the RSSTF and forwarded to the IOC for its review.

The first legislative initiative Ms. Faust presented to the committee members was discussion draft number .183068.2, which would delay employer contribution increases for the ERB. The draft provides that the state's contribution rates for the Educational Retirement Fund would be increased gradually beginning on July 1, 2011. The increased contribution rates would start at 11.4% in fiscal year 2012 and incrementally increase yearly, resulting in a rate of 13.4% beginning in fiscal year 2017 and continuing thereafter. With little discussion, there was a motion to endorse the proposed legislation, which was seconded without opposition. Senator Munoz offered to carry the bill.

The next legislative initiative Ms. Faust presented to the committee members was discussion draft number .183087.2, which would capture a portion of the docket and jury fees and deposit them in the state general fund. Additionally, the draft provides that judicial and magistrate retirement benefits would be paid from the general fund. Members expressed concern over the ramifications of the proposed legislation. Although members understood the issues related to the Judicial Retirement Fund, there was no consensus that the proposed legislation was the appropriate fix. A motion was made and seconded to table the proposed legislation; two members opposed it. The motion passed.

The next legislative initiative Ms. Faust presented to the committee members was discussion draft number .183080.2, which would amend the Public Employees Retirement Act to allow retired members to return to work for a state entity on a part-time basis without suspending their retirement benefits, provided that they do not earn more than $15,000 annually. After a brief discussion regarding some of the potential pitfalls and inquiries as to the motivation for the bill, the proposed legislation failed to receive committee endorsement by a vote of three members for and five members opposed to the proposed legislation.

The next legislative initiative Ms. Faust presented to the committee members was discussion draft number .183084.1, which would provide the statutory framework for the PERA's ideal plan. The ideal plan would change the Public Employees Retirement Act significantly. The provisions of the proposed ideal plan can be found on the PERA web site and in the handouts from previous RSSTF meetings, when the plan was explained in detail. There was a lengthy discussion regarding this proposed legislation. Some members were not yet familiar with the details of the proposed ideal plan. Consequently, there were a number of questions regarding the specifics of the provisions. Members seemed interested in a side-by-side comparison of the existing PERA plan and the proposed ideal plan. After more discussion, the chair suggested that the members review the legislative proposal and bring their ideas and suggestions regarding potential amendments to the proposed December 21, 2010 meeting. The members agreed to revisit the proposed legislation at that time. Prior to ending the discussion, Mr. Slattery cautioned the members that any amendments to the ideal plan would inevitably affect the cost of the plan and the impact on fund solvency.

Legislation Proposed by the Attorney General to Include Investment Advisory Services Under the Procurement Code.

A panel consisting of Assistant Attorney General Phillip Baca, Mr. Jacksha and Ms. Mevi addressed the committee regarding a legislative initiative proposed by the Attorney General's Office (AGO).

Mr. Baca presented the proposed legislation on behalf of the AGO. The proposal, discussion draft number .183038.3SA, would amend the Procurement Code by removing an exemption for certain investment-related contracts, requiring additional procedures for sole source and emergency procurement, restricting who may make an emergency procurement, expanding who may protest a procurement award and increasing penalties for violating the Procurement Code.

Mr. Baca noted that a Procurement Code audit completed in 2008 by the Legislative Finance Committee (LFC) identified areas of concern in the provisions of the code. Specifically noted were abuses related to emergency purchases. The results of the audit identified reforms that are needed to the sole source purchase provisions.

Both the PERA and the ERB opposed the proposed changes to the Procurement Code. Ms. Mevi, referring to a PERA memo presented to the members, told the committee that the legislation being considered for the 2011 session would reverse legislation previously passed.

Ms. Mevi stated that in 2005, the legislature repealed the PERA's legal list of permissible investments and adopted the Uniform Prudent Investor Act (UPIA) for the state's investing agencies. Representative Varela introduced House Bill 387, which exempts from the Procurement Code contracts for investment advisory services, investment management services and investment-related services entered into by the ERB, the PERA and the State Investment Council (SIC).

Ms. Mevi stated further that public pension funds need the flexibility to make prudent investment decisions in a global, complex financial market. Modern pension fund asset allocation models utilize diversification and risk management to steer returns safely to a return target. With a return to the constraints of the Procurement Code, it is less likely that the PERA will be as successful in the future with its investment returns as it has been over the past 10-year period.

Ms. Mevi stated that removing the Procurement Code exemption would cause:

1) significant restraints for procuring the types of investments allowable under the UPIA;
2) decreased investment returns due to higher fees associated with the limited types of alternative assets procurable under the code;
3) additional expense to the fund related to staffing required for receiving, screening, analyzing and filing paper requests for proposals (RFPs) related to the PERA's 120-plus mandates;
4) the inability to use internet resources and retain electronic documents related to searches, which are more efficient methods than requiring hard copy; and
5) the fund to incur substantially more risk by restricting the types and quantity of alternative assets in the assets allocation model.

Mr. Jacksha spoke on behalf of the ERB. Referring to a letter from Ms. Goodwin, dated November 30, 2010 and sent to the IOC members, Mr. Jacksha said that if this bill is passed, it would severely hamper the continued implementation of several successful ERB investment programs, including private equity, real estate, infrastructure and natural resources. He stated that it would be impossible to continue these current programs if the ERB were required to issue RFPs for the selection managers. He said that a prime example of success in these programs is private equity, which has made significant contributions to investment performance with a return of 24% in the last 12 months. Mr. Jacksha explained that this return has been a result of the current process, which has allowed the ERB to take advantage of unique opportunities available in the marketplace. He also stated that this flexibility would not exist under an RFP process, which would result in mediocre returns at best.

After a lengthy discussion regarding the proposed legislation, members asked if the parties could work together with the LFC staff to achieve a workable solution for the proposed legislation. Representative Heaton asked if they could try to work something out by the December 21, 2010 meeting. The parties agreed.

Next, the committee was addressed by Senator Keller, who presented several bills for the committee's endorsement consideration. The first proposed legislation was discussion draft number .182843.2, which would remove the governor as a member of the SIC. The proposed legislation was passed by a vote of three members for and two opposed. Senator Keller will carry the bill.

The next proposed legislation presented by Senator Keller was discussion draft number .182846.1, which provides changes to the board membership of the Small Business Investment Corporation. A motion was made to endorse the bill; it was seconded, and the motion passed without opposition.

The next proposed legislation presented by Senator Keller was discussion draft number .183394.1, which would expand the duties of the Private Equity Investment Advisory Committee to include reviewing and making recommendations to the IOC on economically targeted investments. A motion was made to endorse the bill, and it was seconded. The motion passed with one member opposed.

The next proposed legislation presented by Senator Keller was discussion draft number .182842.1SA, which would amend the New Mexico Uniform Securities Act to allow for enforcement by the attorney general and to increase the statute of limitations. The bill would also amend the definition of "fraud". Senator Keller advised the members that this legislation is drafted to mirror the State of New York's "Martin Act". The members have heard testimony on this issue before, and, after brief discussion, a motion to endorse the bill was made and seconded, and it passed without opposition.

The next proposed legislation presented by Senator Keller was discussion draft number .182844.3, which would change the makeup of the PERA and the ERB boards. Senator Keller noted that he realized that there were significant problems with the proposed legislation as currently drafted, and he withdrew the bill. Representative Heaton asked Senator Keller if he could work on the legislation for the December 21, 2010 committee meeting. Senator Keller replied that he could.

SIC — Recent Investment Performance and Proposed Legislation

Mr. Smith provided the members with information regarding the SIC's investments. The SIC's investment summary for the quarter ending September 30, 2010 includes the following: the permanent funds performance was 8.5% for the Land Grant Permanent Funds (LGPF) and 9% for the Severance Tax Permanent Fund (STPF). The LGPF matched its 8.5% benchmark, and the STPF outperformed its benchmark by 0.9%. The funds materially outperformed the peer group median return of 6.8%. For the year ending September 30, 2010, the LGPF returned 12.6%, 0.8% ahead of the policy benchmark, and ranked in the eleventh percentile of peer funds. The STPF returned 12.8% for the year, 1.3% ahead of its policy benchmark, and ranked in the tenth percentile relative to peers. Total assets under management in the LGPF came to $9.5 billion, up from $8.8 billion at the beginning of the quarter. Assets under management in the STPF totaled $3.6 billion, up from $3.4 billion at the start of the quarter. Total assets under management by the SIC at the end of the September quarter came to $13.8 billion.

Performance for the quarter and over the last year has been driven by the funds' exposure to the publicly traded equity markets. The rebound in stocks underway since the first quarter of 2009 has driven both absolute and relative performance of the LGPF and the STPF.

Relative to the peer group used for performance comparisons, SIC-managed portfolios historically maintain high exposures to publicly-traded equity.

The strong performance of the equity markets, particularly over the last quarter, has moved the actual allocations of the LGPF and the STPF away from the target allocations to publicly traded equity. This is particularly pronounced in the STPF. Staff is working on plans to rebalance these portfolios back toward the target allocations.

The strength of the financial markets since the first quarter of 2009 continues to increase the value of both the LGPF and the STPF.

Next, Steve Moise, state investment officer, SIC, advised the members regarding the SIC's proposed legislative initiatives. He said that the SIC staff has sought and received input and approval for the proposed legislation from both its government committees and the full council. Mr. Moise told the members that the SIC proposes the following statutory revisions for consideration in the upcoming session:

1) Discussion draft number .183454.1SA, relating to contingency fees: this revision would change the SIC statute to allow the council to enter into contingent fee legal services contracts in pursuit of investment recoveries, authorized under appropriate RFP policies. This limits the potential legal fee expenditure by the SIC while optimizing recovery abilities. There was a motion to endorse the legislation, which was seconded. The motion passed without opposition. Mr. Jacksha noted that similar legislation would be valuable for the ERB, and he was asked by members to provide a bill at the December 21, 2010 meeting.

2) Discussion draft number .182964.1SA, relating to board removal: this revision would remove the statutory requirement that the state investment officer serve on the New Mexico Finance Authority, the New Mexico Renewable Energy Transmission Authority and the education trust boards. It would allow the SIC to focus on the primary goal of growing the permanent fund. The bill was unanimously endorsed after a motion and a second. Senator Sapien will carry the bill.

3) Discussion draft number .182967.1SA, relating to tobacco: this revision would adjust the current statutory language that requires the Tobacco Settlement Permanent Fund to be invested "as land grant permanent funds". Mr. Moise explained that this language is problematic because it is not appropriate for the tobacco fund to be invested in long-term horizon investments like private equity, real estate and other alternatives, especially because the tobacco fund is a reserve fund for the legislature. This bill would remove the requirement but keep constitutional

investment limitations of the LGPF on this fund. The bill was unanimously endorsed by the members and will be carried by Representative Varela.

4) Discussion draft number .183103.1SA, relating to water: this revision deals with the same issue as the tobacco legislation. It would clean up existing statutory language, keeping LGPF investment limitations and removing the requirement that it mirror the LGPF in alternative investments. The bill was unanimously endorsed by the members and will be carried by Representative Larrañaga.

5) Discussion draft number .182968.1SA, relating to a constitutional amendment: this revision requests removal of the constitutional cap of 15% on international equity investments, which is not in line with modern investment theory. According to Mr. Moise, a cap should ideally be set by the council through policy rather than by the constitution. The bill also increases the constitutional standard of care from ordinary prudence to the UPIA, in line with the statute. If passed, it will still require a statewide referendum. The bill was unanimously endorsed by the members and will be carried by Senator Keller.

6) Discussion draft number .183237.1SA, relating to portfolio management: the current SIC policy allows investment of portfolios by finance students at UNM and New Mexico State University, under specific faculty and SIC oversight and supervision, as part of a teaching tool. This revision seeks to formalize this structure in statute. The bill was tabled by the committee. There was a motion to send a letter to the SIC stating that, after review, the committee finds that funding the program with state money is an inappropriate use of state funds and that it is the hope of the committee that such state funding will cease. The motion passed.

7) Discussion draft number .182963.1SA, relating to the IOC governing statute cleanup: this revision would provide changes to last year's SB 18 to include allowing the SIC to elect a chair and vice chair. The revision will allow contingent attorney fees. It will extend financial reporting to 30 days from an unrealistic 10 days. It will allow commercial liability insurance coverage for the council as well as Tort Claims Act coverage for the SIC members. The bill was tabled by the committee by virtue of a unanimous vote, with a request that a modified version of the bill be presented at the December 21, 2010 meeting.

Other Retirement Fund Solvency Legislation Proposed for IOC Endorsement

Representative Heaton advised the members that he would like to propose several pieces of legislation, including a bill that would amend the COLA for the PERA and a bill that would prohibit municipalities and the Department of Public Safety from making any percentage of an employee's contribution to the respective retirement fund. Representative Heaton noted that the bill would apply specifically to future contracts and not to existing contracts. The committee deferred further discussion of legislative proposals to the meeting requested for December 21, 2010, and the meeting was adjourned at 5:45 p.m.

- 11 -