MINUTES
of the
FIRST MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

June 9, 2011
State Capitol
Santa Fe

The first meeting of the Investments and Pensions Oversight Committee (IPOC) for the 2011 interim was called to order by Senator George K. Munoz, chair, on Thursday, June 9, 2011, at 9:10 a.m. at the State Capitol in Santa Fe, New Mexico.

Present
Sen. George K. Munoz, Chair
Rep. Henry Kiki Saavedra, Vice Chair
Rep. David L. Doyle
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. John M. Sapien
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent
Rep. William "Bill" J. Gray
Sen. Timothy M. Keller
Sen. Steven P. Neville
Sen. Mary Kay Papen

Advisory Members
Sen. Carlos R. Cisneros
Rep. Miguel P. Garcia
Rep. Roberto "Bobby" J. Gonzales
Rep. Rhonda S. King
Rep. Patricia A. Lundstrom
Rep. Jane E. Powdrell-Culbert
Rep. William "Bill" R. Rehm
Sen. John C. Ryan
Rep. Sheryl Williams Stapleton
Rep. Mimi Stewart

Rep. Donald E. Bratton
Sen. Tim Eichenberg
Sen. Stuart Ingle
Sen. William H. Payne
Sen. Michael S. Sanchez
Rep. Shirley A. Tyler
Rep. Richard D. Vigil

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

Guests
The guest list is in the meeting file.

Handouts
Handouts and written testimony are in the meeting file and posted on the New Mexico

Legislature web site.

<u>Thursday, June 9</u>

Senator Munoz welcomed committee members and guests. He asked the members to introduce themselves, which they did. He also reminded them to turn their microphones on and off before and after speaking.

Report on Recent Investment Performance

Steve Moise, state investment officer (SIO) for the State Investment Council (SIC), addressed the members regarding the SIC's investment performance. He began by reporting that the SIC has achieved recent gains of about $1.9 billion, adding that the improved fund performance resulted in ranking the overall performance in the top 25% of peer funds. He also noted that Vince Smith, deputy SIO for the SIC, would report further on those gains later in the discussion. Mr. Moise continued by advising the members that the SIC is moving toward more external investment account management.

Mr. Moise told the members that, within the last 30 days, the SIC filed several lawsuits in both state and federal courts seeking to hold multiple individuals and a partnership accountable for their role in "pay-to-play" and kickback schemes involving the SIC during the period 2003 to 2009. The suits seek monetary damages and recovery of ill-gotten gains acquired by the defendants at the expense of the state permanent funds. Mr. Moise reminded the members that the authority to engage in litigation came from legislation passed by the legislature. According to Mr. Moise, the New Mexico attorney general and the Day Pitney law firm are handling the lawsuits for the SIC. He noted that the Day Pitney firm has already achieved major financial recoveries in similar lawsuits for the State of New York. He further noted that named defendants include Gary Bland, the former SIO for the SIC; Guy Riordan, a former Albuquerque securities broker and advisor to former Governor Bill Richardson; Anthony Correra, an associate of Governor Richardson's and a former investor whose license was revoked by the federal Securities and Exchange Commission after allegations of insider trading; and Marc Correra, Santa Fe placement agent and son of Anthony Correra. Additional defendants, including 12 placement agents, are named in the lawsuits. Mr. Moise noted that the SIC is also fully cooperating with the U.S. Department of Justice in its investigation of potential wrongdoing.

Noting that other states, including New York, have already achieved economic recovery as a result of the investment schemes perpetrated on their states, members inquired as to the reason it has taken New Mexico, and specifically the SIC, so long to file lawsuits to recover the huge losses suffered by the state's pension funds. Mr. Moise was joined by Evan Land, general counsel for the SIC, for this discussion. Mr. Land explained that the State of New York has a statutory provision, the Martin Act, which provides exceptional powers to that state's attorney general in the investigation and prosecution of cases involving alleged securities fraud. He opined that access to the provisions of the Martin Act was essential in New York's ability to move quickly in its recovery efforts. When asked why New Mexico's attorney general has been slow in pursuing the cases, Mr. Land replied that the SIC and its staff share in the legislators' frustration at the slow-moving process. Mr. Moise added that the SIC has been working on ways to proceed in bringing to justice those who played a role in the costly and fraudulent investment schemes.

Next, Mr. Moise talked about legislation that was passed during the 2011 legislative session, noting that Senate Bill 86 (Laws 2011, Chapter 9) provided the authority for the SIC to enter into agreements for legal services on a contingency fee basis. Senate Bill 82 (Laws 2011, Chapter 51) provided for the removal of the SIO from four state boards, freeing up the SIO's time for important SIC duties. Mr. Moise said that House Bill 52 (Laws 2011, Chapter 167) provided statutory changes that will allow the SIC to fund the tobacco appropriation when directed to do so by the legislature. He advised that the SIC would be seeking the committee members' endorsement of a short list of legislative priorities for the 2012 legislative session.

Next, Mr. Moise told the members about some governance changes for the SIC that have taken place since December 2010. Among those changes are the new SIC members, including: Governor Susana Martinez; Ray Powell, commissioner of public lands; Secretary of Finance and Administration Richard May; and Scott Smart, vice president of business affairs for Eastern New Mexico University. Mr. Moise noted that there remain two vacancies on the council. He told the committee members that the SIC operates four committees, the Audit, Governance, Investment and Private Equity Advisory committees.

Mr. Moise continued by telling the members that the SIC has made several additional governance changes, including the adoption or updating of 14 policies and procedures. He said that 49 of the 82 recommendations made to the SIC by the consulting group Ennis Knupp have been implemented or are in the process of being implemented. He further noted that all of the SIC staff have signed a staff code of ethics and the SIC is committed to a philosophy focused on its "Mission, Vision and Values".

Mr. Smith spoke to the members about the performance of the SIC's funds since December 2010. He started by saying that the SIC's performance goal is for the funds to perform within the second quartile or better. He noted that changes in investment strategies are intended to help the funds meet the performance goal. The SIC has adopted investment philosophies viewed by the SIC as critical for the SIC's investment program. Additionally, there has been investment staff restructuring consistent with the performance goals in mind. Mr. Smith said that, with guidance from RV Khuns & Associates, a Portland, Oregon-based consulting firm, the SIC has made changes to its asset allocation. He added that the SIC is receiving investment consulting services from both RV Khuns & Associates and LP Capital, private equity consultants. Mr. Smith continued by telling the members that nine external investment managers' contracts with the SIC have been terminated, primarily for underperformance. Additionally, several requests for proposals (RFPs) for services have been issued by the SIC, with more pending, as the SIC is increasing its external management.

Referring to the SIC's investment performance, Mr. Smith directed the members' attention to page 7 of the SIC handout. He noted that the funds grew from $13.999 billion to

$15.350 billion for the year ending on March 31, 2011. He further highlighted the information in the handout by noting that, for the same period, the land grant permanent funds increased in value by 14.2% and the Severance Tax Permanent Fund increased by 14.3%. He told the members that the one-year returns for the funds put them in the top quartile of peer funds. He noted that previously the funds had performed in the lower bottom quartile, so the improved performance reflects a positive move toward the median.

Next, Mr. Smith spoke at length about the SIC's investment philosophies and beliefs. He said that the SIC sees institutional investing as a "global" endeavor, long-term in nature and requiring patience and steadfastness, and that the economic environment is a major driver of asset returns. Consequently, the impact of economic conditions and direction must be understood and monitored. He also opined that valuation plays a significant role in determining asset returns and as such should be monitored and managed.

According to Mr. Smith, the SIC's beliefs related to portfolio construction include the belief that asset allocation is the primary determinant of the SIC's portfolio's return. Following asset allocation in determining portfolio performance is strategy selection and asset class construction. Lastly, manager performance related to meeting benchmarks has the least impact on long-term portfolio returns. Mr. Smith told the members that the SIC believes that asset allocation is a policy decision that must be arrived at by consensus and directly by the primary fiduciaries of the funds. He said that portfolio construction and implementation should be the focus of a core group of trained and seasoned investment professionals. Lastly, he said that responsibilities and accountability must be clearly understood by all involved.

In its efforts to move toward portfolio management consistent with the SIC's investment philosophies and beliefs, Mr. Smith said that the SIC is focusing on reducing its dependence, within established constraints, on domestic-based investments. He explained that greater economic growth, and therefore greater potential returns, exist outside of the United States. He further explained that the majority of opportunities in the world's stock, bond and real estate markets exist outside of the United States. He opined that by investing in these diverse markets, greater diversification of the SIC's portfolio can be achieved and greater returns for the same risk can be achieved.

Next, Mr. Smith said that the SIC intends to reduce its dependence on publicly traded equities as a return driver. This will involve increased diversification and a decrease in the excess liquidity currently in the portfolio. Mr. Smith said that the focus will be on asset allocation as the primary method of generating returns. Decisions regarding asset allocation will ideally be the result of regular structured studies and reviews conducted by the SIC's investment consultants and the SIC staff. The goal will be to employ an understanding of the economic environment and valuation in portfolio management. All of this will be done with a focus on a professional staff implementing the asset allocation, with a reduction of internal portfolio management. Instead, the SIC staff will focus on implementation, strategy selection, portfolio construction and investment manager selection.

Next, Mr. Smith directed committee members' attention to the diagram on page 12 of the SIC handout, which depicts economic "regimes" and influence on asset performance. He said this depiction reflects a method for monitoring the economy to determine how it will affect the SIC's portfolio asset performance. He noted that "real return" assets tend to be at an advantage when the economy experiences a higher consumer price index (CPI) and a low-to-average gross domestic product (GDP), whereas fixed-income assets tend to have an advantage when the economy experiences a weak GDP and a low-to-average CPI. Mr. Smith noted that since 1960, for 72% of the time, the economy has been reflecting an average-to-high GDP and a low-to-average CPI. Lastly, Mr. Smith opined that the economy seems to be moving into a period of a higher CPI with a low-to-average GDP.

Members engaged in a discussion regarding the previous asset allocations and management of the SIC's portfolio. Mr. Smith said that previously about 40% of the SIC's investments have been managed internally, with about 60% externally managed. He reasserted that the most effective way to generate high returns is through asset allocation and the least effective way is to focus on benchmarks. In the past, the SIC staff were very focused on benchmarks, but according to Mr. Smith, the staff's direction and focus regarding benchmarks are changing. Members inquired as to where the SIC's assets reside. Mr. Smith responded that the land grant permanent funds represent about two-thirds of the SIC's assets and the Severance Tax Permanent Fund represents the other third.

Members next inquired as to the time frame anticipated by the SIC in recovering losses suffered due to the fraudulent investment schemes. Mr. Land told the members that the SIC is handling the civil side of the recovery lawsuits, and he specified that the SIC has filed suits naming 20 defendants. He said the SIC has one-year, two-year and three-year plans to go after potential defendants. The SIC will proceed to trial, conduct discovery, settle with some defendants, recover losses from those defendants and move on to the next defendant or defendants. Mr. Land opined that the best leverage the SIC has in its effort to recover the losses sustained is to file suit against defendants and force them to spend money defending their cases in court. He noted that the SIC chose to file many of the lawsuits in federal court because discovery and subpoenas are easier to get in federal court.

Members questioned Mr. Smith regarding the SIC's redirecting of investments and reducing domestic investments. He explained that there is the U.S. economy, emerging markets and developing markets. He said the developing markets are primarily in Europe, and he further opined that he sees many opportunities in those markets. He also noted that inflation in the United States is being pushed to higher levels because of the high federal debt.

Next, members inquired as to whether the SIC is still using 8% as its investment rate of return benchmark. Mr. Smith did not answer definitively, but he said that the SIC is probably looking at a slightly lower benchmark. He followed by noting that the SIC conducted an analysis to determine the benchmark rate of return necessary for its portfolio over the past 20 years. According to Mr. Smith, the necessary rate of return required to generate the objectives of the fund is between 6% and 8%.

When asked for an opinion regarding taking additional money out of the corpus of the fund, Mr. Moise told members that 55 years ago, some very wise legislators created a permanent endowment for the citizens of New Mexico. He noted that New Mexico is one of four states with such an endowment, and the state's endowment is ranked second in value, at $15.25 billion, behind the State of Alaska's endowment. Mr. Moise strongly suggested that the New Mexico Legislature maintain forward thinking and resist any urge to reduce the value of the fund's corpus, thereby preserving it for New Mexico's future generations as originally promised. He further said that the key is to grow the assets so that, if needed, distributions from the fund can be increased. He emphasized that the state's permanent funds should not be viewed as "rainy day" funds. Mr. Smith concurred with Mr. Moise, saying that if the state reduces the corpus of the fund, it will be crippling its ability to generate more funds each year going forward. Some members followed up by saying that the purpose of the fund has always been to improve education in the state and the fund should be viewed primarily as an endowment for New Mexico's children. Lastly, members requested that information be provided to show how New Mexico's land grant funds compare to those of the other three states with similar funds.

Mr. Moise next spoke about the constitutional restrictions regarding the manner in which the SIC can make investments. He said that, in his opinion, such constitutional restrictions are a barrier inhibiting the SIC's ability to invest in a growth-minded manner while still being guided by the prudent investor standards. Committee members responded, noting that changes to the constitutional provisions would undoubtedly be a "hard-sell" to the voters. Mr. Moise told the members that he would research the investing limits imposed pursuant to New Mexico's Uniform Prudent Investor Act. He also told members that the SIC will put together a chart with information regarding the SIC's portfolio performance and will provide members with information regarding the fees that the SIC is paying for external investment management fees.

Lastly, members asked how the SIC will be restructuring its staff and asked Mr. Moise to provide a copy of the restructuring information to the committee. Some members inquired regarding the process used by the SIC in selecting the Day Pitney law firm to handle the recovery litigation. Mr. Land told the members that in September 2010, after an RFP was issued, the Day Pitney law firm was selected to handle the litigation on behalf of the SIC. A number of committee members expressed serious frustration with what they perceive as stalling and delays related to the SIC's efforts to pursue recovery of the money lost in the bad investment deals. Hearing the members' concerns, Mr. Moise told them that he hopes to be able to provide more clarity on the matter at the next IPOC meeting scheduled for July 27, 2011.

Report on Actuarial Soundness of the Public Employees Retirement Association (PERA) Pension Fund and Recent Investment Performance

Susan Pittard, general counsel for the PERA, addressed the committee regarding the PERA's fund soundness and investment performance. She advised the members that, as of June 30, 2010, the PERA's actuarial accrued liability was $15.601 billion, the actuarial valuation of assets was $12.243 billion and the market value of assets was $10.2 billion. She added that, for the same time period, the PERA's funding ratio was 78.5% and the unfunded actuarial accrued liability stood at $3.357 billion. Ms. Pittard cautioned the members that the valuation information is nearly one year old, so it does not reflect an accurate picture regarding the fund's current status. She noted that the PERA's valuation information as of June 30, 2011 will be provided to the members at the committee's October 2011 meeting.

Next, Ms. Pittard reminded the members that the PERA "smooths" its market gains and losses over a four-year period. She explained that the process of "smoothing" lessens the dramatic impact of any volatility experienced in the market. She added that the PERA's funding status has recognized two years of losses and consequently has two additional years of the smoothing process and recognizing losses before the losses experienced with the market downturn are fully recognized. She added that the PERA's gains have exceeded the benchmark rate of 8% and are also being smoothed over a four-year period, which means that beginning with the June 30, 2013 valuation report, and absent future losses, the recognition of the recent investment gains will significantly improve the PERA's funded status.

Referring to the handout provided by the PERA to committee members, Ms. Pittard spoke about the PERA's projected actuarial assumptions for FY 2011, including:

1. the actuarial value of assets as of June 30, 2011 will post gains above the 8% benchmark;
2. the fund's amortization period will continue to be infinite;
3. the PERA's funded ratio will drop to about 72%, assuming a $12 billion fund market value;
4. the funded ratio may bottom out in the high sixtieth percentile with the two additional years of smoothing losses (those losses more than offset the gains achieved since 2009); and
5. additional contributions to the fund, above those shown on the 2010 valuation, will be required.

Ms. Pittard continued by sharing with committee members the PERA board's recommendations to recoup the PERA's fund losses. Among the board's recommendations are a short-term funding fix that would involve increasing the contribution rates for both employees and employers. Specifically, she reminded the members that the PERA board helped craft legislation for the 2011 session to address the underfunding of State General Member Coverage Plan 3, Municipal Police Members Coverage Plans 1, 2, 3, 4 and 5 and Municipal Fire Member Coverage Plans 1, 2, 3, 4 and 5. The legislation would have increased the contribution rates for the referenced members by 2% per year for four consecutive years beginning July 1, 2011 and culminating in a total increase of 8%. The total increased contribution amount would have consisted of the employees contributing one-third of the increase and employers contributing the remaining two-thirds.

Ms. Pittard next reminded the members that, prior to and during the 2011 session, the PERA board developed, endorsed and supported the legislation known as the "Ideal Plan". According to Ms. Pittard, the Ideal Plan was seen by the board as a means to address the long-term solvency of the fund. The legislation was introduced as Senate Bill 268 and would have provided a second tier of member coverage plans with reduced benefit structures for new members hired on or after July 1, 2011. Ms. Pittard opined that the PERA board worked diligently on the Ideal Plan, which was opposed by special interest groups and ultimately did not pass.

Ms. Pittard told the members that as of May 31, 2011, the PERA assets have a market value of $12.4 billion. This balance reflects a fiscal year-to-date gain in value of 24%. She reminded the members that the fund's high balance in October 2007 was $13.8 billion and its low in March 2009 was $7.6 billion. She further noted that the PERA fund performance as of March 31, 2011 held a ranking in the thirty-seventh percentile of peer funds, meaning all public plans valued greater than $2 billion.

Joelle Mevi, chief investment officer for the PERA, next spoke to the committee. She began by reminding the members that the PERA funds are 100% externally managed. She next directed the members' attention to the charts on pages 9 through 13 of the PERA handout, which indicate the PERA's asset class composition as of March 31, 2011.

Next, Ms. Mevi directed the members' attention to the executive summary performance report handout provided for the PERA by RV Kuhns & Associates. She noted that the performance update was for the quarter ending March 31, 2011. Ms. Mevi said that equity and fixed-income markets were subjected to a wide array of cross-currents during the quarter as negative international headlines intermingled with the positive U.S. economic reports. Social and political unrest in the Middle Eastern and North African oil-producing countries raised concerns regarding energy and provided a headwind to the global equity rally that began in 2010. By mid-March, the headlines were dominated by stories about the largest recorded earthquake to ever strike Japan, as well as news about the tsunami and nuclear crisis that followed. Fears regarding European sovereign debt were refueled as Portugal's government collapsed and fears of contagion escalated. Despite everything mentioned above, equities finished the quarter with strong returns, as key economic fundamentals improved, corporate activity rose and most international equities posted gains.

Next, Ms. Mevi talked to the members about current market themes. She started with the national unemployment rate, saying that the unemployment rate continues to trend above average, noting that it remains well above the 50-year average. She added that the unemployment rate fell to 8.8% in March 2011, as the four-week average of jobless claims decreased to 389,500, a level generally considered consistent with sustainable employment growth. She further noted that credit constraints on small businesses, which employ half of the national work force, have made it difficult for businesses to increase their payrolls.

Then Ms. Mevi spoke about inflation, saying that core inflation remains fairly muted despite rising food and energy prices. Recent monetary expansion and the federal government's infusion of cash into the system have raised concerns over mid- to long-term inflation expectations. Having said that, she noted that near-term inflation rates are expected to remain stable.

Regarding the GDP, Ms. Mevi told members that the initial estimate shows that real GDP increased at an annual rate of 2.3% in the first quarter of 2011. However, in the fourth quarter of 2010, the GDP had increased by 3.1%. She said that the deceleration in real GDP during the second half of the year reflects a decrease in federal government expenditures and gross investment. She added that the federal government estimates that the 2011 U.S. GDP growth will be 3.5% to 4.2%.

Referring to the chart on page 14 of the RV Khuns handout, Ms. Mevi explained that the Total Fund Interim Custom Index (Interim Index) is a dynamic benchmark targeted to the PERA's long-term allocation. She said that since 1991, the Interim Index has shown how the PERA fund would have performed if it was consistently invested at its interim target allocation (which changes over time) in the respective benchmark of each asset class. She added that the Long-Term Target Index (Long-Term Index) is the PERA's strategic asset allocation and the asset allocation set forth in its investment policy statement. Beginning with the first quarter of 2007, the Long-Term Index shows how the PERA fund would have performed if it was always invested at its policy target allocation (which changes infrequently) in the respective benchmark of each asset class. Lastly, she noted that both of the above-referenced benchmarks can be used in total fund attribution to measure two components of relative performance: 1) active weight — indicating the cost or benefit of not being at the target allocation; and 2) manager value added — indicating whether an investment manager outperformed or underperformed its asset class benchmark.

Ms. Mevi advised the members that the PERA fund outperformed the Interim Index by 49 basis points, net of fees, for the quarter ending March 31, 2011, returning 4.02% instead of 3.53%. She explained that the fund's performance in this index can be attributed to manager value added, mainly in the domestic equity, fixed income and absolute return portfolios. Additionally, she attributed the fund's performance in FY 2011 and in the 12 months ending on March 31, 2011, to manager value added, again in the domestic equity, fixed income and absolute return portfolios. Ms. Mevi continued by saying that the fund outperformed the long-term target allocation benchmark by 48 basis points, net of fees. She also mentioned that the PERA fund has outperformed the Long-Term Index in seven of the past 10 calendar years.

Ms. Mevi closed by advising the members that the PERA has assembled a watch list of managers it is monitoring to determine if they are meeting the criteria required by the PERA. (The list of managers currently on the watch list can be located on page 26 of the RV Khuns handout. The list is followed by several watch list criteria performance tables.)

There was a discussion regarding how the PERA fund compares to similar peer pension funds. Members asked Ms. Mevi if the PERA could create some informative tables on the subject and post those tables on the PERA web site. She indicated that the PERA staff could post the information.

Next, there was a discussion regarding the PERA's 8% target benchmark. Ms. Pittard noted that the PERA board intends to revisit the use of the 8% benchmark at its next retreat in July 2011. Ms. Pittard noted that the board cannot change the benchmark arbitrarily, particularly without the contribution rates to the fund changing. A number of members expressed concern regarding the use of the 8% benchmark, and Ms. Pittard was asked to provide information regarding the valuation of the PERA fund using a benchmark of 7%. Members also asked for options from the board regarding contribution increases necessary to sustain the solvency of the fund. Ms. Pittard stressed that the municipal fire plan members need an increase to an 11% contribution rate in order to sustain the fund. However, she indicated that the members refuse to discuss the issue. She further noted that the PERA board has spent $250,000 looking at the options and in the development of the PERA Ideal Plan. Members expressed frustration and difficulty in determining what should be done, partly because the PERA lumps together all of the PERA members in the various plans. Consequently, committee members surmised that the PERA board needs to submit realistic contribution rate information for the various member plans.

Report of Actuarial Soundness of the Educational Retirement Board (ERB) Pension Fund and Recent Investment Performance

Rick Scroggins, deputy director for the ERB, addressed the members. He started by disclosing that the ERB board at its meeting in April 2011 voted to decrease its investment benchmark from 8% to 7.75%. As a consequence, the 2010 unfunded actuarial accrued liability increased to $4.990 billion and the funding ratio decreased from 65.7% to 63.6%.

Mr. Scroggins next summarized the ERB's investment performance for the 12 months ending on March 31, 2011. He said the fund experienced a net investment gain of $1.2 billion, which includes a net investment gain of $347.1 million during the first calendar quarter. He said that the fund's total assets increased from $8.6 billion in March 2010 to $9.5 billion as of March 31, 2011, with $252.5 million in net distributions during the 12-month period.

Mr. Scroggins followed by telling members that over the past five years, the fund returned 4.8% per annum, outperforming its policy index by 1.1% and ranking in the twenty-fourth percentile of the Independent Consultant Cooperative's public funds valued greater than $1 billion universe. He added that the fund's volatility was 12.1%, which ranks it in the sixty-sixth percentile of its peers over the same time period. The fund's risk-adjusted performance, as measured by the Sharpe Ratio, ranks it in the thirty-second percentile of its peers. Therefore, he concluded that the fund has produced more return per unit of risk taken during the same period than the median fund in the peer universe.

Mr. Scroggins continued by telling members that for the two-year period ending March 31, 2011, the ERB fund returned 26.4%, outperforming its policy index by 4.8% and ranking in the twelfth percentile of its peers. He added that during the past two years, the fund has reduced its volatility on both an absolute and relative basis, while continuing to produce superior risk-adjusted returns. He added that for the previous two-year period ending March 31, 2011, the fund's volatility was 9.3%, which is in line with the peer group median fund during this period. He added that the Sharpe Ratio for the fund during the period is 2.8% and ranks in the ninth percentile of the fund's peers.

Mr. Scroggins then told the members that for the one-year period ending March 31, 2011, the ERB fund had a return of 13.8%, outperforming its policy index by 2.2% and ranking it in the fifty-third percentile of its peers. He added that the fund's volatility was 9.1% for the same period, which ranked it in the twenty-seventh percentile, and the Sharpe Ratio for that period was 1.5%, a ranking in the twenty-seventh percentile.

Lastly, he told the members that for the quarter ending March 31, 2011, the ERB fund posted a 3.8% return, outperforming its policy index by 0.8% and ranking it in the sixty-seventh percentile of its peers. He added that all of the fund's asset classes were within policy ranges on March 31, 2011.

Mr. Scroggins said that as of March 31, 2011, the ending market value of the ERB fund was $9,466,216,563. He directed the members' attention to page 10 of the ERB handout, which contains some general facts regarding the ERB, including the number of active, retired and inactive members. Additionally, he noted that information regarding contributions and plan demographics can be found in the handout.

In discussing the ERB's current funding period, Mr. Scroggins reminded members that, with the decreased benchmark at 7.75%, the funding period is 62.5 years. According to the Governmental Accounting Standards Board (GASB), the funding period, also known as the amortization period, should not exceed 30 years. Mr. Scroggins estimates that the ERB's funding period will be in compliance with GASB-recommended standards in 2032, when the funding period will be 28.4 years. He then told the members that the funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) stood at 63.5% in 2010. He added that five years ago, the ERB's funded ratio was 75.4%, and 10 years ago it was 85.9%. He said the ratio reached an all-time high in 2001 at 91.9%, but began to decrease as the negative investments experienced in FY 2001 through FY 2003 were phased into the actuarial value of assets.

Mr. Scroggins told the committee members that the ERB had participated in a study comparing the ERB's operations with those of its peers. A summary of recommendations resulting from the conclusion of the study on June 30, 2010 can be found in the ERB handout on page 13. Highlights of the recommendations that the ERB board voted to accept include:

1. decreasing the investment return assumption from 8% to 7.75%;
2. making revisions to the ERB's post-retirement mortality;
3. making changes to retirement rates at ages 65 to 69 for members with more than 25 years of service;
4. decreasing the salary scale for members with at least 10 years of service from 5.00% to 4.75%;
5. making changes to the individual entry age normal cost funding method by increasing it from 12.48% to 14.09%; and
6. changing the population growth assumption to 0.75% per year.

Mr. Scroggins noted that a list of the peer groups used for the study can be found on page 15 of the ERB handout. He also noted that the study results revealed that the ERB's administration cost is $89.00 per active member and annuitant, compared to the peer average of $101. The ERB's total pension administration cost was $8.7 million.

The committee members commended the ERB board for its decision to lower the benchmark investment target from 8% to 7.75%. When asked what the ERB has done to reduce costs, Mr. Scroggins replied that little has been done to reduce costs because the ERB has many other expenses, including its software upgrade and legal fees. Some members expressed concern that the board is employing too conservative an investment policy.

Lastly, members inquired as to what the ERB is doing to recoup the overpayments it made in error to retirees. Mr. Scroggins said that the ERB has attempted to contact all of the individuals that received payments in error. He added that 80 of the 150 people have been reached. He said the ERB's next step will be sending out a packet to each person explaining how the errors were made. The packets will also include information regarding how the Internal Revenue Service handles such erroneous overpayments. After the people that received the overpayments receive the information described above, the ERB will develop a process by which those people can repay the money. He added that the amount of the overpayments ranges from $.66 to $306,264. The ERB plans to issue an RFP for attorney services from firms specializing in this type of issue.

Members asked for a table illustrating the overpayments. Members also requested information regarding all of the lawsuits the ERB is involved in, including which law firms the ERB has and is using and how much it has paid in legal fees.

Adoption of the IPOC Proposed Interim Work Plan

Mr. Pollard and Ms. Faust spoke to the members regarding the committee's interim work plan and meeting schedule. Ms. Faust advised the members of several cost-saving measures implemented by the New Mexico Legislative Council, including meeting announcements and other pertinent information being sent to members via electronic mail instead of through the postal service. She advised that members who wish to continue receiving information via the postal service should contact her to state their preference; otherwise, they will receive meeting information via email. After a brief discussion, both the work plan and meeting schedule were approved without opposition.

With no further business, the meeting was adjourned at 3:40 p.m.