

Investment Policy Statement The State of New Mexico Deferred Compensation Plan

Adopted
June 24, 2004
(Revised August 2010)
(Revised August 2012)

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Purpose of the Investment Policy Statement

The State of New Mexico Deferred Compensation Act, NMSA 1978, Sections 10-7A-1 through 10-7A-12 (the “Act”) authorizes the Public Employees Retirement Board of the Public Employees Retirement Association (“PERA”) to establish a Deferred Compensation Plan (“Plan”) for the benefit of employees in accordance with Section 457(b) of the Internal Revenue Code (“Internal Revenue Code”) of 1986, as amended.

This Statement of Investment Policy (the “Policy”) defines the objectives of the Plan and establishes policies and procedures for creating the highest probability that these objectives are met in a prudent manner that is consistent with established guidelines under the Internal Revenue Code, and other governing rules and regulations.

The Plan is overseen by the New Mexico Public Employees Retirement Board (the “Board”). This Policy has been adopted by the Board under the authority granted by Section 10-7A-3 of the Act.

This Policy outlines guidelines and requirements in the following three functional areas:

Planning

- Defining the Plan objectives and linking those to the Plan investment structure,
- Establishing guidelines for the investment of the Plan assets, and
- Documenting the responsibilities of parties responsible for the oversight and management of Plan assets.

Operations

- Outlining criteria and procedures for the ongoing operation of the Plan investment program, and
- Establishing investment performance standards.

Control

- Monitoring results, including investment performance, and
- Describing ways to address investment options and investment funds that fail to satisfy established standards.

In general, it is understood that this Policy is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Board will review this Policy at least annually, and, if appropriate, amend it to reflect changes in the capital markets, Plan participant objectives, or other factors relevant to the Plan.

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Plan Objectives

The Plan is open to all employees who are state and local public employees, as defined in Sections 10-7A-2C and 10-7A-2E of the Act or other persons other than public employees, who provide services to the state or any local public body as set forth in Section 10-7A-4 of the Act.

The Plan is part of the State of New Mexico's retirement program, which seeks to assist employees and their beneficiaries in obtaining financial security primarily in retirement. The State of New Mexico believes that achieving this objective is a shared responsibility of both the State of New Mexico and its employees.

The Plan is voluntary and is intended to facilitate the accumulation of assets by participants on a tax-deferred basis for retirement by permitting participants to defer a portion of their compensation in accordance with the Internal Revenue Code, and other governing rules and regulations.

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Plan Investment Structure

The appropriate investment strategy for any individual participant to accumulate retirement savings or achieve other savings objectives is a function of multiple personal factors, including age, income, time horizon, risk tolerance, return and accumulation objectives and other assets outside of the Plan. In order to allow participants to establish savings and investment strategies, which meet their individual needs, the Plan provides an array of investment options in which participants may invest.

The Plan currently allows participants to direct the investment of their contributions to the following investment structure:

Tier	Philosophy
Tier 1 – Lifecycle Funds	Allows participants to choose the diversified investment portfolio that best fits their time horizon, risk tolerance and investment goals. As the target date of each fund approaches, the asset allocation progresses to a more conservative risk-return profile. Designed for investors who want a ‘streamlined’ approach to investing and a professionally managed asset allocation.
Tier 2 – Core Fund Array (Passive)	Allows participants to create their own portfolios without active management risk based on the asset classes (or types of investments) that best fit their time horizon, risk tolerance and investment goals.
Tier 3 – Core Fund Array (Active)	Allows participants to create and complement their portfolios using active managers based on the asset classes (or types of investments) that best fit their time horizon, risk tolerance and investment goals.

Tier	Philosophy
Tier 4 – Extended Choice Array	Affords participants with diversification opportunities outside the traditional asset classes of stocks, bonds, and cash. Participants may use Tier 4 options to further diversify their holdings in other investment Tiers.
Tier 5 – Brokerage Window	Allows participants to supplement Tier 1, 2, 3, and/or 4 investments with additional mutual funds or other diversified investments based on their time horizon, risk tolerance, investment goals and/or fund manager preferences.

Each investment option category within the Plan’s investment structure is intended to fill a primary savings and investment role consistent with the Plan objectives and to address the risks that participants face. Participants bear the full risk of investment results from the option(s) and asset mix they select. The investment options offered in the Plan are included in the Appendix to this document.

The Board may decide to replace or hire additional managers within an investment option category at any given time. Investment options shall be selected in accordance with the State of New Mexico Deferred Compensation Act and the administrative rules and regulations there under.

Although the Plan is not subject to ERISA, the Board intends to comply with the provisions of ERISA section 404(c). ERISA section 404(c) applies to plans with participant-directed investments and allows the plan sponsor and other fiduciaries to avoid liability for participants’ investment direction if the plan meets the requirements of ERISA section 404(c). To comply with ERISA section 404(c), a plan must:

- Offer at least three diversified “core funds” representing a broad range of investment alternatives; each core fund must itself be a diversified portfolio of investments
- Enable participants to switch investments as frequently as “appropriate in light of the market volatility of the investment alternatives”
- Permit transfers of the core funds “quarterly” defined as at least once in any three-month period – or more frequently
- Provide participants with certain information on the plan including costs and each of the investment alternatives
- Must notify all participants of the Board’s intention to comply with ERISA section 404(c)

With the intent to comply with ERISA section 404(c), the Board also recognizes that it acts in a fiduciary capacity for the selection (and periodic

monitoring) of an appropriate menu of plan investment choices available to participants.

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Investment Option Performance Standards

Each investment option's performance shall be evaluated based on quantitative and qualitative standards as outlined below.

Qualitative Standards

The following qualitative standards will be used in the evaluation of each investment option:

- Compliance with stated investment guidelines, contract terms, and/or State or federal laws and rules
- Adherence to stated investment style and philosophy
- Ownership stability and alignment of interests with investors
- Retention and attraction of key investment professionals associated with the management of the investment option
- Litigation and assessment of impact on future investment performance
- Disclosure of relevant information that may have an adverse impact on performance

Quantitative Standards

Performance results will be measured by: (1) Total time-weighted rates of return net of investment management fees and all fund expenses; however, they will be gross of Plan expenses (i.e. explicit costs paid for administration or other Plan costs) and (2) Against a respective market index and peer group median over rolling three- and five-year periods. Volatility will be measured by the standard deviation of quarterly returns and should be reasonably comparable to each fund's respective market index and the respective peer group averages. Funds with greater volatility than their indices should earn higher returns than those indices.

Following, the investment return objectives for each investment option category are stated. It is expected that the funds designated for each investment category will meet or exceed these performance objectives. The

manager universes will be composed of professionally managed funds comprised of comparable peers. The Board will monitor fund performance relative to these standards.

Fund Review and De-selection

The Board will utilize the qualitative and quantitative standards described above as criteria to review the options available in the Plan. Furthermore, Investment Consultant and the Board will continue to monitor performance results at least quarterly to determine whether a fund should be de-selected.

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Responsibilities of Plan Participants

The Plan is a voluntary, participant-directed deferred compensation plan. As such, participants in the Plan bear responsibility for deciding the amount of current compensation to defer in the Plan and for developing and monitoring a strategy for the investment of their accounts.

The specific responsibilities of the Plan participants are as follows:

- Determining the amount to contribute to the Plan within the limitations set by the Plan and the Internal Revenue Code.
- Allocating account balances and future deferrals to the available investment options, based on individual circumstances, goals and objectives and risk tolerance.
- Verifying transactions and account activity including, but not limited to, payroll, deferrals, transfers, account maximum limits.
- Rebalancing account balances to the participant's desired allocation due to market movements and account activity.
- Reallocating account balances and direction of future contributions as personal circumstances and goals and objectives change.

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Management & Administration of the Plan's Investments

The Board will act in the sole interest of the Plan participants and beneficiaries, for the exclusive purpose of providing benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the Plan. The safeguards to which a prudent investor would adhere must be observed. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under Sections 10-7A-1 through 10-7A-12 of the Act, the Internal Revenue Code, and other governing rules and regulations that relate to the administration and investment of the Plan assets.

Several entities are responsible for various aspects of the management and administration of the Plan's investments. Those entities' responsibilities are governed by Sections 10-7A-1 through 10-7A-12 of the Act, Administrative Rules, the Plan Document, and/or certain contracts entered into or on behalf of the Plan; to the extent that any provision of this Policy contradicts Section 10-7A-1 through 10-7A-12 of the Act, the Plan Document, and/or certain contracts entered into by or on behalf of the Plan or Board, those documents will control. The entities and their responsibilities include, but are not limited to:

Board

The tasks overseen by the Board include:

- Hiring the administrator, deferred compensation carriers, and/or investment advisory consultants.
- Establishing and maintaining the Investment Policy.
- Selecting investment options in compliance with the State of New Mexico Deferred Compensation Act.

- Periodically evaluating the Plan's investment performance, the costs to Plan participants, and recommending investment option changes.

Investment Consultant

The Investment Consultant reports to the Board and staff on various aspects of the Plan's investments and the performance of the Plan's investment managers, meeting with the Board to review investment performance, making recommendations regarding investment objectives, guidelines, and this Policy, assisting in the Plan's compliance with this Policy, and reporting to the Board on current investment trends and issues. In addition, the Investment Consultant shall provide annual recommendations for the asset allocation (mixes) of the Target Maturity Lifecycle Funds.

The Investment Consultant acknowledges that it is a fiduciary to PERA and shall at all time act in a fiduciary capacity to PERA with respect to those services for which it exercises discretion. The Investment Consultant further acknowledges that it is a fiduciary with respect to these services that consist of investment advice that satisfies the ERISA definition of such service being fiduciary in nature. Accordingly, the Investment Consultant is under a duty to exercise a skill greater than that of an ordinary person, and the manner in which advice is handled or services are rendered will be evaluated in light of the Investment Consultant's superior skill.

Investment Managers

The managers of the funds/investment strategies selected by the Board make investment decisions consistent with the approach stated in relevant prospectuses, investment manager agreement and/or contracts. Investment managers are also responsible for reporting investment results on a regular basis as determined by the Board.

As deemed necessary, each investment manager will be expected to meet with the Board and/or its representative(s) and to provide:

- A verbal and written review of their investment performance and portfolio structure.
- A synopsis of their key investment decisions, their underlying rationale and expected future implications.
- An organizational update.
- Compliance with this Policy.

Managers are also required to immediately notify the Board (or its designees) and the Investment Consultant in writing of changes in fund operation and personnel that may negatively impact performance. This includes any organizational or strategy changes that impact asset management.

To the extent that the Plan uses mutual funds and/or collective investment trusts, the Board recognizes that the governing documents for those vehicles will preside over this Investment Policy Statement.

Custodian/Insurance Provider

The Custodian/Insurance Provider will perform the following in conjunction with Plan and statutory provisions:

- Complying with all applicable rulings, regulations, and legislation.
- Acting in accordance with the provisions of trust and/or custodial agreements and annuity and other insurance contracts.
- Reporting financial transactions and preparing periodic summaries of transactions, asset valuations, and other related information as deemed appropriate by the Board.

Third Party Administrator

The Third Party Administrator will perform the following in conjunction with Plan and statutory provisions:

- Marketing the Plan.
- Performing general administration of the Plan.
- Updating changes in the Plan.
- Maintaining and updating participant accounts.
- Preparing activity reports.
- Preparing participant statements.
- Rebalancing LifeCycle portfolio allocations back to target asset allocations approved by the Board within the first 15 days of each quarter
- Administering the loan program for the Plan.
- Educating and communicating the investment options offered in the Plan.
- Enrolling new employees in the Plan.
- Processing new employee information.
- Accepting and initiating employee investment direction.
- Processing distributions.

Appendix A

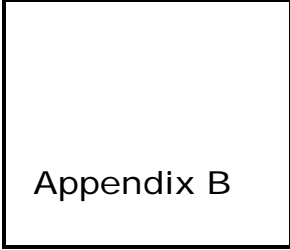
Appendix – Investment Options

Investment Option	Comparative Manager Peer Group Universe Median 3 and 5 Years	Relative Market Index 3 and 5 Years
Target Maturity Lifecycle Funds	Target Date Fund Universe	Each Option Will Be Evaluated Compared to Customized Indices Based on Asset Allocation Mixes
Stable Value Fund	Stable Value Fund Universe	3-month Treasury Bill Index + 100 basis points
Inflation Protected Bond	Inflation Protected Fund Universe	Barclays Capital US TIPS Index
Diversified Inflation Hedge	N/A	Customized Indices Based on Asset Allocation
Market Duration Bond Fund (Passive)	Core Fixed Income Mutual Fund Universe	Barclays Capital Aggregate Bond Index (Tracking Error +/- 20 basis points) ††
Global Bond Fund	Global Fixed Income Mutual Fund Universe	Citigroup World Gov't Bond Index
Balanced Fund	Balanced Manager Mutual Fund Universe	60% S&P 500 Index/40% Barclays Capital Aggregate Bond Index
Global Real Estate Investment Trust Fund	Global Real Estate Mutual Fund Universe	FTSE EPRA/NAREIT Developed Index
Large Capitalization Value Equity Fund	Large Cap Value Equity Mutual Fund Universe	Russell 1000 Value Index
Large Capitalization Core Equity Fund (Passive)	Large Cap Core Equity Mutual Fund Universe	S&P 500 Index (Tracking Error +/- 30 basis points) ††
Large Capitalization Core Equity Fund (Active)	Large Cap Core Equity Mutual Fund Universe	S&P 500 Index

Large Capitalization Growth Equity Fund	Large Cap Growth Equity Mutual Fund Universe	Russell 1000 Growth Index
International Equity Fund (Passive)	International (All Country World ex-US) Equity Index Mutual Fund Universe	MSCI ACWI ex US IMI Net Index (Tracking Error +/- 30 basis points) ††
International Large Cap Equity Fund (Active)	International Equity Mutual Fund Universe	MSCI EAFE (Net) Index
Mid Capitalization Core Equity Fund	Mid Cap Core Equity Mutual Fund Universe	Russell Midcap Index
Mid Capitalization Growth Equity Fund	Mid Cap Growth Equity Mutual Fund Universe	Russell Midcap Growth Index
Small Capitalization Value Equity Fund	Small Cap Value Equity Mutual Fund Universe	Russell 2000 Value Index
Small Capitalization Core Equity Fund	Small Cap Core Equity Mutual Fund Universe	Russell 2000 Index
Emerging Markets Equity Fund	Emerging Markets Equity Mutual Fund Universe	MSCI EM Index

† Target Maturity Lifecycle Funds will also be evaluated based on their asset allocation mixes, ability to span the risk/return spectrum, and the underlying funds that comprise each lifecycle fund.

†† Tracking error is defined as the return of the Fund minus the return of the index. When evaluating the performance of the Fund relative to the respective index, the tracking error should fall within the stated amount of basis points relative to the index on an annualized basis over the 3 and 5 year periods.



Appendix – Investment Option Selection Process



PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD

P.O. Box 2123
Santa Fe, New Mexico 87504-2123
(505) 476-9300 Voice (505) 476-9401 Fax
www.pera.state.nm.us

CYNTHIA D. BORREGO, Chair
Municipal Member

TERRY SLATTERY, CEBS
Executive Director

April 13, 2010

MEMORANDUM

*approved by PERA
Board 4/29*

TO: PERA Audit & Budget Committee Members

FROM:

Terry Slattery, Executive Director *[Signature]*
Kurt Weber, Deputy Director of Operations *[Signature]*
JoAnn Garcia, Deferred Compensation Manager *[Signature]*

SUBJECT: Selection Policy and Procedures for New Core Option & Extended
Choice Array Investment Mutual Funds for the State of New Mexico
Deferred Compensation Plan

This memo requests approval of the policy and procedures to select new Core Option and Extended Choice Array Investment Mutual Funds (Funds) for the State of New Mexico Deferred Compensation Plan (Plan). Once approved by the Board, the policy and procedures will be included in the Investment Policy Statement for the Plan.

Staff recommends the following key components be included in the Board selection policy and procedures:

- Board approves the new Core and Extended Choice Array Investment options (see attached);
- Initial screening of specific Funds will be performed by the Plan's Independent Investment Consultant. All Board guidelines identified in the Investment Option Performance Standards of the Plan Investment Policy Statement (attached) will be criteria for the initial screening as well as other criteria documented in writing by Investment Consultant (see Overview of Investment Consultant's search process attached);

Selection Policy and Procedures

April 13, 2010

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- Based on results of the initial screening, the Investment Consultant will select finalists (typically four to six) for each investment option search, provide a letter ranking ("A" being the highest) and detailed search reports for each Fund to the Board. The Investment Consultant will also present the finalists' search reports to the Audit and Budget Committee.
- The Audit and Budget Committee will select and recommend one fund per investment option search from the finalists provided above to the Board.
- The Board will approve a final selection from the list of finalists.

Investment Structure Review

New Approved Investment Structure – Move to Core Options

Tier I – Lifecycle Funds (Target Maturity)	
Custom LifeCycle Portfolio (Conservative, 2015, 2025, 2035, 2045 and 2055 – EXAMINE USING OTHER ASSET CLASSES)	

Tier II – Core Option Array (Passively Managed)		
Bond Index (Existing)	US Large Cap Index (Existing)	Non-US Equity Index (Potential)
		US Mid/Small Cap Index (Potential)

Tier III – Core Option Array (Actively Managed)						
Stable Value (Existing)	Market Duration Bond (Potential)	Large Cap Core (Existing)	Non-US Equity (Existing)	Balanced Fund (NEW FUND)	Mid Cap Core (NEW FUND)	Small Cap Core (Existing)

Tier IV – Extended Choice Array						
Inflation Protected Bond (NEW FUND)	High Yield Bond (Potential)	Long-Term Bond (Potential)	Global Real Estate Securities (Potential)	Emerging Markets Equity (Potential)	Commodities (Potential)	Absolute Return (Potential)
						Socially Responsible (Existing)

Tier V – Brokerage Window	
	Brokerage Account

Notes: Tier IV asset categories are some illustrations of potential options and are subject to PERA Board review and approval. Transition to Core Option structure can occur gradually as funds are deselected
 NEW FUND = Search underway; Potential = future consideration for the Committee

**5****Investment Option Performance Standards**

Each investment option's performance shall be evaluated based on quantitative and qualitative standards as outlined below.

Qualitative Standards

The following qualitative standards will be used in the evaluation of each investment option:

- Compliance with stated investment guidelines, contract terms, and/or State or federal laws and rules
- Adherence to stated investment style and philosophy
- Ownership stability and alignment of interests with investors
- Retention and attraction of key investment professionals associated with the management of the investment option
- Litigation and assessment of impact on future investment performance
- Disclosure of relevant information that may have an adverse impact on performance

Quantitative Standards

Performance results will be measured by: (1) Total time-weighted rates of return net of investment management fees and all fund expenses; however, they will be gross of Plan expenses (i.e. explicit costs paid for administration or other plan costs) and (2) Against a respective market index and peer group median over rolling three- and five-year periods. Volatility will be measured by the standard deviation of quarterly returns and should be comparable to each fund's respective market index and in-line with respective peer group averages. Funds with greater volatility than the index should earn a higher return than its respective index on a risk-adjusted basis.

On the following page are the investment return objectives established for each investment option category. It is expected that the funds designated for each investment category will meet or exceed these performance objectives. The manager universes will be composed of professionally managed funds comprised of comparable peers. The Board will monitor fund performance relative to these standards.



Memo

To: PERA Board, PERA New Mexico
Cc: Terry Slattery, Kurt Weber, JoAnn Garcia
Date: April 7, 2010
From: Devon Muir, CFA
Subject: Overview of Mercer's search process for the Deferred Compensation Plan

Background

On February 25th, the PERA Board ("Board") approved Deferred Compensation Plan ("Plan") Investment option searches for emerging markets equity and global real estate securities. The purpose of this memo is to reacquaint the Board with Mercer's investment manager research philosophy and process and specifically explain the steps Mercer takes in conducting mutual fund ("Fund") searches for the Plan. Should the Board be interested in having Mercer implement additional or alternative steps for these searches, we would be open to discussing a different course of action. We look forward to reviewing our results at a future meeting.

Research Philosophy

Mercer's commitment to all of its clients, including PERA, is to provide high quality, unbiased independent advice on the selection of investment managers. We believe that the only way to be truly knowledgeable in the increasingly globalized investment management market is to emulate it in terms of scale and geographic reach. To that end, Mercer employs more than 70 full-time manager researchers in offices in North America, Europe, and Asia. In addition, we have over 100 consultants that research managers as a matter of their ongoing client consulting responsibilities. Overall, we conduct more than 2,500 manager research meetings annually. We believe that the scale of our continuous research effort will enable us to not only be highly familiar with the investment strategies in which our clients are currently invested, but also with new ones our clients may wish to add.

Mercer believes that qualitative factors are more important than quantitative ones when assessing whether an investment manager has the ability to add value over a market cycle (generally considered 3 to 5 years). Consequently, the qualitative component of our analysis amounts to approximately an 80% weight while quantitative factors equate to roughly a 20% weight. Details of our manager evaluation process are described following.

Research Process

Qualitative Review: We assess a manager's strength along four factors that we believe are predictive of future performance. The first is idea generation, which gauges the ability of a manager to find compelling investments. Next, we examine how well these investment ideas are incorporated into the actual construction of the portfolio (e.g., does the manager effectively position its best research ideas within the portfolio, and if so, does this construction deliver results?). We then assess the implementation of the strategy, particularly how a manager controls transaction costs as well as growth of assets in the strategy.



Finally, we evaluate in-depth firm-wide issues that can have a major impact on how well the investment team will function within a specific firm environment. Areas covered in this assessment are compensation, team tenure, organizational consistency and distribution of ownership.

Our research involves a combination of on-site visits to investment managers, in-person interviews in our offices, statistical analysis, and the direct experience of our consultant teams who are responsible for establishing our view on each investment manager.

Quantitative Review: We focus on many different quantitative measures including those following that we believe are critical to understanding manager performance:

- **Alpha** (the excess return the manager historically added over an appropriate benchmark) measures whether the manager has skill in managing assets in a particular asset class. We also evaluate down-market alpha, or a manager's ability to add value in down markets to help clients gauge how well a manager protects assets in a declining market.
- **Batting average** measures the percentage of time a manager outperformed its benchmark over a given period, thus indicating performance consistency.
- **Downside protection** depicts the degree to which a manager protects principal relative to the market and/or peers in a bear market. The laws of compounding demonstrate that it is hard to earn back substantial losses, and thus managers that mitigate negative environments to an extent may be more attractive.
- **Tracking error** measures the volatility of a strategy relative to its benchmark. We analyze both historical and expected tracking error. We relate a strategy's tracking error to its stated objective in order to ascertain if the investment process meets client expectations.
- **Information ratio** (amount of excess return (alpha) generated per unit of risk tracking error added), measures the success of strategy tilts away from the index. The information ratio is therefore a measure of the skill of the manager. One advantage of this review is that aggressive managers may be evaluated on the same basis as more conservative managers.

Investment Manager (Fund) Search Process

The manager search process we employ for the Plan is best depicted by the diagram below:



1. We begin the search process by determining appropriate manager selection criteria for the State of New Mexico's Deferred Compensation Plan (Plan). Specific issues contemplated, in addition to the

Qualitative Standards outlined in the PERA Plan Investment Policy Statement (“Investment Policy Statement”), are:

Firm Background

- Firms with sufficient assets under management, such that the Plan would not represent a significant percentage of total assets;
- Firms with a low level of personnel turnover;
- Firms with a low level of client turnover and evidence of controlled business growth;
- Firms with a competitive expense ratio or fee schedule.

Management Style

- Firms with a well-defined investment process that has been offered for at least five years;
- Firms who will manage the portfolio against the specified benchmark;
- Firms whose investment process and style are compatible with the investment objectives of the Plan; and
- Firms whose investment process and style are complementary to the processes and style of the other investment managers used by the Plan.

Performance

- A verifiable track record that demonstrates consistent adherence to the stated investment approach;
- Past performance standards as identified in the Investment Policy Statement;
- Risk and return characteristics of historical data that are consistent with the specified role; and
- Net-of-fee performance that is generally competitive over time when compared to the stated benchmark and that of similar strategies offered in the marketplace.
- Degree of correlation with other managers (all else equal, preferably lower to provide diversification benefits)

Strategy asset base and vehicle type

- An amount of assets sufficient to maintain the manager’s commitment to providing supporting resources yet not so large as it would hinder effective implementation of the investment strategy
 - Accessibility of the investment strategy in an appropriate investment vehicle like a daily valued mutual fund or commingled trust
2. Using the criteria assembled in the first step, we screen our database for Mercer’s highest rated investment strategies in the desired investment category. Our proprietary manager database consists of more than 3,300 active managers with over 19,000 different investment strategies listed in our database. Our ratings of these strategies follow a letter grade convention. Products that we rate the highest – “A” – tend to be those we recommend as search candidates. During the manager search process, our consultants work directly with our research teams to select a list of candidates rated highly by Mercer that also meets PERA’s specific criteria determined in Step 1. This selected subset comprises the initial candidates in an investment manager search.

3. After the initial candidate list is selected, a comparative analysis is prepared which includes quantitative metrics along various return/risk dimensions over multiple time periods and a qualitative summary of the manager's investment process containing key observations and statistics pertaining to the organization. Comparing the findings in this analysis with the requirements set forth in Step 1, Mercer rationalizes the candidate list further.
4. At this stage, we arrange in-person or conference call presentations with the remaining candidates to discuss their ability to meet the needs of the Plan's specific mandate. Our goal is to ensure that we get from the managers the requisite information that the Board will need to decide on a finalist. Following these manager presentations, we assimilate all of our analysis to determine the final candidate list, typically containing 4-6 managers. We then provide a detailed report on each finalist to the Board. Importantly, Mercer's search finalist list will comprise managers, each of which we believe is highly qualified and suitable for the Plan. Assuming there is a difference in Mercer's ratings of the finalists, or if one (or more) manager(s) fits the Plan better, we will rank order the candidates for the Board in our search document.
5. We present the findings of our searches to the PERA Audit and Budget Committee and answer any questions that Board members may have about specific strategies.
6. Assuming a selection is made by the Board, we then work with PERA staff and Nationwide on the implementation of the new option.