

**THE PUBLIC EMPLOYEES  
RETIREMENT ASSOCIATION  
of  
NEW MEXICO**



**INVESTED IN TOMORROW.**

**INVESTMENT POLICY**

Adopted by the Board of Trustees  
August 30, 2007

Revised  
August 28, 2014

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## THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

### INVESTMENT POLICY

#### I. INTRODUCTION

##### A. Statutory Authority

The Public Employees Retirement Association of New Mexico (PERA), created by law in 1947, is the entity established for the purpose of administering the provisions of the Public Employees Retirement Act of New Mexico, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-8, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as well as other federal and State laws relating to the public employees retirement system in the State of New Mexico. As of September 2014, PERA administers thirty-one retirement plans under a defined benefit structure covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators.

##### B. Standards of Care

###### Uniform Prudent Investor Act

The Uniform Prudent Investor Act (UPIA) [45-7-601 to 45-7-612 NMSA 1978] and Section 10-11-132 and 10-11-133 NMSA, 1978 govern NM PERA investments. In summary, the UPIA states that all persons responsible in making investment decisions for the Public Employees Retirement Fund (Fund) shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The statutes are the foundation for the PERA Policy. The Board adopts the following guiding principles for investment activity:

1. Preserve the long-term principal of the Fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of PERA members, retirees and beneficiaries.
4. Maintain sufficient liquidity to meet PERA's obligations.

##### C. Ethics and Conflicts of Interest

Trustees and Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions as addressed in Section III of the Board Policy and Procedures.



## **II. STATEMENT OF PURPOSE**

### **A. Mission Statement**

Public Employees Retirement Association of New Mexico (PERA) is governed by the Public Employees Retirement Board (Board). The Board has a fiduciary responsibility to the Retirement Fund's (Fund) members, retirees and beneficiaries. To acknowledge this responsibility, the Board has accepted the following as their Mission Statement:

*The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to Association members.*

### **B. Purpose of the Investment Policy**

The purpose of the Investment Policy (Policy) is to delineate the investment philosophy, objectives, guidelines and practices of PERA and has been developed as a reference point for the management of PERA's assets. The Policy is intended to capture investment opportunities while providing parameters that ensure prudence and care in the execution of the investment program.

No investment or action pursuant to an investment may be taken unless permitted by this Policy or by action of the Board. Deviation from this Policy is not permitted without explicit written permission from the Board.

The Policy provides guidance for fiduciaries which include PERA's Board, Staff, investment consultants, investment managers, and custodians. It is the intent of the Policy to provide the foundation for management of the PERA's assets in a prudent manner including the standards and disciplines by which the Board can evaluate Staff, investment consultants, investment managers and custodians.

## **III. INVESTMENT PHILOSOPHY**

### **A. Primary Objective**

The Fund's primary objective is to prudently invest assets in order to meet statutory obligations to its members. The Funds' assets will be managed in a manner that reflects both the Funds' unique liabilities and funding resources, incorporating accepted investment theory, prudent levels of risk and reliable, empirical evidence. Specifically, the Board has adopted the following principles:

- Strategic asset allocation is the most significant factor influencing long-term investment performance and asset volatility. The asset allocation targets adopted by the Board shall adhere to the guidelines contained in this Policy.
- Risk is an unavoidable component of investing and is a major factor that shall be taken into account in assessing investment policy and strategy. In evaluating specific investments, both the risks associated with that investment as well as the impact of the investment to the overall portfolio shall be considered.
- Diversification both by and within asset classes is the Fund's primary risk control element. Other risk control measures shall be implemented where appropriate.
- The Fund's liabilities are long-term and the investment strategy must therefore be long-term in nature.

- Sufficient liquidity will be maintained to meet the anticipated cash flow requirements of the Fund.

### **B. Return**

In order to meet the Fund's objective, the Board strives to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Due to the long-term nature of the PERA's pension obligations and the inherent risks in short-term tactical investing, the Board must maintain a long-term perspective in formulating and implementing its investment policy, and in evaluating its investment performance. As such, the Board: (1) seeks to adopt a long-term rate of return goal commensurate with the actuarial assumed rate of return, (2) adopts an allocation policy that seeks to meet the rate of return goal over long periods of time, while minimizing volatility (risk) and (3) strives to minimize the costs associated with implementation of the asset allocation through efficient use of internal and/or external resources.

Investment performance is measured by three integrated long-term objectives in the following order of importance:

1. The actuarial assumed target rate of return is the key actuarial assumption affecting future funding rates and payment of pension obligations. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates. The Board seeks to have long-term investment performance that will meet or exceed its actuarial assumed rate of return while managing risk.
2. The Policy benchmark is calculated by applying the investment performance of the asset class benchmarks to the Fund's asset allocation targets. The Policy benchmark permits the Board to compare the Fund's actual performance to a total fund benchmark (*Section VI. A. Performance Benchmarks, Total Fund Benchmark*) and to measure the contribution of active investment management and policy adherence.
3. While the Board recognizes that other funds may have investment objectives and risk tolerances that differ substantially from PERA's, the Board will compare its total risk-adjusted fund performance to appropriate public plan sponsor comparison universes. A universe comparison permits the Board to compare its performance to large statewide public and other pension plans.

### **C. Risk**

The investment risk philosophy for the Fund is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

1. Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk taking is a necessary element of long-term investing.
2. Risk can be mitigated through diversification of asset classes and investment approaches, as well as diversification of individual securities.
3. The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes.
4. Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes or implementation strategies are unlikely to be rewarded.

Given these principles, the Board has established a long-term asset allocation policy that balances the returns intended to fund PERA's objectives and the risk level that is appropriate under existing and anticipated circumstances. In determining the returns sought, the Board takes into account the benefit levels and structure of the plans supported by the Fund. The Board will periodically conduct an asset/liability study to determine the extent to which the long-term asset allocation is consistent with the liabilities of the retirement plans. In determining what the Board believes is a prudent level of risk assumed in pursuit of those returns, the Board will consider total fund risk, the Fund's expected volatility, liquidity, and general sensitivity to the overall asset allocation and to equity, bond and other major assets classes utilized by the Fund. The Board will regularly measure and monitor Fund risks in its management of the Fund.

Investments shall be made to preserve and protect the long term investment results and benefits of the Fund.

#### **D. Diversification**

In order to achieve the actuarial assumed rate of return, the Board will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. Investors generally diversify their portfolios along the following lines: asset classifications (stocks, bonds, real estate, real assets, hedge funds, private equity, short-term investments, etc.), geography, industries, and maturity sectors. Other considerations in asset allocation modeling should take into account the purpose of the Fund, the size and financial condition of the Fund, and general business conditions. The factors mentioned here are not intended to be limiting; rather, they are outlined as a general indication of the importance of diversification to proper asset allocation. Under such an allocation, PERA's assets may be invested by some combination of active and passive managers. The Board will determine the proper allocation among asset classes and investment managers, based on advice and analysis provided by Staff and/or Consultants.

### **IV. ROLES AND RESPONSIBILITIES / DELEGATION OF AUTHORITY**

The Board relies on both internal Staff and external contractors in order to properly administer the Fund and implement its investment strategies. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

#### **A. Board of Trustees**

The primary fiduciary responsibility of the Board is to ensure prudent investment and expenditure of the Fund's assets. It is the responsibility of the Board to administer the investments of PERA at reasonable cost, being careful to avoid diminishing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to PERA. The Board shall operate the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets. The Board is responsible for establishing and maintaining all policies and guidelines by which the Fund is managed, and by which the Board operates. The Board shall meet to execute its duties on a quarterly basis or more frequently if appropriate.

#### **B. Investment Committee**

To assist the Board in carrying out its duties, it has established an Investment Committee (Committee).

Through New Mexico Administrative Code Rules (NMAC), the Board establishes the Committee and the Board Chair appoints the members of the Committee as well as the Committee Chair. The Committee



makes recommendations to the Board on investment actions including, but not limited to: all Board approved policies related to the investment program including investment policy, re-balancing, and manager hiring, monitoring and termination; asset allocation targets and ranges; asset class structure; performance benchmarks; securities lending program; trade cost analysis; investment manager relationships; and consulting relationships.

The Committee meets prior to the regular meeting of the Board to address overall investment activities. Staff and Consultant(s) brief the Committee on any topics or issues pertinent to PERA's investment operations, and make recommendations to the Committee for appropriate courses of action. The Committee Chair shall have the duty and the authority to set Committee meeting agendas and request specific analysis and reports from the Staff and Consultants.

### **C. Executive Director**

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering the operations of PERA under broad policy guidance and direction from the Board. The Director, with assistance of Staff (his/her designee), monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and Committee Chairs; studies, recommends, and implements policy and operational procedures that will enhance the investment program of PERA; and ensures that proper internal controls are developed to safeguard the assets of PERA. In fulfilling these investment responsibilities, the Director relies heavily on the Investment Staff and Consultant(s).

### **D. Chief Investment Officer and Investment Staff**

The Internal Investment Staff (Staff) reports directly to the Chief Investment Officer (CIO) who in turn reports to the Director. The CIO has primary responsibility for the implementation of the investment program. The CIO, with the assistance of Staff, has the responsibility and authority to assist the Board and its committees in establishing investment and administrative policy, to implement the policies and programs established by the Board, to report to the Board and Legislature on the status of the Fund and the operations of PERA, and to carry out such other duties the Board or Committee shall delegate to him/her.

The Staff exercises the same fiduciary responsibility under applicable law as the Board. The CIO and the Staff shall manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, report on the progress of the Fund in meeting its investment objectives, and compare the performance of the portfolio to established benchmarks.

### **E. General Counsel and Office of General Counsel Staff**

The internal Office of General Counsel staff (OGC staff) reports directly to the General Counsel who in turn reports directly to the Director. The General Counsel is primarily responsible for legal compliance of the investment program and advises the Board on investment-related legal matters. The General Counsel, with the assistance of OGC staff, coordinates legal due diligence by external legal counsel for alternative investments, including transactional, regulatory and federal tax matters. OGC staff exercise the same fiduciary responsibility under applicable law as the Board.

### **F. Investment Consultant(s)**

The Consultant(s) is hired by the Board, reports directly to the Board and is directly accountable to the Board. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting. Investment Consultants agree to indemnify PERA as fiduciaries as provided in their



Professional Services Agreement and will discharge their duties with respect to the Fund solely in the interest of the PERA membership and benefit recipients with the care, skill, prudence, and diligence under the circumstances then prevailing.

The Consultant's duty is to work with the Board, Committee and its Chair, and Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund's goals, structure, performance and managers. In the course of the Consultant's normal functions, the Consultant will work directly with the Staff to review asset allocations and performance, and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with external investment manager selection and will promptly inform PERA and discuss the impact of material changes taking place within any current Manager's organization or investment process.

### **G. External Investment Managers**

The external Investment Managers (Managers) are selected by, and serve at the pleasure of, the Board. Each investment manager shall be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and operate under a formal contract that sets investment guidelines and administrative requirements and defines responsibilities and performance expectations for management of each mandate. Full discretion, consistent with this policy and contractual guidelines, is granted to all investment managers. Managers will provide performance reporting to the Staff utilizing standardized reporting formats and at intervals specified by Staff.

### **H. External Legal Counsel**

Outside Legal Counsel agree to indemnify PERA as provided in their Professional Services Agreement and discharge their duties with respect to this fund solely in the interests of the PERA membership and benefit recipients with the care, skill, prudence and diligence under the circumstances prevailing. Qualified Legal Counsel include those professionals with the background, expertise and demonstrated success as legal counsel for public funds and large institutional clients regarding alternative investments, including, but not limited to, private equity, hedge funds, real estate and real assets.

## **V. ASSET ALLOCATION**

### **A. Strategic Asset Allocation Targets**

The Board recognizes that over the long-term, asset allocation is the single greatest determinant of return and risk to the Fund. The Fund's asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Fund's objectives at a controlled level of risk that is acceptable to the Board. In establishing its risk tolerance, the Board will consider its ability to withstand short- and intermediate-term volatility in investment performance and fluctuations in financial condition of the Fund. In determining the appropriate strategic allocation among these asset classes, the Board, with assistance from Staff and Consultants will examine the historical and projected risk and return of the approved asset classes as well as the correlation among these asset classes. The Board will also consider the expected effect of investment performance on the obligations of the Fund. Based on its determination of the appropriate risk tolerance for PERA, and its long-term return expectations, the Board has chosen the following Strategic Asset Allocation Target:

<b>Asset Class</b>	<b>Strategic Asset Allocation Target</b>
Domestic Equity <sup>1</sup>	21.1%
International Equity <sup>1</sup>	24.8%

Core and Global Fixed Income <sup>1</sup>	26.1%
Fixed Income Plus <sup>1</sup>	5.0%
Private Equity <sup>2</sup>	7.0%
Absolute Return <sup>2</sup>	4.0%
Real Estate <sup>2</sup>	5.0%
Real Assets <sup>2</sup>	7.0%

<sup>1</sup> These allocations may be referred to as Traditional Assets

<sup>2</sup> These allocations may be referred to as Alternative Assets

The Board recognizes that the long-term target allocation may take an extended period to implement. Staff and the Consultants will provide the Board with regular updates on the progress towards the targeted asset allocation of the Fund as a whole and the component asset classes. The Board will prudently monitor this progress and the Fund's performance through any implementation period.

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the Fund's long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets. Recognizing that the long-term target allocation to alternative asset classes may take several years to implement prudently, the Board will work with Staff and Consultants to set interim asset allocation targets and alternative asset funding guidelines to be utilized until the alternative asset classes are fully funded.

### **B. Re-Balancing Strategy**

Re-balancing is the term that describes the periodic movement of funds from one asset or asset class to another for the purpose of realigning the assets with the asset allocation target. A re-balancing strategy is an important element of asset allocation policy.

The Board has chosen to adopt a re-balancing policy that is governed by allocation ranges rather than time periods. Upper and lower allocation limits have been established for each asset class. The ranges, specified in the table below, are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. Staff reviews the Fund's allocation on an ongoing basis. When the allocation to all asset classes remains within these limits, Staff will use cash flow to maintain the overall allocation as closely as possible to the target.

#### **Strategic Asset Allocation and Re-Balancing Ranges**

<b>Asset Class</b>	<b>Lower Limit</b>	<b>Strategic Asset Allocation Target</b>	<b>Upper Limit</b>
Domestic Equity	16.1%	21.1%	26.1%
International Equity	19.8%	24.8%	29.8%
Core and Global Fixed Income	23.1%	26.1%	29.1%
Fixed Income Plus	3.0%	5.0%	7.0%
Private Equity	5.0%	7.0%	9.0%
Absolute Return	2.0%	4.0%	6.0%
Real Estate	3.0%	5.0%	7.0%
Real Assets	5.0%	7.0%	9.0%

When any one of the public market asset classes breaches an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation target range within ninety (90) days. Recognizing that it may be impractical or costly to reallocate illiquid alternative assets, if an alternative asset class breaches

an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs. The Board has authorized the CIO and Staff to re-balance the portfolio in accordance with policy guidelines on an on-going basis. The goal in implementing the re-balancing policy is to minimize transaction costs, market impact, and opportunity costs. Staff will prioritize the re-balancing strategies and methods employed based on the circumstances at the time, and Staff will report the results of re-balancing activity to the Committee and the Board at the next regular meeting. The re-balancing program may be implemented through the use of the cash overlay program (see *Section VIII. Investment Guidelines, A. Permitted Investments, Borrowing and Use of Derivatives*). Staff will review the current and target allocations with the Committee and Board on a monthly basis.

The Board reserves to itself the authority to suspend or otherwise delay its basic re-balancing policy. Such action shall require approval by a majority of the Board members present at the time of the voting and must be reaffirmed via the same process quarterly. Absent reaffirmation, the Board's re-balancing policy will be automatically reinstated.

## **VI. PERFORMANCE BENCHMARKS**

### **A. Total Fund Benchmark**

As stated in *Section III. Investment Objectives*, an important return objective to be considered when evaluating the Fund's performance is measured by applying the investment performance of the asset class benchmarks to the Fund's Strategic Asset Allocation target (Policy Index). The Policy Index permits the Board to compare the Fund's actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence. The Board has selected the following Policy Index:

<b>Asset Class</b>	<b>Policy Index</b>	<b>Strategic Asset Allocation Target</b>
Domestic Equity	Russell 3000 Index	21.1%
International Equity	MSCI All Country Ex US Investable Market Index	24.8%
Core and Global Fixed Income	85% Barclays US Aggregate Index, 15% Barclays Global Aggregate Index	26.1%
Fixed Income Plus	25% Barclays Global High Yield Index 25% Citigroup Global Markets Bankrupt/Defaulted Debt Index 25% Barclays Global High Yield + 2% 12.5% J.P. Morgan GBI Emerging Market Global Diversified Index (LC) 12.5% J.P. Morgan EMBI Global Diversified Index (\$)	5.0%
Private Equity	Russell 3000 Index + 3%	7.0%
Absolute Return	LIBOR + 5%	4.0%
Real Estate	NCREIF Property Index + 2%	5.0%
Real Assets	CPI + 5%	7.0%



## **B. Mandate-Level Benchmarks**

Individual managers will be evaluated using the following standards:

1. Against appropriate market indices on a nominal and risk-adjusted basis;
2. Against peers within their style group;
3. Based on adherence to their stated investment philosophy and style; and
4. Based on adherence to this Policy and the guidelines established in their contract.

The Board will work with Staff and the Consultants to identify appropriate sub-asset class benchmarks. The appropriateness of these benchmarks will be reviewed by the Board on a regular basis.

## **VII. EXTERNAL INVESTMENT MANAGEMENT OF TRADITIONAL ASSET CLASSES**

In order to maintain continuity and the level of expertise required, the Fund's assets, excluding the PERA building, shall be 100% externally managed by investment professionals registered under the Investment Advisors Act of 1940 (or appropriately exempt from registration). The Board has elected to utilize a combination of active and passive management, to be implemented entirely by external investment managers. The Board will formally evaluate on a regular basis certain strategic decisions regarding the portfolio structure. The major types of strategic decisions include but are not limited to:

- The passive vs. active management mix;
- Any strategic overweights/underweights based on market capitalization, investment style, sector allocation or other factors.

### **A. Search and Selection**

The Board has established the following objectives for hiring external investment managers for Traditional Assets. In establishing these objectives, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to hire a manager will be based on one or more of the following circumstances:

- Identification of a new asset class or strategy which has been approved in advance by the Board;
- A need for enhancing diversification by style, method, or other factor, within an existing asset class;
- A need to replace an investment manager that the Board intends to terminate;
- A need to retain additional managers in order to reach an asset class target and avoid excessive manager concentration.

The selection of new investment managers will adhere to a consistent merit-based procurement process to ensure an open and competitive manager universe, proper evaluation and due diligence of all candidates, and selection. The evaluation process will follow the PERA of New Mexico Procurement Policy for Investment-Related Services. All efforts should be conducted in an open, competitive and transparent environment in order to assure that qualified service providers are identified, that the objectives for the manager's mandate are clearly articulated, and that pricing is at market.

## **B. Monitoring and Evaluation**

Manager retention decisions have the same potential impact on returns as manager selection decisions and should be afforded the same degree of attention. The Board recognizes the discipline necessary to maintain a long-term focus on the Fund and has designated the following framework for identification of existing and potential problems; it outlines how and when PERA should address specific issues and events thereby avoiding untimely or ad-hoc decisions that may adversely impact Fund returns. This Policy will apply to all of PERA's external managers, except where otherwise noted, and is intended to accomplish these objectives:

- Foster a long-term approach to manager evaluation;
- Provide a logical and statistically valid framework for manager evaluation;
- Promote timely responses to actual and potential performance issues;
- Provide flexibility to allow application across all asset classes, management styles, and market environments.



### **Monitoring and Evaluation Process continued**

The framework for retention analysis relies on a formal performance reporting process that includes:

- Monthly performance reports from Custodian (*Section X. A. Custodian*) and Consultant to Staff. These reports will detail overall performance of the Fund and the performance of individual managers.
- Quarterly performance reports from the investment managers to Staff.
- Regular quarterly reports from Staff and Consultant to the Committee at regular Committee meetings.

The formal performance reports per Section XI of this Policy are supplemented by qualitative analysis generated in the course of regular, on-going contact between the investment managers, Staff and the Consultant.

### **C. Watch List**

A manager retention decision is very important to the continued success of a pension fund's investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests with the Board following consultation with Staff and/or the Consultant.

#### **Quantitative Factors Resulting in Watch List Additions**

A number of factors may contribute to a manager's over- or under-performance at any given time such as - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represent guidelines to be used in making a recommendation to the Board with regards to placing a traditional asset class manager on the Watch List:

- Test 1      If the manager's rolling, three-year return (net of fees) falls below the rolling, three-year benchmark return for three (3) consecutive quarters.
- Test 2      If the manager's rolling, three-year return (gross of fees) for three (3) consecutive quarters ranks in the bottom third of the Consultant's peer group universe.

The quantitative guidelines above refer to a minimum time frame of three (3) years, which is preferred, but not required for inclusion on the Watch List. If a negative performance trend for a manager with less than a three year track record with PERA becomes of concern to Staff, Consultant and/or the Board, Staff will ask the Consultant to conduct a "look back" review of the manager's strategy using longer-term composite information. The strategy will be put through the same tests as stated in the above guidelines.

The Committee can make a recommendation to the Board to place a manager on the Watch List based on the quantitative criteria. The Board may place the manager on the watch list at any time.

Once a manager is placed on a Watch List, the Committee will be notified by Consultant and/or Staff and performance will be closely monitored and scrutinized. All of the qualitative criteria should be reviewed along with an explanation of the underperformance from the manager. Additional actions could include Staff meetings with the manager and a formal re-interview of the manager by the Board. A recommendation from Staff and Consultant to terminate or retain the manager must be made to the Committee at the meeting following inclusion on the Watch List. The manager will remain on the Watch List pending a recommendation to the Committee by Staff and Consultant as to the manager's ongoing relationship.



Expectations will be established by Consultant and/or Staff on a case-by-case basis specific to the manager for recommendation to the Committee for removal from the Watch List. Failure to achieve these expectations shall result in termination. Generally, one period of a rolling, three (3) year return above the benchmark or above the bottom third of the Consultant's peer group universe following placement on the Watch List will be required for a manager's removal from the Watch List.

#### **Qualitative Factors Resulting in Watch List Additions**

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the manager to the Watch List. Examples include, but are not limited to, these events:

- Violation of investment guidelines;
- Deviation from stated investment style and/ or shifts in the firm's philosophy or process;
- Turnover of one or more key personnel;
- Change in firm ownership or structure;
- Significant loss of clients and/or assets under management;
- Significant and persistent lack of responsiveness to client requests;
- Litigation;
- Failure to disclose significant information, including potential conflicts of interest;
- Chronic violations of PERA's Policy;
- Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

Should any of these events occur, the recommended courses of action are similar to those contained in the preceding section (*Quantitative Factors Resulting in Watch List Additions*). After an assessment of the nature of the problem or potential problem, the Committee should then make a determination as to the appropriate course of action at the meeting after notification. Possible responses include, but are not limited to, the following:

- No action;
- Placement on Watch List;
- Immediate Staff meetings with the manager;
- Formal re-interview of the manager by the Board;
- Initiation of a comprehensive review;
- Termination.

Additions and removals from the Watch List will be treated on a case-by-case basis by the Board, Staff and Consultant.

If an issue is considered serious enough, a special meeting of the Committee and/or Board may be requested by the Executive Director, based on recommendations by the CIO and/or Consultant.

#### **D. Termination**

From time to time it will be necessary for the Board to terminate a contractual relationship with an Investment Manager. These actions must be viewed in the context of a business decision. Due to the sensitivity of this issue, the Board has established the following guidelines to assist in making these termination decisions. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment

characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to terminate a manager may be based on one or more but not limited to, the following primary criteria:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests
- Changes in PERA's investment strategy eliminating the need for a particular style or strategy
- Chronic violations of PERA's Policy
- Investment performance that has fallen below Policy expectations
- Identification of a new asset class or strategy which has been approved in advance by the Board
- A need for diversification of styles within an existing asset class
- Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

According to provisions of the Professional Services Agreement (PSA) used by PERA, the Board may terminate an investment manager at any time with thirty (30) days notice. An investment manager does not have to be on the Watch List in order to be terminated.

Prior to the termination decision, the primary and other relevant considerations shall be identified and documented in Committee and Board minutes and supporting documents. It is the Board's intent to have a plan in place before termination of any manager including embracing the Request for Proposal process for traditional manager additions and replacements.

## **VIII. INVESTMENT GUIDELINES**

The Board may invest and reinvest the funds in the following classes of securities and investment activities as long as such investments comply with the UPIA. Fund of Fund strategies are allowable in any of the asset classes. All investments are subject to approval of the Board and satisfactory legal review of applicable contractual terms and conditions.<sup>1</sup>

### **A. Permitted Investments**

#### **Public Equity**

The objective of public equity investments, both domestic and international, is to provide the Fund with capital appreciation and current income. This is a traditional approach for the Fund to meet its total return goals. Along with this exposure to economic growth comes increased price volatility and the risk of loss. Public equity investments may include:

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<sup>1</sup> Investments listed here are for general information purposes only. Each manager retained by the Board will be given specific guidelines with regard to permissible investments relevant to their role.

- Preferred stock, common stock, initial public offerings, securities of foreign issuers listed on U.S. Exchanges, and any security convertible to common stock or American Depository Receipts (ADRs) that are registered by the U.S. Securities and Exchange Commission (SEC) of any corporation whose securities are listed on at least one U.S. stock exchange that has been approved by or is controlled by the SEC or on the National Association of Securities Dealers (NASD). Global mandates may be considered. The Fund's investment managers may also use derivative investments such as futures and options to implement investment strategies in a low cost, efficient manner or to construct portfolios with risk and return characteristics that cannot be created with cash market securities.
- Preferred stock, common stock, and convertible issues of any non-U.S. Corporation; which may be denominated in non-U.S. dollars, provided that the securities are traded on one or more national stock exchanges or included in a nationally recognized list of stocks; and provided that the funds of which the Board is trustee shall not be invested in more than ten percent of the voting stock of any company.

### **Core and Global Fixed Income**

The objective of core and global fixed income is to provide diversification, a dependable source of current income and downside protection. Like public equities, this is a traditional approach for the Fund to meet its total return goals. Compared to public equities, core and global fixed income has lower expected volatility and a greater expectation for the preservation of capital.

Core and global fixed income securities may include:

- Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest. Global mandates may be considered.
- Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).
- Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
- Debt obligations of non-U.S. governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating (unless otherwise approved by the Board) of any corporation organized outside of the U.S.. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
- Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board).



- The Fund's investment managers may also use derivative investments such as futures, options, swaps and forwards to implement investment strategies in a low cost, efficient manner or to construct portfolios with risk and return characteristics that cannot be created with cash market securities.

### **Fixed Income Plus**

The objective of fixed income plus investments is to deliver positive returns over a complete market cycle while maintaining sufficient liquidity. The focus of these investments is the generation of current income and total return with a strong focus on preservation of capital. Fixed income plus investments have the potential to be more volatile than the core and global fixed income allocation. The strategies may have similar characteristics to some absolute return (hedge fund) strategies, but typically have greater liquidity and, unlike some absolute return managers, these managers typically utilize lower levels of leverage, shorting, and derivatives.

Fixed income plus investments include similar types of securities as those in the core and global fixed income allocation. At the time of purchase, however, the fixed income plus investments may have different credit characteristics than those in the core and global fixed income allocation.

Fixed Income Plus investment may include:

- Global high yield bonds, bank loans, and structured credit.
- Mezzanine debt which is a portion of the capital structure below senior debt but above equity.
- Emerging market debt on a hedged or unhedged basis.
- Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.
- Opportunistic credit strategies that typically invest in a combination of high yield bonds, bank loans and structured credit products.
- Unconstrained bond strategies that provide significant flexibility to manage duration positioning and exposure to credit spreads.

Fixed income plus, core and global fixed income and public equities are herein referred to as Traditional Assets.

### **Real Estate**

The objective of the real estate allocation is to generate current income and provide capital appreciation. In addition to providing the Fund with the benefits of diversification, these investments also provide a hedge against inflation.

Real estate investments may include:

- Real Estate Investment Trusts (REITS), including equity investments in publicly traded securities of a company dedicated to owning, and/or, operating income-producing real estate, including but not limited to apartments, shopping centers, offices and warehouses.
- Real Estate Partnerships, including investments in private vehicles through limited partnerships or limited liability companies that have an ownership interest in direct real estate properties, whether income-producing or non-income producing. In addition to “core” strategies, the real estate investment strategies may include “value added” strategies, which derive their return from both income and appreciation, and “opportunistic,” which derive their return primarily through appreciation.

### Real Assets

The objective of the real assets allocation is to generate current income and provide capital appreciation. In addition to providing the Fund with the benefits of diversification, these investments also provide a hedge against inflation.

Real assets investments may include:

- Inflation-indexed bonds, including investments in actively or passively managed investment vehicles. Treasury Inflation Protected Securities (TIPS) are an example of inflation-indexed bonds.
- Infrastructure Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in physical structures, facilities or systems that provide essential services to a community. Transportation, water and power delivery, waste disposal, communication, healthcare, education and safety are investment examples.
- Agriculture and Farmland Partnerships, including but not limited to limited partnerships or limited liability companies that are involved in the acquisition and management of farmland primarily for crop production. Other agriculture investment may include storage, transport, irrigation, and bio technology.
- Commodities, including but not limited to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities like the Goldman Sachs Commodity Index (GSCI) or Dow Jones – AIG Commodity Index (DJ-AIGCI). Commodities may be used as an overlay strategy on TIPS or other publicly traded instruments.
- Master Limited Partnerships (MLPs), including equity investments in publically traded partnerships dedicated to owning and/or operating businesses involved in the production, processing, or transportation of oil, natural gas, coal, timber, or other depletable resources.
- Timber Partnerships, including but not limited to, investments in limited partnerships or limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing timber.
- Natural Resource Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in energy-related businesses or businesses involved in the mining and/or processing of metals and other resources. Energy-related investments may include those across the industry spectrum from upstream (exploration and production), to midstream (processing and transportation), to downstream (refining and distribution) and energy services.

### **Absolute Return (Hedge Funds)**

The objective of the absolute return allocation is to provide superior risk-adjusted returns, exhibit low correlation, or both compared to Traditional Assets. These investment strategies are designed to deliver positive absolute returns over a complete market cycle. Absolute return managers invest primarily in publicly traded securities and derivatives and use long and short positions and leverage, within limits as specified in each fund's governing documents, to reduce market exposure in order to profit from security selection.

Absolute return investments may include:

- Market Neutral strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.
- Credit strategies that typically invest in high yield bonds, bank loans and structured credit products.
- Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.
- Event Driven strategies that take advantage of transaction announcements and other one-time events, including merger arbitrage, spin-offs and restructurings.
- Equity long/short strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.
- Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies.
- Multi-strategy hedge funds that invest using a combination of previously described strategies.

The Board may retain hedge fund managers as an implementation-level decision within other asset categories.

### **Private Equity**

The objective of the private equity allocation is to capture a premium from making long-term, illiquid investments in predominantly non-publicly traded equity securities. Private equity managers typically have concentrated portfolios and generate returns by making operational changes to the acquired businesses and often employ leverage to generate superior returns. Private equity managers provide capital for company start-up, expansion, buyout/acquisition, recapitalization, debt financing (either distressed debt or mezzanine financing), or other business purposes.

Private equity investments are typically made into limited partnership vehicles and may include:

- Buyouts, including investments in acquisitions, growth equity, recovery investments, subordinated debt, and special situations, which represent a diversified strategy across many sub-categories. Investments shall be made across the market capitalization spectrum and involve the purchase of a



control position (primarily majority positions, with some minority positions) in an established company. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- Venture Capital, including investments in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage. Investments may be made in companies that are either U.S. or non-U.S. domiciled.
- Distressed Debt, including investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

### **Operating Cash Management**

For cash management, the Board may utilize the services of the State Treasurer for overnight investment of short-term assets. The Board may also utilize a separate or commingled short-term investment fund ("STIF") approved by the Board and administered by the Custody Bank. PERA can only utilize STIF accounts that invest in those securities authorized by PERA's statutes, Policy and investment guidelines. Investment managers shall invest all cash in PERA's approved STIF funds.

### **Currency**

Active currency strategies which do not necessarily hedge existing international holdings, but instead, seek absolute return which may include leverage, cross-hedging, emerging markets, and interest rate futures are allowable.

### **Repurchase Agreements**

Contracts for the purchase of specific securities and subsequent resale at a specified date and price in the future, of duration not to exceed one year. No such contract shall be entered into unless the contract is fully secured by obligations of the United States, or other securities backed by the United States, having a market value of at least one hundred two percent of the amount of the contract. With respect to the Custodial Bank agreement, tri-party repurchase agreements are proper investments under this Policy. No such contract shall be entered into unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars (\$500,000,000).

### **Mutual Funds and Commingled Investments**

Mutual funds or other similar commingled investments as an alternative to investing in separately managed portfolios of stocks and bonds. Such investments may be in stocks or shares of a diversified investment company or mutual fund registered under the Federal Investment Company Act of 1940, provided that the investment company has total assets under management of at least one hundred million dollars (\$100,000,000); individual, common or collective trust funds of banks or trust companies, provided that the investment company has assets under management of at least one hundred million dollars (\$100,000,000); provided that the board may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments.

### **Exchange Traded Funds (ETFs)**

The investment managers whose account is structured as a separate account shall limit their use of ETFs to those situations where a comparable investment yielding comparable investment results cannot be obtained on a separately managed basis except as provided in their governing documents or PSA and will be subject to review by Staff and Consultant.

### **Borrowing and Use of Derivatives**

- **Leverage.** Leverage used with any investment strategy will be consistent with the discipline for which the Board hired the investment manager. Use of leverage will be controlled as appropriate in each manager's respective governing documents and will be subject to review by Staff and Consultant.
- **Authorized Uses of Derivatives.** Investment managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls, or trade in futures contracts, unless specified in the governing documents entered into by PERA and the investment manager.
  1. Staff, in consultation with the investment consultants, has the ability to equitize cash through the use of futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of reducing cash "drag."
  2. Staff, in consultation with the investment consultants, has the ability to use futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of re-balancing to long-term policy allocation targets.
  3. Staff, in consultation with the investment consultants, has the ability to use futures, swaps, ETFs, options or other exchange traded derivatives for the purpose of implementing the overlay component of a portable alpha program.
- **Compliance and Reporting.** Each traditional asset investment manager is required to report to the Board the market value of derivatives exposure in the portfolio, both quarterly and annually. Each separate account investment manager is required to report to the Board in their quarterly and annual report the market value of ETFs, commingled funds and mutual funds if these investments are contained in the portfolio. The Consultant shall provide Staff, at least annually, an estimate of the market value of derivatives exposure and an estimate of the leverage within the alternative assets.

### **B. Prohibited Investments**

Per UPIA guidelines, the Board, all investment managers, and Staff are expected to perform their fiduciary duties as a prudent investor would and to conform to all applicable federal and state statutes governing the investment of retirement funds. The following investments are prohibited:

- Investments precluded by law or regulation.
- Transactions that involve a broker acting as a "principal" where such broker is also the investment manager who is making the transaction are prohibited unless otherwise approved in each manager's respective PSA.
- Any other investments as specified in each manager's respective PSA.

### **C. Diversification**

- Portfolios managed on behalf of PERA should not hold more than 10% of the outstanding securities of any single issuer, unless specified in their governing documents.
- Individual manager diversification will be addressed in each manager's respective PSA.
- Refer to *Section III.D. Investment Objectives, Diversification.*

## **IX. ALTERNATIVE ASSET PROGRAM**

### **A. Asset Allocation**

The CIO and Consultant shall aggregate investment vehicle data within each alternative investment asset class and perform analysis on each aggregate portfolio, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification within the specific alternative investment class.

### **B. Search and Selection**

The Alternative Investment approval process is a thorough and comprehensive process that considers each individual investment. The Committee reviews Staff's and the Consultant's due diligence report for each recommended alternative investment. Each recommendation is presented to the Committee for its consideration to recommend to the Board. The Board reviews these same written reports for alternative investments recommended by the Committee, with the Board having final authority to approve each investment recommendation. The General Counsel and External Legal Counsel review the legal documents for all approved alternative investments. All investments are subject to satisfactory legal review.

Staff and the Consultant will provide the Board with a proposed private asset commitment budget and action plan for each calendar year. The purpose of this plan is to provide PERA with an outlook for the assets that constitute the private asset program as well as an overview of the specific investment objectives and goals for PERA for the upcoming year.

### **C. Due Diligence**

The Staff and Consultant will also conduct due diligence with the respective alternative investment managers to understand the underlying drivers of performance and risks associated with the managers' strategies. Additionally, the Staff and Consultant shall conduct portfolio reviews and on-site due diligence as necessary. Site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. The Staff and Consultant shall provide the Board with regular performance reports and advise the Board of other matters, including providing redemption recommendations, as appropriate.

### **D. Placement Fees**

PERA shall not invest with any investment manager, other than with managers of publicly traded equities or publicly traded fixed-income securities, unless the investment manager discloses the identity of any third-party marketer who rendered services on behalf of such investment manager in obtaining the investment and also discloses the amount of any fee, commission or retainer paid to the third-party marketer for the services rendered. "Third-party marketer" means a person who, on behalf of an investment fund manager or other person seeking an investment from the fund and under a written or implied agreement, receives a fee, commission or retainer for such services from the person seeking an investment from the fund. PERA Staff and/or Consultant will review affected managers on an annual basis.

### **E. Monitoring**

These requirements shall apply to the Real Assets and Real Estate, Absolute Return, and Private Equity Programs. Through the monitoring process, Staff and Consultant will extend the initial due diligence into monthly performance reports, quarterly portfolio reports and annual reviews. This monitoring process regularly seeks to determine whether the investment is meeting the specific alternative investment asset



class objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process should disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which PERA is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

The Consultant will place an alternative investment on its Watch List if serious concerns exist. The Consultant provides Staff with a Watch List report for each investment on the Consultant's Watch List. The Consultant reports all Watch List investments to the Committee and provides the Committee with frequent updates on all Watch List investments. A Watch List designation is not a prerequisite for redemptions.

## **X. SAFEKEEPING AND CUSTODY**

### **A. Custodian**

The Custodian holds assets directly, through its agents, its sub-custodians, or designated clearing systems, assets. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers of traditional assets must reconcile their values to those of the Custodian. Alternative investment managers will provide PERA's capital account statements to the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Board may opt to designate other duties to the Custodian as stipulated in its agreement. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement.

### **B. Securities Lending**

The Board may authorize a securities lending program for all or any portion of the assets held as investments by PERA. The lending of securities may be accomplished by the Board contracting with one or more designated agents that are experienced in providing securities lending services. Securities may only be loaned by the designated agent(s) through the entering of contracts for the temporary exchange of securities for the use by broker-dealers, banks or other recognized institutional investors, for periods not to exceed one year, for a specified fee or consideration. Each contract must be fully secured by collateral in the form of cash or U.S. government or government agency securities of at least one hundred and two percent of the market value plus accrued interest for domestic securities and of at least one hundred and five percent of the market value of the securities plus accrued interest for international securities. All international loans and proceeds shall be negotiated and settled in U.S. dollars.

### **C. Transition Management**

Transitions are an important and inevitable element of portfolio management. The optimal method to use in executing a transition may vary significantly from one transition to another based on the types of assets

involved and the timeframe in question. PERA's general objective in a manager transition is to implement the change in a cost-effective, timely manner while maintaining the appropriate market exposure. It is imperative to note that the cost of transition is not commissions alone, but also bid/ask spread, market impact and opportunity cost. The market impact cost is the effect trading will have on the market price of the shares being traded. The opportunity cost, sometimes referred to as implementation shortfall, is the cost of market movements over the time it takes to trade. Efforts should be made to minimize the total cost rather than any single cost component.

#### **D. Class Actions**

When the Fund has sustained investment losses that may be recoverable through class action securities litigation, the Fund will participate as a member of the class. In accordance with industry practice, the Fund's Custodian is responsible for filing all claims and other documents on behalf of the Fund to ensure that the Fund receives its pro rata share of any recovery.

Investment staff will monitor the Custodian's compliance with its class action procedures. Staff will forward all notices and information concerning potential or pending class action litigation that are received in the Fund's offices to the Custodian for research. Staff will report periodically to the Board on recoveries realized as a result of class action participation.

It is Board's policy not to serve as a lead plaintiff in securities class action litigation unless PERA is among the largest shareholders of the defendant issuer and service as a lead plaintiff is determined to be in the best interest of the Fund. The Board's decision to pursue active involvement will be made in consultation with the Executive Director, Staff, General Counsel's Office and such other professional advisors as the Board deems appropriate.

### **XI. REPORTING REQUIREMENTS**

#### **A. External Managers for Traditional Assets**

Within thirty days after the close of every fiscal year, each investment manager of traditional assets must certify that its internal portfolio accounting statements reconcile with those of PERA for the year just ended. The certified portfolio detail must be reported to PERA by July 31 of each year. If reconciliation cannot be completed within the designated period, a list of discrepancies must be provided along with an explanation of how they shall be resolved.

An investment manager of traditional assets under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custodian and the market values as shown on the monthly report of the investment manager's records and report such to PERA staff on a monthly basis not later than 30 days after month end. In the event of a disagreement between PERA and the investment manager as to the market value of securities or the "market value of account" for the purposes of any fee agreement, the market value of securities or "market value of account" as determined by PERA shall prevail.

The Board reviews the investment performance of the managers against their stated objectives, both gross and net of fees, at least quarterly. At the sole discretion of the Board, each investment manager may be expected to meet with the Board at least annually to review its portfolio and investment results in the context of this Policy.

An investment manager under contract must report to PERA, as soon as administratively possible, if at any time there is:



- A change in investment philosophy;
- A loss of one or more key professionals;
- A new portfolio manager on PERA's account;
- A change in ownership structure of its firm;
- Any occurrence which might potentially impact the management, professionalism, integrity or financial position of the management firm.

Each investment manager is required to report to the Board the market value of derivatives exposure in the portfolio, both quarterly and annually. Each separate account investment manager is required to report to the Board in their quarterly and annual reports the market value of ETFs, commingled funds, mutual funds and currency hedges if contained in their portfolio.

### **B. External Managers for Alternative Assets**

Alternative investment managers will provide PERA's capital account statements to the Custodian. The CIO and Consultant shall provide the Board with regular performance reports and advise the Board of other matters as appropriate. Additional guidelines are included in *Section IX.E. Alternative Asset Program, Monitoring*.

### **C. Custodian**

The Custodian will, as directed by Staff, provide periodic performance reports to Staff and Consultant. These reports shall detail the individual performance of managers and the overall performance of the Fund.

### **D. Consultant(s)**

The Consultant(s) will provide performance reports to Staff and the Board at its regular meetings. In preparing these reports, the Consultant will rely upon asset values and performance calculations reported by the Custodian.

### **E. Staff**

Staff will be responsible for ensuring that performance reports are received in a timely manner from these parties and will provide continual supervision of external performance reporting on the portfolio. Staff will work with the Consultant to complete a detailed performance measurement report on a quarterly basis. The executive summary will, at a minimum, include information for the most recently available one, three, and five year periods.

## **XII. REVIEW AND APPROVAL OF INVESTMENT POLICY**

The Board shall review the Policy from time-to-time to determine if modifications are necessary or desirable but will delegate Staff to review the Policy on an annual basis. Staff will recommend modifications as warranted. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

Modifications may occur due to:

- Operational problems that become apparent during the investment management process;
- Changes in economic prospects, Fund characteristics, the development of new investment instruments or strategies, or sponsoring employer organizations;
- Changes in the strategic asset allocation; and,
- Other causes as determined by the Board.



By signing this Statement of Investment Policy the Board through its Chair, indicates its agreement therewith.

Adopted: June 25, 1992  
Amended: September 14, 1993  
Amended: April 28, 1994  
Amended: September 28, 1995  
Amended: January 29, 1998  
Amended: March 23, 1998  
Amended: January 27, 2000  
Amended: September 26, 2002  
Amended: July 31, 2003  
Amended: October 31, 2003  
Amended: July 1, 2005  
Amended: September 28, 2005  
Amended: December 29, 2005  
Amended: July 27, 2006  
Amended: August 31, 2006  
Amended: September 28, 2006  
Amended: June 1, 2007  
Amended: August 30, 2007  
Amended: July 31, 2008  
Amended: June 24, 2010  
Amended: November 29, 2012  
Amended: August 28, 2014  
Amended: December 18, 2014  
Amended: September 24, 2015

By:   
Patricia French, Chairperson  
Public Employees Retirement Association of New Mexico

