

Investments and Pensions Oversight Committee

Senator George Muñoz, Chair

Representative Monica Youngblood, Vice Chair

Tuesday, November 1, 2016

Improving Transparency in the Financial Reports Sent to Members

Jan Goodwin, Executive Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

In June 2016, the Board adopted a Transparency Policy to formalize current practices

The policy covers:

- Board governance related documents
- Investment related documents
- Financial and actuarial related documents

Transparency

As a public entity, NMERB is cognizant of the duty to maintain public trust and transparency. As such, we make information and detailed reports available on our website <http://www.nmerb.org/>, including the following:

- Annual Actuarial and Financial Reports
- Asset Allocation and Asset/Liability Reviews
- Board and Committee Meeting Announcements, Agendas and Minutes
- Board Governance Policy
- Board Strategic Plan
- Funding Policy
- Investment Performance Reports
- Investment Policies
- Member Information
- Transparency Policy

Institutional Limited Partners Association (ILPA)

Endorsed ILPA Fee Template disclosure- May 2016

- Pension funds that have endorsed
 - CalPERS, CalSTRS, Texas Teachers, Utah, Colorado PERA
- Private equity funds that have endorsed
 - The Carlyle Group, TPG, Silver Lake

New Mexico Educational Retirement Board

FINANCIAL SECTION – Statement of Changes in Fiduciary Net Position

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENT OF CHANGES IN FIDUCIARY NET POSITION As of the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|-------------------|----------------|
| Additions | | |
| Contributions | \$ 687,952,017 | 631,156,528 |
| Investment income from investing activities | | |
| Net change in fair value of investments | 308,403,714 | 1,278,664,135 |
| Interest income | 37,823,427 | 41,809,254 |
| Dividend income | 95,180,820 | 137,617,862 |
| Total investing activity gain | 441,407,961 | 1,458,091,251 |
| Investing activity expenses: | | |
| Investment advisor fees | (17,095,533) | (13,326,824) |
| Custody fees | (982,634) | (392,955) |
| Total investing activity expenses | (18,078,167) | (13,719,779) |
| Total net investment gain | 423,329,794 | 1,444,371,472 |
| Miscellaneous income | | |
| Penalties | 952 | 734 |
| Interest on restoration of service | 1,738,444 | 2,819,583 |
| Other | 6,407,329 | (138,859) |
| Total miscellaneous income | 8,146,726 | 2,681,458 |
| Total additions | 1,119,428,538 | 2,078,209,458 |
| Deductions | | |
| Age and service benefit payments | 911,832,776 | 859,575,335 |
| Refunds to terminated members | 32,313,405 | 34,561,687 |
| Interest on refunds | 4,114,576 | 4,361,396 |
| Administrative expenses | 10,597,846 | 16,617,970 |
| Disability benefit payments | 8,922,645 | 8,716,047 |
| Total deductions | 967,781,247 | 923,832,437 |
| Net increase (decrease) | 151,647,291 | 1,154,377,021 |
| Net position restricted for pensions | | |
| Beginning of the year | 11,346,075,824 | 10,191,698,803 |
| End of the year | \$ 11,497,723,115 | 11,346,075,824 |

See Accompanying Notes to Financial Statements

Management fees

Investment fees for 2015 totaled \$129,679,202, of that total \$18,078,167 was covered by the agency's operating budget and \$111,601,035 was deducted directly from investment account balances. The schedule below compares investment fees by fiscal year.

Comparative Investment Fees by Fiscal Year

| | 2015 | 2014 | 2013 |
|--|-----------------------|--------------------|--------------------|
| Investment Fees Covered by Operating Budget | \$ 18,078,167 | 13,719,779 | 17,665,292 |
| Fees Deducted from Account Balances | 111,602,035 | 149,995,760 | 107,813,519 |
| Total Investment Fees | <u>\$ 129,680,202</u> | <u>163,715,539</u> | <u>125,478,811</u> |
| Fees as a % of Prior Year | 79% | 130% | |

Future commitments

ERB's investments in limited partnerships are valued at an estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. As of June 30, 2015, ERB's additional future contribution commitments to limited partnerships totaled \$2.232 billion.

Enhancements to Financial Reporting, continued

Financial Section

ADDITIONAL FINANCIAL INFORMATION

Pension Trust Funds

Schedules of Internal Investment Activity Expenses | Year Ended June 30, 2015

| | MSEP | Judicial Plan | Total |
|---|-------------|---------------|-------------|
| Personnel services | | | |
| Salaries | \$2,848,813 | \$43,385 | \$2,892,198 |
| Fringe benefits | 912,630 | 13,898 | 926,528 |
| Total personnel services | 3,761,443 | 57,283 | 3,818,726 |
| Professional services | | | |
| Attorney services | 21,153 | 322 | 21,475 |
| Total professional services | 21,153 | 322 | 21,475 |
| Communications | | | |
| Telephone | 13,726 | 209 | 13,935 |
| Total communications | 13,726 | 209 | 13,935 |
| Facilities | | | |
| Utilities | 2,463 | 38 | 2,501 |
| Lease expense | 56,022 | 853 | 56,875 |
| Depreciation | 34,962 | 532 | 35,494 |
| Facility maintenance | 9,349 | 142 | 9,491 |
| Vehicle maintenance and operation | 107 | 2 | 109 |
| Total facilities | 102,903 | 1,567 | 104,470 |
| Software and equipment | | | |
| Computer supplies and software | 3,055 | 47 | 3,102 |
| Depreciation | 9,719 | 148 | 9,867 |
| Total software and equipment | 12,774 | 195 | 12,969 |
| Education, meetings and travel | | | |
| Professional development including travel | 20,490 | 312 | 20,802 |
| Due diligence travel | 66,589 | 1,014 | 67,603 |
| Total travel and meetings | 87,079 | 1,326 | 88,405 |
| General administrative | | | |
| Research and information services | 251,057 | 3,824 | 254,881 |
| Membership dues | 13,228 | 201 | 13,429 |
| Office supplies | 1,874 | 29 | 1,903 |
| Periodicals and publications | 8,753 | 133 | 8,886 |
| Miscellaneous expense | 276 | 4 | 280 |
| Total general | 275,188 | 4,191 | 279,379 |
| Total administrative expenses | \$4,274,266 | \$65,093 | \$4,339,359 |

Most financial and investment reporting is technical

Difficult to find a balanced approach

- Government Financial Officers Association (GFOA) is pioneer in accessible reporting
 - Comprehensive Annual Financial Report (CAFR)
 - Popular Annual Financial Report (PAFR)
 - NMERB's first PAFR was based on June 30, 2013 CAFR

NMERB's CAFR and PAFR are on website

Will send PAFR to members- actives through employers, retirees with 1099-Rs

Investment performance- current year and over time

Actuarial metrics- UAAL, funded ratio, funding period

Fiduciary net position over time

Demographic information

Asset allocation

Board members

Retirement benefits by county

Contribution rates

Questions?