

RFP NO. NM INV-002-FY16

**STATE OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
33 Plaza la Prensa
Santa Fe, N.M. 87507**

REQUEST FOR PROPOSALS

**GLOBAL MULTI STRATEGY FIXED INCOME
INVESTMENT MANAGEMENT SERVICES**

RFP NO. NM INV-002-FY16

March 15, 2016

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PART I. INTRODUCTION AND GENERAL INFORMATION

The Public Employees Retirement Association of New Mexico (PERA) is a public pension fund responsible for the investment of all monies constituting the assets of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund. The retirement systems are treated as qualified plans under Section 401(a) of the Internal Revenue Code. The Fund's assets were valued in excess of \$13.4 billion as of January 31, 2015.

As further described below, the purpose of this Request for Proposals ("RFP") is to invite responsible respondents to submit competitive sealed responses to provide Global Multi Strategy Fixed Income Investment Management Services. Such services shall conform to PERA's investment rules, Investment Policy, and statutory investment requirements, as they may be amended from time to time. PERA's current Investment Policy and Investment Statutes (NMSA 1978, Sections 10-11-132 and 10-11-133), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), and the Investment Policies and Practices (2.80.300 NMAC) is attached hereto in Appendix "G".

PART II. SUBMISSIONS

A. General Information

In order to be considered, respondents shall submit a formal acknowledgement of meeting all of the Minimum Qualifications (MQs) to PERA's consultant, Wilshire Associates on behalf of PERA by the time stated in the Timetable below. Only the respondents meeting the MQs shall be considered. All responses shall become the property of PERA.

A response may be withdrawn or modified prior to the time and date established in the Timetable below. Any withdrawal, or modification received after the established time and date for delivery to PERA shall be considered late. Respondents shall bear in mind that such late withdrawals or modifications can only be considered under very limited circumstances.

B. Timetable for the Procurement

PERA intends that the following schedule govern the procurement under this RFP. If there is any discrepancy between the dates in the "Timetable for the Procurement" and the ones listed in other parts of the RFP, the ones referenced within the "Timetable for the Procurement" will prevail. However, the exact dates for items No. 6-8, and the dates for negotiations, if any, shall be set at PERA's discretion without the need to amend the RFP.

Action	Responsibility	Date
1. Release of RFP	PERA	3/15/2016
2. Return Acknowledgement of Compliance with Minimum Qualifications (Appendix A) Only the respondents meeting the MQs will be considered. Respondents must address their Acknowledgement to Wilshire at nmpera@wilshire.com.	Respondents	3/22/2016 5PM MT
3. Deadline for Submission of Written Questions Written questions should be submitted by E-MAIL ONLY to Wilshire at nmpera@wilshire.com. Please clearly label your questions by referring to the appropriate section (and/or paragraph) and page of the RFP. PERA is not obligated to answer inappropriately labeled questions nor questions of the firms not meeting the MQs and questions received after the stated deadline.	Respondents	3/22/2016 5PM MT
4. Response to Written Questions In order to obtain copies of PERA’s answers to written questions, respondents shall submit the Acknowledgment of Minimum Qualifications Compliance (Appendix “A”) to Wilshire by March 22, 2016. No written response to the questions shall be construed as a modification of the RFP unless PERA amends the RFP in accordance with New Mexico PERA’s Investment-Related Services Procurement Policy.	PERA	3/25/2016 5PM MT
5. Deadline for Submission of Responses Respondents must address their responses to Wilshire at nmpera@wilshire.com. Include Appendix B, Signature Page (B-1 and B-2), and full response by 5 pm MT.	Respondents	4/15/2016 5PM MT
6. On-site Due Diligence PERA Board members, PERA staff, or other PERA representatives may make on-site due diligence visits to the offices of short-listed respondents.	PERA	TBD
7. Contract Award(s) The PERA Board intends to make the contract award at one of its meetings on or before June 30, 2016, subject to satisfactory completion of a due diligence visit by PERA, if appropriate, and further subject to negotiation of a final contract on terms acceptable to PERA.	PERA Board	TBD
8. New Contract(s) Proposed Effective Date		TBD

PART III. SCOPE OF WORK

An Investment Manager will be required to provide the following scope of services to PERA:

1. Invest allocated funds in conformity with the investment policy and guidelines of the Plan, as defined in the contract established between PERA and the firm, and actively manage a Multi-Strategy Credit mandate for the PERA Plan under the contract.
2. Provide periodic reports and information relating to the firm’s investment strategy and other pertinent information pertaining to the investment of the Plan’s funds, as requested by PERA. Provide monthly reports on portfolio appraisals, performance evaluation and attribution, and trading activities.

3. Participate in public meetings on a periodic basis to provide information to the Plan concerning the investment performance of PERA's portfolio and the firm's investment outlook and strategy for PERA's portfolio.
4. Maintain a good working relationship with PERA staff by providing timely information regarding material changes in the firm's organizational structure, staffing, investment philosophies, and any other pertinent information PERA staff may require in evaluating the performance of the portfolio.

The funding for the product selected by PERA will be set at the levels that PERA, at its sole discretion, sees fit.

The estimated, initial target mandate size for such services is up to 400 million.

PERA can accept a single product solution or proposals that amalgamate various products/strategies managed by the proposing firm such that said amalgamation constitutes a Managed Account ("The Managed Account"). The product or Managed Account should best fit or model to the liquidity profile PERA seeks as well as these return and risk objectives:

- Cumulative returns greater than 200 basis points above the Barclay's Global High Yield Index;
- Volatility that is less than the Barclay's Global High Yield Index;
- A Sharpe ratio that is higher than the Barclay's Global High Yield Index;
- Better downside performance (lesser downside capture) versus the Barclay's Global High Yield index; and
- Lesser correlation to the ACWI IMI index and the U.S. Barclay's Aggregate Index.

Absolute return strategies (Libor +) will be accepted and will also be considered against these objectives.

The scope of services defined in the final contract between PERA and the Manager will be binding and will supersede this section of the RFP if different from the scope of services defined here. PERA reserves the right to make a single or multiple source awards to manage the proposed product(s), although it prefers to make a single award.

Please consider your responses in the context of NM PERA's "Total Portfolio" view. That is, this mandate will not be considered a discrete mandate but rather part of or integral to the NM PERA total portfolio and strategic asset allocation. NM PERA's risk and portfolio construction objectives are of equal if not more importance than the return objective of this mandate.

Please consider your responses within the following portfolio context. The Rates & Credit Portfolio, as of January 31, 2016, comprises the following strategies.

CORE Domestic Fixed Income as defined by 25 bps of tracking error vs U.S. Barclay's AGG = \$3,267,882.

CORE Global Fixed income as defined by 65 bps of tracking error vs Global Barclay's Global AGG= \$602,562,000.

Total Return Emerging Market Debt, both hard currency and local currency sovereigns, and local currency corporates = \$174,932,000

Global High Yield bonds (high yield bonds, not bank loans, not asset backed securities, not convertibles, etc.) = \$179,886,000

Global Bank loans (primary and secondary) = \$53,034,000

Credit Oriented Absolute Return Hedge Fund Strategies = \$157,083,000

PART IV. MINIMUM QUALIFICATIONS

Each respondent must certify that it meets all of the following minimum qualifications as of the date its response is submitted to PERA.

FAILURE TO MEET AND CERTIFY THE FOLLOWING SHALL RESULT IN THE REJECTION OF THE RESPONSE. PLEASE INCLUDE YOUR CERTIFICATION TO THE BELOW MINIMUM QUALIFICATIONS WITHIN YOUR SUBMISSION OF YOUR ACKNOWLEDGEMENT OF COMPLIANCE AS WELL AS WITH YOUR FINAL RFP RESPONSE.

1. The firm must be registered as an investment adviser under the Investment Advisers Act of 1940 and be prepared to provide its full Form ADV, or provide proof of bank exemption.
2. The firm must have a minimum of \$5 billion in total assets under management, and a least \$1 billion in total assets under management in a similar Multi-Strategy/Oppportunistic Credit product as of December 31, 2015.
3. The firm must have at least three major U.S. tax-exempt pension fund client (public or corporate) that has \$5 billion or more in total assets. This requirement is firm-wide and does not apply to the proposed product.
4. The firm must be willing to accept an asset based fee arrangement, a performance-based fee arrangement, or some combination of the two. The firm must include a proposed fee arrangement within their response.

5. The firm must update or submit all Wilshire Compass data through December 31, 2015 for all the products or Managed Account for which they are submitting proposals by the deadline for submission. If the firm does not already utilize the Wilshire Compass database, they must participate by establishing their firm in the database. Wilshire Compass does not charge investment managers for participating in the database
6. Product must allow at least partial redemptions on at least a monthly basis, with no more than 30 day notice effective immediately upon funding. **The eventual liquidity profile is negotiable and will be reasonably based on the underlying liquidity of the assets.**
7. Explicit and implicit Leverage will be allowed but must be reported (separately) at least quarterly.
8. The firm must agree to keep the proposal open for a period of not less than 180 days from the date the proposal is issued.
9. The firm must agree to incorporate the warranties, attached as Appendix “C”, Warranties, into any contract entered into as the result of a contract award made under this RFP. (See Signature Page, Appendix “B”, Company Questionnaire).
10. The firm must agree to submit a fee proposal with the RFP response.
11. For any “Finalist” proposing a Managed Account, NM PERA will require the firm to execute a Letter of Intent acknowledging and accepting NM PERA’s fiduciary standards of care, which limits indemnification for breach of fiduciary duty and breach of the investment agreement.

1) Performance History

- a) The investment professionals (i.e. portfolio managers, analysts, traders, etc.) must have at least a 5- year performance history in a Multi-Strategy Credit /Opportunistic product or similar products as of December 31, 2015.
- b) The Cumulative 5-year Return (as of December 31, 2015) of proposed product or Managed Account must exceed the Barclay Global high Yield Index.
- c) Annualized standard deviation of monthly returns (between December 31, 2010 and December 31, 2015) of proposed product or similar product proposed for the Managed Account must be less than the Barclay Global high Yield Index.

PART V. EVALUATION OF PROPOSALS

PERA may award multiple contracts under this RFP for Global Multi Strategy fixed income investment management services as described in Part III, Scope of Work, above. The contract

award shall be made to the responsible Offeror or Offerors whose proposal is most advantageous to PERA, taking into consideration the applicable evaluation factors set forth below. Please note the listing of fees as an evaluation factor does not require PERA to select the Offeror with the lowest fee proposal. In addition, a serious deficiency in the score for any one factor may be grounds for rejection of a proposal regardless of the Offeror’s overall score.

The evaluation factors and assigned points to be applied to the proposals received are as follows:

1. Offeror’s background and experience as an investment manager for the proposed product(s)**25 Points**
2. Offeror’s capabilities in research, trading, compliance, reporting, etc.**20 Points**
3. Offeror’s investment philosophy and process.....**30 Points**
4. Performance **15 Points**
5. Fees **10 Points**

- Total Possible Points100 Points**

The evaluation of proposals will be conducted by an evaluation committee appointed by the PERA Board Chair. However, any PERA Board member will be allowed to attend and participate in any proceedings, meetings, and deliberations of the evaluation committee, including but not limited to oral presentations of the short-listed Offerors and preparation of the final evaluation report.

Proposals that are non-responsive because of the failure to meet the minimum qualifications (See Part IV), or otherwise, shall be eliminated from further consideration. The evaluation committee shall rank the proposals for each evaluation factor in accordance with the evaluation criteria and select the highest ranked proposals for a short-list of finalists. Also, at its sole discretion, PERA may at any time during the evaluation process eliminate from further consideration proposals whose performance does not rank favorably relative to others responding to the RFP.

Short-listed Offeror(s) will make oral presentations to the evaluation committee. The evaluation committee shall rank the proposals for each evaluation factor, including the short-listed Offerors’ oral presentations and interviews, in accordance with the evaluation criteria and recommend to the Board the Offeror(s) to be awarded the contract. The final contract award(s) shall be made by the PERA Board, subject to such conditions as the PERA Board deems appropriate. PERA is not obligated to award any contract or fund any mandate described in this RFP.

PART VI. CONTRACTUAL REQUIREMENTS

The contract between PERA and the successful Offeror shall contain substantially the same terms and conditions in the sample contract attached to this RFP at Appendix “F”, Form of Professional Service Agreement. The contract shall incorporate a fee schedule in the form prescribed by Appendix “E”, Fee Proposal Form. The contract also shall incorporate the warranties that appear

at Appendix “D”. Copies of PERA’s current Investment Policy and Investment Statutes, and Investment Policies and Practices Rule (PERA Rule No. 2.80.300 NMAC), located in Appendix “G”, shall be attached to the contract. While Offerors may suggest additional contractual terms and conditions, PERA will not accept any terms and conditions that change the terms and conditions set forth by PERA in the sample contract attached hereto at Appendices “D”, “F” and “G”. Any additional terms and conditions that PERA may, at PERA’s sole discretion, accept will be incorporated into any final contract. Please note: PERA will not accept substantive changes to the indemnification or jurisdictional terms and conditions of the sample contract.

Pursuant to the terms of PERA’s Investment Policy, the contract(s) between PERA and the successful Offeror(s) for Global Multi Strategy Investment Management Services described in this RFP shall incorporate Investment and Operational Guidelines that set the investment guidelines and administrative requirements for the Global Multi Strategy mandate to be managed by the Offeror.

The term of the contract(s) shall be for eight (8) years.

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors, in accordance with the requirements of the NM PERA Procurement Policy for Investment-Related Services. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations. Furthermore, as a condition of submitting a proposal, all Offerors shall agree to provide the services required by this RFP and to adhere to all the requirements, specifications, terms, and conditions of this RFP. For these reasons, PERA strongly recommends that Offerors review the RFP with their corporate counsel in advance of submitting a proposal. (Also see Part VII, Form of Proposals, below, and the Signature Page located in Appendix “B”.)

If PERA elects to conduct discussions or negotiations with Offerors, PERA may establish a common date for submissions of best and final fee offers, if appropriate. Offerors shall bear any and all costs incurred by them in the conduct of any discussions or negotiations, including travel to New Mexico for oral presentations or their costs associated with due diligence visits made by members of the RFP Evaluation Committee. Any additional terms and conditions which may be the subject of negotiation will be discussed only between PERA and the Offeror who suggests them and shall not be deemed an opportunity to amend the Offeror’s proposal in any other respect.

PART VII. FORM OF PROPOSALS

Proposals submitted in response to this RFP must be organized and submitted in the format described below, using the applicable forms attached to the RFP and following the instructions in such forms. Only finalists will be required to submit signed hard copy proposals. Within each section of the proposal, Offeror should address the items in the RFP in the order in which they appear in the RFP. Please make sure that you include headings and page numbers in all deliverables. Proposals should stress completeness, clarity, and succinctness. Also, we request that you include a copy of your most recent “pitch book” or marketing materials for the product, or proposed Managed Account.

Any proposal that does not strictly adhere to the following format, and does not address each specification and requirement within the RFP and the applicable forms may be deemed non-responsive:

- A. Each proposal shall contain an index or table of contents near the front of the proposal, listing the materials included in the proposal. Please, make sure that you including headings and page numbers in all deliverables.
- B. Offerors shall complete, sign and attach to the proposal a completed and signed Signature Page (Appendix “B”). By signing the Signature Page contained in Appendix “B”, the Offeror agrees to accept and comply with all the terms and conditions of the RFP.

Any proposals not bearing the appropriate signatures on the Signature Page contained in Appendix “B”, referenced above, will not meet the minimum qualification requirements of the RFP and will not be considered further in the evaluation process.

Offerors may also include the following in their proposals:

- C. The Offeror may attach such other supplementary material as it sees fit to explain its proposal and any additional contractual terms and conditions that the Offeror may suggest.
- D. The Offeror may request in writing the nondisclosure of confidential information contained in the proposal. Such data shall be clearly marked and identified as “confidential” and shall be easily separable from the proposal in order to facilitate any eventual public inspection of the non-confidential portions of the proposal. After contract award, each proposal, except those portions for which the Offeror has made a valid written request for confidentiality, shall be open to public inspection. PERA reserves the right to review the appropriateness and validity of a request for confidentiality.

PART VIII. REFERENCES TO NEW MEXICO STATUTES AND NM PERA PROCUREMENT POLICY

The Public Employees Retirement Association of New Mexico (PERA) operates under the authority of the Public Employees Retirement Act, 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-7, 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 amended.

This RFP is governed by the Public Employees Retirement Association Procurement Policy for Investment-Related Services. This RFP may be canceled and any and all proposals may be rejected in whole or in part when it is in the best interests of PERA. This RFP shall not be modified except by written amendment. Proposals received late can only be considered under very limited circumstances. A proposal may be withdrawn or modified prior to the time and date established above for PERA’s receipt of proposals.

Services requested in this RFP shall conform to PERA's Investment Policy, and statutory and regulatory investment requirements, as they may be amended from time to time. PERA's current Investment Policy, investment statutes (NMSA 1978, Sections 10-11-132 and 10-11-133), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), and Investment Policies and Practices Rule (No. 2.80.300 NMAC) are attached hereto as Appendix "G".

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations.

No written response made by PERA staff to questions asked by the Offerors shall be construed as a modification of the RFP unless PERA formally amends the RFP.

APPENDIX A, Acknowledgment Form

Global Multi Strategy Fixed Income

ACKNOWLEDGMENT OF MINIMUM QUALIFICATIONS COMPLIANCE
AND
ACKNOWLEDGMENT OF RECEIPT FORM

THE OFFEROR HEREBY ACKNOWLEDGES THAT:

- It has received a complete copy of the above-referenced RFP for Global Multi Strategy Investment Management Services, which begins with a cover page and ends with Appendix “G”, PERA Investment Policies and Practices Rule, New Mexico PERA Investment Policy, and Investment Statutes.
- It meets all of the minimum qualifications stated above (in PART IV) as of December 31, 2015.

In order to certify, the Offeror shall complete, sign and submit this form to Wilshire LLC, (see below) no later than 5:00 p.m., Mountain Time, on **March 22, 2016**, via email. Only potential Offerors who meet the MQs and return this form by the deadline are entitled to receive copies of PERA’s written responses to Offerors’ written questions concerning this RFP.

APPENDIX A, Cont.

RFP# _____ TYPE: _____

FIRM: _____

REPRESENTED BY (CONTACT PERSON): _____

TITLE: _____

E-MAIL ADDRESS: _____

ADDRESS: _____

CITY: _____

FAX NUMBER: _____ PHONE NUMBER: _____

Specific Product Name:

This page has been signed by an authorized signatory with the authority to certify that the Offeror meets the above-stated minimum qualifications.

SIGNED BY: _____

Name (print): _____

Title: _____

Date: _____

SEND AN ELECTRONIC COPY OF THE SIGNED FORM TO:

nmpera@wilshire.com

SIGNATURE PAGE

1. ACKNOWLEDGMENT OF RECEIPT FORM

In acknowledgement of receipt of this Request for Proposals, the Offeror acknowledges that a complete copy of the RFP for Global Multi Strategy Fixed Income Investment Management Services, beginning with the title page and ending with Appendix “G”, PERA Investment Policies and Practices Rule, New Mexico PERA Investment Policy, and Investment Statutes.

2. MINIMUM QUALIFICATIONS COMPLIANCE

The Offeror hereby certifies that it meets all of the minimum qualifications detailed in Appendix “A”, Acknowledgment Form. The Offeror has answered all questions and submitted all attachments requested in Appendix “A”, Acknowledgment Form. The Offeror agrees to submit Form ADV, Parts I and II if selected as a semi-finalist.

3. WARRANTIES

The Offeror agrees to the incorporation of the warranties listed in Appendix “D”, Warranties, in any contract entered into with PERA.

4. FEE PROPOSAL AND COMPLIANCE

The Offeror has completed and provided a fee proposal that conforms to the guidelines provided in Appendix “E”, Fee Proposal Form.

5. COMPANY QUESTIONNAIRE CERTIFICATION

The Offeror certifies that their Firm and Product data in the Wilshire Compass database for the proposed product is correct, complete, and current through December 31, 2015. The Offeror has completed all questions in Company Questionnaire, Appendix C, accurately and completely.

APPENDIX B, Cont.

FIRM NAME: _____

PRODUCT NAME: _____

ADDRESS: _____

E-MAIL ADDRESS: _____

TELEPHONE #: _____

FACSIMILE #: _____

FEDERAL EMPLOYER IDENTIFICATION #: _____

NEW MEXICO TAX # (if any): _____

CONTACT PERSON FOR PROPOSAL: _____

This page has been signed by a signatory with the authority to bind the Offeror. By signing this Signature Page, through the undersigned representative who has the authority to bind the Offeror, and by submitting a proposal in response to this RFP, Offeror agrees to perform the services required by such RFP and to adhere to all requirements, specifications, terms and conditions of the RFP. Offeror further agrees to be bound by this proposal for a minimum of 180 days from the date the RFP was issued.

SIGNED BY: _____

Name (print): _____

Title: _____

Date: _____

RETURN *ELECTRONIC COPY* OF THIS FORM TOGETHER WITH THE COMPLETE PROPOSAL by that time indicated in the “Timetable for Procurement”

APPENDIX C, Company Questionnaire

**OFFEROR MUST COMPLETE A SEPARATE QUESTIONNAIRE FOR EACH
PROPOSED PRODUCT**

Instructions: Offerors must complete all questions in Appendix C.

PLEASE NOTE: NM PERA is evaluating the prior performance of the Firm, Team, and Product in that order. NM PERA recognizes that some products being proposed for the Managed Account may not have a full 5 year track record. What is qualitatively important is that the team managing the product/strategy does.

Please consider your responses in the context of NM PERA’s “Total Portfolio” view. That is, this mandate will not be considered a discrete mandate but rather part of or integral to the NM PERA total portfolio and strategic asset allocation. NM PERA’s risk and portfolio construction objectives are of equal if not more importance than the return objective of this mandate.

Please consider your responses within the following portfolio context. The Rates & Credit Portfolio, as of January 31, 2016, comprises the following strategies.

CORE Domestic Fixed Income as defined by 25 bps of tracking error vs U.S. Barclay’s AGG = \$3,267,882.

CORE Global Fixed income as defined by 65 bps of tracking error vs Global Barclay’s Global AGG= \$602,562,000.

Total Return Emerging Market Debt, both hard currency and local currency sovereigns, and local currency corporates = \$174,932,000

Global High Yield bonds (high yield bonds, not bank loans, not asset backed securities, not convertibles, etc.) = \$179,886,000

Global Bank loans (primary and secondary) = \$53,034,000

Credit Oriented Absolute Return Hedge Fund Strategies = \$157,083,000

The estimated, target size for the Global Multi-Strategy Credit mandate is up to 400 million.

PERA can accept a single product solution or proposals that amalgamate various products managed by the proposing firm such that said amalgamation constitutes a Managed Account (“The Managed Account”). The product or Managed Account should best fit or model to the liquidity profile PERA seeks as well as these return and risk objectives:

- Cumulative returns greater than 200 basis points above the Barclay’s Global High Yield Index;
- Volatility that is less than the Barclay’s Global High Yield Index;
- A Sharpe ratio that is higher than the Barclay’s Global High Yield Index;
- Better downside performance (lesser downside capture) versus the Barclay’s Global High Yield index; and
- Lesser correlation to the ACWI IMI index and the U.S. Barclay’s Aggregate Index.

IF YOUR FIRM IS SUBMITTING MULTIPLE PRODUCTS FOR INCLUSION IN THE MANAGED ACCOUNT PLEASE SUBMIT SEPARATE QUANTITATIVE DATA AND SEPARATE OR JOINT QUALITATIVE RESPONSES, WHICHEVER IS MOST APPROPRIATE.

Name of Firm	
Name of Strategy as Reported to Compass	
Primary Performance Benchmark	
Investment Style (e.g. Large Cap Growth)	
Inception Date of Product (Live Performance)	
Applicable Mutual Fund Tickers	
Consultant Relations Contact	
Address	
Telephone	
Facsimile	
E-Mail	
Web-Site	
Date of Response	

Prior to completing the questionnaire, be sure to:

1. *Submit quantitative and general data to the Wilshire Compass Database.* If you have not done so already, please go to compassportal.wilshire.com for access instructions to an online Compass Portal account. Wilshire does not charge managers to submit their information.

When completing the questionnaire, be sure to:

1. *Adhere to style formats.* The responses must be submitted in Microsoft Word or Adobe PDF compatible format single-spaced with 1” page margins. Font should be 11 point, preferably Times New Roman.
2. *Question and answer format:*

<p>1. Questions will be listed in blue boxes</p> <p>Please provide answers in the boxes directly beneath questions.</p>

3. *Non-applicable questions.* Should a question not apply to your strategy, please populate the appropriate field with “N/A.”
4. *Appendix.* In addition to parts A-G, please make sure to fill out the appendix.
5. *Attachments.* If you are submitting more than one attachment, please combine documents into a single .ZIP file.

Following completion of the questionnaire, be sure to:

1. *Save the document(s) and submit to Wilshire Associates.* Make sure to name your questionnaire response using the product name listed in our Compass database. Responses can be sent as attachments by e-mail to the Wilshire employee from whom you received the questionnaire, as well as nmpira@wilshire.com
2. *Filing.* Please maintain a copy of your response for your files. Wilshire will assume you will have these on file should we reference them.

Part A – Organization/People

A1. Background and ownership of the firm.

1. Provide the date of firm establishment and the date it began managing assets.
2. Describe the ownership structure (e.g. LLC, LP, publicly-traded, wholly-owned subsidiary). Indicate all entities that have an ownership stake in the firm (name and percentage). If you do not wish to disclose individual breakdowns, please provide broad ownership categories similar to or consistent with Form ADV, Schedule A.
3. Provide firm and investment team location
4. Provide firm AUM or RAUM, if different, and specify the as-of date. Also provide the level of peak AUM and the accompanying date.
5. Provide the number of employees. Indicate total firm employees, investment professionals by asset class, back office staff, and others.
6. Provide the breakdown of clients. Indicate number of clients, type of clients, breakdown by asset class/product, percentage of AUM from the top five clients.
7. List all product offerings at the firm.
8. If employees hold a direct ownership interest in the firm, please disclose the percentage amount held and how broad-based the ownership interest is (e.g. 25% of employees hold 80% of equity).
9. List any affiliated companies or joint ventures.
10. Provide a timeline of past changes to the ownership or organizational structure.
11. Describe any planned changes to the ownership or organizational structure.

A2. Corporate governance

1. Discuss the causes and impact of each instance of departure, hiring, and/or promotion within the executive ranks in the past five years.
2. Describe the reporting structure and controlling entities responsible for setting business strategy? How are key operating decisions (budgeting, compliance, personnel, etc.) determined?
3. If your firm is part of a corporate parent and does not exercise full operating control, please discuss to what extent your corporate parent is involved in managing your firm’s business affairs.
4. If your firm is managed autonomously from the controlling entity, please describe what aspects of your corporate governance structure enable your firm’s officers to exercise autonomous control.
5. List key executives who have responsibility for the management of the organization in the table below.

Name	Title	Location	Responsibilities	Yrs. Exp.	Year Joined Firm

A3. Investment Team

DEPARTED

Date (MM/YY)	Name/Title	Title/Responsibilities	Yrs. at Firm	Reason for leaving	Replaced by (name/title)

SUMMARY

Total # Professionals	# Joined	# Departed	% Turnover

A4. Investment Professional Compensation

<p>1. Describe your compensation system for investment professionals with respect to base salary, performance bonus, and equity or equity-like incentives or other long-term retention programs.</p>
<p>2. Describe the differences, if any, in the compensation structures between portfolio manager(s) and research analysts(s).</p>
<p>3. Do you offer direct ownership, phantom stock, profit sharing, and/or performance bonus? Who is eligible to participate?</p>
<p>4. If equity is offered to investment professionals, is it purchased or granted, and what is the typical vesting schedule?</p>
<p>5. If equity is offered to investment professionals, please describe the mechanics equity ownerships (e.g. disbursements, dividends, etc.).</p>
<p>6. If equity is offered to investment professionals, what is the source(s) of new equity?</p>
<p>7. How does your compensation structure/levels compare with other firms in the industry?</p>

A5. Fee Schedule

<p>1. List the fee schedule for institutional separate accounts and commingled funds for this product. List the weighted average fee for the Managed Account based on the percentages of different products your intend to include.</p>
<p>2. Do you have Most-Favored Nation status with your larger clients? If so, what is the fee level and asset breakpoint?</p>

3. Describe any performance fee structures you have in place.

A6. Available Vehicles

1. List which investment vehicles are available for this product.
2. If there is a “clone” mutual fund, please provide the ticker symbol(s) for each share class and indicate which share class has the longest track record.
3. Is this strategy available as a sub-advisor for a managed account?
4. Is this strategy currently listed as the sub-advisor for any mutual fund? If so, please list the ticker symbol(s) for the sub-advised mutual funds.
5. Is this strategy available to SMA clients? If so, what are the asset minimums?
6. Is this strategy available to UMA or model-only clients? If so, what are the asset minimums?

Part B – Investment Philosophy and Information Gathering

B1. Investment Philosophy

1. What market anomaly or inefficiency are you trying to capture?
2. Why do you believe this philosophy will be successful in the future? Provide any evidence or research that supports this belief.
3. How has this philosophy changed over time?
4. How do you define the product’s style? How does this differ from other managers or peers in the same asset category?

5. How do you define your investable universe? Are there any non-benchmark areas that you normally include in your investable universe or benchmark areas that you normally exclude?
6. What is the product's market capitalization focus?
7. Under what types of environments would you expect this philosophy to perform best and under what conditions would you expect performance to lag?
8. Do your philosophies for individual market segments (e.g. BB CCC, etc.) parallel each other?

B2. Research Process

1. Who in your investment team is responsible for research coverage for this product? Describe the organization of research coverage (i.e. generalists or specialists). If research coverage is specialized, please indicate the segregation of coverage within the team.
2. Please indicate whether there are dedicated analysts for this team and whether they are generalists or sector specialists. If sector specialists, please indicate names and coverage.
3. How is the research agenda set and how do you ensure that necessary research needs of this product are adequately met?
4. How do you monitor the quality of research?
5. With what frequency is research updated?
6. How is information stored and conveyed to the investment team? For example, does your firm maintain a relational database for organizing your fundamental research efforts?

7. How do you define your investable universe? If applicable, please indicate percentage of universe not included in the benchmark.
8. What percentage of the relevant investment universe does the firm actively cover (active as defined by current portfolio holding or one step removed)? What percentage is covered secondarily (as defined by maintenance of research files and periodic updates)?
9. Describe your process for gathering fundamental information on investment instruments and sectors. How much of your research process is conducted “in the field,” including meeting with company management, speaking with market participants, or performing typical channel checks (e.g. suppliers, customers, competitors, etc.)? Do you perform on-site inspections of facilities, properties, or assets?
10. How is this information incorporated into the sector, bond selection, and portfolio construction process?
11. Do you utilize any external source of information such as outside subscriptions, brokerage reports, and/or industry consultants? To what extent is external information pivotal in your investment process?
12. Does your research process incorporate top-down macroeconomic information to manage portfolio duration, yield curve position, or to select sectors/securities? If so, please describe.
13. If your strategy relies on quantitative models or screens to generate research ideas, alpha signals or to assist in portfolio construction, please answer the following questions concerning data collection.
a. What data sources do you rely on for 1) financial data; 2) company-specific information; 3) market valuation tools ; 4) market technicals ; 5) other investment data such as equity prices or underlying derivatives; 5) other (e.g. S&P rankings)?
b. Are you accessing proprietary data not available to the outside public?

c. Describe what makes your information gathering process unique relative to other strategies that rely on quantitative models.
d. What is the process to review the quality of external data?

Part C – Forecasting

C1. Process for Evaluation of Securities and Markets (Fundamental-Based Approach)

1. Describe your process for valuing securities or forecasting asset prices.
2. Describe your process for valuing or forecasting sectors, markets, countries, or regions.
3. How do you quantify the financial impacts of qualitative observations or catalysts?
4. What is your checks-and-balances process for stress-testing critical assumptions driving your valuation forecast?
5. If your valuation process relies more on relative value, how do you ensure you are not overpaying on an absolute basis? Does your valuation process differ across sector, market, country, or region?
6. What are the limitations of your forecasting process? How do you mitigate the weaknesses or uncertainties in your process?
7. If your investment thesis is tied more towards future growth prospects than current valuation, describe your process for modeling abnormal growth periods or the optionality of prospective growth. What specific disconnects do you look for between your growth forecasts and current market pricing?
8. Describe your process for incorporating external information to complement or check your valuation or forecast. This can include outside sources for valuation and technical data.

9. What time horizon do you typically use when determining the attractiveness of an individual security or asset? Why do you feel this time horizon is optimal?
10. Does the process employ any other analytical methods?
11. How do you analyze leverage? Do you customarily make accounting adjustments in your analysis? If so, what adjustments are made?

C2. Process for Evaluation of Securities and Markets (Quantitative-Based Approach)

1. Describe the role of quantitative modeling within the investment process.
2. Provide a brief description of the underlying factors used to model return expectations along with the forecasting techniques used to process the data.
3. How dynamic is the process with respect to weightings, factor choices and modeling techniques?
4. Why do you believe your approach to modeling publicly available information is superior to your competitors? How are you processing information in such a fashion that can be considered proprietary?
5. What qualitative information or subjective judgments do you incorporate into the modeling process? If applicable, please provide an example of a past qualitative input or instance where the model was overridden.
6. Does your process seek to formulate investment rationales for highly-ranked or bottom-ranked securities or assets before portfolio implementation? How do you treat information that is not easily 'captured' by the model?
7. How often are model forecasts generated?
8. Please describe the process for enhancing your quantitative model(s).

9. With what frequency is the model(s) reviewed for enhancements?
10. Please provide a timeline of past enhancements to your model(s).

Part D – Portfolio Construction

D1. Portfolio Construction Guidelines

1. What is the performance benchmark for this strategy?
2. What is the expected risk and return profile of this strategy in terms of excess returns and tracking error relative to its benchmark? If this is not explicitly targeted in your portfolio construction process, how do you define and measure success for this strategy?
3. What are the strategy’s portfolio construction guidelines?
a. What types of securities are used (e.g. cash bonds, preferred, convertible, derivatives, cash, etc.) and what percentage of the portfolio do they typically represent?
b. How many holdings are typically contained in a portfolio, issues and issuers?
c. What constraints are imposed on the portfolio regarding individual position sizes, market cap profile, or sector/market/credit quality/duration/country/region weights?
4. Discuss your process for determining individual position sizes.
5. Discuss your process for determining sector, market, credit quality, duration, country, or region weightings.
6. How much does sector positioning determine individual position sizes?

7. What specific factors (e.g. duration management, yield curve positioning, asset allocation, sector selection, security selection, country selection, currency management, maturity structure, etc.) are integral to the portfolio construction process? What is the relative importance of these factors?
8. Describe your strategy for cash or collateral management. What securities are eligible? Does the portfolio attempt to add value through cash or collateral management?
9. What is your policy regarding the purchase of out-of-benchmark positions? What percentage of the portfolio is generally comprised of these positions?
10. Please describe the extent to which the portfolio has historically employed non-core investment instruments, as well as the reason for doing so.
11. What types of derivative instruments do you use? What are they used for?

D2. Risk Management

1. What is your firm's definition of risk with respect to this product? If more than one, specify each with its percentage of importance.
2. Describe any risk measurement models used and how this analysis is incorporated in the portfolio management process. Do you explicitly constrain systematic factor risk such (e.g. credit risk, interest rate risk, liquidity risk, etc.)? If not, how do you monitor these embedded risks in your portfolio versus the benchmark?
3. Who is responsible for risk monitoring? Do you maintain an internal, dedicated risk team? If so, who does that team report to and what is the process for monitoring and effecting portfolio changes when necessary? Also, please describe the interaction between risk professionals within your firm and the investment team responsible for this strategy.
4. Do you use an optimizer for portfolio construction? If so, please discuss your optimization process.

5. How often is the portfolio rebalanced and what is the process for doing so?
6. Describe any typical portfolio biases relative to the benchmark (i.e. sector/industry bets, portfolio characteristic biases, etc.).
7. How is your firm handling the changing composition of global bond markets with respect to credit analysis?
8. Describe your process for managing and monitoring liquidity.
9. As of December 31, 2015, using monthly data, provide 1 year, 3 year, 5 year, and Since inception Upside capture ratio AND Downside capture ratio versus both the Barclays Global HY Index and S&P 500 (separately). Also provide 1 year, 3 year, 5 year Beta versus the Barclays Global HY Index and S&P 500. Please provide notes on methodology, and attach worksheet to your proposal as Attachment XI.

D3. Portfolio Management

1. What is the expected level of annual portfolio turnover of the strategy (both name and dollar terms) over a full market cycle? What has historically been the product's turnover (both name and dollar terms) annually over the past five years?
2. Are securities typically scaled in and out of the portfolio when building or selling out of a position?
3. Do you expect to add value by trading around positions based on price movements?

Part E – Implementation

E1. Trading Staff and Systems

1. How many traders are there and what is their experience? Do you have a dedicated trading team handling execution and providing market feedback for this particular strategy?
2. Is trading segmented (e.g., by investment product, style, asset class, capitalization, geography)?
3. Provide a description of your trading platform, including systems (proprietary and off-the-shelf) for execution and processing.
4. How are trades executed once a buy/sell decision has been made?
5. What processes do you have in place for ensuring pre- and post-trade guideline compliance?
6. What portfolio accounting system do you use?
7. What trading functions are automated? What process do you have in place for human verification? Who signs off on final trading?
8. Describe the allocation objectives and implementation procedures across all accounts. What is the process by which trades are allocated across separate accounts as opposed to commingled accounts? Please describe both the tactic of allocating the initial trade as well as the strategy of building positions across accounts.
9. What trading channels, networks, or methods do you use to access the liquidity you require to manage this strategy?
10. Describe how you measure trading costs. How do these costs compare with those of your peers who run a similar approach?

11. What is the dispersion in the composite? What steps have been taken to minimize the dispersion among accounts?
12. How has the execution of your investment process been impacted by growth in assets under management for this product?
13. What is the estimated capacity of the product, and how was this figure derived?

E2. Trade Order Compliance, Composite Disclosures, and Soft Dollars

1. Describe the oversight procedures that would minimize the risk of traders acting outside of their given latitude in executing trades.
2. Is your firm GIPS compliant? If so, for how many years has your firm been GIPS compliant?
3. Has your firm’s GIPS compliance been verified by a third party? If so, who was the verifier? When was the last verification?
4. If you have soft dollar relationships with broker-dealers, please disclose the following: the percentage of commissions tied to soft dollar relationship and a list of resources funded by soft dollars that would normally be funded with hard dollars.

Part F – Attribution

F1. Performance Attribution

1. What systems do you have in place for measuring performance attribution? How often is this system utilized to run performance attribution?
2. Is performance attribution analysis utilized to learn from past mistakes, either in the form of poor decision making or missed opportunities?
3. Beyond standard performance attribution, how do you track the success or failure of decisions made within each stage of the investment process?

4. Do you have a system in place, whether formal or informal, by which you evaluate past investment decisions as a way of learning from successes and mistakes?
5. How frequently are team members evaluated on individual performance and, if necessary, what steps are taken to improve their performance?

F2. Firm-wide Improvements and Initiatives

1. Provide a timeline of initiatives or improvements that have enhanced your investment process and have allowed you to remain competitive in the marketplace.
2. What initiatives or improvements do you plan to implement going forward?

Part G – Business and Operations

G1. Firm Administration

1. Does your firm conduct background checks on employees during the hiring process and periodic checks while employed? If so, explain the process and the sources used to conduct the background check.
2. If applicable, which management/administrative functions are handled externally (i.e. by a corporate parent or outsourced altogether)?
3. Describe the governance process for how investment products are managed from a business standpoint.
4. How are product-specific issues such as asset/client account capacity, client service responsibilities, and business strategy determined?

G2. Business Objectives

1. Describe your firm's business objectives and relate them with your structure, firm's staffing, product development, and sales and marketing strategy.
2. Discuss how future growth impacts your existing clients.
3. Discuss your firm's plan to ensure that future growth does not compromise the integrity of the existing investment process and products.

G3. Operations and Compliance

1. Briefly describe your firm's back office divisions covering general compliance, information technology, client service/portfolio accounting, and marketing. Where do these divisions overlap across business units (investment products, retail vs. institutional, functional units) and where are there dedicated support functions for each of these units?
2. Describe the participation of legal/compliance staff on firm oversight, management or similar committees.
3. Describe the use of technology in the compliance process and any planned technological upgrades.
4. What are your internal audit review procedures and the scope of this process?
5. What is the reporting channel between back office and senior management? What is the reporting structure for firm-wide compliance?
6. Do you have a compliance manual for your employees? How often are employees trained on firm-wide compliance? Do employees certify that they will follow the compliance manual? Are employees permitted to accept gifts from counter parties that the firm conducts business with? Please describe any gift policy your firm has in place.
7. Do you have a code of ethics for employees? Do employees have to receive approval/clearance for personal transactions from your compliance department? Do

you have a disaster and recovery plan in place? Describe your emergency and disaster recovery plans.
8. Do you have a process in place for valuing illiquid investment instruments?

G4. Regulatory, Litigation, Legal, and Disclosures

1. Please disclose any business related legal actions against your firm or any employee for the past ten years. In this section please also disclose any pending litigation that applies to the firm or any employee.
2. By which organizations is your firm regulated (e.g. SEC, FSA, FINRA, etc.)?
3. When was the last time your firm underwent an audit by a regulatory body? Which regulator performed the audit and on what dates did the audit occur? What were the findings from the audit and how have you addressed them?
4. Are you affiliated with a broker/dealer, investment bank, insurance company, or other lines of business that are not asset management related, but could present conflicts? If yes, briefly describe.
5. List the insurance carrier and amount of coverage for Errors & Omission, Directors & Officers insurance, Fiduciary Liability insurance, and any other professional insurance.
6. Does your firm offer prime brokerage services internally or through an affiliate?
7. Are you deemed to have custody of client assets? If so, please describe the nature of the relationship.
8. Does your firm undergo an annual financial audit? If so, who is the auditor? How often are your financial statements audited by a third party? When was the last audit? Has your firm changed auditors over the last three years?

9. Disclose any unqualified opinions of any financial audits conducted on your firm.

Attachments

I. Organizational Chart – Ownership & Affiliates

Provide an organizational chart that diagrams the ownership and interrelationships between the parent-subsiary, affiliate, or joint venture entities, if any.

II. Organizational Chart – Business Lines & Key Executives

Provide an organizational chart that diagrams the different business lines, organizational/reporting functions (portfolio management, research, product development, operations, trading, etc.). Include reference to products. Executives should be identified over their areas of responsibility.

III. Key Executives

Please provide biographies, no longer than ½ page, on each of the persons listed in section A as a key executive.

IV. Investment Professionals Involved with the Product Profiled in this Questionnaire

Please provide biographies, no longer than ½ page, on each of the persons listed in section A as portfolio management, research, or trading personnel.

V. Organizational Chart – Back Office Divisions

Provide an organizational chart of your firm’s back office division, including general compliance, information technology, client service/portfolio accounting, and marketing.

VI. Investment Process Flow Chart

Illustrate the investment process in a flow chart identifying the decision making steps, decision makers and outcomes.

VII. Trading Process Flow Chart

Provide an organizational chart of your trading functions. Provide a process flow diagram between the portfolio management group entering a trade order to final implementation in client portfolios.

VIII. Asset Under Management

Please provide the product's AUM by calendar year for the past five years. Please also provide AUM through the most recent quarter. Additionally, please provide the amount of asset inflows and outflows separately for this product.

IX. Wilshire Client Accounts

Does the product currently have assets with any Wilshire Clients? If so, please indicate the client "type" (i.e. Public Pension, Foundation, Corporate Pension ...etc.), account size and inception date.

X. Attachments (attachments should be submitted as one PDF file)

- Please attach a GIPS-compliant presentation for this product in the Appendix.
- Please attach a GIPS verification report if available.

XI. Upside / Downside and Beta data, calculation, and methodology notes

Please attach as excel spreadsheet labeled "Upside /Downside and Beta Worksheet."

WARRANTIES

INVESTMENT MANAGEMENT SERVICES

Offeror agrees to the incorporation of the following warranties in any contract entered into with PERA:

- A. Offeror warrants that it is registered as an investment advisor under the Investment Advisors Act of 1940 and that it shall maintain such registration at all times during the term of the contract (unless exempt and explanation of exemption is attached).
- B. Offeror warrants that it meets or will meet before the award of a contract the bonding requirement provided by Section 412 of the Employment Retirement Income Security Act of 1974 (ERISA) or that it carries at least an equivalent fidelity bond applicable to Contractor's actions under the Contract (unless exempt, and explanation of exemption is attached).
- C. Offeror warrants that it will not delegate its fiduciary responsibilities assumed pursuant to the Contract.
- D. Offeror warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations, required by a government or governmental authority, including the State of New Mexico, for acts contemplated by the Contract.

FIRM NAME:

A. PROPOSED FEES

Please work up an all-inclusive fee for the Managed Account based on applicable/offered fees for each product you are proposing for inclusion in the Managed Account.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
OF NEW MEXICO
PROFESSIONAL SERVICES AGREEMENT**

(SAMPLE)

This Professional Services Agreement (hereinafter referred to as the “Agreement”) is made and entered into by and between the Public Employees Retirement Association of New Mexico (hereinafter referred to as “PERA”) and _____, (hereinafter referred to as "Contractor").

The Parties hereby agree as follows:

1. SCOPE OF WORK

A. Investment Management Services

The Contractor shall provide PERA with investment management services for an International (Non-U.S.) Emerging Market Debt portfolio, as further described in this Agreement. Contractor shall provide such investment management services with respect to the securities and other assets held in the Contractor’s Assigned Account (“Account”) and all other assets that may be added thereto from time to time. Contractor shall maintain a separate account for the Emerging Market Debt assets. The services shall be provided in accordance with the terms and conditions of this Agreement, the rules, objectives, and guidelines established by PERA, PERA’s Investment Policy, the statutory and other legal limitations imposed on PERA, and specific directives or instructions issued by PERA to the Contractor, including, but not limited to, the Investment and Operational Guidelines, attached hereto as Exhibit A (“Exhibit A”), and the PERA Proxy Voting Policy, attached hereto as Exhibit B. Under no circumstances is the Contractor permitted to have custody of PERA assets under this Agreement.

1. The Contractor’s Account shall include those specific assets initially allocated by PERA, at PERA’s sole discretion, when the Contractor commences services under this Agreement, assets that accrue from the activity of those assets initially allocated, and from the acquisition, addition or transfer of other assets. PERA may, at any time, and upon notification to the Contractor, transfer or remove any and all assets from the Account or augment the Account with additional assets. Following such transfer or removal, Contractor shall have no authority to act with respect to assets transferred or removed. The Contractor shall have no investment or other responsibility or authority with respect to those assets that are owned by PERA and are not part of the Account. PERA will provide the Contractor with at least five business days' prior written notice of any additions to or withdrawals or transfers from the Account and shall instruct PERA’s custodial bank J.P. Morgan Chase (“Custodial Bank”) to provide the Contractor with notification of any such additions or withdrawals promptly after such additions or withdrawals are made. Any additions to the Account are subject to acceptance by the Adviser in its discretion within such prior notice period.

2. PERA warrants that it has full authority to authorize the Contractor, and PERA hereby authorizes the Contractor on behalf of PERA to issue instructions to brokers, dealers and other financial intermediaries to purchase or sell securities and other financial instruments (collectively, “securities”),

which purchases or sales shall conform to federal and New Mexico law, including, but not limited to, NMSA 1978, Section 10-11-132, as it may be amended from time to time, the PERA Investment Policy in effect at the time of the purchase or sale, PERA rules in effect at the time of the purchase or sale, including, but not limited to, the PERA Rule on best execution of trades, Rule 2.80.300 NMAC, and any objectives, guidelines, directives or instructions issued by PERA to the Contractor and in effect at the time of the purchase or sale, including, but not limited to, the Investment and Operational Guidelines, Exhibit A, and the PERA Proxy Voting Policy, Exhibit B. Securities purchased shall be held in the name of PERA in the Contractor's Account by the Custodial Bank. The Contractor acknowledges its responsibility to purchase and sell securities in accordance with this Agreement and in accordance with fiduciary obligations owed to PERA.

3. The Contractor shall have full discretion to make sales and purchases of securities under this Agreement, provided that such sales and purchases conform to federal and New Mexico law, including, but not limited to, NMSA 1978, Section 10-11-132, as it may be amended from time to time, the PERA Investment Policy in effect at the time of the purchase or sale, PERA rules in effect at the time of the purchase or sale, and any objectives, guidelines, directives or instructions issued by PERA to the Contractor and in effect at the time of the purchase or sale, including, but not limited to, the Investment and Operational Guidelines, Exhibit A, and the PERA Proxy Voting Policy, Exhibit B.

4. PERA may request that any transaction made by the Contractor in which the market value of the securities sold produces a loss must be accompanied by a statement reciting the loss, the amount of the loss, detailed reasons for the sale, and such other information as PERA requests, including data the Contractor has to support its decisions. Gains and losses shall be computed based on PERA's current average cost of the individual security against the net principal proceeds of the security sold. For the purposes of this Agreement, "market value" shall be determined through PERA's Custodial Bank or in accordance with an exchange or pricing service designated by PERA. In the event an asset is listed on multiple exchanges or pricing services at differing closing prices, PERA, in its sole discretion, shall determine which exchange price shall be used.

5. With regard to the services provided under this Agreement, the Contractor holds itself out as an expert in the making and handling of investments for large trust funds. The Contractor represents itself as being possessed of greater knowledge and skill than the average person in the making and handling of investments for large trust funds. Accordingly, the Contractor acknowledges and agrees that it is under a duty to perform its services under this Agreement to the standard of care, diligence and skill a reasonably prudent person familiar with such matters would exercise under the circumstances. The Contractor further acknowledges that, in performing its duties under this Agreement, it is a fiduciary to PERA and shall at all times act in a fiduciary capacity to PERA and the Account. Contractor shall be liable to PERA for damages arising out of Contractor's purchase or sale of PERA securities or other investment decisions, including, but not limited to, proxy voting, that are not made according to the provisions contained in this Agreement or according to the standard of care set forth in this Paragraph 1(A)(5).

6. PERA shall furnish monthly asset statements to the Contractor depicting the current average cost, the number of units being held and the description of each asset being held in the Contractor's Account. Contractor shall reconcile the asset statement and provide PERA with a list of discrepancies within 10 working days from the date of receipt of such listing.

7. The Contractor shall provide to PERA in writing monthly, quarterly, and annual market values of the assets under Contractor's management, including statements setting forth both the percentage appreciation or depreciation of assets during the pertinent reporting period. The Contractor shall also provide such other oral or written reports as are requested by PERA.

8. At such times as directed by PERA, Contractor shall, at Contractor's sole expense, have a representative attend periodic meetings of the PERA Board or the PERA Investment Committee at the offices of PERA or such other location designated by PERA. The Contractor shall report to PERA on all matters that represent significant changes in economic forecasts, investment outlook, industry emphasis, and any other matters of a general or specific nature as reasonably requested by PERA

9. PERA shall furnish the Contractor such evidence of authority of the persons authorized to act on behalf of PERA, together with their specimen signatures, as Contractor may reasonably request.

10. The Contractor shall provide to PERA at the inception of this Agreement, a copy of the Contractor's proxy voting guidelines. The Contractor shall vote all proxies on behalf of PERA and shall keep accurate records of its votes. The Contractor shall report in writing all proxy actions and reasons for such actions that differ from Contractor's proxy voting guidelines. The Contractor shall follow at all times the findings and recommendations adopted by the PERA Board in the PERA Proxy Voting Policy; Exhibit B. The PERA Board shall promptly provide any amendments to the PERA Proxy Voting Policy to the Contractor for its review and Contractor shall promptly notify PERA as to whether the Contractor can implement or comply with such amendments.

11. The Contractor warrants that it has a positive net worth at the effective date of this Agreement and agrees that it shall maintain a positive net worth throughout the term of this Agreement or any extension thereof. Furthermore, the Contractor shall notify PERA immediately, in writing, of any material, adverse change in Contractor's net worth.

12. Contractor agrees to provide PERA representatives with access, at reasonable times and intervals, to Contractor's operational headquarters or such other offices where Contractor services PERA's Account for the purpose of making site visits and inspections.

13. Contractor agrees that it will notify PERA of any changes in the current ownership of the Contractor such that Contractor becomes a fifty percent or more subsidiary of another firm or person within a reasonable time after such change.

14. PERA hereby acknowledges its receipt of a copy of Part II of the Contractor's Form ADV at least 48 hours prior to its entering into this Agreement.

2. COMPENSATION

A. Management Fee and Conditions of Payment

For the investment management services rendered by the Contractor to PERA under this Agreement, PERA shall pay the Contractor a quarterly fee computed in accordance with the Management Fee Agreement attached hereto as Exhibit C ("Exhibit C"). No fee shall be payable or calculated for any calendar quarter or other period, if appropriate, until the Contractor has rendered the services for such calendar quarter or other period. The Contractor's fee shall be calculated and payable quarterly in arrears. All requests for payment that the Contractor submits to PERA shall include a description of the assets in the Contractor's Account for the applicable period and the average of the "market value of account" for the applicable valuation dates in the manner described by Exhibit C for the calculation of fees. The "market value of account" is defined as the sum of any cash balances and receivables (cash or the value, as PERA determines, of securities) due as of the valuation date from brokers or dealers, and the value, as determined by PERA, of all securities in the "Account", but shall not include monies intended for investment pursuant to the Agreement but not yet received by the Contractor. All securities shall be valued by PERA in its sole

discretion. In the event of a discrepancy between PERA and the Contractor as to “market value of account”, the “market value of account” as determined by PERA shall prevail. The Contractor shall provide to PERA a preliminary reconciliation of market values of securities. The Contractor shall not submit a request to PERA for payment until PERA has reviewed and accepted the Contractor’s preliminary reconciliation for the purpose of calculating the average of the “market value of account” for the applicable valuation dates and the performance fee, if any, has been calculated by PERA or its outside investment measurement service. The average of the “market value of account” accepted by PERA for the applicable period shall be included in any request for payment. Payments shall be made no later than three months after the end of the period for which management services have been rendered or three months after PERA’s receipt of the bill containing the average of the “market value of account” accepted by PERA for the applicable period, whichever is later.

To the extent that investment in open-end investment companies is permitted under PERA’s Investment Policy and the guidelines attached as Exhibit A, to the extent that all or any portion of the assets of the Account are invested in one or more open-end investment companies for which the Contractor or its affiliate acts as investment adviser and for which certain affiliates of the Contractor act as shareholder servicing agent and as distributor, the management fee set forth in Appendix C hereto shall be waived in its entirety or prorated.

The Contractor hereby waives any late payment charges on billings, or interest on billings, that may be assessable.

B. Payment of Taxes

Contractor shall pay all state and federal taxes assessed on the compensation received under this Agreement and shall identify and pay those taxes under the Contractor’s federal and state identification number(s).

C. Allocation of Charges and Expenses.

The Contractor shall furnish at its own expense investment advisory and administrative services, office space, equipment and clerical personnel necessary for serving as Contractor to the Account, and investment advisory facilities and executive and supervisory personnel for managing the investments and effecting the portfolio transactions of PERA. PERA will pay all of its own expenses, including without limitation: governmental fees; interest charges; taxes; fees and expenses of PERA’s independent auditors and legal counsel; brokerage and other expenses connected with the execution, recording and settlement of portfolio security transactions; insurance premiums; and fees and expenses of the Custodial Bank for all services to PERA, including safekeeping of funds and securities and maintaining required books and accounts.

3. TERM

The initial term of the Agreement shall be for a period of eight (8) years commencing upon the signature of the parties. Furthermore, at any time during the initial term of this Agreement or any extension of the term of the Agreement, this Agreement is subject to early termination or termination for lack of appropriations in accordance with Paragraph 4(A) or Paragraph 4(B) of the Agreement.

4. TERMINATION

A. Early Termination

Notwithstanding any other provision of this Agreement, this Agreement may be terminated by

either party by delivering to the other party notice of the intent to terminate at least thirty (30) days prior to the intended date of termination. In the event the termination date does not coincide with the last day of a quarter, the Contractor shall be entitled to a prorated portion of the fee for the quarter during which termination occurs. By such termination, neither PERA nor the Contractor may nullify obligations, if any, already incurred for performance or failure to perform prior to the date of termination. Termination under this Paragraph 4(A) may be made with or without cause. **THIS PROVISION IS NOT EXCLUSIVE AND DOES NOT CONSTITUTE A WAIVER OF ANY OTHER LEGAL RIGHTS AND REMEDIES AFFORDED EITHER PARTY IN SUCH CIRCUMSTANCES AS THE OTHER PARTY'S DEFAULT OR BREACH OF CONTRACT.**

B. Termination for Lack of Appropriations

The terms of this Agreement are contingent upon sufficient authorizations and appropriations being or having been made by the New Mexico Legislature for the performance of this Agreement. If sufficient authorizations and appropriations are not or have not been made by the New Mexico Legislature, or are discontinued by the New Mexico Legislature, this Agreement shall terminate upon written notice being given by PERA to the Contractor. PERA's decision as to whether sufficient authorizations or appropriations are or have been made, or are or have been discontinued, shall be accepted by the Contractor and shall be final.

5. PRODUCT OF SERVICES; COPYRIGHT

All materials developed or acquired by the Contractor under this Agreement shall become the property of the State of New Mexico and shall be delivered to PERA no later than the termination date of this Agreement. Nothing produced, in whole or in part, by the Contractor under this Agreement shall be the subject of an application for copyright by or on behalf of the Contractor.

6. INDEMNIFICATION

In addition to the Contractor's liability as provided for in Paragraph 1(A)(5) of this Agreement, the Contractor shall indemnify, defend, and hold harmless PERA, the PERA Board, and their officers and employees from and against any and all claims, demands, liability, suits, causes of action, losses, damages, fines, fees, attorneys fees, penalties, costs, expenses, injuries to property, judgments (including defense costs and attorneys fees) that occur or arise out of or in connection with: (1) the Contractor's material failure to perform under any provision of this Agreement; (2) the Contractor's material breach of any term, condition, warranty or representation contained in this Agreement; (3) the Contractor's provision of services that are not in accordance with any applicable law, rule, regulation, or provision of this Agreement; (4) Contractor's failure to perform in accordance with the standard of care contained in Paragraph 1(A)(5) of this Agreement; or (5) any error, omission, fraud, embezzlement, theft or gross negligence of the Contractor. It is understood, however, that the Contractor's obligations under this Paragraph do not extend to liabilities resulting from causes beyond the control and without the fault or negligence of the Contractor, including acts of God, war or civil commotion, fire, earthquake, or other natural disaster, and unforeseeable acts of any federal, state, or local government or agency thereof.

7. ASSIGNMENT

The Contractor shall not assign nor transfer any interest in this Agreement or assign any claims for money due or to become due under this Agreement without prior, written approval from PERA. No such assignment or transfer shall relieve the Contractor from its obligations and liabilities under this Agreement.

8. SUBCONTRACTING:

The Contractor shall not subcontract any portion of the services to be performed under this Agreement without prior, written approval of PERA. No such subcontracting shall relieve the Contractor from its obligations and liabilities under this Agreement.

9. STATUS OF CONTRACTOR

Notwithstanding any other provisions of this Agreement, the Contractor, and its agents and employees, are independent contractors performing professional services for PERA and are not employees of PERA or the State of New Mexico. The Contractor, including its agents and employees, shall not, by virtue of this Agreement, accrue leave, retirement, insurance, bonding, use of state vehicles, or any other benefits afforded to employees of the State of New Mexico. The Contractor acknowledges that all sums received under the terms of the Agreement are reportable by it for income tax purposes as self-employment or business income.

10. RECORDS AND AUDITS

The Contractor shall maintain such detailed records as may be necessary to demonstrate its performance of the duties required by this Agreement, including the date, time and nature of services rendered. These records shall be maintained for a period of three years from the date of the final payment under this Agreement and shall be subject to inspection by PERA, the New Mexico Department of Finance and Administration, and the New Mexico State Auditor. PERA, the New Mexico Department of Finance and Administration, and the New Mexico State Auditor shall have the right to audit any billings or examine any records maintained pursuant to this Agreement both before and after payment. Payment under this Agreement shall not foreclose the right of PERA to recover excessive and/or illegal payments.

11. CONFIDENTIALITY

Any information provided to or developed by the Contractor in the performance of this Agreement shall be kept confidential and shall not be made available to any individual or organization by the Contractor without the prior written approval of PERA except as may otherwise be required by law.

12. RELEASE

The Contractor's acceptance of final payment of the amount due under this Agreement shall operate as a release of PERA, its officers and employees, and the State of New Mexico from all liabilities, claims and obligations whatsoever arising from or under this Agreement. The Contractor agrees not to purport to bind the State of New Mexico to any obligation not assumed within the terms of this Agreement by the State of New Mexico, unless the Contractor has express written authority to do so, and then only within the strict limits of that authority.

13. CONFLICT OF INTEREST

The Contractor warrants that it presently has no interest and shall not acquire any interest, direct or indirect, that would conflict in any manner or degree with the performance of services required under this Agreement. With respect to either Account, the Contractor shall not engage in transactions with either itself, including any affiliates or parent companies of the Contractor, or other firms that provide investment management services to PERA except upon prior written approval of PERA. The Contractor certifies that the requirements of the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 to 10-16-18, regarding contracting with a public officer or state employee, have been followed, if applicable.

14. MERGER; SCOPE OF AGREEMENT:

This Agreement incorporates all the agreements, covenants and understandings between the parties concerning the subject matter hereof, and all such agreements, covenants and understandings have been merged into this Agreement. No prior agreement or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in this Agreement.

This Agreement incorporates by reference the following Exhibits, which are attached to this Agreement:

1. Exhibit A: The Investment and Operational Guidelines that govern the Contractor's services under this Agreement;
2. Exhibit B: The current PERA Proxy Voting Policy;
3. Exhibit C: The Management Fee Agreement that governs the Contractor's services under this Agreement;
4. Exhibit D: The current PERA Investment Policy; and
5. Exhibit E: The Contractor's Warranties to PERA.

Contractor also acknowledges receipt of the current PERA Rule 2.80.300 NMAC. Contractor shall abide by the terms of the PERA Investment Policy as they may be amended by the PERA Board from time to time. In the event that the PERA Board amends the PERA Investment Policy or the PERA Rule 2.80.300 NMAC, PERA shall provide the Contractor with any such amendments, and the Contractor shall be bound to follow such amendments to the PERA Investment Policy, or the PERA Rule 2.80.300 NMAC, without the need to amend this Agreement. PERA also shall provide Contractor with any amendment to NMSA 1978, Sections 10-11-132 and 10-11-133 and the Uniform Prudent Investor Act, as adopted by New Mexico.

Contractor understands that the PERA Investment Policy, Exhibit D, is a general Policy governing all of PERA's investments while this Agreement and the Investment and Operational Guidelines for this Agreement, Exhibit A, are specific to the particular investment management services that the Contractor provides for PERA. In the event of a conflict between the terms of the Investment and Operational Guidelines and the terms of the Investment Policy, the terms of the Investment and Operational Guidelines shall apply. Appendix A to the PERA Investment Policy, Exhibit D, sets forth the provisions of NMSA 1978, Section 10-11-132, which governs all of PERA's investments. In the event of a conflict between the types of investments permitted by the PERA Investment Policy, Exhibit D, and the types of investments permitted by the Investment and Operational Guidelines, Exhibit A; the terms and restrictions of the Investment and Operational Guidelines, Exhibit A, shall apply in determining the types of the Contractor's authorized investments; provided, however, that in making the types of investments authorized by Exhibit A, the Contractor shall at no time make any investment prohibited by NMSA 1978, Section 10-11-132, as amended, or by the provisions of Exhibit D; for greater clarity, as of the date of this Agreement, there are no prohibitions on investments in NMSA 1978, Section 10-11-132, or in Exhibit D that are not also included in Exhibit A.

15. WAIVER

No waiver of any of the terms or conditions hereof or any breach of this Agreement shall be held to be a waiver of any other or any subsequent breach; nor shall any waiver of any of the terms of this Agreement be valid, alleged, or binding unless the same shall be in writing and signed by the party alleged to have granted the waiver.

16. EQUAL OPPORTUNITY COMPLIANCE

The Contractor agrees to abide by all applicable federal and state laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, pertaining to equal employment opportunity. In accordance with all such laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, the Contractor agrees to assure that no person in the United States shall, on the grounds of race, color, national origin, sex, sexual preference, age or handicap, be excluded from employment with or participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity performed under this Agreement. If Contractor is found not to be in compliance with these requirements during the life of this Agreement, Contractor agrees to take appropriate steps to correct these deficiencies.

17. AMENDMENTS

This Agreement shall not be altered, changed, or amended except by an instrument in writing executed by the parties hereto.

18. GRATUITIES AND CAMPAIGN CONTRIBUTIONS

The Contractor and its officers and employees are prohibited from soliciting or receiving campaign contributions, for or on behalf of any PERA Board member, candidate for PERA Board member, or any political candidate in the State of New Mexico, from any investment company or brokerage firm, including its officers and employees, which has engaged in any financial transaction with PERA within the preceding twelve (12) months prior to the solicitation or receipt of the contribution or which reasonably expects within the next twelve (12) months to engage in financial transactions with the PERA. In addition, the Contractor shall comply with the prohibitions and restrictions upon making campaign contributions to PERA Board members and candidates for the position of PERA Board member, and giving gratuities to PERA Board members and PERA employees, contained in NMSA 1978, Section 10-11-130.1. Violation of this Paragraph constitutes a breach by the Contractor of its Agreement with PERA.

19. APPLICABLE LAW

This Agreement shall be governed by the laws of the State of New Mexico. Notwithstanding any other provision of this Agreement, in the event of a lawsuit involving this Agreement, venue shall be proper only in a New Mexico court of competent jurisdiction. By execution of this Agreement, Contractor acknowledges and agrees to the jurisdiction of the courts of the State of New Mexico over such lawsuits.

20. NOTICE OF PENALTIES

New Mexico criminal statutes impose felony penalties for bribes, gratuities and kick-backs.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the last signature below.

**PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION OF NEW MEXICO**

By: _____

Date: _____

Executive Director

CONTRACTOR NAME

By: _____ Date: _____

Title _____

APPROVED AS TO FORM AND LEGAL SUFFICIENCY

By: _____ Date: _____

SUSAN G. PITTARD
Special Assistant Attorney General

Services performed by Contractor are performed out-of-state and therefore, Contractor is not required to be registered with the Taxation & Revenue Department of the State of New Mexico to pay gross receipt and compensating taxes.

STATE OF NEW MEXICO
TAXATION & REVENUE DEPARTMENT

By: _____ Date: _____

APPENDIX G, Investment Policies

Rule 300: Investment Policies and Practices

TITLE 2 PUBLIC FINANCE
CHAPTER 80 PUBLIC EMPLOYEES RETIREMENT
PART 300 INVESTMENT POLICIES AND PRACTICES

2.80.300.1 ISSUING AGENCY: Public Employees Retirement Association, P. O. Box 2123, Santa Fe, New Mexico 87504-2123
[10-15-97; 2.80.300.1 NMAC – Rn, 2 NMAC 80.300.1, 12-28-00]

2.80.300.2 SCOPE: This rule applies to the Public Employees Retirement Board and its investment managers and brokerage firms.
[10-15-97; 2.80.300.2 NMAC – Rn, 2 NMAC 80.300.2, 12-28-00]

2.80.300.3 STATUTORY AUTHORITY: This rule is authorized by NMSA 1978, Sections 10-1-130, 10-11-132 and 10-11-133, as amended.
[10-15-97; 2.80.300.3 NMAC – Rn, 2 NMAC 80.300.3, 12-28-00]

2.80.300.4 DURATION: Permanent.
[10-15-97; 2.80.300.4 NMAC – Rn, 2 NMAC 80.300.4, 12-28-00]

2.80.300.5 EFFECTIVE DATE: May 4, 1994 unless a different date is cited at the end of a Section.
[10-15-97; 2.80.300.5 NMAC – Rn, 2 NMAC 80.300.5, 12-28-00]

2.80.300.6 OBJECTIVE: The objective of this rule is to set the Public Employees Retirement Board's investment policy for investments of funds under NMSA 1978, Sections 10-11-132 and 10-11-133, as amended.
[10-15-97; 2.80.300.6 NMAC – A, 2 NMAC 80.300.6, 12-28-00; A, 8-15-01]

2.80.300.7 DEFINITIONS: [Reserved]
[2.80.300.7 NMAC – A, 2 NMAC 80.300.7, 12-28-00]

2.80.300.8-9 [Reserved]

2.80.300.10 INVESTMENT COMMITTEE: [Reserved]
[2.80.300.10 NMAC – A, 2 NMAC 80.300.10, 12-28-00]

2.80.300.11-19 [Reserved]

2.80.300.20 MANAGEMENT AND PHILOSOPHY: [Reserved]
[2.80.300.20 NMAC – A, 2 NMAC 80.300.20, 12-28-00]

2.80.300.21-29 [Reserved]

2.80.300.30 BEST EXECUTION AND BEST PRICE

A. Statement of Policy: The New Mexico Public Employees Retirement Board adopts the following statement as its policy with respect to securities transactions of the PERA investment funds.

- (1) The Board serves as trustee of the retirement funds created under the Public Employees

Retirement Act, NMSA 1978, Section 10-11-1 et seq.; the Judicial Retirement Act, NMSA 1978, Section 10-12B-1 et seq.; the Magistrate Retirement Act, NMSA 1978, Section 10-12C-1 et seq.; and the Volunteer Firefighters Retirement Act, NMSA 1978, Section 10-11A-1 et seq.

(2) As trustee of these funds, the Board has a fiduciary responsibility to invest these funds solely in the interest of participants and beneficiaries and exclusively to provide benefits to these participants and beneficiaries and to pay reasonable administrative costs. The Board also has a fiduciary obligation to give primacy to the preservation of trust funds and to insure the procurement of a reasonable income while avoiding undue investment risks.

(3) The Board has delegated the investment of the funds under its jurisdiction to external investment managers except for a small number of accounts that are invested directly by the PERA Investment Division.

(4) By contractual agreement, the Board has delegated to its investment managers full discretion with regard to securities transactions so long as they conform to New Mexico State statutes, the PERA Investment Policy and the specific PERA investment objectives and guidelines for each particular investment portfolio.

(5) Both by contract and by virtue of common law trust principles, the investment managers serve as fiduciaries to PERA and must at all times act in a fiduciary capacity to PERA and the investment accounts assigned to them.

(6) As fiduciaries of the funds, both the Board and its investment managers are obligated to require that all securities transactions be made on the basis of best execution under the circumstances at the lowest available price.

(7) The Board's policy is that all securities transactions shall be executed on the basis of best execution under the circumstances at the lowest available price and that all investment decisions shall be made solely for the benefit of fund participants and their beneficiaries.

B. [Reserved]

[10-15-97; 2.80.300.30 NMAC – A, 2 NMAC 80.300.30, 12-28-00; A, 8-15-01]

HISTORY of 2.80.300 NMAC:

Pre-NMAC History: The material in this Part was derived from the previously filed with the State Records Center & Archives under: Rule 300.00, Investment Policies and Practices, filed on 10-4-79; PERA Rule 300.00, Investment Policies and Practices, filed on 11-19-81; PERA Rule 300, Investment Policies and Practices, filed on 7-1-91; PERA Rule 300, Investment Policies and Practices, filed on 5-4-94.

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



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

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.

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.

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.

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.

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:

Asset Class	Strategic Asset Allocation Target
Domestic Equity ¹	21.1%
International Equity ¹	24.8%
Core and Global Fixed Income ¹	26.1%
Fixed Income Plus ¹	5.0%
Private Equity ²	7.0%
Absolute Return ²	4.0%
Real Estate ²	5.0%
Real Assets ²	7.0%

¹ These allocations may be referred to as Traditional Assets

² 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

Asset Class	Lower Limit	Strategic Asset Allocation Target	Upper Limit
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.

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:

Asset Class	Policy Index	Strategic Asset Allocation Target
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 Multiverse Index	26.1%
Fixed Income Plus	25% Barclays Global Multi Strategy Index 25% Citigroup Global Markets Bankrupt/Defaulted Debt Index 25% Barclays Global Multi Strategy + 2% 12.5% J.P. Morgan GBI Emerging Market Diversified Index (LC) 12.5% J.P. Morgan GBI Emerging Market 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.

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.

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.¹

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:

- 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

¹ 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.

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 Multi Strategy 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 Multi Strategy 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:

- Portable alpha strategies such as equity portable alpha, fixed income arbitrage, and convertible bond arbitrage.
- Credit strategies that typically invest in Multi Strategy 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*.

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.

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.

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.

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

A handwritten signature in blue ink, appearing to read 'Patricia French', is enclosed in a rectangular box. The signature is fluid and cursive.

Patricia French ,Chairperson
Public Employees Retirement Association of New Mexico

**Public Employees Retirement Association
Procurement Policy for Investment-Related Services**

1. Scope

Pursuant to NMSA 1978, Section 13-1-98(Y) (2005) the Public Employees Retirement Association (“PERA”) is exempt from the Procurement Code (NMSA 1978, Sections 13-1-1 et seq.) for all contracts for investment advisory services, investment management services or other investment-related services. This Procurement Policy for Investment-Related Services (“Policy”) sets out the procedures and guidelines by which PERA shall procure investment-related services.

2. Purposes

The purposes of this Policy are: 1) to provide an open and fair competitive process to acquire competent and qualified investment-related services; 2) to allow PERA to respond to unacceptable performance and market changes in a flexible, efficient and timely manner; and 3) to comply with all relevant laws, statutes and ethical codes of conduct.

3. Statutory and Rule References

PERA operates under the authority of the Public Employees Retirement Act, NMSA 1978, Sections 10-11-1 to 10-11-141, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, 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 amended.

Members of the Public Employees Retirement Board and PERA staff members are subject to the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 et seq.

PERA’s Board Policies and Procedures apply to the procurement of investment-related services.

4. Application

This Policy applies to the procurement of investment-related services and investment-related legal services for alternative investments entered into by the PERA Board, as delegated to the Investment Division and Office of General Counsel of PERA, including investment adviser, investment manager, and investment-related services. This Policy shall not apply to the procurement of tangible goods and services purchased through State of New Mexico statewide purchasing agreements or otherwise required for the administration of the Investment Division.

5. Definitions

a. “alternative investments” are defined as a category of assets, often less liquid than traditional stocks and bonds, but designed to provide higher risk-adjusted returns and/or enhanced diversification when compared to traditional asset classes. Alternative investments include, but are not limited to, private equity, absolute return, real assets and real estate.

b. “corrupt practice” is defined as offering, giving, soliciting or receiving anything of value to influence the action of a public official or employee, or threatening injury or harm to any person or their

property, position or reputation in connection with any procurement in order to obtain or retain business or any other advantage in the conduct of business.

c. “gatekeeper” is defined as a person, individual, or entity serving in a discretionary and fiduciary capacity with respect to alternative investments including but not limited to searching, sourcing, screening, performing due diligence and making investment recommendations to the Public Employees Retirement Board.

d. “incumbent provider” means a current contractor providing investment-related services under a professional services agreement with the PERA Board through the PERA Investment Division.

e. “Investments Director” means the Director of the Public Employees Retirement Association Investments Division or his or her designee, or, in the event of a vacancy, the individual designated as Acting Director.

f. “emergency” means unexpected circumstance(s) that require a rapid decision to prevent a significant financial loss to the PERA Fund where the normal processes required in this Policy would not prevent or avoid such loss. Poor performance by a contractor is not to be considered an “emergency.” By way of example, “emergency” can include, although it is not limited to, the departure of a portfolio manager or other key personnel from a contractor firm without notice, SEC investigation or action against a contractor firm or individuals within the firm, or a contractor firm’s unexpected loss of its organizational capabilities.

g. “fraudulent practice” means misrepresenting any fact in order to influence any procurement.

h. “offeror” means any person or persons responding to a Request for Proposals.

i. “PERA” means the Public Employees Retirement Association.

j. “procurement manager” means the Investments Director or his or her designee.

k. “runner(s)-up” means one or more RFP offeror not initially selected for award but qualified for award by meeting or complying with all mandatory criteria and formally designated as runner(s)-up by the evaluation committee based on points awarded.

l. “small purchase” means the procurement of investment-related services for flat-fee compensation that does not exceed fifty-thousand dollars (\$50,000.00). For purposes of this Policy, “small purchase” procurement includes professional services or investment-related services or tangible property but does not include performance-fee compensation contracts for investment management services.

6. Request for Proposals Process Required; Exceptions

All procurement of PERA investment services in publicly traded securities by the Investment Division shall be achieved by a competitive Request for Proposals process (“RFP”) in accordance with this Policy, except under the following circumstances:

- a. A supermajority (9 of the 12 members) of the PERA Board votes that an incumbent provider, currently providing satisfactory service under a contract for a given mandate that is the result of an RFP, should be given the opportunity to negotiate a new contract in connection with the expiring term of the current contract for the same or substantially similar mandate on the equivalent or better terms to PERA. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed eight (8) years without being competitively bid. This exemption shall be exercised by PERA at least thirty (30) days prior to the expiring term of the current contract;
- b. After termination of an investment manager contract for performance reasons, a supermajority (9 of the 12 members) of the PERA Board votes that it is necessary to transition the assets subject to the terminated contract to another incumbent provider who 1) is currently providing any investment management services under a contract that is the result of an RFP process; and 2) is qualified to serve as a replacement for the asset class under consideration. A new or amended contract should be negotiated in connection with the transitioning of assets on the equivalent or better terms to PERA. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed eight (8) years without being competitively bid;
- c. A supermajority (9 of the 12 members) of the PERA Board votes that an incumbent provider currently providing satisfactory service under a contract that is the result of an RFP process, should be given the opportunity to negotiate a new or amended contract in connection with the provision of new services or a new mandate not provided by that incumbent under the existing contract. In no event, however, shall the term of the contract awarded under this subsection exceed eight (8) years without being competitively bid;
- d. The procurement is a small purchase procurement as defined in this policy;
- e. The procurement is an alternative investment as defined in this policy; or
- f. The procurement is an emergency procurement as defined in this policy. Performance under any contract awarded under this subsection shall be reviewed by the Board within twelve (12) months. In no event, however, shall the term of the contract awarded under this subsection, including any and all extensions, exceed two (2) years without being competitively bid.

7. Selection of Alternative Investments.

The PERA Board is responsible for the selection of alternative investments. For purposes of this policy, “alternative investments” are defined as provided in Paragraph 5a of this policy and are drawn from one of the following categories:

- Private equity – investments in businesses made through means other than through publicly traded securities such as buyout investments and venture capital.
- Absolute Return (Hedge Funds) – investment strategies with the goal of achieving positive returns with a degree of independence from movements in financial markets and independent of traditional performance benchmarks.
- Real assets – investments in assets, other than publicly traded securities, that have a return linked to inflation, such as timber, energy related investments and other commodity-based investments.

- Real estate – investments in assets, other than publicly traded securities, that invest in properties directly or private securities of companies that invest in properties directly.

Alternative investments are typically made through an interest in a limited partnership but also may be made through another vehicle (e.g., separate account, commingled fund, offshore entity, etc.), as appropriate for the individual investment.

The Board shall select alternative investments that enable PERA to meet its long-term return objectives set forth for the respective asset classes from recommendations made by its Alternative Investment Consultant acting in its capacity as gatekeeper for alternative investments.

The Alternative Investment Consultant(s) shall, at a minimum, consider the following criteria when recommending alternative investments:

- Firm organization and stability;
- Quality and stability of the investment team;
- Proposed investment strategy;
- Investment track record; and
- Legal and economic terms governing the investment.

Consistently applying the investment criteria listed above, the Alternative Investment Consultant(s) shall review and analyze the most appropriate investments from a comprehensive universe of investment opportunities. Those investments that meet the criteria above shall be subject to an extensive due diligence analysis by the Alternative Investment Consultant(s) resulting in a written due diligence report and a recommendation that shall be reviewed by the Director of Investments for completeness and rationale. In fulfilling this review responsibility, the Director of Investments may, in his discretion or as directed by the Board, meet directly with alternative investment managers under review and engage in other activities that enhance PERA's knowledge of and satisfaction with the recommendations of the Alternative Investment Consultant(s). The Director of Investments shall prepare a written report to the Board indicating whether or not he concurs with the conclusions and recommendations of the Alternative Investment Consultant(s). Subject to satisfactory review by the Director of Investments, the Alternative Investments Consultant(s) shall, where appropriate in its discretion, prepare and present to the Board a written recommendation to invest for the Board's evaluation and final approval. All Board decisions on recommendations to invest shall be subject to satisfactory review by PERA's Office of General Counsel, or its designated outside counsel, who shall review and approve investment partnership documents for legal sufficiency and consistency with PERA's internal policies and procedures for alternative investments.

The Director of Investments, the Alternative Investment Consultant(s) and the Board shall be disciplined in applying investment criteria. If investments in a particular sub-market (i.e. early-stage venture capital) cannot be found that meet the Board's criteria for quality, expected return, and risk, investments in such sub-market should be de-emphasized until market conditions improve. The Director of Investments, the Alternative Investment Consultant(s) and the Board shall not make alternative investments solely for diversification purposes.

8. Public Notice

Notice of an RFP shall be published at least twenty-one (21) calendar days prior to the date set for opening of responses. All notices referred to in this policy may be published or furnished electronically, in print, or both at the Investment Director's discretion. Notice shall be published in a commercially reasonable way and shall be posted on PERA's website. Notice may be published in newspapers and/or trade journals in

this or any other state, and may be made in any way likely to notify prospective offerors. PERA may also provide notice to persons or businesses identified through independent investment services data bases.

9. Requests for Proposals

a. All RFPs shall be issued by the Investment Director, or in the case of investment-related legal services for alternative investments, by the Office of General Counsel upon approval by the PERA Board, and shall contain:

i. Specifications of the services to be procured including clearly identified “mandatory” and “preferred” (discretionary) criteria and/or minimum mandatory qualifications for prospective offerors;

ii. The proposed term of the anticipated contract, not to exceed eight (8) years;

iii. Description of any mandatory contract terms including but not limited to a term stating that the contractor accepts fiduciary status with respect to assets managed on behalf of PERA;

iv. The anticipated compensation formula for the services to be procured;

v. The location and method where responses shall be delivered and a secure method for receipt and safeguarding of the proposals. Each RFP shall state that PERA shall have no responsibility or obligation to accept incorrectly delivered proposals or to provide for redelivery of incorrectly sent proposals;

vi. The deadline for receipt of proposals including the calendar date and the time. Deadlines may only be extended by the Board on the request of the Investment Director, for good cause shown. Any extension must be requested and approved, with notice given to prospective offerors, prior to the original deadline;

vii. A proposal cover sheet, to be completed and signed by the offeror and submitted in original form;

viii. Description of a formal question and answer process;

ix. The relative weight to be given to the selection criteria and/or qualifications in the evaluation of the responses;

x. The date, time and location when responses will be reviewed;

xi. Notice of all applicable statutes, rules and policies; and

xii. Any other information the Investment Director or the Office of General Counsel believes will be useful in procuring the services sought to be procured.

b. RFPs may be modified or amended prior to the recommendation for contract award for the limited purposes of:

i. clarifying or correcting errors or defects; or

ii. modifying the schedule for the submission of responses and the deadline for receipt of responses.

c. The requirement for notice of amendment of an RFP shall:

i. be the same as for the initial RFP if it occurs before the deadline for receipt of

responses; and

ii. be achieved by written notice to all offerors if it occurs after the deadline for receipt of responses.

10. Sufficiency of Responses; Receipt, Acceptance and Rejection

a. Proposals received after the deadline will be rejected.

b. Timely responses meeting all mandatory requirements shall be accepted for consideration without the opportunity for correction or modification.

c. Responses must include an original proposal cover sheet, which has been fully completed, and signed. Responses provided electronically shall simultaneously provide a fully completed, signed original proposal cover sheet on or before the deadline for responses to the RFP. Failure to provide this original document will be cause for rejection of the proposal.

d. Telephone and other types of inquiries concerning the proposal, outside the formal question and answer process, shall be discouraged.

e. Successful offerors and runners up will meet or comply with all “mandatory” criteria and/or qualifications. Failure to meet or comply with the mandatory criteria, requirements and/or qualifications shall be cause for rejection of the proposal.

11. Selection Criteria

The selection criteria to be used in selecting successful offerors will be fully and specifically described in each RFP. PERA may utilize internet-based or analytic software applications to research, evaluate, compare and select investment products across asset classes and vehicle types.

12. Evaluation Process

a. The PERA Board Chair, with the advice of the Committee Chair, shall appoint an evaluation committee for each RFP. The size of the evaluation committee is at the discretion of the Board Chair with the advice of the Investment Director. The evaluation committee may include members of the Board, the Executive Director and PERA staff.

b. The evaluation committee in whole or in part may, in its sole discretion, conduct interviews, discussions or negotiations with some or all offerors whose proposals have been accepted for the purpose of clarifying the terms of the proposals.

c. The evaluation committee may, but need not, provide the opportunity for offerors who have participated in interviews, discussions or negotiations to submit best and final offers.

d. There is no right to interviews, discussions, negotiations or the opportunity for best and final offers and the evaluation committee may recommend contract awards without conducting interviews, discussions or negotiations and without providing the opportunity for best and final offers.

e. The evaluation committee shall create a record, including but not limited to uniform scoring sheets, showing the basis for its recommendation to the Board and shall prepare a written report culminating with its designation of a runner-up and its recommendation to the Board of the successful offeror(s). The

Investment Director shall retain the scoring sheets and evaluation committee report for at least the stated term of the resulting contract.

f. Scoring may include the opportunity for an offeror to receive a point score for a variety of factors including but not limited to the offeror's business approach and methodology, consistency of key personnel, philosophy and process, references, experience with the asset class under consideration, verified or verifiable performance and portfolio data of a sufficient duration to include a variety of economic and market environments, and a history of consistently strong and successful performance versus peers and relevant benchmarks.

g. The evaluation committee shall make a selection recommendation to the Board. The Board shall select the successful offeror(s).

13. Award

a. Following a vote by the Board, successful offeror(s) shall be promptly notified in writing of the award, subject to due diligence and successful contract negotiations conducted by the Investment Director.

b. Contracts may be awarded to more than one successful offeror as a result of a single RFP process.

c. Contracts may be awarded to one or more offeror(s) designated as runner(s)-up by the evaluation committee within two (2) years of the initial deadline set for receipt of RFP responses subject to due diligence and successful contract negotiations conducted by the Investment Director.

14. Public Access

After award, any written determination of award, any evaluation committee report and all proposals may be subject to public inspection in accordance with applicable public records laws including the New Mexico Inspection of Public Records Act, NMSA 1978, Sections 14-2-1 et seq. Any material claimed to be privileged, confidential, proprietary or trade secret material must be clearly designated as such in advance and provided on separate pages.

15. Protest Procedure

PERA's procurement of investment-related services is exempt from the New Mexico Procurement Code (NMSA 1978, Sections 13-1-1 et seq.) and offerors have no access to the protest procedures set out in the New Mexico Procurement Code (NMSA 1978, Sections 13-1-172 through 176) or related portions of the New Mexico Administrative Code involving investment-related services procurement. As a trust fund, PERA has no authority to award money damages, costs or attorney's fees. In the interest of providing a fair, open and competitive procurement process for investment-related services, the following protest procedure is provided.

a. An offeror who is not awarded an investment-related services contract may file a Notice of Protest with PERA.

b. A Notice of Protest must be in writing and received or post-marked within ten (10) calendar days of the award by the Board that gives rise to the protest.

c. A Notice of Protest shall state the full factual basis for the protest.

d. A Notice of Protest shall be sent or delivered to: PERA Office of General Counsel (Attention:

Award of Contract Protest), P.O. Box 2123/33 Plaza La Prensa, Santa Fe, New Mexico 87504/87507.

- e. The filing and receipt of a Notice of Protest shall not stop or delay the execution of an investment-related services contract between PERA and the successful offeror.
- f. The PERA General Counsel or his or her designee shall conduct an interview with the protestor, either in person or telephonically and may, in his or her sole discretion, conduct interviews with others who have or may have information relating to the award and/or the protest.
- h. The PERA General Counsel shall promptly issue a written recommendation to the Board. The written recommendation shall state whether or not the General Counsel recommends that the contract whose award gave rise to the protest process should be terminated, and whether or not the General Counsel recommends an alternative contract award to the protester or whether the RFP should be cancelled and competitively rebid. The written recommendation shall state the full factual basis for the recommendation.
- i. The PERA Office of General Counsel shall mail the written recommendation to the protestor and shall provide written notice of the scheduled Board vote on the recommendation.
- j. The Board shall vote on the recommendation at its first normally scheduled meeting following the issuance of the written recommendation.
- k. The Office of General Counsel shall notify the protestor, in writing, of the Board vote.

16. Emergency and Small Procurements

In the case of emergency and small purchase procurements, as defined in this Policy, the Investment Director may, with the prior approval of the Board, pre-select or invite a provider of investment-related services to present an offer. The Investment Director, in his or her discretion, may negotiate a contract with that provider if the offer is deemed acceptable and subject to the following conditions:

- a. The small purchase procurement for investment-related professional services must have a value not exceeding fifty thousand dollars (\$50,000), excluding applicable state and local gross receipts taxes in accordance with applicable professional services contract procedures promulgated by the department of finance and administration.
- b. Notwithstanding the requirements of subsection a, the Investment Director may procure investment-related tangible property or services having a value of not more than fifty thousand dollars (\$50,000) by issuing a direct purchase order to a contractor based upon the best obtainable price.
- c. Procurements shall not be artificially divided to fall within the small purchase procurement exemption;
- d. Performance under emergency procurements shall be reviewed by the Board within twelve (12) months of the effective date of the emergency contract.

17. Research and Information

At any time and irrespective of any existing contracts, PERA may conduct independent research or may issue a Request for Proposals to survey the marketplace about the availability, quality and price of investment related services.

18. Penalties for Corrupt and Fraudulent Practices

Felony penalties are imposed for fraud, bribes, gratuities and kickbacks in violation of the Criminal Code, NMSA 1978, Section 30-16-1 et seq.

Civil penalties are imposed for violation of the Governmental Conduct Act, NMSA 1978, Sections 10-16-1 et seq.

Civil penalties are imposed for antitrust violations of the Trade Practices and Regulation Act, NMSA 1978, Sections 57-1-1 and 6.

Upon discovery of any corrupt or fraudulent practice as defined in this Policy, the Board may reject a proposal, reject a recommendation for an award or declare an individual or firm ineligible for a stated period of time or the Board may impose any combination of these measures.

19. Ethical Disclosures and Conflicts of Interest.

Members of the Public Employees Retirement Board and PERA staff members are subject to NMSA 1978, Section 10-11-130.1, which prohibits acceptance of anything of value directly or indirectly from a person or organization that has a current contract with PERA, is a potential bidder, offeror or contractor of services to PERA, or is authorized to invest public funds pursuant to state or federal law. For purposes of this Policy, potential bidder means any person or entity that may provide services to PERA within the next twelve months.

All offerors or incumbent providers are required to disclose any interest, direct or indirect, which would conflict in any manner or degree with the performance or services required under any contract with PERA. Offerors and incumbent providers shall certify that the requirements of the Governmental Conduct Act, NMSA 1978, Section 10-16-1 et seq. regarding contracting with a public officer or state employee have been followed.

SIGNATURES

By signing this Procurement Policy for Investment-Related Services, the Board through its Chair, indicates its agreement therewith.

Adopted: January 26, 2006

Amended: August 31, 2006

Amended November 30, 2006

By: _____
David A. Baca, Chairman NM PERA

Uniform Prudent Investor Act (UPIA)

West's New Mexico Statutes Annotated Currentness

Chapter 45. Uniform Probate Code

▣ Article 7. Trust Administration

→ Part 6. Uniform Prudent Investor Act (Refs & Annos)

§ 45-7-601. Short title

Sections 45-7-601 through 45-7-612 NMSA 1978 may be cited as the "Uniform Prudent Investor Act."

§ 45-7-602. Prudent investor rule

A. Except as otherwise provided in Subsection B of this section, a trustee who invests and manages trust assets owes a duty to the beneficiaries of the trust to comply with the prudent investor rule set forth in the Uniform Prudent Investor Act.

B. The prudent investor rule, a default rule, may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

§ 45-7-603. Standard of care; portfolio strategy; risk and return objectives

A. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.

B. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

C. Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:

- (1) general economic conditions;
- (2) the possible effect of inflation or deflation;
- (3) the expected tax consequences of investment decisions or strategies;
- (4) the role that each investment or course of action plays within the overall trust portfolio, which may include financial assets, interest in closely held enterprises, tangible and intangible personal property and real property;
- (5) the expected total return from income and the appreciation of capital;
- (6) other resources of the beneficiaries;

(7) needs for liquidity, regularity of income and preservation or appreciation of capital; and

(8) an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

D. A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

E. A trustee may invest in any kind of property or type of investment consistent with the standards of the Uniform Prudent Investor Act.

F. A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

§ 45-7-604. Diversification

A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.

§ 45-7-605. Duties at inception of trusteeship

Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, distribution requirements and other circumstances of the trust, and with the requirements of the Uniform Prudent Investor Act.

§ 45-7-606. Loyalty

A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

§ 45-7-607. Impartiality

If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

§ 45-7-608. Investment costs

In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust and the skills of the trustee.

§ 45-7-609. Reviewing compliance

Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at

the time of a trustee's decision or action and not by hindsight.

§ 45-7-610. Delegation of investment and management functions

A. A trustee may delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances. The trustee shall exercise reasonable care, skill and caution in:

- (1) selecting an agent;
- (2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

B. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

C. A trustee who complies with the requirements of Subsection A of this section is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

D. By accepting the delegation of a trust function from the trustee of a trust that is subject to the law of this state, an agent submits to the jurisdiction of the courts of this state.

§ 45-7-611. Language invoking standard

The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorizes any investment or strategy permitted under the Uniform Prudent Investor Act: "investments permissible by law for investment of trust funds," "legal investments," "authorized investments," "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital," "prudent man rule," "prudent trustee rule," "prudent person rule" and "prudent investor rule."

§ 45-7-612. Application to existing trusts

The Uniform Prudent Investor Act applies to trusts existing on and created after its effective date. As applied to trusts existing on its effective date, the Uniform Prudent Investor Act governs only decisions or actions occurring after that date.

New Mexico Statutes 10-11-132 and 10-11-133

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

§ 10-11-132. Investment of funds; prudent investor standard; indemnification of board members

The funds created by the state retirement system acts are trust funds of which the retirement board is trustee. Members of the retirement board jointly and individually shall be indemnified by the state from the funds administered by the retirement board from all claims, demands, suits, actions, damages, judgments, costs, charges and expenses, including court costs and attorney fees and against all liability losses and damages of any nature that members shall or may sustain by reason of any decision made in the performance of their duties pursuant to the state retirement system acts. The retirement board shall invest and reinvest the funds in accordance with the Uniform Prudent Investor Act.

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

§ 10-11-133. Investment of funds; prudent investor standard; conditions

A. Commissions paid for the purchase and sale of any security shall not exceed brokerage rates prescribed and approved by stock exchanges that have been approved by or are under the control of the United States securities and exchange commission or by industry practice.

B. The retirement board shall invest and manage the funds administered by the retirement board in accordance with the Uniform Prudent Investor Act.

C. The retirement board shall provide quarterly performance reports to the legislative finance committee and the department of finance and administration. Annually, the retirement board shall ratify and provide its written investment policy, including any amendments, to the legislative finance committee and the department of finance and administration.

D. Securities purchased with money from or held for any fund administered by the retirement board and for which the retirement board is trustee shall be in the custody of the state treasurer who shall, at the direction of the retirement board, deposit with a bank or trust company the securities for safekeeping or servicing.

E. The retirement board may consult with the state investment council or state investment officer and request information or advice with respect to the retirement board's overall investment policy, may utilize the services of the state investment council and state investment officer and may act on their advice concerning the Policy. The state investment council and state investment officer shall render investment services to the retirement board without expense to the retirement board. The retirement board may also employ the investment management services and related management services of a trust company or national bank exercising trust powers or of an investment counseling firm or brokers for the purchase and sale of securities, commission recapture and transitioning services and may pay reasonable compensation for such services from funds administered by the retirement board. The terms of any such investment management services contract shall incorporate the statutory requirements for investment of funds under the retirement board's jurisdiction.

F. Except as provided in the Public Employees Retirement Act, a member of the retirement board, employee of the retirement board or any person connected with the retirement board in any manner shall not:

- (1) have any direct or indirect interest in the gains or profits of any investment made by the retirement

board;

(2) receive any direct or indirect pay or emolument for services provided to the retirement board or the association;

(3) directly or indirectly, for the member, employee or person, for themselves or as agent or partner of others, borrow any of the funds or deposits of the association or in any manner use them except to make current and necessary payments authorized by the retirement board; or

(4) become an endorser or surety or become in any manner an obligor for money of the retirement board loaned or borrowed.