

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2019 and 2018**

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Independent Auditor's Report

To the State Auditor, Board of Directors and PERA
The State of New Mexico Public Employees' Deferred Compensation Plan
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Mexico Public Employees' Deferred Compensation Plan (the Plan) which comprise the statements of net position held in trust for plan benefits as of June 30, 2019 and 2018, and the related statements of changes in net position held in trust for plan benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2019 and 2018, and the results of operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Memorandums of Understanding, Officials Roster, Exit Conference and Summary of Audit Results are presented for purposes of additional analysis and is not a required part of the financial statements. Such additional information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2019 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



Boise, Idaho
October 24, 2019

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

This discussion and analysis of the State of New Mexico Deferred Compensation Plan’s (“the Plan”) financial performance provides an overview of the Plan’s financial activities for the fiscal years ended June 30, 2019, 2018 and 2017. This section should be read in conjunction with the Plan’s financial statements.

Using This Annual Financial Report

This annual financial report consists of two parts: (1) management’s discussion and analysis (this section) and (2) the Plan’s basic financial statements. The financial statements also include notes that explain information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current and prior years:

	Fiscal Years Ended June 30		
	2019	2018	2017
Plan Net Position Held in Trust for Plan Participants	\$ 644,973,130	\$ 606,862,949	\$ 568,832,783
Employee Contributions	\$ 43,134,670	\$ 40,031,630	\$ 47,752,984
Net increase in fair value of investments	33,805,663	44,425,527	56,218,055
Interest Income	3,749,398	3,054,074	2,739,314
Benefits Paid	(41,197,682)	(48,221,377)	(39,510,967)
Administrative Expenses	(1,357,271)	(1,225,808)	(1,164,518)
Life Insurance Premiums	(24,597)	(33,880)	(42,094)
Net Increase in Plan Net Position	\$ 38,110,181	\$ 38,030,166	\$ 65,992,774

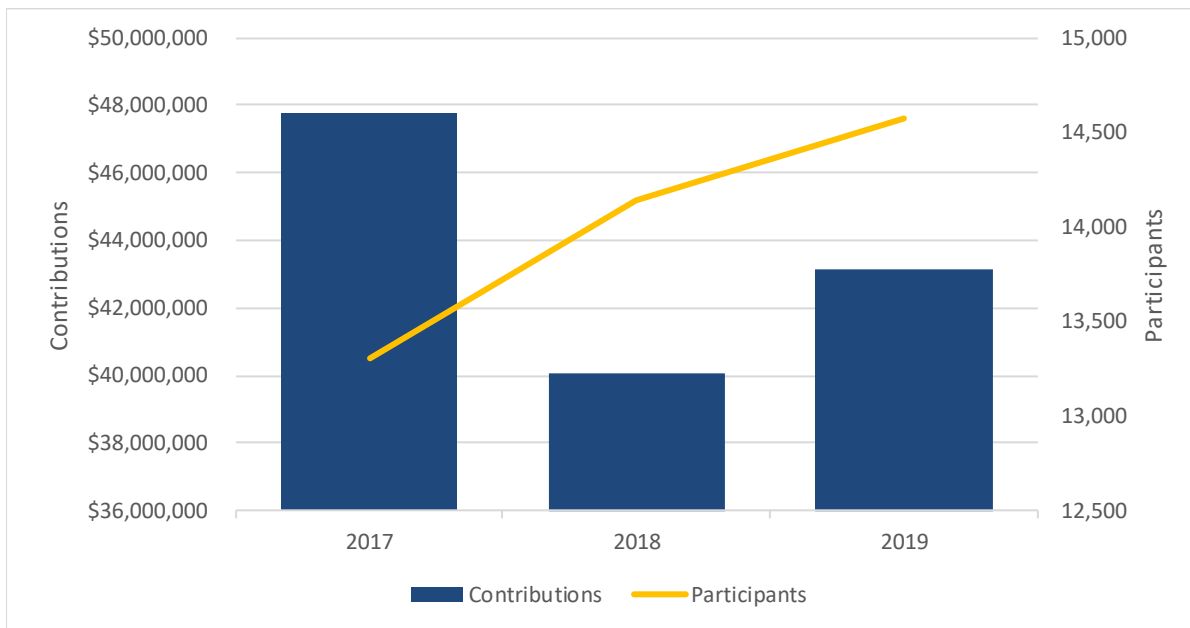
Financial Highlights

The net position held in trust for plan benefits increased by approximately \$38 million during the current period from \$606.8 million at June 30, 2018, to \$644.9 million at June 30, 2019. This increase is primarily due to investment income earned during the current year, interest income from the Stable Value Option, as well as an increase in participants. The net position held in trust for plan benefits increased by approximately \$38 million from \$568.8 million at June 30, 2017 to \$606.8 million at June 30, 2018. This increase was primarily due to investment income earned during the year and interest income from the Stable Value Option.

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Contributions to the Plan

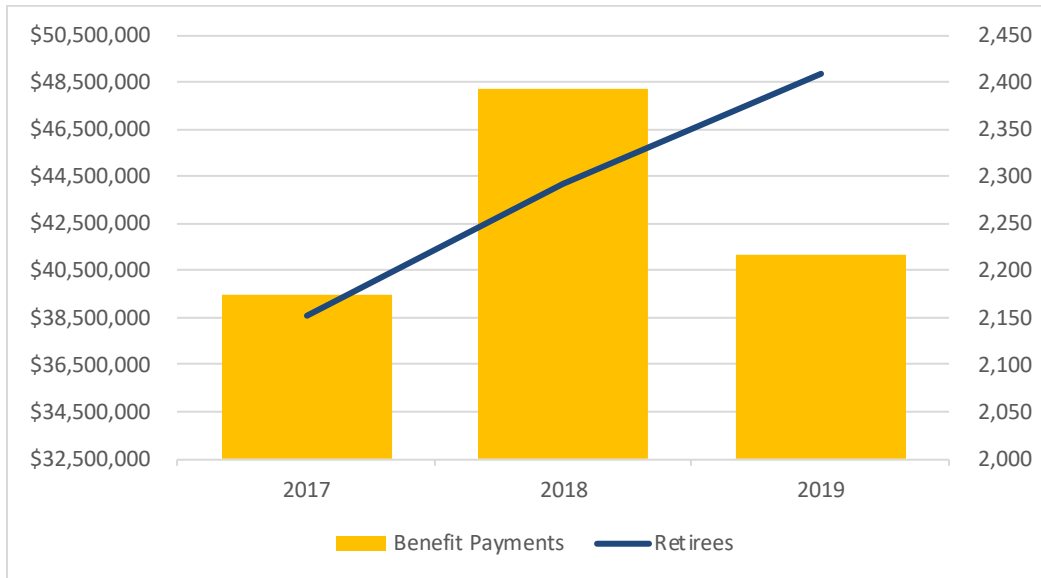
Employee contributions were \$43.1, \$40.0, and \$47.8 million for the years ending June 30, 2019, 2018 and 2017, respectively. Employee contributions increased by \$3.1 million from June 30, 2018 to June 30, 2019 and decreased by \$7.7 million from June 30, 2017 to June 30, 2018. Fluctuations in employee contributions are primarily due to differences in the number of actively contributing participants from year to year as well as changes in the average contributions per participant. The average contribution per participant was \$2,959, \$2,828, and \$3,590 for the years ended June 30, 2019, 2018 and 2017, respectively. There were 14,577, 14,144, and 13,300 actively contributing participants at June 30, 2019, 2018 and 2017, respectively. In accordance with the Internal Revenue Code, employees could voluntarily contribute up to a maximum amount of \$18,500 in 2018 and \$19,000 in 2019 unless over age 50, which allows an additional \$6,000. However, participants' contributions are not always at maximum, causing uneven annual contribution changes in relation to participant changes.



Beneficiaries of the Plan

Benefits paid to participants decreased from \$48.2 million for the year ended June 30, 2018 to \$41.2 million for year ended June 30, 2019. This was due to a decrease in the dollar amount of assets being requested, coupled with a slight increase in the number of retiree requests from 2,293 in 2018 to 2,408 in 2019. During the previous period, Benefits paid to participants increased from \$39.5 million for the year ended June 30, 2017 to \$48.2 million for year ended June 30, 2018. There was a minimal change in the number of retirees, 2,192 in 2017 to 2,293 in 2018, but an increase in average distribution. The average distribution per participant was \$17,172, \$21,020, and \$18,369 for the years ended 2019, 2018 and 2017, respectively. The number of participants who withdraw funds from the Plan due to termination of employment on an annual basis fluctuates. The number of participants who withdraw funds has risen from 1,305 in 2017, to 1,459 in 2018, to 1,462 in 2019.

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Overall Fund Structure and Objectives

The Plan was established in accordance with the provisions of the State of New Mexico Deferred Compensation Act, NMSA 1978, Section 10-7A-1 through 10-7A-12 (2017). The Plan complies with the requirements of Internal Revenue Code Section 457, as amended. The Plan provides a voluntary, supplemental tax-deferred retirement program, which provides employees a convenient means to save for retirement. The Public Employees Retirement Association (“PERA”) of New Mexico is the Trustee of the Plan. PERA is directed by the Public Employees Retirement Board (the “Board”) which consists of twelve members.

After an employer has adopted the Plan and the PERA Board has approved the adoption, an employee is eligible to participate in the Plan as of the first day of employment and may voluntarily contribute a portion of their compensation up to the annually established Internal Revenue Service limits. Under Plan provisions, employees of the State, its cities and counties, special districts and educational institutions are eligible to contribute to the Plan through payroll deductions. An employee participating in the Plan may discontinue, or temporarily suspend, contributions at any time. Employees can increase or decrease contribution amounts at any time. If the participant elects to contribute, the minimum amount that may be contributed for any Plan year is \$260 and shall not exceed the amount permitted pursuant to Section 457 of the Internal Revenue Code.

Costs of the Plan

The Plan seeks to maintain low costs for employees that elect to participate. In 2018-2019, the cost of providing recordkeeping, enrollment, education, and other administrative services to participants in the Plan was \$7.50 plus .135% of assets, not to exceed \$26 per quarter, per participant. Investment consulting services were provided at an average cost of \$0.98 per quarter, per participant. PERA operating fees averaged \$1.01 per quarter, per participant. Additional fees and other charges may be assessed for various options available in the Plan. In addition, the Plan seeks to provide the best possible investment vehicles at the lowest cost.

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Asset Allocation

All participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices as are made available and those policies or procedures as are determined by the Board and the administration from time to time. The Plan has no control over investment decisions made by the participants. Plan assets may be invested and reinvested in various instruments as deemed appropriate by the Board and Plan management. Several investment tiers have been developed and made available to participants. A summary of the types of investments is listed in Note 3 in the notes to the financial statements.

Market Environment Overview

While the early start of 2019 may have been characterized by worries of rising interest rates globally, this quickly shifted throughout the year as increasing concerns of a slowing global growth – made worse by trade tensions between the U.S. and China – prompted major central banks to consider more accommodative policies. In the US, the Federal Reserve held federal funds rate steady at its June meeting, while signaling the potential for future interest rate cuts. The European Central Bank (ECB) for its part also held rates steady with a potential for further reduction, and the Bank of Japan showed no signs of pulling back from its unprecedented monetary stimulus. Of all the central banks, the US has the most room to lower rates, while Japan and Europe are already in negative territory. With growth revisions for 2019 and 2020 (IMF forecast of 3.2% and 3.5% respectively) down by 0.1%, key risks to monitor will not only be continued trade tensions between US and China, but the declining growth in China, political uncertainty in Europe, and risks related to Brexit dealings.

While global equities rebounded significantly from December lows to close out fiscal year 2019, the past twelve months certainly saw heightened volatility, with the VIX reaching 36 in December before retracing to 25 and further retreating to more muted levels by the June 30 fiscal year end. Nonetheless, for much of the fiscal year, most markets embraced a “risk on” appetite.

U.S. equities, as represented by the Russell 3000 Index, closed out the fiscal year with a 8.98% return. Non-US equity markets, however, did not fare as well. Emerging markets delivered negative returns in the first half of the year, to close out the fiscal year with a 1.21% return. Trade tensions and a strong U.S. dollar strength continued to weigh down on results. The MSCI EAFE Index, representing foreign developed markets, followed closely behind returning 1.08%. Overall growth has declined in Europe given the slowdown in Germany, uncertainties related to Brexit, and trade tensions.

The trend of U.S. growth stocks outperforming value stocks persisted throughout the year, with growth holding a 3.26% lead over value, as the Russell 3000 Growth closed out the year with a 10.6% return, versus -7.37% for the Russell 3000 Value.

Within fixed income, investment grade markets closed out the year on a strong note. Throughout the first half of FY 2019, concerns over rising interest rates and inflation created headwinds. In the U.S., the Federal Reserve increased short-term interest rates to a range of 2.25% to 2.50% by December, but this hawkish stance turned dovish in the second half as central banks abruptly shifted to a more accommodative policy by early January. Investment grade credit and high yield rebounded alongside the equity markets as a result, with the high yield market posting one of the strongest returns in nearly 10 years (7.26% for the quarter ending March 31, 2019). Despite this, the deterioration of US and Chinese

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trade talk in May prompted a temporary drop in global equity prices and US Treasury yields. The 3mo-10yr segment of the yield curve inverted for the second time in 2019, causing investors to question whether this might be a sign of worse things to come. Historically, the yield curve has been relied on as a barometer of economic strength and potential recession indicator. Inversions in the yield curve have historically preceded recessions, with a few exceptions.

Over the trailing year, the broad U.S. bond market, represented by the Bloomberg Barclays Aggregate Index, returned 7.78%, high yield bonds returned 7.48% and TIPS returned 4.84% while emerging market bonds (as represented by JPM GBI-EM Global Diversified Index) posted a 8.99% return for the year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) returned -4.02%, commodities (Bloomberg Commodity Index) lost -6.75%, and REITs (MSCI U.S. REIT Index) gained 11.06%. U.S. crude settled at \$58.52/ barrel, down roughly 10% from prior fiscal year end levels, but well above the December 31 value of \$47.84. OPEC-led production cuts along with sanctions on Iran and Venezuela drove the higher prices though tempered by the slowing global economy.

Looking Forward

Looking forward, there are several issues that we will continue to monitor. First is the slowing global growth. After increasing rates over the last several years from record lows, major central banks have shifted to a more accommodative stance. With little room for a reduction in rates outside the U.S., there is speculation of other policy measures being implemented such as negative rates and/or further quantitative easing implemented. Outside of the U.S., European economic conditions appear bleak as we continue to witness political uncertainty and ongoing structural issues. Brexit negotiations remain a concern. Within emerging markets, and China specifically, growth has slowed. Second, in the U.S., equity markets remain extended despite the volatility spike in the fourth quarter, and the current economic cycle has been one of the longest on record now going into the tenth year. Also in the U.S., trade policy remains a key issue. We also see declining growth in China and the impact of trade tensions with the U.S.

Given slowing global growth, compounded by trade tensions, major central banks have pivoted to a more dovish tone. The U.S. and ECB are expected to start cutting rates and could move back to quantitative easing, while the BOJ maintains its massive monetary support. These policies have been a major boost to the markets and could support global growth. The key questions remain whether or not they are pivoting too early and if this rally in risk assets is short-lived or more sustainable. *Note: following the close of fiscal year 2019, the Federal Reserve did cut rates by 25 basis points.*

The U.S. economy and equity markets have experienced a long period of growth since the Global Financial Crisis due in part to central bank support. Late cycle dynamics of low unemployment and rising inflation are in place, and valuations are stretched for equities, despite the recent pullback witnessed in December 2018. With the long economic and market expansions, and the many unresolved political and trade issues, we could see heightened volatility in the remainder of 2019. Other key issues in the U.S. will be policy uncertainty related to tariffs, immigration, and strategic alliances.

China has the second largest economy behind the U.S. After a long period of growth driven by government investment and exports, it continues to manage a repositioning of its economy to one based increasingly on domestic consumption. This rebalancing process has led to a slowing of the

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economy which has hurt countries that have become reliant on its trade. The recent focus on tariffs between the U.S. and China is another key issue that could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations (18% of exports). Another core issue in China remains its high debt levels, particularly in the corporate sector.

Europe continues to have the structural problem of maintaining a single currency and central bank, while fiscal policy rests with each individual country. Consequently, countries that are experiencing financial difficulties are unable to use the traditional tools of lowering interest rates and devaluing their currency to stimulate growth. This has caused tensions within the Eurozone, as highlighted by the recent elections in Italy and the prior elections in Germany, as well as the on-going issues in Greece. Given the size of Italy's bond market and economy within the euro area, an Italian sovereign debt crisis or its departure from the euro would have significant consequences. Further, Brexit uncertainty continues to affect the Eurozone. In March 2019, Theresa May's withdrawal proposal was rejected by Members of Parliament for a third time, increasing the likelihood of a no-deal Brexit when the current extension expires in October 2019. *Note: following the close of fiscal year 2019, Boris Johnson became UK Prime Minister in July, increasing the likelihood of a no-deal Brexit.*

We will continue to monitor these issues and others.

Contacting Management

This report is designed to provide the Board, Plan participants, investors and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the Plan's funds. For additional information, contact the NM PERA Deferred Compensation Plan Manager at 33 Plaza La Prensa, Santa Fe, New Mexico 87507 or 1-800-342-3422.

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
STATEMENTS OF NET POSITION HELD IN TRUST FOR PLAN BENEFITS
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
INVESTMENTS		
Annuities	\$ 956,471	\$ 1,062,992
Stable value option	133,640,620	129,567,328
Variable earnings investments	491,252,339	457,990,195
Self-directed option	<u>5,138,911</u>	<u>4,954,319</u>
 Total investments	 630,988,341	 593,574,834
RECEIVABLES		
Participant contributions receivable	1,172,006	993,246
Participant loans receivable	<u>12,812,783</u>	<u>12,294,869</u>
 NET POSITION HELD IN TRUST FOR PLAN BENEFITS	 <u><u>\$ 644,973,130</u></u>	 <u><u>\$ 606,862,949</u></u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN NET POSITION HELD IN TRUST FOR PLAN BENEFITS
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Employee contributions	\$ 43,134,670	\$ 40,031,630
Investment income:		
Net increase in fair value of investments	33,805,663	44,425,527
Interest income on stable value option	3,077,301	2,495,178
Interest income on fixed annuity payout	34,068	19,467
Interest income on participant loans	638,029	539,429
	<u>80,689,731</u>	<u>87,511,231</u>
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to participants	41,197,682	48,221,377
Administrative expenses	1,357,271	1,225,808
Life insurance premiums	24,597	33,880
	<u>42,579,550</u>	<u>49,481,065</u>
NET INCREASE	38,110,181	38,030,166
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, BEGINNING OF YEAR	<u>606,862,949</u>	<u>568,832,783</u>
NET POSITION HELD IN TRUST FOR PLAN BENEFITS, END OF YEAR	<u>\$ 644,973,130</u>	<u>\$ 606,862,949</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 1 – DESCRIPTION OF PLAN

General

The State of New Mexico (the State) Public Employees' Deferred Compensation Plan (the Plan), a defined contribution plan, was established pursuant to the Deferred Compensation Act of New Mexico, which was passed on April 6, 1981. The Plan was approved by the State Department of Finance and Administration on January 6, 1982, and is sponsored by the State. The Plan is administered by the New Mexico Public Employees' Retirement Association (NMPERA).

Contributions

Under Plan provisions, employees of the State, its cities and counties, special districts and educational institutions that have completed the Plan adoption process, are eligible to contribute into the Plan through payroll deductions. There were approximately 82,000 and 81,500 employees eligible to participate in the Plan as of June 30, 2019 and 2018, respectively. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contribution to 100% of annual gross includable compensation, not to exceed \$19,000 for calendar year 2019 and \$18,500 for calendar year 2018. Additionally, in each of the two Retirement Catch-up years, a participant's Retirement Catch-up contribution is limited to the lesser of (a) the maximum amount for that year, \$19,000 in 2019 and \$18,500 in 2018 or (b) the amount by which contributions to the Plan in previous years were less than the maximum that the participant was eligible to contribute. An additional \$6,000 in 2019 and in 2018 can apply to a participant reaching the age 50 and each year thereafter. This catch-up provision is referred to as the Age 50 and Over Catch-up contribution. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Participant employers do not make any contributions to the Plan.

Although this is no longer offered as an option for new participants, at retirement or termination of employment, employees already investing in universal life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. In the case of the death of an employee, the face value of the insurance contract is payable to the policy beneficiary.

Investment Options

Employees electing to participate in the Plan may contribute to any of the following options:

- Variable earnings investments consisting of various publicly-traded mutual funds;
- Stable value option managed by Galliard Capital Management; and
- Self-directed brokerage account option administered by Charles Schwab.

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NOTE 1 – DESCRIPTION OF PLAN (CONTINUED)

Participant Loans

The Plan allows participants to take loans from their account balances. Any participant is eligible to receive a loan. Each participant is entitled to one outstanding loan at a time. Participants are charged a nonrefundable loan set-up fee of \$50. An additional annual fee of \$50 is assessed on the anniversary date of the loan while the loan is outstanding. Repayments of loans are to be made automatically from a participant-specified account with a financial institution. The maximum term permitted on a loan is five years or 15 years if the loan is for the purchase of a principal residence. The minimum loan amount permitted is \$1,000 and the maximum amount of any loan under the Plan is the lesser of 50% of the participant’s vested account balance or \$50,000. The total balance of loans outstanding to participants was \$12,812,783 and \$12,294,869 at June 30, 2019 and 2018, respectively and is listed as participant loans receivable on the Statements of Net Position Held in Trust for Plan Benefits. Interest rates range between 3.75% and 9.25%. The interest rate is based on market conditions at the time the loan is processed. Generally, the rate is the “Prime Rate” + 1%.

Payment of Benefits

A Plan distribution can become available only after the participant reaches the age of 70½ years old, the participant’s death, separation-from-service, retirement, upon the participant’s severe financial emergency, or if a participant’s account balance does not exceed \$5,000 and no amount was deferred during a 2-year period and there was no prior distribution. Participants may select various payout options, including lump sum payments or payments over various periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed by the Plan are as follows:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect amounts reported in financial statements and accompanying notes. Actual results may differ from those estimates.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition

Investments in the fixed annuity payout option are valued based upon the fixed earnings rates as reported by the investment carriers or manager, which approximate fair value. Investments in the Stable Value Option are valued based upon the daily net asset value reported daily by Galliard Capital Management, which approximates fair value. The investment valuation includes contributions received, plus investment income earned to date less applicable charges and amounts withdrawn.

Variable earnings investments in publicly-traded mutual funds are presented at fair value based upon published quotations. All purchases and sales of investments are recorded on a trade-date basis.

Assets held in fixed and variable annuity payout investments represent discontinued annuity payout options in the Plan. The Plan held \$956,471 and \$1,062,992 at June 30, 2019 and 2018, respectively, which represents assets transferred to a product provider for investment in fixed and variable group annuity contracts. Periodic payments are made to retired participants of the Plan as provided by these purchased annuity contracts. The contract valuation of these assets is based upon an actuarial valuation of the present value of future retirement benefits to be paid under the contracts, which approximates fair value. Annuity payout investments are no longer available as options in the Plan.

Contributions and Contributions Receivable

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees, but not remitted to the investment carriers at June 30, 2019 and 2018. The Plan requires that contributions received “in good order” by the Plan Administrator from the various Plan payroll centers be applied to the respective participant account within one business day following the date of receipt.

Interest Income

Interest income for the fixed annuity payout option and participant loans is recorded as earned on the accrual basis.

The annual crediting interest rate for the stable value investment option, net of fees, ranged from 0.59% to 2.14% for the year ended June 30, 2019, and 1.74 % to 1.92% for the year ended June 30, 2018. Interest income for the stable value investment option is recorded as earned on the accrual basis.

Variable Earnings Investment Income

Variable earnings investment income consists of dividends earned and realized and unrealized gains and losses attributed to the mutual funds supporting the variable earnings investments. Dividends are recorded on the ex-dividend date.

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NOTE 3 – INVESTMENTS

The State of New Mexico Public Employees' Deferred Compensation Plan categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statements of net position at the end of each reporting period.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Self-directed investments: Valued at the daily closing price as reported by the fund and reported as Level 1. These represent investments that are actively traded on an open market.

Lifecycle funds: Valued at carrying value based on the NAV of the observable market prices of the underlying assets within that account less liabilities.

	June 30, 2019	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value:				
Mutual Funds	\$ 318,442,353	\$ 318,442,353	\$ -	\$ -
Self-directed investments	5,138,911	5,138,911	-	-
Total Investments at Fair Value	323,581,264	\$ 323,581,264	\$ -	\$ -
Investments at Net Asset Value:				
Lifecycle Funds	172,686,872			
Investments at Contract Value:				
Stable value option Annuities, net of payments in transit	133,640,620			
	1,079,585			
Total Investments	<u>\$ 630,988,341</u>			

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 3 – INVESTMENTS (CONTINUED)

	Fair Value Measurements Using:			
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value:				
Mutual Funds	\$ 304,582,371	\$ 304,582,371	\$ -	\$ -
Self-directed investments	4,954,319	4,954,319	-	-
Total Investments at Fair Value	<u>309,536,690</u>	<u>\$ 309,536,690</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at Net Asset Value:				
Lifecycle Funds	153,377,900			
Investments at Contract Value:				
Stable value option	129,567,328			
Annuities, net of payments in transit	1,092,916			
Total Investments	<u>\$ 593,574,834</u>			
Investments measured at the net asset value (NAV):	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
June 30, 2019				
Lifecycle Funds	\$ 172,686,872	\$ -	Daily	None
June 30, 2018				
Lifecycle Funds	\$ 153,377,900	\$ -	Daily	None

Lifecycle Funds: This asset class is generally comprised of a combination of fixed income and equity investment options. These investment options may include balanced, asset allocation, target-date, and target-risk investment options. Although typically lower risk than investment options that invest solely in equities, all investment options in this category have the potential to lose value.

Stable value option and annuities: The Plan invests in annuities that represent guaranteed investment contracts that represent a fixed-income security portfolio of fixed-income securities and a value guarantee (wrapper) provided by a third party and are reported at contract value. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Under the contract, a crediting interest rate is established that provides a minimum guaranteed annual interest rate. Participant initiated transactions are at contract value. However, certain events initiated at the Plan level, specifically termination of the contract, might limit the ability of the Plan to transact at contract value.

STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 3 – INVESTMENTS (CONTINUED)

At June 30, 2019 and 2018, investments were as follows. Investments marked with an asterisk (*) represent investments exceeding 5% or more of net position available for Plan benefits as of June 30, 2019 and 2018.

	2019	2018
Investments:		
Aberdeen Emerging Markets Fund - Institutional Class	\$ 2,451,957	\$ 2,616,747
EuroPacific Growth Fund® - Class R6	10,096,661	10,681,994
Dodge & Cox Stock Fund	32,146,579	31,872,924 *
DFA U.S. Small Cap Portfolio	11,822,950	12,702,876
The SEI Stable Asset Fund	133,640,620 *	129,567,328 *
Fidelity® Low-Priced Stock Fund - Class K	8,315,448	8,280,812
Fidelity® Diversified International Fund - Class K	11,126,546	11,085,416
Invesco Global Real Estate - Institutional Class	1,835,043	1,608,850
Life Cycle 2045 Portfolio	18,740,789	16,405,046
Life Cycle 2035 Portfolio	32,565,931 *	28,593,392
Life Cycle 2025 Portfolio	53,204,298 *	49,346,137 *
Conservative Portfolio	41,333,547 *	39,979,984 *
Life Cycle 2055 Portfolio	10,185,063	8,026,436
Life Cycle 2020 Portfolio	3,775,006	2,909,595
Life Cycle 2030 Portfolio	5,350,236	3,087,360
Life Cycle 2040 Portfolio	4,518,411	3,391,977
Life Cycle 2050 Portfolio	3,013,591	1,637,973
Vanguard Inflation Protected Securities Fund-Institutional Shares	4,423,547	4,310,152
Oakmark Equity and Income Fund (The) - Class I	20,615,172	20,893,841
Principal Investors Fund, Inc. - MidCap Blend Fund - Institutional Class	14,836,577	12,898,415
Principal Diversified Real Asset Fund - Institutional Class	384,344	452,591
Templeton Global Bond Fund - Class R6	3,093,416	2,972,907
Fidelity® Contrafund - Class K	52,866,291 *	49,201,339 *
T. Rowe Price Institutional Mid-Cap Equity Growth Fund	34,609,052 *	30,451,249 *
Vanguard Institutional Index Fund - Institutional Plus Shares	88,873,500 *	85,059,659 *
Vanguard Total Bond Market Index Fund - Institutional Shares	17,516,247	16,031,820
Vanguard Total International Stock Fund - Institutional Shares	3,429,023	3,460,779
	624,769,845	587,527,599

**STATE OF NEW MEXICO PUBLIC EMPLOYEES’
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 3 – INVESTMENTS (CONTINUED)

	2019	2018
Suspense:		
Monies held pending investment	94,143	1,150
Payouts:		
Nationwide Fixed Annuity Payout Option (at contract value)	956,471	1,062,992
Nationwide Variable Annuity Payout Option	28,971	28,774
Self Directed Option:		
Investments Held at Charles Schwab	5,138,911	4,954,319
Total investments at fair value	\$ 630,988,341	\$ 593,574,834

The Plan has a formal investment policy that allows the Plan to select investment options that offer the best prospects to meet the participant’s financial goals. The Policies allow for different tiers of investments that provide options for the participant to choose from. These are participant directed accounts, thus there are no limitations on concentration, credit and interest rate risk aside from the Plan’s evaluation of the appropriate investment options to offer. The policy and investment offerings are reviewed and evaluated to ensure appropriate funds are available to the participant.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty’s trust department or agent, but not in the Plan’s name.

Investments in the stable value option are held in the Plan's name by Galliard Capital Management, Inc., agent of the Plan. The remaining investments are held in a trust account for the benefit of the Plan. As a result, the investments of the Plan are not exposed to custodial credit risk.

Credit risk is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The stable value option and the variable earnings mutual funds are unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan’s investment in a single issuer. The Plan’s investments are managed by several fund managers. The concentrations of investments are determined by the participants’ elections to invest in the available investment options as selected by the Committee. The investments that exceed 5% are indicated in the previous table.

Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 3 – INVESTMENTS (CONTINUED)

As of June 30, 2019 and 2018, the Plan had the following investments and maturities in its fixed earnings investments, stable asset investments and its mutual funds, which include investments in bonds. Weighted average maturities will vary annually based on the underlying investments of funds.

	2019		2018	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Stable Value Option:				
Stable Value Fund	\$ 133,640,620	3.75	\$ 129,567,328	3.45
Variable Earnings Investments:				
Life Cycle 2025 Portfolio	53,204,298	2.11	49,346,137	1.94
Life Cycle 2035 Portfolio	32,565,931	1.07	28,593,392	1.06
Life Cycle 2045 Portfolio	18,740,789	0.58	16,405,046	0.68
Life Cycle 2055 Portfolio	10,185,063	0.38	8,026,436	1.71
Life Cycle 2020 Portfolio	3,775,006	2.60	2,909,595	2.71
Life Cycle 2030 Portfolio	5,350,236	1.61	3,087,360	1.56
Life Cycle 2040 Portfolio	4,518,411	0.70	3,391,977	0.78
Life Cycle 2050 Portfolio	3,013,591	0.47	1,637,973	1.25
Oakmark Equity and Income Fund (The) - Class I	20,615,172	-	20,893,841	-
Vanguard Total Bond Market Index Instl	17,516,247	8.20	16,031,820	8.40
Life Cycle Conservative Portfolio	41,333,547	2.79	39,979,984	2.24
Templeton Global Bond Fund - Class R6	3,093,416	1.20	2,972,907	3.08

Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and has responsibility for managing their exposure to fair value loss.

NOTE 4 – ALLOCATED LIFE INSURANCE CONTRACTS

Generally accepted accounting principles require that contracts in a participant's name be excluded from the face of the financial statements. This product was closed to new participants in 2001. The values of insurance contracts change daily due to premiums paid, investment return and settlements of cash surrender value. Due to the actual cash surrender value being significantly less than the policyholder account value in the early years of universal life insurance contracts, a participant may receive substantially less than the value of their account upon the withdrawal of funds from their universal life insurance contract. The total amount of life insurance in force at June 30, 2019 and 2018, was \$10,616,498 and \$11,609,992 respectively. The cash surrender value of policies in force as of June 30, 2019 and 2018, was \$1,335,847 and \$1,457,469, respectively.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 5 – PLAN ADMINISTRATOR AND ADMINISTRATIVE EXPENSES

The Plan's third-party administrator is Nationwide Retirement Solutions, Inc. (NRS). For services performed, NRS receives an annual per participant account administrative fee; this fee is charged at an average cost of \$8.50 per quarter plus .135% of assets, not to exceed \$26 per quarter, per participant. NRS and Nationwide are subsidiaries of Nationwide Financial Services, Inc. In fiscal year 2018 NRS charged at an average cost of \$7.50 per quarter plus .135% of assets, not to exceed \$26 per quarter, per participant.

The Plan's independent investment consultant is Meketa Investment Group (MIG). For services performed by MIG an annual fee is charged at an average cost of \$0.96 per quarter per participant. In fiscal year 2018 the annual fee was at an average cost of \$1.02 per quarter per participant.

The New Mexico Public Employees Retirement Association (PERA) receives an annual per participant fee to cover the direct expenses of administering the Plan; this fee is charged at an average cost of \$1.03 per quarter per participant. In fiscal year 2018 the fee was at an average cost of \$1.00 per quarter per participant.

NRS charges an initial set-up fee of \$50 and an annual maintenance fee of \$50 on each participant self-directed brokerage account. Charles Schwab may assess a charge on transfers related to participant self-directed brokerage accounts. NRS charges an annual loan maintenance fee of \$50. There is also the possibility of an annual loan default fee of \$50 and an insufficient funds fee of \$25. Another optional service available to Plan participants is Morningstar Advice Online. A \$45 annual fee is charged to participant's using this service.

NOTE 6 – TAX STATUS

In the opinion of the legal counsel, the Plan is an eligible deferred compensation plan as defined by Section 457 to the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or, otherwise, made available to the participant or their beneficiary.

NOTE 7 – RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Plan Net Position.

NOTE 8 – RELATED PARTIES

Certain Board members of the Public Employees' Retirement Association are active participants in the Plan.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

NOTE 9 – SUBSEQUENT EVENTS

Subsequent to year end, the Plan's third-party administrator (TPA) changed from Nationwide Retirement Solutions (NRS) to Voya Financial (Voya). The change was effective October 2019. Investment options for the Plan did not change as a result of the change in TPA.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
June 30, 2019**

<i>Participants</i>	<i>Party Responsible for Operations</i>	<i>Beginning and Ending Dates</i>	<i>Total Estimated Amount of Project</i>	<i>Portion Applicable to the Agency</i>	<i>Amount Agency Contributed in the Current Fiscal Year</i>	<i>Audit Responsibility</i>	<i>Fiscal Agent</i>	<i>Government Agency Where Revenues and Expenditures are Reported</i>
Nationwide Retirement Solutions, Inc. Public Employees Retirement Board	Nationwide Retirement Solutions, Inc.	October 1, 2011 through September 30, 2019	Annual fee assessed quarterly \$45-\$52 per participant account	\$ -	\$ -	Nationwide Retirement Solutions, Inc.	N/A	State of New Mexico Deferred Compensation Plan



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the State Auditor, Board of Directors and PERA
The State of New Mexico Public Employees' Deferred Compensation Plan
Santa Fe, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State of New Mexico Public Employees' Deferred Compensation Plan (the Plan), as of and for the year then ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements and have issued our report thereon dated October 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
October 24, 2019

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF OFFICIALS ROSTER
June 30, 2019**

Ms. Jackie Kohlasch	Chair	State Member
Mr. John Melia	Vice-Chair	Municipal Member
Ms. Claudia Armijo		State Member
Mr. Stephen Neel		State Member
Mr. David Roybal		State Member
Ms. Patricia French		Municipal Member
Mr. Lawrence Davis		Municipal Member
Ms. Shirley Ragin		County Member
Mr. Daniel Mayfield		Retiree Member
Ms. Loretta Naranjo-Lopez		Retiree Member
Ms. Maggie Toulouse Oliver	Ex-Officio	Secretary of State
Mr. Tim Eichenberg	Ex-Officio	State Treasurer

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SCHEDULE OF EXIT CONFERENCE ATTENDEES
June 30, 2019**

The exit conference was held on October 24, 2019 and was attended by the following individuals:

Board Members Present:

Ms. Jackie Kohlasch	Board Chair	State Member
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Management Present:

Mr. Wayne Propst	Executive Director
Mr. Dominic Garcia	Chief Investment Officer
Ms. Anna Williams	Chief Financial Officer
Ms. Karyn Lujan	Deferred Compensation Plan Manager

Eide Bailly, LLP.:

Brad Berls	Partner
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In accordance with 2.2.2.10(M)(1) NMAC, the exit conference was held with representatives of the governing authority and top management.

In accordance with 2.2.2.10(M)(3) NMAC, the audit report is not to be released to the public until released by the State Auditor's Office and is public record.

In accordance with 2.2.2.10(M)(4) NMAC, the audit report will be presented, after the required five day waiting period, to a quorum of the Board of Trustees.

**STATE OF NEW MEXICO PUBLIC EMPLOYEES'
DEFERRED COMPENSATION PLAN
SUMMARY OF AUDIT RESULTS
June 30, 2019**

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No