New Mexico Educational Retirement Board

Real Estate Portfolio Summary
Natural Resources Portfolio Summary

June 30, 2011

Presented by

New Mexico Educational Retirement Board Real Estate Portfolio As of June 30, 2011	
Current Portfolio Market Value	**$505.6 million** 5.3% of total Fund ($9.5 billion)
Current Unfunded Investment Commitments	**$153.1 million**
Total Investments Existing and Unfunded Commitments	**$658.7 million** 6.9% of total Fund
Target Allocation to Real Estate	**$475.7 million** 5.0% of total Fund
Total Number of Investments	11

Summary of Portfolio Investment Returns - Gross of Fees

Investment	Market Value	Qtr.	YTD	1 Yr.	3 Yrs.	Annualized Since Inception
Private Real Estate	(In millions)					
Core	$17.7	5.5%	12.6%	33.7%	-16.4%	-14.6%
Value Added	19.6	6.0%	6.2%	27.4%	0.1%	1.9%
Opportunistic	23.6	1.8%	3.9%	-65.3%		-90.9%
Commercial Mortgages	60.4	-0.9%	1.9%	5.4%	0.9%	3.1%
Total Private Real Estate	**$121.3**	**1.5%**	**4.5%**	**20.7%**	**-1.4%**	**0.9%**
Public Real Estate						
In House REIT Index Fund	$384.3	3.9%	10.8%	36.2%	5.4%	
Total Real Estate	**$505.6**	**3.3%**	**9.3%**	**32.4%**	**5.0%**	**3.6%**
NCREIF Benchmark		3.9%	7.4%	16.7%	-2.6%	-1.6%
Wilshire REIT Index		3.9%	10.8%	35.7%	4.8%	

Gross of Fee Returns

Total Real Estate

$505.6 M

Ytd. Return 4.5%

Core Portfolio

$17.7 M

% of Portfolio	3.5%
Ytd. Return	12.6%
NCREIF Ytd. Return	7.4%

- Prologis Targeted U.S. Logistics Fund
- Prologis Europe I
- Prudential Senior Housing Partners IV

Value Added

$19.6 M

% of Portfolio	3.9%
Ytd. Return	6.2%
NCREIF Ytd. Return	7.4%

- Greenfield Acquisition Partners V

Opportunistic

$23.6 M

% of Portfolio	4.7%
Ytd. Return	3.9%
NCREIF Ytd. Return	7.4%

- Lone Star Fund VII
- Lone Star Real Estate Fund II
- ORG NM Secondary Opportunity Fund

Commercial Mortgages

$60.4 M

% of Portfolio	11.9%
Ytd. Return	1.9%
NCREIF Ytd. Return	7.4%

- Guggenheim Structure Real Estate Fund III
- PRIMA Mortgage Investment Trust

US Public Real Estate

$384.3 M

% of Portfolio	76.0%
Ytd. Return	10.8%
Wilshire Ytd. Return	10.8%

- In House REIT Index Fund
- Brookfield U.S. Securities

Total Returns	Quarter	YTD	1 Yr.	3 Yrs.	5 Yrs.
NCREIF Property Index	3.9%	7.4%	16.7%	-2.6%	3.5%
DJ Wilshire Securities Index	3.9%	10.8%	35.7%	48.0%	1.7%
S & P 500 Index	0.1%	6.0%	30.7%	3.3%	2.9%
Barclays Cap. Govt/Credit Index	2.3%	2.6%	3.7%	6.2%	6.4%
Consumer Price Index	2.0%	3.0%	3.6%	1.0%	2.2%

REAL ESTATE CAPITAL MARKET CONDITIONS

Commercial real estate values have been recovering despite little improvement in the underlying real estate fundamentals. Nowhere is this recovery more evident than in the performance of the NCREIF indices. The NCREIF NPI total return turned positive on a quarterly basis in Q1, 2010 as illustrated in the table below:

NCREIF Reported Total Return Performance							
	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q1 '10	1 Yr Ending Q4 '09
NPI	3.9%	3.4%	4.6%	3.9%	3.3%	0.8%	-16.9%
NPI – ODCE – Net	4.4%	3.8%	4.7%	5.2%	4.1%	0.5%	-30.4%
Property Types							
Apartment	4.2%	3.3%	6.3%	6.0%	4.4%	0.4%	-17.5
Industrial	4.5%	3.3%	3.4%	2.8%	2.2%	0.6%	-17.9
Office	4.5%	3.2%	3.9%	3.1%	3.4%	0.9%	-19.1
Retail	2.5%	3.6%	4.8%	3.4%	2.8%	1.1%	-11.0

Total return performance consists of the income component of return and the appreciation component of return. Beginning with the second quarter of 2008, all property types in the NPI posted eight sequential quarters of negative appreciation. This negative appreciation was offset each quarter by income generated at the property level. In Q1 2010, NPI total return turned positive and in Q2 2010 the appreciation component of return turned positive as well. Trailing one-year total return performance as of June 30, 2011 was +19.3% (net of fees) for the NFI–ODCE Index and +16.7% for the NPI. It only appears possible for this level of total return performance to continue if there is improvement in underlying property market fundamentals. Thus far, six quarters into the "value recovery" the gains are solely attributable to declining cap rates and not increased property cash flows.

Using occupancy statistics published from a variety of sources, occupancy across all property types improved in Q2, 2011. While this national all property type composite occupancy statistic is comforting, relatively flat occupancy across office, industrial and retail is masked by the occupancy gains in the apartment sector. Apartments ended the quarter nearly 95% occupied in a discernable uptrend, while retail, industrial, and office occupancy remains stagnant at 90%, 88% and 85% respectively. Without positive demand and absorption, and despite the fact that no new space is being added to the market, it is our opinion that owners are competing on price to gain occupancy. Our view is supported by NCREIF which is reporting NOI growth for retail has been generally flat, while industrial and office continue to report declining net operating income.

We believe improvement in the fundamentals is required for this recovery in value to be sustainable. The decline in interest rates and cap rates, and the decline in the risk premium assigned to owning an illiquid asset such as real estate, we believe has run its course.

Total Returns	Quarter	YTD	1 Yr.	3 Yrs.	5 Yrs.	Avg. Annual Std. Deviation
NCREIF Property Index *	3.9%	7.4%	16.7%	-2.3%	3.5%	8.3%
Industrial	4.5%	7.9%	14.7%	-3.7%	2.5%	8.3%
Office	4.5%	7.8%	15.5%	-4.1%	3.7%	10.7%
Retail	2.5%	6.3%	15.1%	0.0%	4.3%	7.1%
Apartments	4.2%	7.7%	21.4%	-1.4%	2.9%	8.2%

* NCREIF Property Index as of 6/30/2011

Industrial

- Industrial vacancy rate fell for the fourth consecutive quarter
- National average vacancy rate fell by 10 bps to 13.9% in Q2
- New supply remains relatively flat; with virtually no new construction in 2011
- Transaction volume was $6.6 billion, a 64% increase over the same period in 2010; cap rates were unchanged at 7.9%.

Apartments

- Net absorption was 41,000 units for Q2
- National Vacancy rate of 5.9%, down 30 bps from 6.2% in Q1
- Asking and effective rents increased 0.6% over the first quarter
- Only 8,700 apartment units were delivered in Q2, up slightly from Q1
- Deliveries are expected to exceed 110,000 units nationally for 2011
- Transaction volume surged to nearly $14.0 billion, an increase of 132.0% from the same period in 2010; average transaction cap rate decreased by 20 bps to 6.6%..

Office

- Office vacancy declined for the fourth consecutive quarter
- National average vacancy rate fell by 20 bps to 16.2% in Q2
- 1.8 million square feet of new office space was delivered during Q2
- New deliveries are projected to reach 20.8 million square feet annually in 2011-2015
- Transaction volume was $14.0 billion, a 50.0% increase over the same period in 2010
- Sales are driven mostly by CBD properties in major markets, mainly Washington DC and New York City; cap rates fell to 7.4%.

Retail

- Neighborhood and community shopping center fundamentals weakened during Q2; vacancy rates increased by 10 bps to 11.0%
- Only 638,000 square feet of new space was delivered in Q2, the lowest level of new space delivery on record; asking and effective rents were flat during Q2
- Vacancy increased by 20 bps nationally within the region mall sector
- Asking rents for regional malls remained unchanged in the second quarter
- Transaction volume across the entire retail sector increased to $15.2 billion, an increase of 337% over the same period in 2010; average cap rates remained unchanged at 7.7%..

Total Portfolio	Investment Type	2nd Qtr. 2011 Market Value	Original Commitment	Remaining Capital to be Called
Commingled Funds				
Prologis Europe I	Core	$6,255,503	$10,713,400	$0
Prologis Targeted U.S. Logistics	Core	11,438,792	20,000,000	0
Greenfield Acq. Partners V	Value Added	19,609,696	25,000,000	6,725,000
Guggenheim Structured Real Estate Fund III	Coml. Mortgages	10,597,494	25,000,000	0
Lone Star Fund VII	Opportunistic	3,617,655	50,000,000	45,721,153
Lone Star RE Fund II	Opportunistic	584,272	25,000,000	23,795,740
ORG NM Secondary Opportunity Fund	Opportunistic	19,454,783	40,000,000	26,876,618
Prima Mortgage Inv. Trust	Coml. Mortgages	49,762,755	50,000,000	0
Prudential Senior Housing IV	Core	0	50,000,000	50,000,000
Total Commingled Funds		**$121,320,950**	**$295,713,400**	**$153,118,511**
Public Real Estate				
In House REIT Index Fund	US Public REIT	384,272,548		
Total Portfolio		**$505,593,498**	**$295,713,400**	**$153,118,511**

New Mexico ERB Portfolio

- In the second quarter 2011, Greenfield Fund V called $2.6 million, Lone Star Fund VII called $4.3 million, Lone Star RE Fund II called $1.2 million ORG NM Secondary Fund called $1.4 million and Prima Mortgage Investment Trust returned $0.8 million.

- In May ERB approved a $50mm commitment to Prudential Senior Housing Partners IV. In addition, Brookfield Investment Management was hired to run a $100 million U.S. real estate securities separate account that will be funded by transferring assets from the In-house REIT Index Fund. The Brookfield investment was funded after quarter end.

Quarterly Activity and Notable Subsequent Events

- **ProLogis Europe Logistics Fund ("ELF") -** During the second quarter of 2011, the merger of ProLogis and AMB was finalized. From an operational perspective, portfolio occupancy increased 50 bps to 92.6%, due to high retention of tenants with expiring leases and several new leases in the Paris portfolio. In the second quarter, ELF acquired a fully leased property from ProLogis for €13.1 million. The 10,285 square meter property is located in a business park near Schiphol Airport in Amsterdam and is the fifth property in this market that is owned by ELF. NAV for ELF for the quarter remained essentially flat relative to the prior quarter..

- **ProLogis Targeted U.S. Logistics Fund, L.P. ("USLF")** – During the second quarter of 2011, the merger of ProLogis and AMB was finalized. Performance in the Fund was 6.7% in Q2, and 34.7% for the year ending June 30, 2011. Occupancy in USLF remained stable at 93.8%, a rate which is 770 bps higher than the national industrial occupancy average during the second quarter. Leasing activity and tenant retention increased with 1.9 million square feet of new leases begin in the second quarter and a retention rate of 63.0%. In Q2 2011 USLF acquired a fully leased R&D property in the San Francisco Bay Area for $12.6 million and disposed of a property in Chicago for $31.1 million as part of its strategy to reduce exposure to the Chicago market.

- **Guggenheim Structured Real Estate 3 LP, LLC ("GSR3LP")** – During the second quarter of 2011, the GSR3LP manager continued to negotiate and extend loans to maximize the ultimate recovery available to the fund. Prepayment of several mortgages are expected to be distributed during the second and third quarters, with a total of $465 million in distributions-to-date or 37% of committed capital returned to limited partners. Guggenheim expects low interest rates to continue to result in early prepayment activity. 18 positions remain in the fund with the largest investment (secured by the EOP office portfolio) representing approximately one-third of remaining expected proceeds.

- **Greenfield Acquisition Partners V, L.P. ("GAP V")** – Immediately after the end of the second quarter, GAP V closed on the refinancing of three completed Magna hotels allowing Greenfield to distribute $120 million to investors in Q3. Of the gross capital called through July 2011 of $731 million, net of the $120 million distribution, investors have net capital in GAP V of $611 million. Unless the GAP V line of credit maturity date is extended beyond 10/1/11, additional capital will be called in Q3. Greenfield projects a net total return of 10-11% IRR for GAP V; however this outcome is heavily reliant upon results at Clayton, where results have been slow to materialize. Relative to the 2011 budget, revenues generally appear on track at $54.6 million for the first six months of the year, while EBITDA of $3.7mm for the first six months is 8% ahead of budget. Greenfield carries the GAP V investment of $168 million at a FMV of $202 million at quarter-end.

Quarterly Activity and Notable Subsequent Events

- **Lone Star Fund VII, L.P. ("LSFVII")** - During the second quarter of 2011, LSFVII closed one additional investment (RMBS 2011-2), a portfolio of 124 originally AAA rated bonds secured by U.S. residential mortgages, which were acquired from a European Bank. The Fund acquired the bonds at approximately 40.7% of the approximately $1.74 billion unpaid balance (UPB). Subsequent to the end of quarter, LSFVIII closed on an additional portfolio (RMBS 2011-3) of 105 AAA bonds for a total cost of $945.6 million (38% of $2.5 billion of UPB). Lone Star continues to fund raise for LSFVII and reports total commitments of $4.6 billion as of July 31, 2011. $355 million of the $4.6 billion committed to LSFVII was called at the end of Q2.

- **Lone Star Real Estate Fund II (US), L.P. ("LSREFII")** – During the second quarter of 2011, LSREII acquired a Class A CMBS and bonds with an unpaid principal balance of $554 million for $333 million. The investments are backed by a substantially performing portfolio of 594 commercial real estate first mortgage loans comprised of 92.0% multifamily, 5.0% mobile home and 3.0% mixed-use properties. Two additional acquisitions were scheduled to close after quarter end. During the quarter, Lone Star was able to partially monetize 134 notes held in the Chalk investment through a securitization which closed in June. Due to lower required equity at the Chalk investment than forecast and earlier than planned liquidation of a portion of the Chalk portfolio, the IRR of Chalk was revised upwards by 527 bps to 30.27%. As of the end of June 30, 2011 the Fund had closed or committed to acquire six investments for an aggregate acquisition price of $1.5 billion.

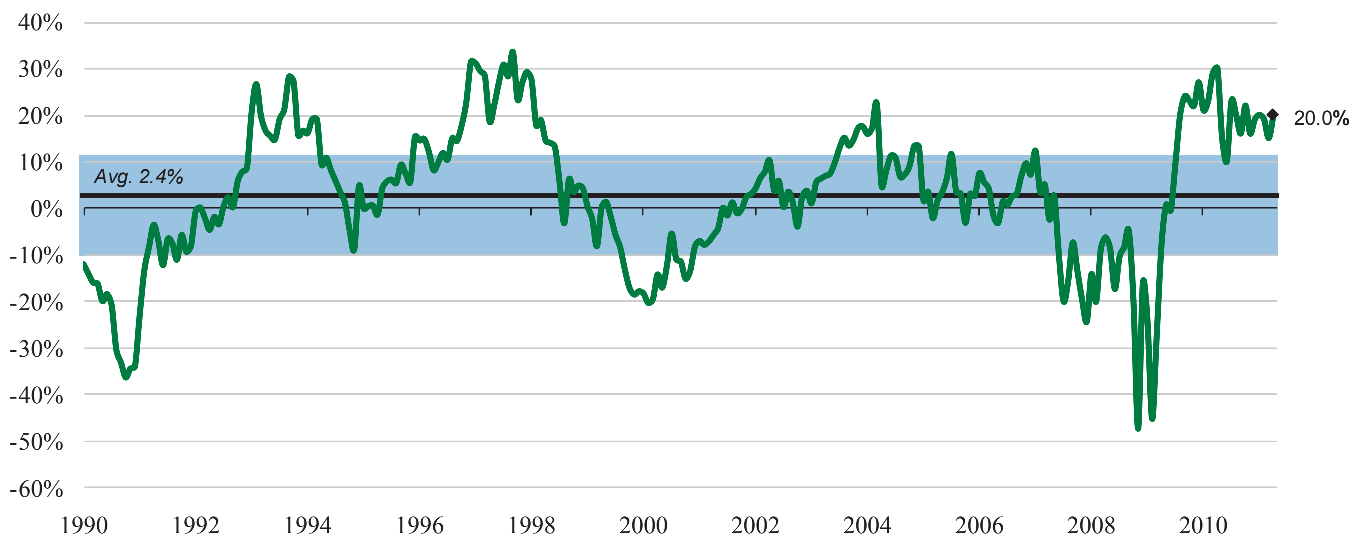
- **Prima Mortgage Investment Trust ("PMIT")** – PMIT produced a 3.09% net total return for Q2 and a net total return of 6.31% for the first half of 2011. This performance was attributed to declining interest rates and a declining risk premium assigned to the real estate asset class by yield starved investors. Declining interest rates have pushed values up across the PMIT portfolio but are making attractive new acquisitions difficult for Prima to identify. Due to declining rates, the FMV for the portfolio of $623.6 million is greater than the face value ($622.3 million) of the portfolio. The Fund has 114 positions, with an average life of 4.77 years, duration of 3.6 years and annualized yield to maturity of 5.6% .

- **ORG NM Secondary Opportunity Fund (the "Secondary Fund")** – There was no significant activity during Q2 for the ORG NM Secondary Fund. During the quarter, offers were made for several partnerships owned by two different sellers. The first offer for a portfolio of three funds was rejected due to the price specifically related to one fund, while the second seller sold to a competing buyer at a higher price. We continue to seek out acquisition opportunities in performing funds that are available due to seller liquidity or other urgent cash requirements.

Quarterly Activity and Notable Subsequent Events (Continued)

- **REITS—US**

U.S. Equity REITS—Historical Premium/Discount to NAV

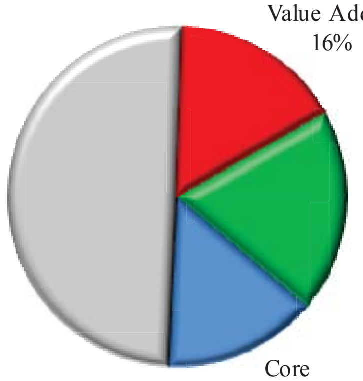


Source: Green Street Advisors
As of April 30, 2011

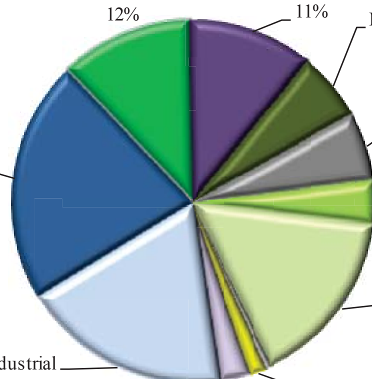
Portfolio Composition by Market Value

For the Period Ended 6/30/2011

Portfolio Diversification—Private Real Estate Only

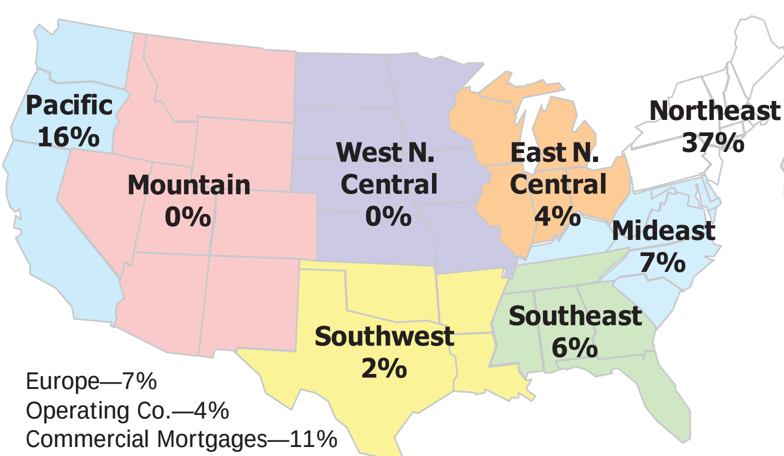


Investment Type—Private Real Estate Only



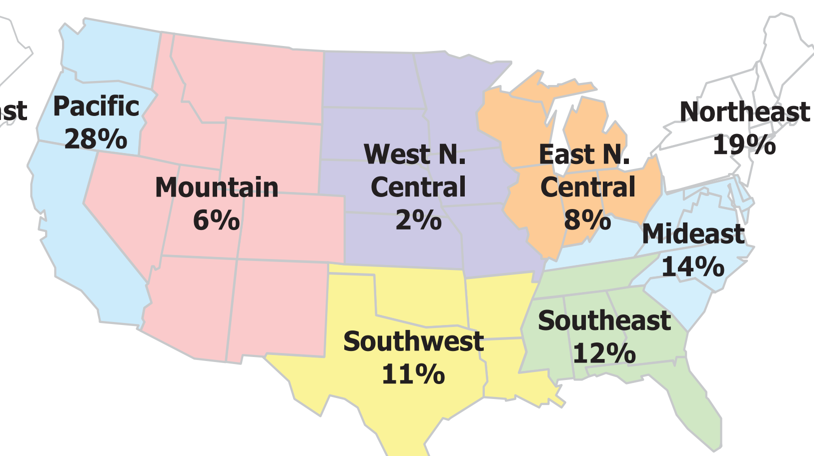
Geographic Diversification

NMERB Portfolio—Private Real Estate Only



Europe—7%
Operating Co.—4%
Commercial Mortgages—11%

NCREIF—Private Real Estate Only



ORG PORTFOLIO MANAGEMENT

Investment Policy Fund	Market Value (in Millions)	Total Gross Returns Qtr.	YTD	1 Yr.	3 Yrs.	Since Inception
Core	**$17.7**	**5.5%**	**12.6%**	**33.7%**	**-16.4%**	**-14.6%**
Prologis Targeted U.S. Logistics Fund	$11.4	6.7%	12.2%	34.7%	-17.1%	-15.2%
Prologis Europe I	$6.3	3.3%	13.2%	31.8%		-12.8%
Prudential Senior Housing IV	$0.0					
Value Added	**$19.6**	**6.0%**	**6.2%**	**27.4%**	**0.1%**	**1.9%**
Greenfield Acquisition Partners V	$19.6	6.0%	6.2%	27.4%	0.1%	1.9%
Opportunistic	**$23.6**	**1.8%**	**3.9%**	**-65.3%**		**-90.9%**
Lone Star Fund VII	$3.6	-37.7%	-37.7%			-37.7%
Lone Star Real Estate Fund II	$0.6	-90.9%	-90.9%			-90.9%
ORG NM Secondary Opportunity	$19.4	1.1%	3.2%	-65.6%		-90.9%
Commercial Mortgages	**$60.4**	**-0.9%**	**1.9%**	**5.4%**	**0.9%**	**3.1%**
Guggenheim III	$10.6	0.2%	1.5%	1.0%	-12.4%	-8.7%
Prima Mortgage Inv. Trust	$49.8	-1.1%	2.1%	6.8%		6.2%
Private Real Estate	**$121.3**	**1.5%**	**4.5%**	**20.7%**	**-1.4%**	**0.9%**
Public Real Estate	**$384.3**	**3.9%**	**10.8%**	**36.2%**	**5.4%**	
In House REIT Index Fund	$384.3	3.9%	10.8%	36.2%	5.4%	
TOTAL	**$505.6**	**3.3%**	**9.3%**	**32.4%**	**5.0%**	**3.6%**
NCREIF Property Index		3.9%	7.4%	16.7%	-2.6%	-1.6%
Wilshire REIT Index		3.9%	10.8%	35.7%	4.8%	