New Mexico Educational Retirement Board

Real Estate and Natural Resources Portfolio Quarterly Board Summary

December 31, 2012

Presented By

REAL ASSET Portfolio Management
Real Estate
Natural Resources
Infrastructure

Table of Contents

Portfolio Summary

Portfolio Review

As of December 31, 2012, New Mexico Educational Retirement Board ("NMERB") had a total portfolio value of $9,909,203,429 NMERB's long-term target allocations to real estate and natural resources are 5% ($495,460,171) and 3.5% ($346,822,120) respectively. As of December 31, 2012, net asset value ("NAV") of the real estate portfolio was $547,430,037 and NAV for the Natural Resources portfolio was $47,946,721.

As of December 31, 2012, NMERB had $131,877,743 of committed but uncalled allocations to private real estate managers and $58,315,000 of committed but uncalled allocations to Natural Resources managers. Not included in the numbers above are allocations to Brookfield Brazil Timber Fund II ($30m), Crow Holdings Fund VI ($50m), Halderman Agriculture Separate Account ($50m), Lone Star Real Estate Fund VIII ($50m), and Sares Regis ($30m), which were approved but capital has not been contributed as of the end of the quarter.

Returns Summary

	Time Weighted Returns		Since Inception Net IRR
	Current Quarter	Since Inception	
Public Real Estate	3.10%	9.35%	12.00%
Wilshire REIT Index	2.48%	9.12%	
Private Real Estate	4.94%	2.32%	4.37%
NCREIF Property Index	2.54%	1.90%	
Natural Resources	4.10%	1.40%	2.72%
NCREIF Timber	5.92%	0.88%	
CPI (All Consumers)	-0.01%	2.27%	

Portfolio Highlights

The real estate portfolio is expected to generate returns in excess of the National Council of Real Estate Investment Fiduciaries Index ("NCREIF Index") over rolling five year investment time horizons.

Key Private Asset Ratios as of 12/31/2012

Paid in Capital (PIC) 0.63x

Distribution Paid in Capital (DPI) 0.22x

Residual Value Paid in Capital (RVPI) 0.83x

Total Value Paid in Capital (TVPI) 1.05x

Trailing Period Time Weighted Returns – *Net of Fees*

	QTR	1 Year	3 Year	5 Year	Since Inception
Public Real Estate	3.10%	19.63%	18.79%	5.75%	9.35%
In-House REIT	2.50%	17.13%	18.08%	5.37%	9.13%
Wilshire REIT - U.S. Equity	2.48%	17.58%	18.21%	5.25%	9.12%
Brookfield U.S. Value REIT	4.50%	26.05%	N/A	N/A	14.44%
MSCI REIT Index	2.50%	17.77%	18.04%	5.58%	10.42%
Private Real Estate	4.94%	14.35%	15.06%	N/A	2.32%
NCREIF Property Index	2.54%	10.54%	12.63%	2.13%	1.90%
Natural Resources	4.10%	2.61%	4.28%	N/A	1.40%
NCREIF Timberland Index	5.92%	7.75%	3.00%	2.66%	0.88%
CPI (All Consumers)	-0.01%	2.54%	2.33%	1.96%	2.27%

Calendar Year Time Weighted Returns – *Net of Fees*

	YTD	2011	2010	2009	2008
Public Real Estate	19.63%	8.82%	28.77%	27.89%	-38.31%
In-House REIT	17.13%	9.16%	28.77%	27.89%	-38.31%
Wilshire REIT - U.S. Equity	17.58%	9.24%	28.60%	28.60%	-39.20%
Brookfield U.S. Value REIT	26.05%	N/A	N/A	N/A	N/A
MSCI REIT Index	17.77%	8.69%	28.48%	28.61%	-37.97%
Private Real Estate	14.35%	8.33%	22.97%	-1.05%	N/A
NCREIF Property Index	10.54%	14.26%	13.11%	-16.86%	-6.46%
Natural Resources	2.61%	2.89%	7.41%	N/A	N/A
NCREIF Timberland Index	7.75%	1.57%	-0.15%	-4.75%	9.52%
CPI (All Consumers)	2.54%	2.96%	1.50%	2.72%	0.09%

Portfolio Statistics

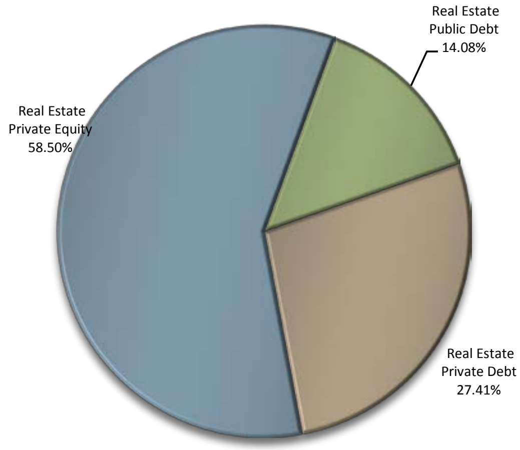
	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Portfolio Market Value	$ 595,376,758	$ 543,006,209	$ 476,599,485	$ 390,763,308
Committed Uncalled	190,192,743	131,314,468	31,375,528	50,752,104
Portfolio Market Value + Committed Uncalled	$ 785,569,501	$ 674,320,677	$ 507,975,012	$ 441,515,413
Total Number of fund Investments	16	13	8	8
Total Number of Managers	14	11	7	7

Private Asset Multiples

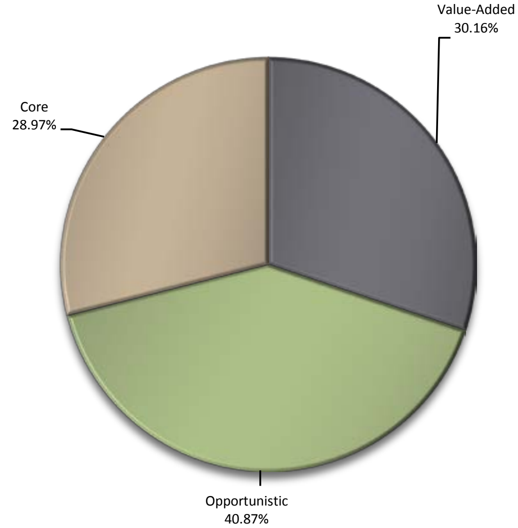
	12/31/2012	12/31/2011	12/31/2010	12/31/2009
PIC Multiple	.63 x	.51 x	.50 x	.48 x
Distribution Multiple	.22 x	.19 x	.11 x	.09 x
Residual Value Multiple	.83 x	.83 x	.85 x	.71 x
Total Value Multiple	1.05 x	1.02 x	.97 x	.80 x

Portfolio Diversification as of December 31, 2012

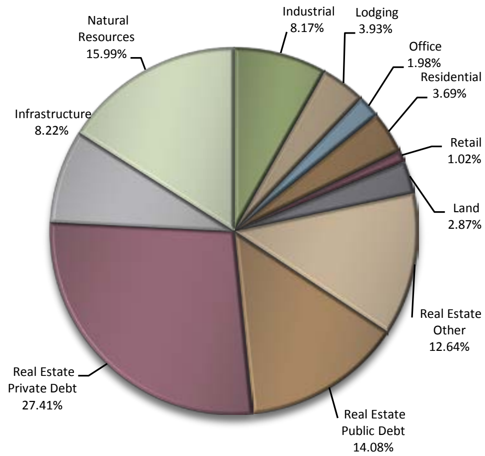
Private Diversification by Investment Class



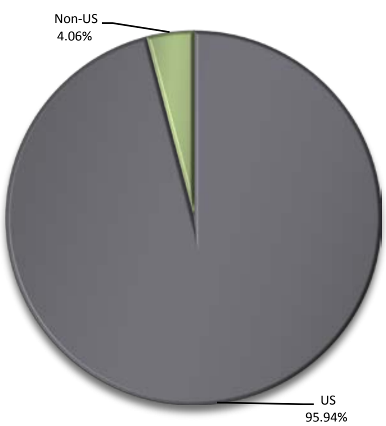
Private Asset Risk Category



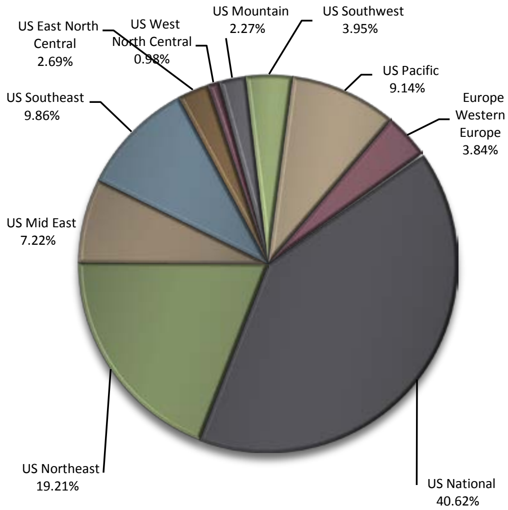
Private Asset Diversification by Investment Type



Private Asset US vs. Non-US Diversification



Private Asset Global Diversification



Manager Statistics

Manager Performance – *Net of Fees*

	Commitment ($)	Market Value ($)	Time Weighted Returns YTD	1 Year	3 Year	5 Year	Since Inception	Since Inception Net IRR
Private Real Estate								
Greenfield Acquisition Partners V, L.P.	25,000,000	25,113,309	8.72%	8.72%	17.13%	-	0.36%	7.18%
Guggenheim Structured Real Estate III, LP	25,000,000	8,936,508	7.17%	7.17%	3.38%	-	-6.38%	-7.41%
Lone Star Fund VII (U.S.), L.P.	50,000,000	42,374,027	38.76%	38.76%	-	-	50.40%	40.15%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	10,760,241	25.41%	25.41%	-	-	33.10%	15.98%
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,284,007	8.20%	8.20%	9.25%	-	6.04%	6.34%
Prologis Targeted Europe Logistics Fund, FCP-FIS	10,994,283	5,875,191	2.05%	2.05%	-0.10%	-	-11.20%	-11.19%
Prologis Targeted US Logistics Fund	21,704,649	13,498,845	12.57%	12.57%	16.65%	-	-7.78%	-7.76%
Prudential Senior Housing Partners IV	50,000,000	16,282,647	6.84%	6.84%	-	-	6.84%	2.32%
RAM Realty Partners III	30,000,000	11,778,953	-	-	-	-	-	1.19%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	24,186,121	4.90%	4.90%	-84.32%	-	-46.61%	29.76%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	3,600,510	119.71%	-	-	-	119.71%	19.66%
Private Real Estate Total	**373,153,478**	**212,690,359**						
Public Real Estate								
In-House REIT	773,270,071	214,124,708	17.13%	17.13%	18.08%	5.37%	9.13%	13.26%
U.S. Value Income REIT Strategy	98,959,550	120,614,970	22.65%	22.65%	N/A	N/A	12.37%	14.12%
Public Real Estate Total	**872,229,621**	**334,739,678**						
Natural Resources								
Conservation Forestry Capital Fund II, LP	25,000,000	26,653,199	5.19%	5.19%	5.48%	-	2.34%	3.60%
Ecosystem Investment Partners II, LP	30,000,000	6,459,755	-19.25%	-19.25%	-	-	-17.65%	-11.07%
Hancock GLC Farms, LLC	50,000,000	14,833,767	0.38%	-	-	-	0.38%	1.49%
Natural Resources Total	**105,000,000**	**47,946,721**						

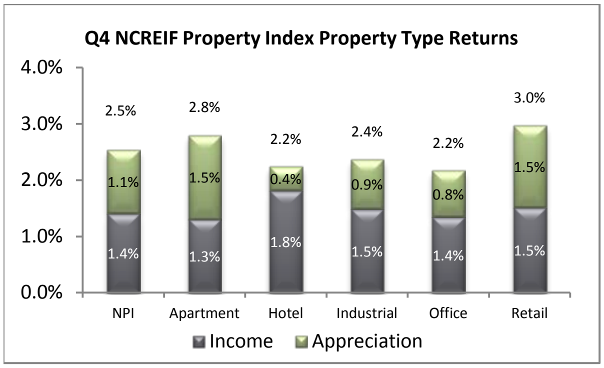
Manager Asset Detail

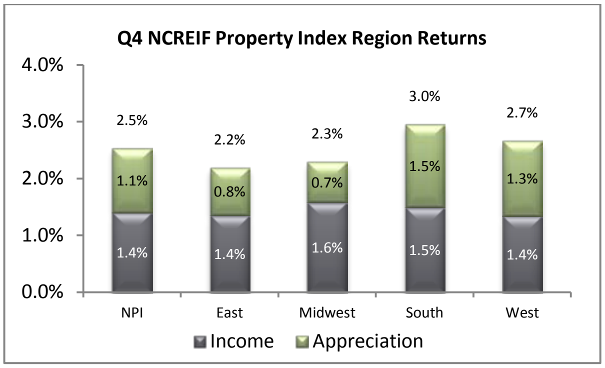
	Commitment ($)	Market Value ($)	Contributions ($)	Distributions ($)	Since Inception Net IRR
Private Real Estate					
Greenfield Acquisition Partners V, L.P.	25,000,000	25,113,309	24,650,000	(4,425,000)	7.18%
Guggenheim Structured Real Estate III, LP	25,000,000	8,936,508	25,000,000	(10,440,831)	-7.41%
Lone Star Fund VII (U.S.), L.P.	50,000,000	42,374,027	43,042,493	(13,396,017)	40.15%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	10,760,241	12,849,698	(3,611,781)	15.98%
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,284,007	50,000,000	(12,919,083)	6.34%
Prologis Targeted Europe Logistics Fund, FCP-FIS	10,994,283	5,875,191	10,994,283	(924,117)	-11.19%
Prologis Targeted US Logistics Fund	21,704,649	13,498,845	21,704,649	(1,829,303)	-7.76%
Prudential Senior Housing Partners IV	50,000,000	16,282,647	21,769,812	(5,671,380)	2.32%
RAM Realty Partners III	30,000,000	11,778,953	11,757,317	-	1.19%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	24,186,121	19,282,958	(4,629,337)	29.76%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	3,600,510	3,526,020	-	19.66%
Public Real Estate					
In-House REIT	773,270,071	214,124,708	773,270,445	(906,175,014)	13.26%
U.S. Value Income REIT Strategy	98,959,550	120,614,970	98,959,551	-	14.12%
Natural Resources					
Conservation Forestry Capital Fund II, LP	25,000,000	26,653,199	27,450,939	(3,028,715)	3.60%
Ecosystem Investment Partners II, LP	30,000,000	6,459,755	6,885,000		-11.07%
Hancock GLC Farms, LLC	50,000,000	14,833,767	14,800,000	-	1.49%

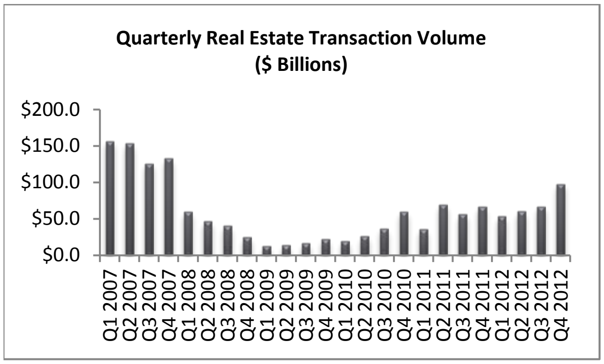
Note: Distributions shown include recyclable capital and contributions shown include recallable capital as well as contributions outside of commitment.

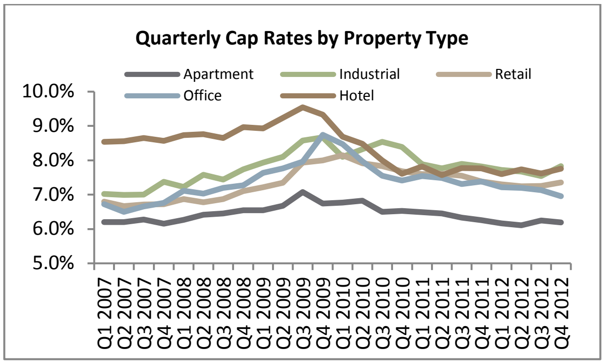
Market Overview

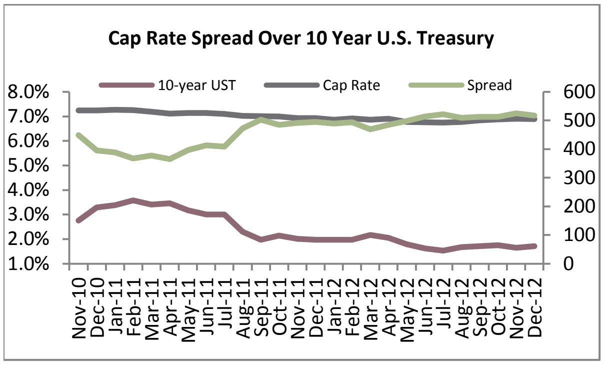
Real Estate Market Overview

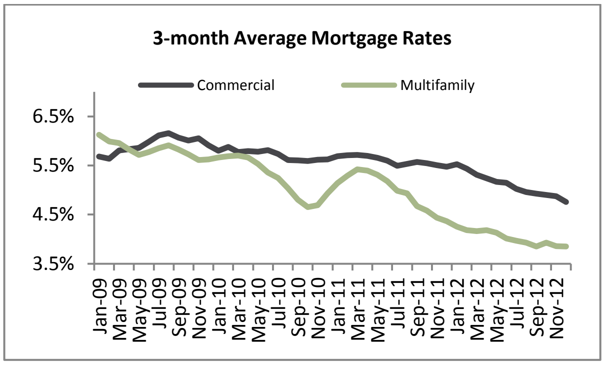


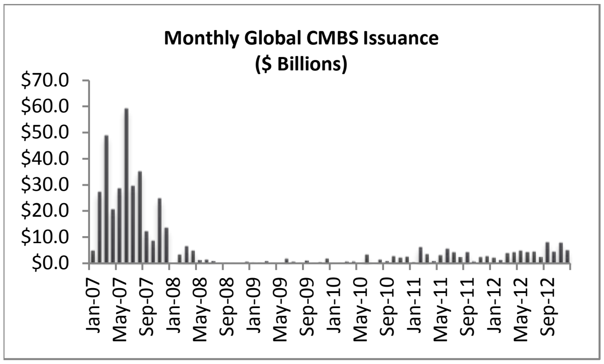


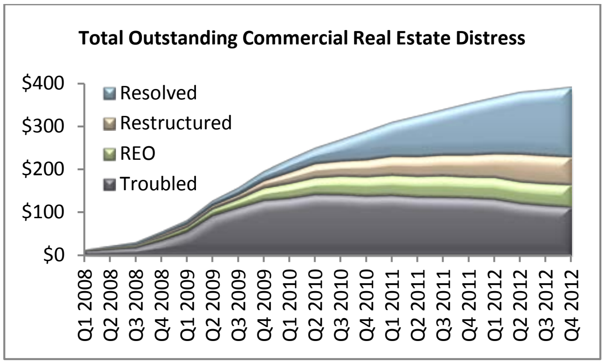












Sources: NCREIF, Real Capital Analytics

Real Estate Market Commentary

Once again, returns were positive across property types and regions, led by the retail sector and properties located in the Southern U.S. The spread between the top and bottom performing sectors and regions was tight at only 80 and 70 basis points, respectively. Within the retail sector, performance is skewed towards malls and in particular super-regional malls, who returned 4.25% in the fourth quarter, while regional malls, neighborhood, and community shopping centers returned 2.34%, 2.23%, and 2.15%, respectively. Although total return favors super-regional malls, it is evident that performance is primarily driven by appreciation at 2.75% compared to income of 1.51%, for the quarter; comparatively, the remaining sub-sectors of retail had stronger income returns over the same period. The retail sector in whole is being impacted by several trends, including a flight to quality, the squeezing of the middle class and middle market retailers, a lack of credit for small businesses, and limited new construction.

The fourth quarter saw a sizable jump in transaction volume, increasing $31 billion from the previous quarter end to $98 billion, still well below the peak levels seen in Q4 2007 at $133 billion, but a substantial increase in activity nonetheless. For 2012, sales volume totaled $283 billion, up from $229 billion in 2011. The surge, in part, is no doubt due to a motivation of sellers to close deals before the rise in tax rates anticipated in 2013. But, given the consistency of strong prices in the fourth quarter resulting from the relatively low cap rates, this not only indicates motivation on the side of the seller, it also shows an appetite from buyers. Thus we are seeing an improvement in the bid-ask spread and an alignment between both sides of the transaction, making for a more efficient market and heightened overall liquidity.

The cap rate compression seen in stabilized properties is partially driven by investors' hunt for yield amidst historically low 10-year Treasury rates. Over the quarter, the 10-year Treasury continued to remain near historic lows, dipping to 1.65% in November and closing out the quarter at 1.72%. Even at 1.72%, the average cap rate for all properties at 6.89% represents a 517 bps yield spread over 10-year Treasuries. Zooming in to a more granular level, we are seeing a notable investor preference for high-quality core assets, as exhibited by the difference in cap rates between CBD and suburban office, which are currently at 5.8% and 7.5%, respectively. As core property values continue to increase, some investors, in hopes of growing the investable space, are starting to expand their definition of "core." Comparatively, secondary markets and non-core assets appear to have strong relative value. The overall low rates and strong spreads should continue to encourage investor demand for real estate assets.

Historically low 10-year Treasuries have also lowered financing costs and fostered a supportive lending environment. Over the quarter, the average 7-10 year fixed rate debt on commercial properties and multi-family remained constant at 4.8% and 3.9%, respectively. With mortgage rates in the range of 4.0-4.5%, even transaction cap rates of 6.5% can result in cash-on-cash yields to investors of 8-9% with conservative leverage. Debt securitization markets are also improving. Though still well-below the monthly volumes seen in 2006-2007, global issuance of CMBS was $17.5 billion in Q4 2012 compared to $5.8 billion over the same time period in 2011.

The slowly improving fundamentals and capital markets are resulting in lower levels of distressed real estate, with resolved and restructured properties now accounting for a larger share of the outstanding distress than those that are troubled or in REO servicing. Of the $394 billion of mortgages that became troubled over the last cycle, 58% have been resolved. Defaults and transfers to special servicing of loans on commercial property continue to quickly decline. The percentage of sales associated with distress has fallen from 12% in Q2 2012, to 5% in Q4 2012, while recovery rates have also improved, particularly for apartment and CBD office properties.

Sources: NCREIF, Real Capital Analytics, Commercial Mortgage Alert

Timber Market Commentary

Residential housing starts continue to build momentum as demand fundamentals continue to improve. Monthly housing starts increased throughout Q4 2012 and averaged 900,000 units annualized. The increasing trend has been developing all year increasing by 25% from January to December. Both lumber production and prices have increased as well. Lumber production increased 7% while prices increased 30-40+%, however a dichotomy in saw timber stumpage prices exists between the Pacific Northwest, where prices have increased due to Asian export demand, and the Southeast, where prices remain flat, but are well positioned to benefit from a revival in domestic building.

Additional support for growth is evidenced by the Housing Affordability Index, which measures a borrower's ability to make loan payments on a home. It is measured by the relationship of household income to principal and interest payments on a mortgage with 80% loan to value. The ratio is 100 when 25% of the household median income (the numerator) is equal to the estimated mortgage payment, taxes, and insurance (the denominator). In November 2012, the index stood at 198.2, up from 186 in 2011, indicating an improvement in family's ability to finance home ownership, an inherent attribute required to drive growth.

U. S. Census Bureau, Random Lengths, Core Logic, National Association of Realtors.

Agriculture Market Commentary

Contrary to what people may have thought, the severe drought in the Midwest U.S. brought both confidence and optimism to farmers. As such, land prices continued to rise in the fourth quarter of 2012, rounding out the year with double-digit increases. Confidence arose from the effectiveness of crop insurance as a risk management tool. Even though crop yields were small (in some cases non-existent), crop insurance payments were able to stave off financial disaster. Optimism arose from the significant increase in commodity prices for the short current year crop but also the following crop year.

Given the confluence of low supply and high commodity prices, U.S. corn planting intentions for the 2013 crop year are projected, under "normal" weather circumstances, to increase for the fifth consecutive year to approximately 97 million acres, or a 30% increase over 2012 levels. Consequently, given the expected increase in supply, futures prices for corn for 2013 through 2016 all trade in the $5.50 per bushel range, offering a strong reprieve to buyers from the current $7.00+ per bushel price. RAPM believes the prices expressed through the futures market for corn represent the long-term equilibrium value.

While annual commodity prices can be volatile, the underlying land value is far less so as land reflects long-term demographic demand trends. Despite the recent upward movement, land value increases are expected to pause, while the market adjusts to recent events and the moderation of commodity futures. Concurrently though, the land available for purchase is anticipated to increase in both quantity and quality.

Sources: USDA-Foreign Agricultural Service, Seventh District Federal Reserve Bank of Chicago.

Appendix A

Summary of Portfolio Cash Flows

Quarter	Contributions	Distributions	Total
Q4 2003	51,000,000	-	51,000,000
Q1 2004	140,000,000	-	140,000,000
Q2 2004	125,450,000	-	125,450,000
Q4 2004	720,438	(720,438)	0
Q4 2005	-	(8,918,532)	(8,918,532)
Q1 2006	200,000	(92,452,388)	(92,252,388)
Q3 2006	-	(20,189,000)	(20,189,000)
Q4 2006	500,000	(51,495,881)	(50,995,881)
Q1 2007	-	(59,700,000)	(59,700,000)
Q2 2007	-	(77,400,000)	(77,400,000)
Q3 2007	277,650,000	(77,410,778)	200,239,222
Q4 2007	-	(58,200,000)	(58,200,000)
Q1 2008	82,200,000	(23,500,000)	58,700,000
Q2 2008	25,500,000	(50,900,520)	(25,400,520)
Q3 2008	44,852,570	(5,419,994)	39,432,576
Q4 2008	85,979,025	(80,673,450)	5,305,575
Q1 2009	55,122,204	(3,792,560)	51,329,644
Q2 2009	3,720,837	(5,031,451)	(1,310,614)
Q3 2009	2,182,090	(55,883,030)	(53,700,940)
Q4 2009	7,213,749	(3,850,747)	3,363,002
Q1 2010	4,451,516	(2,196,291)	2,255,226
Q2 2010	767,315	(1,688,459)	(921,144)
Q3 2010	1,174,065	(28,453,205)	(27,279,140)
Q4 2010	13,741,534	(4,526,081)	9,215,454
Q1 2011	3,347,300	(6,157,813)	(2,810,513)
Q2 2011	18,061,101	(4,971,517)	13,089,584
Q3 2011	106,908,262	(105,955,014)	953,249
Q4 2011	24,029,828	(7,889,008)	16,140,820
Q1 2012	8,040,365	(56,922,068)	(48,881,703)
Q2 2012	15,226,717	(4,900,403)	10,326,314
Q3 2012	26,639,799	(6,684,184)	19,955,615
Q4 2012	41,534,007	(61,437,326)	(19,903,319)
Total	$ 1,166,212,723	$ (967,320,134)	$ 198,892,589

Appendix B

Notes to the Performance Report

Multiples are calculated net of fees using private investments only.

The PIC Multiple is the cumulative contributed amount divided by committed capital. This multiple indicates how much of committed capital has been paid in.

The Distribution Multiple ("DPI") measures the portion of fund returns distributed to investors. When DPI is the equivalent of 1, the Fund has broken even. A DPI of greater than 1 indicates that the Fund has generated profit to the investors.

The Residual Value Multiple ("RVPI") measures the portion of returns that are unrealized.

The Total Value Multiple ("TVPI") provides information regarding the value of the investment relative to its cost basis, not taking into consideration the time invested.

Paid in Capital Ratios reflect all contributions made divided by the total commitments, without making adjustments for contributions that may be offset by recallable or true-up distributions.

Consistent with calculating Paid in Capital, Distributions to Paid in Capital Ratios reflect all distributions received divided by the aggregate total of contributions.

RAPM believes this is the most accurate way to reflect the cash flows experienced during the investment, though Paid in Capital and Distributed to Paid in Capital ratios may not exactly equal those values shown on manager-provided capital statements if the manager is adjusting for recallable distributions or true-up distributions for the Fund. All managers treat these classifications differently and therefore, RAPM utilizes actual cash flows experienced for calculating key ratios as of the quarter end.

Diversification statistics are based on net investment value.

All indices are gross of fee indices.

REIT returns and and Private Asset returns are calculated using different methodologies. The REIT returns are based on the monthly returns as reported by the Custodian and is calculated in accordance with accepted standards for daily liquid securities that require interim period monthly calculations for months in which large external cash flows occur. Private Asset returns are also calculated in accordance with accepted standards for these components using time weighted total rate of return that considers the timing of external cash flows; however, it does not distinguish between large and small cash flows and therefore does not utilize interim period performance to mitigate the impact of significant cash-in and outflows.

All performance numbers reflect data as reported to RAPM by the investment managers. RAPM has made an effort to verify the integrity of the data, including cross referencing what was reported for performance with fund financial and investor capital statements. However, RAPM serves as a data aggregator and reporter of fund level performance data and, therefore, cannot guarantee the accuracy of the underlying data reported by fund managers.