

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INFRASTRUCTURE PORTFOLIO

QUARTERLY PERFORMANCE MEASUREMENT

FOURTH QUARTER

DECEMBER 31, 2015



CALEDON CAPITAL MANAGEMENT INC.

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CANADA

## EXECUTIVE SUMMARY

The following report presents a summary of the portfolio composition and returns for the infrastructure investment portfolio (“Portfolio”) of the New Mexico Educational Retirement Board (“NMERB”). The Portfolio was established in July 2008. All data presented below are as of December 31, 2015.

## PORTFOLIO SUMMARY

|  |                |
|--|----------------|
| Portfolio Fair Value   | \$209,211,214* |
| Unfunded Investment Commitments  | \$202,829,700  |
| Total Exposure (Portfolio Fair Value plus Unfunded Investment Commitments) | \$412,040,914  |
| Portfolio Inception Date   | July 2008      |
| Total Number of Fund Investments   | 8              |
| Total Number of Direct Investments <sup>1</sup>                            | 4              |
| Net Internal Rate of Return (“IRR”) Since Inception                        | 3.1%*          |

## CURRENT COMMITMENTS

| <u>Commitments</u>                          | <u>Vintage Year</u> | <u>Fund Currency</u> | <u>Commitment (Local)</u> | <u>Commitment (USD)</u> | <u>Gross IRR<sup>2</sup></u> | <u>Net IRR<sup>2</sup></u> |
|---|---------------------|----------------------|---------------------------|-------------------------|------------------------------|----------------------------|
| Gateway Infrastructure Investments          | 2008                | USD                  | \$42,647,060              | \$42,647,060            | (4.3%)                       | (6.5%)                     |
| Alinda Infrastructure Fund II               | 2008                | USD                  | \$50,000,000              | \$50,000,000            | 12.5%                        | 8.5%                       |
| Alterna Core Capital Assets Fund            | 2009                | USD                  | \$55,000,000              | \$55,000,000            | 10.3%                        | 6.5%                       |
| Stonepeak Infrastructure Fund               | 2012                | USD                  | \$40,000,000              | \$40,000,000            | 21.4%                        | 10.7%                      |
| EQT Infrastructure Partners II <sup>3</sup> | 2012                | EUR                  | €30,000,000               | \$34,893,653            | 18.7%                        | 10.4%                      |
| Alterna Core Capital Assets Fund II         | 2012                | USD                  | \$25,000,000              | \$25,000,000            | 3.6%                         | (8.6%)                     |
| ISQ Global Infrastructure Fund              | 2014                | USD                  | \$50,000,000              | \$50,000,000            | NM                           | NM                         |
| Stonepeak Infrastructure Fund II            | 2015                | USD                  | \$50,000,000              | \$50,000,000            | NM                           | NM                         |
| <b>Total Fund Commitments</b>               |                     |                      |                           | <b>\$ 347,540,713</b>   | <b>6.9%</b>                  | <b>2.9%</b>                |
| Caledon Andromeda Investments LP            | 2013                | USD                  | \$85,000,000              | \$85,000,000            | 24.3%                        | 14.0%                      |
| <b>Total Direct Commitments</b>             |                     |                      |                           | <b>\$85,000,000</b>     | <b>24.3%</b>                 | <b>14.0%</b>               |
| <b>Total Portfolio</b>                      |                     |                      |                           | <b>\$ 432,540,713</b>   | <b>7.2%*</b>                 | <b>3.1%*</b>               |

\*Roll-forward valuation is used for ISQ Global Infrastructure Fund in the calculation of IRR and Portfolio Fair Value as actual GP valuation was not available at the time of preparing this report.

<sup>1</sup> Direct investments held through Caledon Andromeda Investments LP

<sup>2</sup> Since inception Internal Rate of Returns are calculated using New Mexico Educational Retirement Board cash flows and prevailing foreign exchange rates at the time of contributions and distributions, and may therefore be different than the return reported by the Manager.

<sup>3</sup> EUR commitment comprised of drawn commitments at actual funded USD plus unfunded commitment converted to USD per Bloomberg December 31, 2015 closing rate (\$1.0862/EUR).

## FUNDING STATUS

| <u>Investment</u>      | <u>Commitment</u>     | <u>Drawn Commitment<sup>4</sup></u> | <u>Unfunded Commitments<sup>5</sup></u> | <u>Distributions</u> |
|------------------------|-----------------------|-------------------------------------|---|----------------------|
| <b>Total Portfolio</b> | <b>\$ 432,540,713</b> | <b>\$229,711,013</b>                | <b>\$202,829,700</b>                    | <b>\$101,230,867</b> |

<sup>4</sup> Drawn commitments at actual funded USD amounts net of recallable distribution.

<sup>5</sup> Unfunded commitments include recyclable capital and may therefore not equal commitments minus capital contribution. While Gateway Infrastructure’s investment period has ended, it still has the ability to continue to call capital for follow-on investments and management fees.

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## PORTFOLIO CASH FLOWS AND PERFORMANCE

TOTAL PORTFOLIO  
INVESTMENT ACTIVITY STATEMENT (\$MILLIONS)

| Period       | A                   | B                  | Distributions     |                     |                  | C                  | E = D-(A+B-C)             | D                | Management Fees | Other Expenses | Total Fees  |
|--------------|---------------------|--------------------|-------------------|---------------------|------------------|--------------------|---------------------------|------------------|-----------------|----------------|-------------|
|              | Beginning Valuation | Total Contribution | Return of Capital | Capital Gain/(Loss) | Dividends/Income | Total Distribution | Change in Net Asset Value | Ending Valuation |                 |                |             |
| 2008         | -                   | 15.8               | 0.1               | -                   | -                | 0.1                | (1.2)                     | 14.5             | 0.6             | 0.4            | 1.0         |
| 2009         | 14.5                | 47.8               | 12.4              | -                   | 0.4              | 12.8               | 1.8                       | 51.3             | 2.3             | 0.5            | 2.8         |
| 2010         | 51.3                | 19.5               | 3.3               | -                   | 0.7              | 4.0                | 2.4                       | 69.3             | 2.3             | 0.3            | 2.6         |
| 2011         | 69.3                | 46.8               | 12.2              | -                   | 1.5              | 13.7               | 3.0                       | 105.4            | 2.8             | 0.2            | 3.0         |
| 2012         | 105.4               | 20.1               | 5.0               | 0.4                 | 4.3              | 9.7                | (4.3)                     | 111.4            | 2.5             | 0.8            | 3.3         |
| 2013         | 111.4               | 27.6               | 8.7               | -                   | 6.3              | 15.0               | 0.9                       | 124.9            | 3.9             | 0.4            | 4.3         |
| 2014         | 124.9               | 31.6               | 14.5              | 9.2                 | 3.5              | 27.2               | 10.4                      | 139.7            | 3.4             | 1.4            | 4.8         |
| Q1 - 15      | 139.7               | 18.8               | 0.4               | -                   | 0.8              | 1.2                | (0.4)                     | 156.9            | 0.9             | 0.3            | 1.2         |
| Q2 - 15      | 156.9               | 8.5                | 1.3               | 0.2                 | 1.2              | 2.7                | 4.8                       | 167.5            | 0.5             | 0.2            | 0.7         |
| Q3 - 15      | 167.5               | 19.3               | 4.4               | 0.3                 | 2.3              | 7.0                | 3.8                       | 183.6            | 1.0             | 0.3            | 1.3         |
| Q4 - 15      | 183.6               | 32.0               | 5.4               | 0.7                 | 1.7              | 7.8                | 1.4                       | 209.2*           | 1.8             | 0.9            | 2.7         |
| <b>Total</b> |                     | <b>287.8</b>       | <b>67.7</b>       | <b>10.8</b>         | <b>22.7</b>      | <b>101.2</b>       | <b>22.6</b>               | <b>209.2*</b>    | <b>22.0</b>     | <b>5.7</b>     | <b>27.7</b> |

Note: Amounts in table may not add due to rounding

\* Roll-forward valuation is used for ISQ Global Infrastructure Fund in the ending valuation for Q4-15 as actual GP valuation was not available at the time of preparing this report.

## SUMMARY OF PERFORMANCE

| <u>Time-Weighted</u>   | <u>Quarter</u> | <u>1-Year</u> | <u>2-Year</u> | <u>3-Year</u> | <u>5-Year</u> | <u>Since Inception</u> |
|------------------------|----------------|---------------|---------------|---------------|---------------|------------------------|
| Total Net Return       | 0.9%           | 5.2%          | 5.2%          | 3.9%          | 3.4%          | 0.6%                   |
| <u>Dollar-Weighted</u> |                |               |               |               |               |                        |
| Total Net IRR          |                |               |               |               |               | 3.1%*                  |

Note: Time-weighted net returns provided by NEPC, LLC

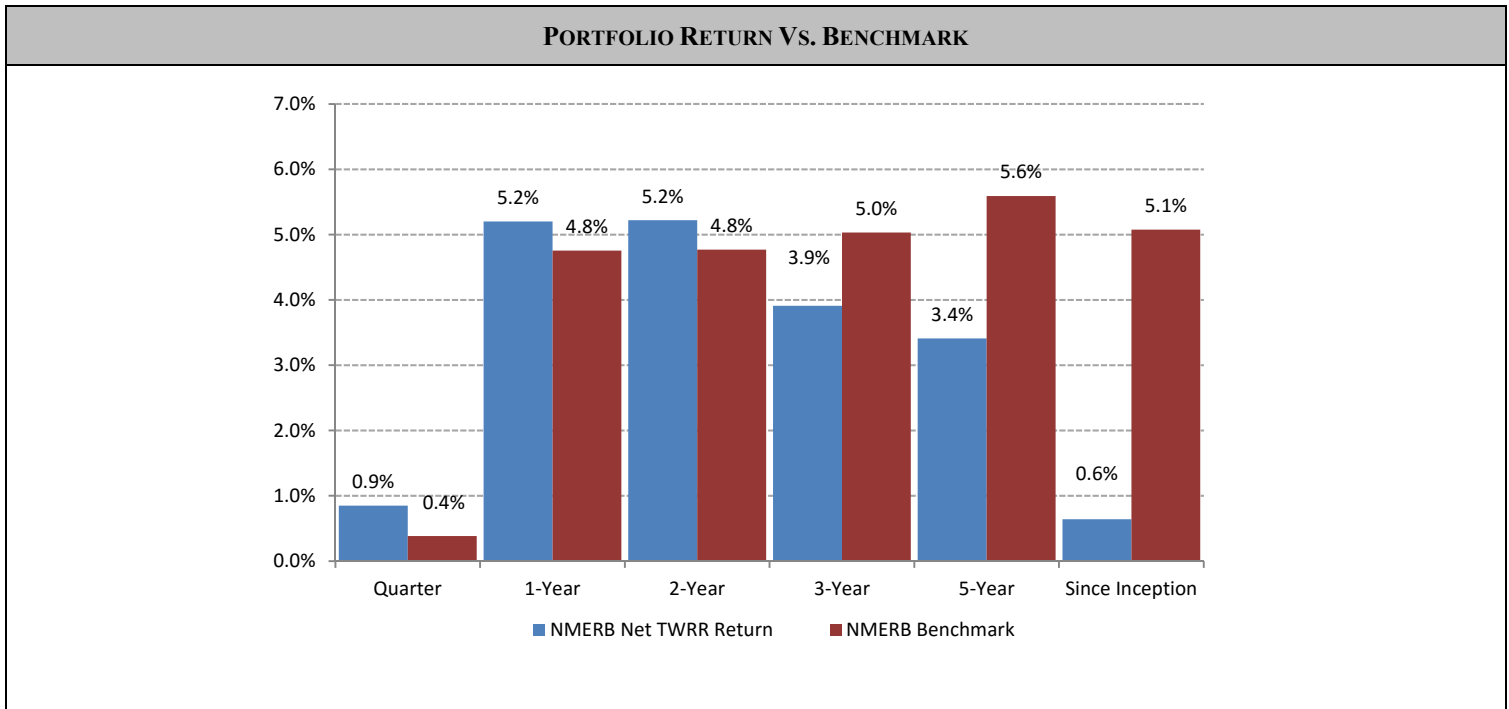
\* Roll-forward valuation is used for ISQ Global Infrastructure Fund in the calculation of IRR as actual GP valuation was not available at the time of preparing this report.

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**PORTFOLIO RETURN VS. BENCHMARK**

| <b>PORTFOLIO RETURN VS. BENCHMARK</b> |                         |                      |                       |
|---------------------------------------|-------------------------|----------------------|-----------------------|
| <u>Time-Weighted</u>                  | <u>NMERB Net Return</u> | <u>CPI + 400 bps</u> | <u>Outperformance</u> |
| Quarter                               | 0.9%                    | 0.4%                 | 0.5%                  |
| 1-Year                                | 5.2%                    | 4.8%                 | 0.4%                  |
| 2-Year                                | 5.2%                    | 4.8%                 | 0.4%                  |
| 3-Year                                | 3.9%                    | 5.0%                 | (1.1%)                |
| 5-Year                                | 3.4%                    | 5.6%                 | (2.2%)                |
| Since Inception                       | 0.6%                    | 5.1%                 | (4.5%)                |

*Note: Time-weighted NMERB net returns provided by NEPC, LLC*



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**INVESTMENT POLICY GUIDELINES**

The NMERB adopted an Infrastructure Policy Statement in September 2007 and subsequently updated in March 2012. The policy statement sets out the investment guidelines and ranges that have been adopted by NMERB and to which the infrastructure portfolio must adhere. The guidelines have been adopted to ensure appropriate risk-adjusted returns are targeted and adequate diversification exists within the Portfolio.

| PORTFOLIO INVESTMENT POLICY GUIDELINES |                  |                  |
|--|------------------|------------------|
| Parameter                              | Policy Guideline | Portfolio Actual |
| <b>Investment Structure</b>            |                  |                  |
| Private Equity                         | 40% - 100%       | 90.0%            |
| Private Debt                           | 0% - 60%         | 10.0%            |
| Public Equity                          | 0% - 20%         | -                |
| Public Debt                            | 0% - 10%         | -                |
| <b>Investment Vehicle</b>              |                  |                  |
| Open-End Funds                         | 20% - 100%       | -                |
| Closed-End Funds                       | 20% - 100%       | 85.9%            |
| Public Infrastructure Securities       | 0% - 30%         | -                |
| Direct Co-Investments                  | 0% - 30%         | 14.1%            |
| <b>Diversification by Asset Type</b>   |                  |                  |
| Energy                                 | 0% - 60%         | 42.5%            |
| Transportation                         | 0% - 60%         | 15.8%            |
| Utilities                              | 0% - 60%         | 12.9%            |
| Social Infrastructure                  | 0% - 60%         | 0.5%             |
| Other                                  | 0% - 40%         | 28.3%            |
| <b>Diversification by Geography</b>    |                  |                  |
| United States                          | 0% - 100%        | 67.5%            |
| Western Europe                         | 0% - 70%         | 16.7%            |
| Australia                              | 0% - 70%         | 2.4%             |
| Other OECD                             | 0% - 50%         | 11.2%            |
| Other Non-OECD                         | 0% - 20%         | 2.2%             |

| INVESTMENT STRUCTURE  | INVESTMENT VEHICLE   |
|---|--|
| <p>A pie chart illustrating the investment structure. The chart is divided into two segments: a large blue segment representing Private Equity at 90%, and a smaller red segment representing Private Debt at 10%.</p>                      | <p>A pie chart illustrating the investment vehicle. The chart is divided into two segments: a large blue segment representing Close-ended funds at 86%, and a smaller red segment representing Direct investments at 14%.</p>  |
| ASSET TYPE  | GEOGRAPHY  |
| <p>A pie chart illustrating diversification by asset type. The chart is divided into five segments: Energy (43%, blue), Transportation (16%, red), Utilities (13%, green), Social Infrastructure (0.5%, purple), and Other (28%, cyan).</p> | <p>A pie chart illustrating diversification by geography. The chart is divided into five segments: US (68%, blue), W. Europe (17%, red), Australia (2%, green), Other - OECD (11%, purple), and Other Non-OECD (2%, cyan).</p> |

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