NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INFRASTRUCTURE POLICY STATEMENT

August 2016

NEW MEXICO EDUCATIONAL RETIREMENT BOARD
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INFRASTRUCTURE POLICY STATEMENT

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I. INTRODUCTION

The New Mexico Educational Retirement Board (the "ERB") has authorized an allocation of a portion of its investment portfolio to the infrastructure asset class. Infrastructure investments predominantly include equity, loan, hybrid, or other economic interests in assets which enjoy quasi-monopolistic positions, such as transportation, energy, utilities, communications, water, and social infrastructure assets. This Infrastructure Policy Statement (the "Infrastructure Policy") sets forth the objectives, investment guidelines, and investment process governing the ERB infrastructure investment portfolio (the "Infrastructure Portfolio"). This Infrastructure Policy includes and incorporates any other applicable strategy or policy statements approved by the ERB in the future (collectively, the "Policy Statements"). This Infrastructure Policy also sets forth the purpose of the Infrastructure Portfolio allocation and the standard of care governing the management of the infrastructure portfolio. It additionally describes the roles and responsibilities of the ERB, the ERB Investment Committee (the "IC"), the ERB's investment staff (the "Staff"), and the ERB's external infrastructure consultant (the "Consultant") relating to the oversight and management of the Infrastructure Portfolio.

II. PURPOSE AND STANDARD OF CARE

The purpose of the ERB's infrastructure allocation is to accomplish the investment objectives set forth below. These objectives include enhancing the ERB's total portfolio diversification, reducing total portfolio return volatility, and obtaining an attractive return on investment. All infrastructure investments shall be subject to the prudent investor rule as codified in the New Mexico statutes and shall comply with applicable local, state, and federal laws and regulations.

III. INVESTMENT STRATEGY

For purposes of this Infrastructure Policy, "infrastructure" includes but is not limited to: (1) private equity infrastructure investments including interests owned through joint ventures and infrastructure-owning and/or operating entities (e.g., corporations, limited liability companies, and limited partnerships) ("Private Equity"), (2) private debt infrastructure investments potentially secured by liens on real property and security interests in tangible and intangible assets ("Private Debt"), (3) publicly-listed interests in infrastructure-owning and/or operating entities ("Public Equity"), and (4) publicly-listed debt infrastructure investments potentially secured by liens on real property and security interests in tangible and intangible assets ("Public Debt").

The Infrastructure Portfolio is designed to achieve a core-plus level of return through investments providing both income returns and capital appreciation returns. Portfolio risk shall be mitigated through appropriate risk factor diversification, including infrastructure sector diversification, geographic diversification, and revenue profile diversification. Other risk factors, including leverage and liquidity, shall be managed consistent with the investment guidelines set forth in the Policy Statements. Reasonable due diligence is required in selecting investment managers, co-mingled funds, and co-investments/direct investments, and in making all investment decisions. The Infrastructure Policy shall be reviewed at least every 3 years by the Staff and Consultant who shall present any recommended revisions to the IC. The IC will in turn make recommendations to the Board for final approval and adoption.

IV. OBJECTIVES

The objectives of the Infrastructure Portfolio are the following:

1. **Portfolio Diversification**. Use infrastructure investments to enhance the diversification of ERB's total investment portfolio, given the lower return correlations historically of infrastructure with other asset classes.

2. **Capital Preservation**. Protect investment capital through infrastructure investment activities that are designed to, at a minimum, preserve investment capital.

3. **Attractive Returns**. Take advantage of the attractive returns offered by infrastructure by making investments with expected returns commensurate with their respective risk levels. Also, make investments that provide annual income return, thereby increasing portfolio return certainty.

4. **Portfolio Volatility Reduction**. Reduce ERB's overall return volatility by investing in infrastructure, which has historically provided a lower return volatility than other asset classes.

5. **Inflation Hedge**. Make infrastructure investments that are likely to have cash flow or return profiles that are correlated with price inflation.

V. INVESTMENT METHODOLOGY

A. **Infrastructure Portfolio Investment and Review**. The Staff, under the direction of the IC and with the assistance of the Consultant, shall make investment allocations and manage and monitor the performance of the Infrastructure Portfolio consistent with the Policy Statements. The Policy Statements at a minimum shall be reviewed at least once every 3 years by the Staff and Consultant for consistency with investment objectives, market conditions, and other factors affecting the Infrastructure Portfolio.

B. **Risk Management**. The Infrastructure Portfolio risk management activities, at a minimum, shall include but not be limited to: (1) evaluating the risk/return level of each investment at the time of the investment and at least annually thereafter to classify the investment and portfolio risk/return levels for compliance with the Policy Statements; (2) designating the investment expected returns and reviewing actual performance to determine consistency of return levels given the originally stated expected return, peer performance, and market conditions affecting performance; (3) analyzing portfolio risk factors, including investment type, geographic diversification, and investment structure diversification to determine compliance with risk mitigation guidelines; (4) monitoring other risk factors that cannot be mitigated through diversification, such as leverage and liquidity, to evaluate compliance with risk mitigation guidelines; and (5) conducting portfolio investment, management, and monitoring activities, as described in more detail below (Section XI: Roles and Responsibilities).

C. **Accounting and Reporting**. The Staff, with the assistance of the Consultant, shall use a portfolio accounting and reporting system that: (1) accurately reports portfolio and investment returns consistent with industry accounting and reporting standards (GIPS compliant), and (2) describes and assesses portfolio risk/return attributes on a timely basis (i.e., at least quarterly). Also, the Staff, with the assistance of the Consultant shall develop a system that reconciles quarterly ERB internal and/or external records with the Consultant-monitored investment manager reports, including with respect to account balances and returns, to ensure that any variances are reconciled on a timely basis.

D. **Investment Management Services**. ERB Staff will recommend to the IC for their approval external investment managers or advisors upon the Staff's completion of a review of criteria described in Section X, Investment Due Diligence, and will pay reasonable compensation for investment management services from the ERB Infrastructure Portfolio. The IC will refer such decisions to the ERB as informational items only.

VI. INVESTMENT GUIDELINES AND RANGES

The investments of the Infrastructure Portfolio shall be consistent with the following guidelines:

A. Allocation Size

As of the second quarter of 2016, the ERB's real assets allocation size is targeted to be 8% of ERB assets. Infrastructure is part of NMERB's real assets allocation. The Board acknowledges that the actual weighting to infrastructure at any given time may vary from the target as market values of both the infrastructure investments and the overall portfolio fluctuate. The Infrastructure Portfolio target is long term in nature (i.e., at least five years), and the program size will fluctuate according to the relative values among infrastructure and the other ERB investment asset classes.

B. Permissible Investment Structures/Vehicles and Public/Private Allocations

Investment Structures. The Infrastructure Portfolio may include infrastructure Private Equity, Private Debt, Public Equity, and Public Debt investments. Private Equity and Private Debt investments shall be comprised of investments in co-mingled funds or co-investments/direct investments. Public Equity and Public Debt investments shall be comprised of investments in entities such as separate accounts or co-mingled funds that have investment features consistent with institutional quality infrastructure, as determined by the Staff and Consultant. Table 1 below sets forth the guidelines governing the Infrastructure Portfolio's investment structure. The Board acknowledges that the actual investment structures and investment vehicles of the infrastructure portfolio at any given time may vary from the policy range targets due to the pacing of investments and market value fluctuations.

TABLE 1: INFRASTRUCTURE INVESTMENT STRUCTURE POLICY RANGES

Investment Structure	Policy Range
Private Equity	40% – 100%
Private Debt	0% – 60%
Public Equity	0% – 30%
Public Debt	0% – 20%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to investment structure, which targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports. Each of the diversification parameters in Table 1 will be calculated on a portfolio basis and include exposure through various investment vehicles.

Investment Vehicles. The investment structure and vehicle exposure ranges shall be used to mitigate portfolio risk, including enhancing portfolio liquidity. Table 2 below provides a summary of the advantages and disadvantages of the investment vehicles, which shall be considered by the Staff and Consultant in developing and managing the performance and liquidity of the Infrastructure Portfolio.

TABLE 2: CHARACTERISTICS OF INVESTMENT VEHICLES			
VEHICLE	**ADVANTAGES**	**DISADVANTAGES**	**LIQUIDITY**
Open-Ended Fund	1. Ability to potentially invest in a fund that typically already exhibits sector and geographic diversification 2. Lower blind-pool risk (i.e., existing portfolio to evaluate) 3. Existing manager and fund performance record 4. Very long life 5. Can often redeem interest	1. Passive investor 2. Typically cannot influence manager decisions regarding acquisitions, financings, and sales 3. Lack of meaningful manager co-investment 4. Typically only core strategies	Typically a minimum of 90 days unless there is an investor queue. Usually on a best efforts basis to redeem. Interests can be sold (often at a discount) in the secondary market.
Closed-Ended Fund	1. Ability to target skilled value/ opportunistic management 2. May have manager organizations and track records to evaluate 3. Manager-investor enhanced alignment of interests including manager or sponsor co-investment. 4. Asset liquidations by end of term of fund	1. Passive investor 2. Typically cannot influence manager decisions regarding acquisitions, financings, and sales 3. Illiquidity during the specified term and cannot redeem interest 4. Typically blind pools 5. Potentially short-term hold for long-term assets	Typically 10 to 20 year terms. Interests can be sold, often at a discount) in the secondary market.
Separate Account	1. Lower overall fee structure than funds 2. Potential ability to influence decisions regarding acquisitions, financings, and sales 3. Greater ability to invest capital at desired pace 4. Flexibility to target assets in specific sectors or region	1. Less diversification than a portfolio of fund-only investments 2. Access may be limited by investment size 3. Potential conflicts of interest with manager and their other activities	For private investments, typically more liquid than fund investments. Depending on investment, may have option to sell to other shareholder(s) or third parties.
Co-Investment/ Direct Investment	1. Lower overall fee structure than funds 2. Potential ability to influence decisions regarding acquisitions, financings, and sales 3. Greater ability to invest capital at desired pace 4. Flexibility to target assets in specific sectors or regions 5. Enhanced liquidity options, as may be more liquid than co-mingled fund investments 6. Potential to enhance relationships with managers by participating alongside manager	1. Less diversification than a portfolio of fund-only investments 2. Access may be limited by investment size 3. Oftentimes needs a sizeable team with experience in direct investing	For private investments, typically more liquid than fund investments. Depending on investment, may have option to sell to other shareholder(s) or third parties.

Open-End Co-Mingled Funds. As shown in Table 3, the Infrastructure Portfolio may have up to a 100% exposure to open-end co-mingled funds. The open-end fund investments shall be made primarily to provide or complement the portfolio's existing: (1) infrastructure sector and geographic diversification, (2) exposure to larger assets (i.e., over $100 mil. in enterprise value per asset), and (3) liquidity (i.e., potential to redeem after 90 days). The Staff, with the assistance of the Consultant, shall complete reasonable due diligence in evaluating open-end co-mingled funds consistent with these objectives and the investment guidelines set forth in Section X, Investment Due Diligence. No investment may be made in any open-end co-mingled funds with (1) less than $500 million of gross assets, or (2) diversification attributes that are inconsistent with the needs of the Infrastructure Portfolio as determined by the Staff with the assistance of the Consultant. Open-end co-mingled fund vehicles may include, but are not limited to partnerships, group trusts, limited liability companies, single purpose corporations, or other vehicles that are determined by the Staff, with the Consultant's assistance, to be consistent with the Policy Statements.

Closed-End Co-Mingled Funds. As shown in Table 3, the Infrastructure Portfolio may have up to a 100% exposure to closed-end co-mingled funds. The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of core, core-plus, value and opportunistic investments. The Staff, with the Consultant's assistance, shall complete reasonable due diligence in selecting closed-end fund investments, as further set forth in Section X, Investment Due Diligence. Co-investment by the manager of a fund is preferred.

Separate Accounts. As shown in Table 3, the Infrastructure Portfolio may have up to a 30% exposure to separate accounts. Separate accounts shall be structured primarily to provide diversification to the overall portfolio, target niche strategies not obtained or less present in the overall portfolio, and to provide greater Infrastructure Portfolio liquidity. The Staff, with the Consultant's assistance, shall complete reasonable due diligence in selecting managers that manage separate accounts, as further set forth in Section X, Investment Due Diligence. Separate accounts may include Private Equity, Private Debt, Public Equity, or Public Debt in vehicles such as limited liability companies, limited partnerships, special purpose corporations, or other vehicles that are determined by the Staff, with the Consultant's assistance, to be consistent with the Policy Statements.

Co-Investments/ Direct Investments. As shown in Table 3, the Infrastructure Portfolio may have up to a 50% exposure to co-investments/direct investments in Private Equity or Private Debt. The manager of the co-investment portfolio shall complete reasonable due diligence in selecting co-investments/direct investments, as further set forth in Section X, Investment Due Diligence.

Table 3 below sets forth the Infrastructure Portfolio investment vehicle guidelines. The Board acknowledges that the actual investment vehicles of the infrastructure portfolio at any given time may vary from the policy range targets due to the pacing of investments and market value fluctuations.

TABLE 3: INVESTMENT VEHICLE EXPOSURE RANGES

	Policy Range
Open-End Comingled Funds	0% – 100%
Closed-End Comingled Funds	20% – 100%
Separate Accounts	0% – 30%
Co-Investments/ Direct Investments	0% – 50%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to investment vehicle exposures. The targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports.

C. Expected Investment and Portfolio Risk/Returns.

The risk/return categories utilized to classify investment risk/return levels are the following:

Core. Equity or debt investment in operating, institutional quality infrastructure assets that often have regulated or long-term contractual cash flows. Gross returns are typically targeted to be in the 8% – 10% range and are typically comprised of greater levels of income return, with appreciation matching or exceeding inflation. Core assets are typically regulated or are supported by long-term contractual revenues.

Core-Plus. Core-plus assets assume slightly more revenue risk and are typically comprised of slightly greater levels of asset appreciation than core assets. Gross returns are typically targeted to be in the 10% – 12% range with a significant part of the return coming from income. Revenues of core-plus assets may be linked to GDP or economic growth, but oftentimes exhibit monopolistic or quasi-monopolistic characteristics.

Value. Equity or debt investment in assets requiring redevelopment, development, lease-up, or slight rehabilitation/repositioning. Gross returns are typically targeted to be in the 12%-15% range. Investment may also include higher risk assets than core or core-plus investments and may contain greater risk as economic activity fluctuates. Value investments typically are expected to generate returns greater than core or core-plus assets through the stabilization of an asset, which increases the end value by increasing income and, in many cases, increasing the earnings multiple used in selling the asset due to the reduced asset risk resulting from stabilization. Value returns are typically more dependent than core and core-plus on appreciation returns with less return from income.

Opportunistic. Equity or debt investment in infrastructure assets, operating companies, and other investment vehicles involving significant investment risk. Risk may include, for example, development, financial structuring, or revenue risk (e.g., exposure to commodity prices). Gross returns targeted to be in the 15% or higher range. Opportunistic returns typically have lower income returns than value and in many cases are originated with minimal income in place.

Table 5 sets forth the risk/return policy ranges for the Infrastructure Portfolio.

TABLE 4: INVESTMENT AND PORTFOLIO RISK/RETURN RANGES

Risk/Return	Expected Nominal Return (Gross)	Expected Nominal Return (Net)	Return Volatility	Policy Range
Core	8% – 10%	7% – 9%	Low	0% – 100%
Core-Plus	10% – 12%	9% – 11%	Moderate	20% – 100%
Value	12% – 15%	10% – 12%	Moderate-High	0% – 50%
Opportunistic	15%+	12%+	High	0% – 30%

The Staff, with the Consultant’s assistance, shall establish policy range targets with respect to risk/return exposures. The targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports. Each of the diversification parameters in Table 4 will be calculated on a portfolio basis and include exposure, directly and indirectly, through various investment vehicles.

Return Volatility. The investment risk/return exposure is further defined by return volatility. The return volatility guidelines are loosely defined due to lack of available, credible information with respect to private investments. The lack of relevant information is due largely to the fact that private equity infrastructure investments are typically valued through appraisals completed annually or less frequently, which may often rely upon a discounted cash flow methodology or “comparable” assets that may be markedly different from the underlying asset being appraised. Due to this and other factors, private equity returns are less volatile than public equity infrastructure returns, which are based on daily market valuations and are therefore susceptible to general market volatility. Value and opportunistic return volatilities are estimated to be greater, given the risk category and the increasing levels of appreciation of returns required.

D. Income and Appreciation Return Mix

Infrastructure investments, depending on their risk/return level (i.e., core, core-plus, value, opportunistic), may offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns, since income/cash yield returns provide greater return certainty and therefore lower risk. Also, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns, since such features enhance the certainty of return. Core and core-plus investments have historically provided higher income returns, which equates to greater certainty of return and lower risk.

E. Diversification

The Infrastructure Portfolio's diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the Infrastructure Portfolio may have over-weighted exposure in select sectors, geographies, investment vehicles, risk categories, etc. as desired by the Staff based on recommendations of the Consultant. The Board acknowledges that the actual investment diversification parameters of the infrastructure portfolio at any given time may vary from the policy range targets due to the pacing of investments and market value fluctuations.

1. **Sector**. Sector diversification is one of the most important diversification features in terms of impact on returns. The sectors have historically performed differently during economic cycles. For example, regulated assets typically perform better than economically-sensitive assets during economic downturns.

   Diversification ranges are based on the universe of available infrastructure investments and institutional investor portfolio information. Table 6 provides a guideline range with respect to the Infrastructure Portfolio sector diversification. Exposure to various sectors may be achieved through sector-specific funds, provided that the policy ranges are not exceeded.

TABLE 5: SECTOR DIVERSIFICATION RANGES	
Infrastructure Sector	**Policy Range**
Transportation	0% – 60%
Energy	0% – 60%
Utilities	0% – 60%
Social	0% – 60%
Other	0% – 40%

   The Staff, with the Consultant's assistance, shall establish policy range targets with respect to sector exposures. The targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports. Each of the diversification parameters in Table 5 will be calculated on a portfolio basis and including exposure, directly and indirectly, through various investment vehicles.

2. **Geography**. The importance of location to the long-term value of infrastructure is based on the economic fundamentals and the other risk attributes (e.g., rule of law, governmental impact, or regulatory impact) of global regions. Distribution of infrastructure investments by geographic region shall be monitored for compliance with the broad ranges set forth in Table 7 below. Exposure to various geographies may be achieved through regional or country-specific funds, provided that the policy ranges are not exceeded.

TABLE 6: GEOGRAPHICAL DIVERSIFICATION RANGES	
Geographies	**Policy Range**
United States	0% – 100%
Western Europe	0% – 70%
Australia / New Zealand	0% – 50%
Other OECD Countries	0% – 50%
Non-OECD Countries	0% – 20%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to regional exposures. The targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports. Each of the diversification parameters in Table 6 will be calculated on a portfolio basis and include exposure, directly and indirectly, through various investment vehicles.

3. **Other**. In addition to sector and geographical diversification, there are other infrastructure factors, the portfolio risk impact of which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:

    a. **Investment Structure**. Equity, preferred equity, first lien debt, or mezzanine debt.
    b. **Life Cycle**. Brownfield assets are preferred to greenfield assets, given the stabilized nature of mature infrastructure assets and their return characteristics.
        1. **Greenfield Assets**. Greenfield infrastructure assets are those assets that are in the development phase (e.g., permitting, engineering etc.), or the construction phase. Greenfield assets have little or no operating history.
        2. **Brownfield Assets**. Brownfield infrastructure assets are those assets that have a history of operations upon which investors can rely.
    c. **Revenue Profile**. The nature of the underlying revenues of infrastructure assets can dictate the risk of the investment. Underlying revenues can be categorized as regulated, contracted, demand-based, and other.
        1. **Regulated**. Regulated revenues are typically set by a regulator who takes into account costs incurred by a company and an appropriate cost of capital.
        2. **Contracted**. Contracted revenues are typically set on commercial terms between the infrastructure company and a customer.
        3. **Demand-Based**. Demand-based revenues are typically linked to GDP or economic growth.

While no formal diversification ranges are set forth for the above portfolio risk factors, they and other factors may be monitored in assessing overall portfolio risk and expected return. As part of these risk assessment activities, the Staff and Consultant will classify each Infrastructure Portfolio investment by risk and expected return level and determine whether portfolio risk and expected return levels are consistent with the return objectives and guidelines set forth in the Policy Statements. This analysis will be done at the time each investment allocation is made and at least annually thereafter.

F. Other Risk Factors.

1. **Leverage**. Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing asset values and stricter lending terms can lead to unexpected increased leverage levels. It may also be the case that the leverage level increases unduly as market conditions become better. Accordingly, the Staff and Consultant will monitor closely the leverage level of the Infrastructure Portfolio.

It is highlighted that oftentimes, ERB will not have control or influence over the level of leverage ultimately used by managers and/or co-investment/direct investment partners. However, Staff and the Consultant will perform sufficient due diligence on each investment opportunity with respect to leverage levels.

2. **Investor Control**. Table 7 describes the three levels of investor control.

TABLE 7: DEFINITIONS OF INVESTMENT CONTROL
Total Control. The Staff with the Consultant's assistance has the sole discretion to replace management and/or the ability to sell, refinance, or dispose of assets.
Limited Control. For example, investments, such as in co-mingled funds or co-investments/direct investments, in which the ERB has minority or significant minority interests providing governance rights and positions, such as an advisory board or board member position. Also, to a lesser degree, investments with control over exit (e.g., in open-end funds with redemption rights, or public infrastructure securities that provide reasonable liquidity).
Passive. Investments in (e.g., closed-end vehicles) providing no exit until the manager elects to dispose of investments, consistent with investment term, and no control or influence over the underlying investments.

Control is materially defined through the ERB's ability to influence or exit an investment. To the extent possible and reasonable, investments will be made that maximize ERB's rights with respect to that investment.

3. **Manager Concentration**. The Staff, with the assistance of the Consultant, shall regularly evaluate the Infrastructure Portfolio's exposure to each advisor and manager to determine the reasonableness of each. No manager shall have assets of the Funds under management exceeding 50% of the Infrastructure Portfolio on an allocation basis, unless specifically approved by the Staff, with the assistance of the Consultant.

4. **Investment Concentration**. The Staff, with the assistance of the Consultant, shall regularly review the larger exposure investments within the context of the Infrastructure Portfolio to determine their reasonableness. No single investment in the Infrastructure Portfolio, measured on a look-through basis, shall exceed 0.5% of total NMERB assets. Further, the Staff, with the assistance of the Consultant, shall regularly review the exposure to individual assets in the portfolio, including exposure through various investment vehicles.

5. **Liquidity**. The Staff, with the assistance of the Consultant, shall regularly review the liquidity of the portfolio. The Infrastructure Portfolio is intended to be primarily illiquid. Private markets investments, which are illiquid, often demand higher returns given the lack of liquidity. Therefore, the illiquid investments should demand a higher return than liquid investments in the Infrastructure Portfolio. Table 8 below shows examples of different kinds of infrastructure by liquidity group.

	Investment Type
LIQUID (i.e., can liquidate within 30 days – public infrastructure securities)	Public Equity and Public Debt
MODERATE LIQUIDITY (i.e., investor redemption possible after one quarter, including open-end equity and debt co-mingled funds)	Co-Investments, Direct Investments, and Open-End Funds
ILLIQUID (i.e., closed-end fund structure not providing any liquidity until fund termination and liquidation)	Co-Investments, Direct Investments, and Closed-End Funds

VII. BENCHMARK

The Infrastructure Portfolio's benchmark shall be the All Urban Consumer Price Index ("CPI-U") for the United States, plus 400 basis points.

The Infrastructure Portfolio's performance shall be assessed on a quarterly basis against the performance of the benchmark. The performance against the benchmark shall be evaluated in light of infrastructure investments being long-term investments and it may take several years for returns to reflect performance given, for example, the "J-curve effect."

VIII. VALUATION POLICY

The Staff shall prefer investment in funds that have adopted and adhere to a valuation policy that is consistent with industry best practices and prevailing accounting standards. On an internal basis, funds shall be valued at least annually.

The Staff, with the Consultant's assistance, shall strive to participate in infrastructure investments that align investor and manager interests by addressing potential conflicts associated with issues pertaining to market valuations. This can be accomplished by establishing asset management fee structures that are calculated based on factors not associated with market value estimates. In addition, the Staff shall attempt, when reasonably possible, to negotiate terms allowing the Staff and/or Consultant to challenge value estimates that are used in the payment of incentive-based performance fees.

IX. PERFORMANCE MEASUREMENT

The Consultant shall provide to the Staff and IC quarterly performance measurement reports, which reasonably describe the Infrastructure Portfolio performance. Returns shown shall be calculated in compliance with industry standards and compared to the benchmarks previously outlined. Returns shall be provided in compliance with Global Investment Performance Standards ("GIPS"). The Consultant shall present to the IC on, at a minimum, semi-annual basis a combined portfolio level return summary, including quarterly, one-year, three-year, five-year and since inception time-weighted returns. Benchmarks established for the portfolio and investments shall be compared in the quarterly reports to actual performance with a focus on performance variances. Dollar-weighted internal rates of return shall also be provided for each investment. Quarterly reports shall monitor each of the risk factors previously described to evaluate compliance with portfolio guidelines.

X. INVESTMENT DUE DILIGENCE

As part of the risk mitigation efforts previously outlined, new investments shall be made only after reasonable due diligence is completed.

Due diligence regarding all infrastructure investments shall be completed by the Staff with the assistance of the Consultant, and at a minimum shall include, but not be limited to, the following:

- Review the investment in light of comparable or similar opportunities in the market;
- Review the firm organization, including the professionals, staff and office locations;
- Review the financial condition of the firm, including the financial strength and motivations of significant investors, including review of existing investors in co-mingled funds or assets;
- Review the business backgrounds of key personnel to evaluate competence and expertise;
- Review the turnover of personnel and the succession of leadership within the organization;
- Review whether any other items may affect the organization (e.g., sale, merger, or litigation);
- Evaluate the research capabilities of the firm and whether research is incorporated into investment and management activities;
- Analyze past investment manager returns and performance, specifically including the fund under consideration or preceding funds with comparable investment strategies;
- Evaluate investment manager principals, senior and key firm personnel, and proposed team members of the fund;
- Assess the reasonableness of the proposed investment strategy given current market conditions;
- Evaluate the firm's ability to source new investments and the reasonableness of the proposed cost of such activities;
- Evaluate the reasonableness of the fund fee structure, in terms of the amount and alignment of investor and manager interests;
- Determine whether any conflicts of interest exist that may unacceptably affect investment performance; and
- Review whether the co-mingled fund will compete within the firm for new investments and, if so, whether the process for allocating new investments is reasonable and acceptable.

The due diligence process with respect to investments shall be regularly reviewed and revised, as determined necessary, by the Staff and Consultant.

XI. ROLES AND RESPONSIBILITIES

The roles and responsibilities with respect to the Infrastructure Portfolio are summarized in the table below.

ERB ROLES AND RESPONSIBILITIES
▪ Approve the Infrastructure Policy, as prepared and recommended by Staff and Consultant.
INVESTMENT COMMITTEE ROLES AND RESPONSIBILITIES
▪ Approve the infrastructure Consultant recommended by Staff. ▪ Approve the Infrastructure Policy, as prepared and recommended by Staff and Consultant, and refer to full board for its approval. ▪ Approve infrastructure investments and notify the full board at the next available board meeting of any actions on approved infrastructure investments taken. ▪ Approve the performance measurement report format prepared and recommended by Staff and Consultant. ▪ Monitor the performance of the overall Infrastructure Portfolio.

STAFF ROLES AND RESPONSIBILITIES
▪ Review and update, with the assistance of the Consultant, the Infrastructure Policy. ▪ Review and approve the investment evaluations and/or plans developed by the Consultant with respect to each Infrastructure Portfolio investment. ▪ Review and approve each Infrastructure Portfolio investment for consistency with the appropriate policy and for general reasonableness. ▪ Review each Infrastructure Portfolio investment redemption or liquidation for consistency with the appropriate policy and for general reasonableness. Meet with the Consultant at least annually to update and, if necessary, to make revision recommendations regarding the Policy Statements. ▪ Monitor, with the assistance of the Consultant, the Infrastructure Portfolio performance. ▪ Represent the ERB with respect to all matters related to Infrastructure Portfolio investments. ▪ Select, with the assistance of the Consultant, reasonably qualified investment managers/advisors for co-mingled fund investments, ▪ Select investment managers/advisors, as described in Section X, Investment Due Diligence. ▪ Select and use the Consultant to provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks.
INFRASTRUCTURE CONSULTANT ROLES AND RESPONSIBILITIES
▪ Assist Staff in preparing the Infrastructure Policy. Review Policy Statements annually and recommend revisions when appropriate. ▪ Prepare recommendations, if requested by the Staff, concerning each investment opportunity. The consultant's recommendation shall disclose all placement agents or third party marketing agents related to each investment. ▪ Review consistency with the Policy Statements and general reasonableness. ▪ Prior to presentations to the IC, provide a review of key terms included in the agreements and/or memoranda associated with the prospective investment. ▪ Prepare recommendations, if requested by the Staff, concerning ongoing portfolio decisions (e.g. LPA amendments) and ensure consistency with the Policy Statements and for general reasonableness. Meet with the Staff at least annually to update and, if necessary, to make revision recommendations to ERB. ▪ Assist the Staff, as its fiduciary, in the monitoring and management of the Infrastructure Portfolio. ▪ Assist the Staff, to the extent requested, in representing the ERB with respect to all matters related to the Infrastructure Portfolio. ▪ Present to the Staff, as requested, reasonably qualified investment managers for review, including all relevant due diligence information. Assist the Staff, to the extent requested, in completing investment due diligence. ▪ Provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks and otherwise in the format requested by the Staff and/or the ERB. ▪ In connection with the infrastructure quarterly performance report, notify the Staff of situations involving the Infrastructure Portfolio's actual investments deviating from the investment guidelines established in the Policy Statements.

APPENDIX A – CONTRACT EXECUTION

After legal review of all appropriate investment documents, the following will have contract execution authority as follows:

	Chief Investment Officer	Executive Director	Deputy Executive Director	Investment Officer, Real Assets
Fund Subscription Documents	✓	✓	✓	
Side Letters	✓	✓	✓	
Fund Amending Documents	✓	✓	✓	✓
Other	✓	✓	✓	✓