

New Mexico Educational Retirement Board

Real Estate and Natural Resources Portfolio Quarterly Board
Summary

September 30, 2016

REAL ASSET
PORTFOLIO MANAGEMENT

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Portfolio Summary

Portfolio Review

As of September 30, 2016, New Mexico Educational Retirement Board (“NMERB”) had a total portfolio value of \$11,685,080,041. NMERB’s long-term target allocations to real estate and natural resources are 7% (\$817,955,603) and 4.5% (\$525,828,602), respectively. As of September 30, 2016, net asset value (“NAV”) of the real estate portfolio was \$874,539,700 and NAV for the natural resources portfolio was \$341,611,632.

As of September 30, 2016, NMERB had \$374,100,486 of committed but uncalled allocations to private real estate managers and \$240,342,032 of committed but uncalled allocations to Natural Resources managers.

Returns Summary

	Time Weighted Returns		Since Inception Net IRR
	Current Quarter	Since Inception	
Public Real Estate	1.05%	9.96%	12.99%
Wilshire REIT Index	-1.21%	10.00%	
Private Real Estate	2.52%	8.06%	10.42%
NCREIF Property Index	1.77%	5.93%	
Natural Resources	0.47%	4.15%	5.89%
NCREIF Timberland Index	0.67%	3.91%	
NCREIF Farmland Index	1.40%	12.62%	
CPI (All Consumers)	0.16%	1.70%	

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 09/30/2016

Paid in Capital (PIC) 0.71x

Distribution Paid in Capital (DPI) 0.43x

Residual Value Paid in Capital (RVPI) 0.78x

Total Value Paid in Capital (TVPI) 1.22x

Trailing Period Time Weighted Returns – *Net of Fees*

	QTR	1 Year	3 Year	5 Year	7 Year	Since Inception	SI Date
Public Real Estate	1.05%	18.79%	13.21%	15.78%	15.52%	9.96%	3/31/2004
In-House REIT	-1.22%	17.83%	14.28%	15.58%	15.50%	9.95%	3/31/2004
Wilshire REIT - U.S. Equity	-1.21%	17.94%	14.34%	15.82%	15.66%	10.00%	3/31/2004
Brookfield U.S. Value REIT	1.93%	18.53%	12.38%	17.14%	-	12.19%	9/30/2011
MSCI REIT Index	-1.45%	19.83%	14.11%	15.79%	15.55%	11.59%	9/30/2011
Private Real Estate	2.52%	13.09%	14.52%	15.29%	14.84%	8.06%	6/30/2008
NCREIF Property Index	1.77%	9.22%	11.30%	11.18%	11.08%	5.93%	6/30/2008
Natural Resources	0.47%	7.50%	6.73%	6.31%	4.88%	4.15%	6/30/2009
NCREIF Timberland Index	0.67%	3.28%	7.59%	6.91%	4.33%	3.91%	6/30/2009
NCREIF Farmland Index	1.40%	8.56%	12.22%	15.06%	13.24%	12.62%	6/30/2009
CPI (All Consumers)	0.16%	1.46%	1.03%	1.25%	1.60%	1.70%	6/30/2009

Calendar Year Time Weighted Returns – *Net of Fees*

	YTD	2015	2014	2013	2012	2011
Public Real Estate	12.21%	-1.01%	30.71%	3.48%	19.60%	8.78%
In-House REIT	9.68%	4.28%	31.57%	1.47%	17.11%	9.17%
Wilshire REIT - U.S. Equity	9.75%	4.23%	31.78%	1.86%	17.58%	9.24%
Brookfield U.S. Value REIT	12.99%	-4.06%	29.80%	6.40%	25.80%	-
MSCI REIT Index	11.91%	2.52%	30.38%	2.47%	17.77%	8.69%
Private Real Estate	8.55%	12.92%	18.15%	19.73%	14.33%	8.33%
NCREIF Property Index	6.13%	13.33%	11.81%	10.99%	10.54%	14.26%
Natural Resources	5.64%	7.25%	2.08%	11.33%	2.61%	2.89%
NCREIF Timberland Index	1.39%	4.97%	10.48%	9.68%	7.75%	1.57%
NCREIF Farmland Index	4.08%	10.34%	12.63%	20.93%	18.58%	15.16%
CPI (All Consumers)	2.07%	0.73%	0.76%	1.50%	1.74%	2.96%

Private Portfolio Statistics

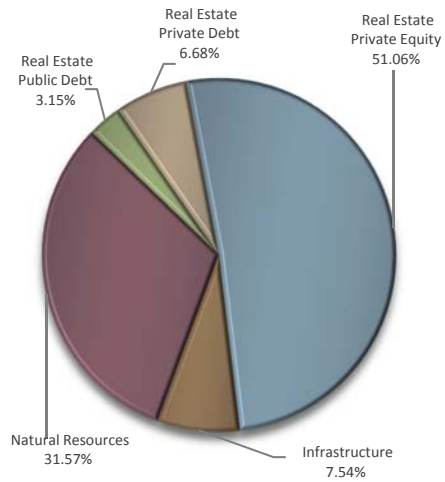
	09/30/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Private Portfolio Market Value	\$ 859,376,561	\$ 691,163,227	\$ 563,535,356	\$ 295,792,339	\$ 260,579,714
Committed Uncalled	614,442,518	650,114,560	500,638,903	569,522,524	231,187,026
Private Portfolio Market Value + Committed Uncalled	\$ 1,473,819,079	\$ 1,341,277,787	\$ 1,064,174,260	\$ 865,314,862	\$ 491,766,740
Total Number of Fund Investments	41	38	32	26	17
Total Number of Managers	28	27	25	21	14

Private Asset Multiples

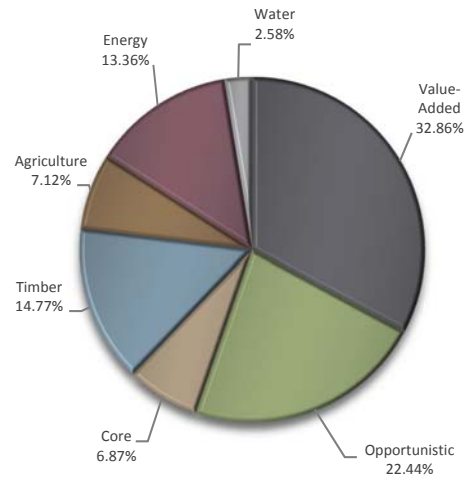
	9/30/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
PIC Multiple	.71 x	.62 x	.59 x	.42 x	.60 x
Distribution Multiple	.43 x	.42 x	.36 x	.40 x	.21 x
Residual Value Multiple	.78 x	.79 x	.82 x	.79 x	.89 x
Total Value Multiple	1.22 x	1.21 x	1.18 x	1.19 x	1.09 x

Portfolio Diversification

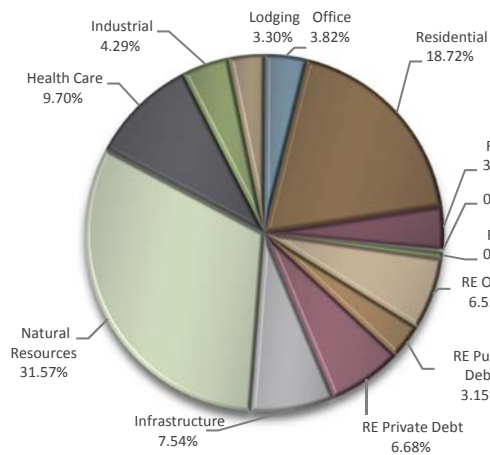
Private Diversification by Investment Class



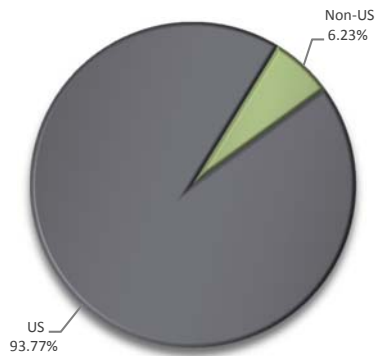
Private Asset Risk Category



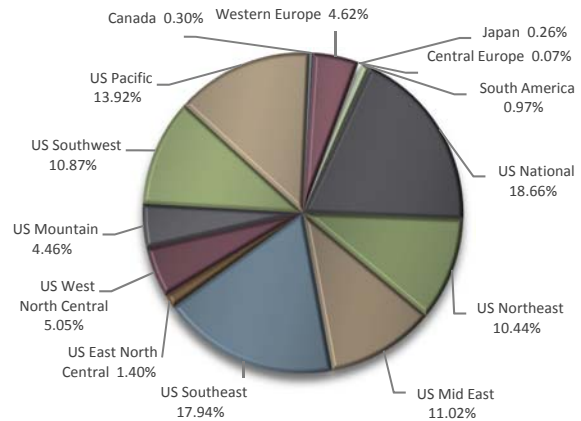
Private Asset Diversification by Investment Type



Private Asset US vs. Non-US Diversification



Private Asset Global Diversification



Manager Statistics

Manager Performance – Net of Fees

	Commitment (\$)	Market Value (\$)	Time Weighted Returns				Since Inception	Since Inception Net IRR
			YTD	1 Year	3 Year	5 Year		
Private Real Estate								
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,156,087	5.23%	5.08%	4.83%	5.31%	5.39%	5.64%
Prologis Targeted Europe Logistics Fund, FCP-FIS	12,283,480	7,268,820	5.84%	5.96%	5.41%	3.99%	-3.82%	-3.82%
Core Total	62,283,480	57,424,908	5.37%	6.56%	6.92%	7.11%	2.68%	3.29%
Crow Holdings Realty Partners VI, LP	50,000,000	41,115,724	10.46%	13.92%	8.22%	-	8.22%	9.84%
Crow Holdings Realty Fund VII, LP	35,000,000	17,937,239	3.20%	-	-	-	3.20%	-
Hammes Partners II, L.P.	50,000,000	22,579,223	7.47%	11.43%	-	-	11.43%	9.83%
Prudential Senior Housing Partners IV	50,000,000	48,313,336	12.07%	16.63%	17.08%	-	13.17%	15.21%
Prudential Senior Housing V	35,000,000	8,779,801	14.79%	11.04%	-	-	6.68%	8.75%
RAM Realty Partners III	30,000,000	25,431,929	11.67%	17.24%	18.97%	-	16.79%	16.95%
RAM Realty Partners IV	40,000,000	10,316,452	-	-	-	-	-	-
Realterm Logistics Fund, L.P.	25,000,000	19,160,867	14.79%	19.55%	-	-	20.10%	18.71%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	26,763,791	3.83%	8.86%	22.57%	-	47.66%	23.50%
Rockpoint Real Estate Fund V, L.P.	35,000,000	5,688,870	23.18%	-	-	-	23.18%	8.04%
Sares-Regis Multifamily Fund, L.P.	30,000,000	38,224,369	17.47%	27.71%	14.72%	-	13.13%	16.13%
Sares-Regis Multifamily Value-Add Fund II, L.P.	30,000,000	9,018,031	0.04%	0.77%	-	-	0.77%	-0.95%
Value-Added Total	455,454,545	273,329,631	10.54%	15.45%	16.04%	-	14.72%	14.83%
Greenfield Acquisition Partners V, L.P.	25,000,000	1,751,823	-7.37%	-11.53%	-0.75%	5.17%	1.36%	8.37%
Kildare European Partners I, L.P.	50,000,000	24,320,743	6.12%	9.76%	-	-	13.22%	11.84%
Kildare European Partners II, L.P.	40,000,000	-	-	-	-	-	-	-
Lone Star Fund VII (U.S.), L.P.	50,000,000	6,438,066	-15.60%	-19.24%	8.13%	24.21%	29.58%	47.67%
Lone Star Fund VIII (U.S.), L.P.	50,000,000	25,565,101	-12.30%	-12.64%	29.81%	-	29.81%	21.29%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	4,689,125	8.35%	12.80%	29.21%	26.54%	29.61%	26.14%
Lone Star Real Estate Fund V (U.S.), L.P.	37,063,856	-	-	-	-	-	-	-
Raith Real Estate Fund I-A LP	50,000,000	33,532,032	10.94%	2.19%	-	-	4.37%	8.08%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	21,267,316	10.60%	8.02%	-0.08%	2.43%	-25.09%	10.12%
RAPM-NMERB Co-Investment Fund, L.P.	79,520,000	69,446,183	18.60%	47.45%	-	-	28.80%	30.80%
Opportunistic Total	446,583,856	187,010,389	6.82%	12.66%	16.84%	19.91%	10.89%	14.85%
Private Real Estate Total	964,321,881	517,764,929	8.55%	13.09%	14.52%	15.29%	8.06%	10.42%
<i>NCREIF Property Index</i>			6.13%	9.22%	11.30%	11.18%	5.93%	
Public Real Estate								
In-House REIT	-	98,083,172	9.68%	17.83%	14.28%	15.58%	9.95%	13.17%
U.S. Value Income REIT Strategy	160,000,000	258,691,599	12.99%	18.53%	12.38%	17.14%	12.19%	11.60%
Public Real Estate Total	160,000,000	356,774,771	12.21%	18.79%	13.21%	15.78%	9.96%	12.99%
<i>Wilshire REIT - U.S. Equity</i>			9.75%	17.94%	14.34%	15.82%	10.00%	
Real Estate Total	1,124,321,881	874,539,700						12.36%

* For individual Fund performance numbers please see disclosure statements in the Appendix C.

** The time-weighted return calculations begin with the first full quarter following the initial capital investment. The IRR calculation begins with the first full year following the initial capital investment.

*** Performance information for the liquidated funds is not shown above, but it is included in composite performance.

Manager Performance – Net of Fees - Continued

	Commitment (\$)	Market Value (\$)	Time Weighted Returns				Since Inception	Since Inception Net IRR
			YTD	1 Year	3 Year	5 Year		
Natural Resources								
Brookfield Brazil Timber Fund II, LP	30,000,000	7,935,143	9.97%	0.16%	-	-	5.54%	4.88%
Conservation Forestry Capital Fund II, LP	25,000,000	24,629,452	0.86%	3.85%	6.81%	6.67%	4.46%	5.45%
Conservation Forestry Capital Fund IV, LP	20,000,000	3,105,820	-	-	-	-	-	-
Eastern Timberland Opportunities II	45,000,000	49,359,307	3.10%	2.66%	-	-	10.71%	10.67%
Ecosystem Investment Partners II, LP	30,000,000	35,927,764	16.92%	25.99%	17.46%	6.22%	3.89%	15.26%
Ecosystem Investment Partners III, LP	50,000,000	2,697,929	-37.89%	143.48%	-	-	143.48%	-53.16%
Timber Total	200,000,000	123,655,415	6.24%	8.21%	11.04%	8.89%	5.83%	8.30%
<i>NCREIF Timberland Index</i>			<i>1.39%</i>	<i>3.28%</i>	<i>7.59%</i>	<i>6.91%</i>	<i>3.91%</i>	
Blue Road Capital, L.P.	30,000,000	7,330,215	-4.19%	12.01%	-	-	4.98%	-0.51%
Halderman Farmland Separate Account	50,000,000	23,081,301	1.99%	2.18%	4.82%	-	-	3.59%
Hancock GLC Farms, LLC	50,000,000	31,664,757	0.47%	2.75%	7.52%	-	8.00%	8.20%
Agriculture Total	130,000,000	62,076,273	-0.11%	4.03%	6.06%	-	6.78%	5.58%
<i>NCREIF Farmland Index</i>			<i>4.08%</i>	<i>8.56%</i>	<i>12.22%</i>	<i>15.06%</i>	<i>12.62%</i>	
BP Natural Gas Opportunity Partners, L.P.	30,000,000	11,026,541	-3.66%	-	-	-	-3.66%	-
EnerVest Energy Institutional Fund XIV-A, L.P.	37,500,000	22,833,296	-9.16%	-18.74%	-	-	-18.74%	-12.85%
Five Point Capital Midstream Fund II L.P.	50,000,000	8,693,541	-10.40%	-14.24%	-	-	-2.78%	-6.11%
Harvest MLP	50,000,000	51,320,379	-	-	-	-	-	-
Lime Rock Resources III	34,250,000	34,339,907	41.73%	40.62%	-	-	-17.04%	1.55%
Energy Total	201,750,000	128,213,664	14.27%	11.73%	-	-	-13.71%	0.29%
Water Property Investor, L.P.	30,000,000	27,666,281	-1.26%	-1.92%	-	-	-3.23%	-2.43%
Water Total	30,000,000	27,666,281	-1.26%	-1.92%	-	-	-3.23%	-2.43%
Natural Resources Total	561,750,000	341,611,632	5.64%	7.50%	6.73%	6.31%	4.15%	5.89%
Grand Total	1,686,071,881	1,216,151,332						11.94%

* For individual Fund performance numbers please see disclosure statements in the Appendix C.

** The time-weighted return calculations begin with the first full quarter following the initial capital investment. The IRR calculation begins with the first full year following the initial capital investment.

*** Ecosystem Partners III used a subscription line to cover the organizational expenses and management fees that exceeded the amount of capital called in Q3 2015. The Q3 2015 negative market value changed to positive in Q4 2015, leading to an amplified return.

****EnerVest Energy Institutional Fund XIV-A, L.P. does not report 'Market Value' on Fair Market Value basis, as per US GAAP standards.

Manager Asset Detail

	Commitment (\$)	Market Value (\$)	Contributions (\$)	Distributions (\$)	Since Inception Net IRR
Private Real Estate					
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,156,087	50,000,000	(21,601,412)	5.64%
Prologis Targeted Europe Logistics Fund, FCP-FIS	12,283,480	7,268,820	12,302,828	(2,248,461)	-3.82%
Core Total	62,283,480	57,424,908	62,302,828	(23,849,873)	3.29%
Crow Holdings Realty Partners VI, LP	50,000,000	41,115,724	42,381,142	(10,397,900)	9.84%
Crow Holdings Realty Fund VII, LP	35,000,000	17,937,239	17,421,300	-	-
Hammes Partners II, L.P.	50,000,000	22,579,223	23,749,562	(2,337,942)	9.83%
Prudential Senior Housing Partners IV	50,000,000	48,313,336	49,593,854	(21,474,211)	15.21%
Prudential Senior Housing V	35,000,000	8,779,801	8,210,497	-	8.75%
RAM Realty Partners III	30,000,000	25,431,929	32,770,683	(20,724,451)	16.95%
RAM Realty Partners IV	40,000,000	10,316,452	11,259,260	-	-
Realterm Logistics Fund, L.P.	25,000,000	19,160,867	16,136,475	(1,556,489)	18.71%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	26,763,791	42,770,863	(30,017,737)	23.50%
Rockpoint Real Estate Fund V, L.P.	35,000,000	5,688,870	5,581,719	(94,168)	8.04%
Sares-Regis Multifamily Fund, L.P.	30,000,000	38,224,369	28,303,605	(2,678,337)	16.13%
Sares-Regis Multifamily Value-Add Fund II, L.P.	30,000,000	9,018,031	23,882,877	(14,722,536)	-0.95%
Value-Added Total	455,454,545	273,329,631	302,061,836	(104,003,771)	14.83%
Greenfield Acquisition Partners V, L.P.	25,000,000	1,751,823	24,650,000	(31,993,949)	8.37%
Kildare European Partners I, L.P.	50,000,000	24,320,743	42,671,190	(23,063,789)	11.84%
Kildare European Partners II, L.P.	40,000,000	-	-	-	-
Lone Star Fund VII (U.S.), L.P.	50,000,000	6,438,066	49,554,503	(80,130,773)	47.67%
Lone Star Fund VIII (U.S.), L.P.	50,000,000	25,565,101	43,532,970	(30,898,253)	21.29%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	4,689,125	25,036,133	(32,006,281)	26.14%
Lone Star Real Estate Fund V (U.S.), L.P.	37,063,856	-	-	-	-
Raith Real Estate Fund I-A LP	50,000,000	33,532,032	58,247,952	(27,252,757)	8.08%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	21,267,316	28,986,617	(17,339,271)	10.12%
RAPM-NMERB Co-Investment Fund, L.P.	79,520,000	69,446,183	54,070,182	(7,768,197)	30.80%
Opportunistic Total	446,583,856	187,010,389	326,749,548	(250,453,271)	14.85%
Private Real Estate Total	964,321,881	517,764,929	691,114,212	(378,306,914)	10.42%
Public Real Estate Total					
In-House REIT	-	98,083,172	776,070,071	(1,088,824,640)	13.17%
U.S. Value Income REIT Strategy	160,000,000	258,691,599	162,608,550	-	11.60%
Public Real Estate Total	160,000,000	356,774,771	938,678,621	(1,088,824,640)	12.99%
Real Estate Total	1,124,321,881	874,539,700	1,629,792,834	(1,467,131,555)	12.36%

* For individual Fund performance numbers please see disclosure statements in the Appendix C.

** The IRR calculation begins with the first full year following the initial capital investment.

Manager Asset Detail - Continued

	Commitment (\$)	Market Value (\$)	Contributions (\$)	Distributions (\$)	Since Inception Net IRR
Natural Resources					
Brookfield Brazil Timber Fund II, LP	30,000,000	7,935,143	8,188,126	(1,307,336)	4.88%
Conservation Forestry Capital Fund II, LP	25,000,000	24,629,452	27,450,939	(11,895,643)	5.45%
Conservation Forestry Capital Fund IV, LP	20,000,000	3,105,820	3,159,325	-	-
Eastern Timberland Opportunities II	45,000,000	49,359,307	41,189,243	(412,276)	10.67%
Ecosystem Investment Partners II, LP	30,000,000	35,927,764	28,208,557	(4,323,176)	15.26%
Ecosystem Investment Partners III, LP	50,000,000	2,697,929	3,737,643	-	-53.16%
Timber Total	200,000,000	123,655,415	111,933,834	(17,938,431)	8.30%
Blue Road Capital, L.P.	30,000,000	7,330,215	33,207,702	(25,781,005)	-0.51%
Halderman Farmland Separate Account	50,000,000	23,081,301	23,010,309	(1,834,320)	3.59%
Hancock GLC Farms, LLC	50,000,000	31,664,757	25,070,000	-	8.20%
Agriculture Total	130,000,000	62,076,273	81,288,011	(27,615,325)	5.58%
BP Natural Gas Opportunity Partners, L.P.	30,000,000	11,026,541	10,326,131	(69,355)	-
EnerVest Energy Institutional Fund XIV-A, L.P.	37,500,000	22,833,296	25,894,767	(1,178,253)	-12.85%
Five Point Capital Midstream Fund II L.P.	50,000,000	8,693,541	13,716,995	(4,227,387)	-6.11%
Harvest MLP	50,000,000	51,320,379	50,000,000	-	-
Lime Rock Resources III	34,250,000	34,339,907	35,233,328	(1,774,877)	1.55%
Energy Total	201,750,000	128,213,664	135,171,221	(7,249,872)	0.29%
Water Property Investor, L.P.	30,000,000	27,666,281	28,606,445	-	-2.43%
Water Total	30,000,000	27,666,281	28,606,445	-	-2.43%
Natural Resources Total	561,750,000	341,611,632	356,999,510	(52,803,628)	5.89%
Grand Total	1,686,071,881	1,216,151,332	1,986,792,344	(1,519,935,183)	11.94%

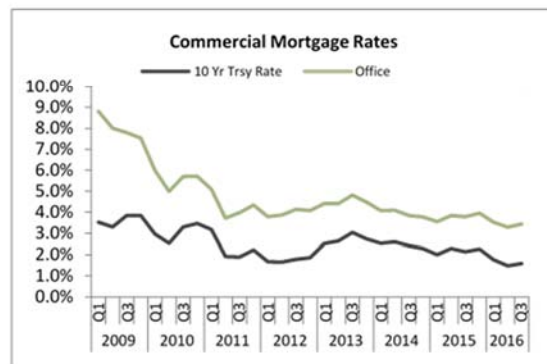
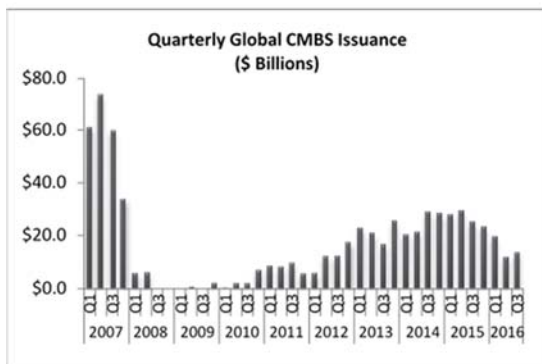
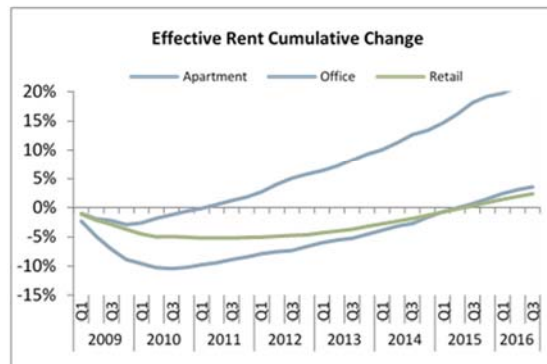
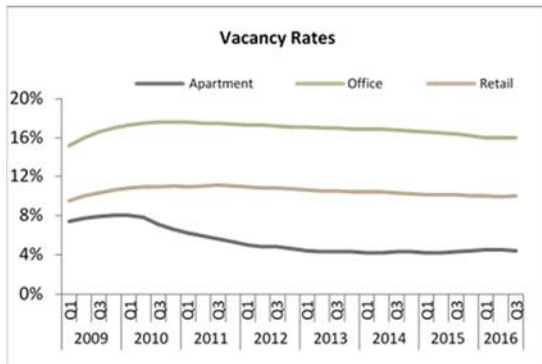
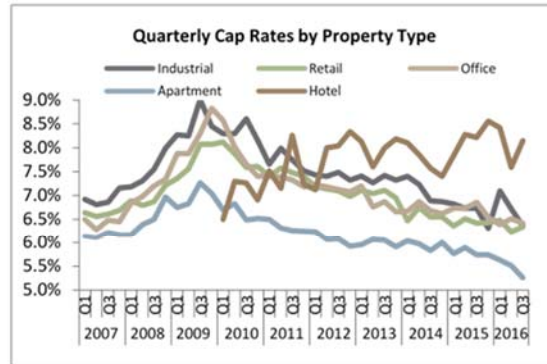
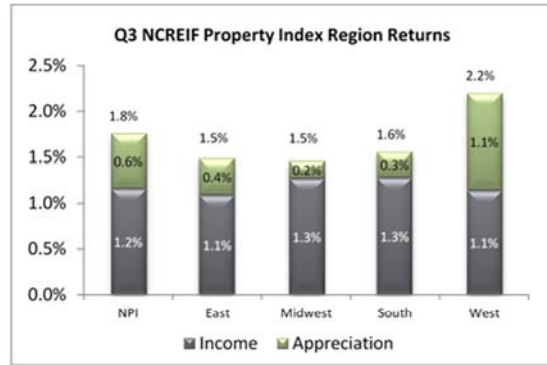
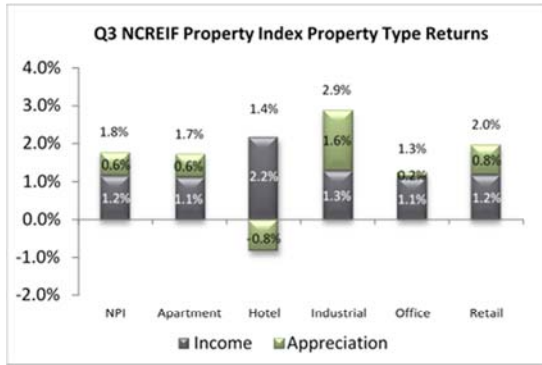
* For individual Fund performance numbers please see disclosure statements in the Appendix C.

** The IRR calculation begins with the first full year following the initial capital investment.

***EnerVest Energy Institutional Fund XIV-A, L.P. does not report 'Market Value' on Fair Market Value basis, as per US GAAP standards.

Market Overview

Real Estate Market Overview



Real Estate Market Commentary

The NCREIF Property Index (“NPI”) returned 1.77% during the third quarter of 2016 breaking the index’s 25 quarter-long streak of greater than 2.0% returns. Income remained steady at 1.16% while appreciation edged lower to 0.60%, reflecting a 20 bps decline from Q2 and 126 bps decline from Q3 2015. Over the trailing 1-year the index has returned 9.22% dipping slightly below the since inception average (Q4 of 1977) annualized return of 9.30%.

Industrial real estate returned 2.89% for the quarter extending its winning streak to three consecutive quarters of outpacing the other “big-five” property types. Industrial is also the only property type to improve its appreciation pace from the preceding quarter at 1.60% versus 1.58% in Q2. Retail, led by regional and super-regional malls, returned 1.98% for the quarter. While apartment, hotel and office returned 1.72%, 1.35% and 1.26%, respectively. Total return doesn’t tell the whole story for hotel, as income remained strong during the quarter at 2.18%, but appreciation was negative for the third consecutive quarter at -0.83%.

Key Real Estate Indicators						
Trailing 1-Year Ended Q3 2016						
Property Type	Vacancy Rates	Rents	Absorption	Completions	Cap Rates	Transaction Volume
Office	↘	↗	↗	↗	↗	↘
Retail	↗	↔	↘	↗	↗	↘
Multifamily	↗	↗	↘	↘	↘	↗
Industrial	-	-	-	-	↘	↗

Key: ↗↘ = More than 5% change, ↗↘ = Between 1-4% change, ↔ = Between 0-1% change. Industrial fundamentals published annually.

Nationally real estate transaction volume is down 6% YTD as compared to the first three quarters of 2015, with the greatest decline in activity in first-tier markets. Overall institutional investors are set to be net buyers on an annual basis for the first time since 2012; conversely, REITs are tracking to be net sellers for the second year in a row. Compared to underlying real estate prices, REITs are trading below their net asset values, making it difficult for REITs to raise equity through share issuance. Instead they are funding their acquisition, development and redevelopment pipelines through property sales. Meanwhile, foreign buyers continue to acquire a larger portion of US real estate than ever before. In the first half of 2016, completed US commercial property purchases by China-based investors were up 19% over a year earlier to \$5.0 billion. Including deals under contract that haven’t been finished, Chinese investors have committed \$12.9 billion this year, nearly matching the \$14 billion in all of 2015 and drastically outpacing 2014’s total of \$3.4 billion.

Looking at transaction volume by property type, apartment is the only one to increase volume (12.7%) and price (6.8%) per unit YTD versus the first three quarters of 2015. Industrial and retail have had reduced volume (-20.4% and -13.8%, respectively) for the same period, but increasing price per square foot (6.7% and 22.1%). While office and hotel have had decreased volume (-6.8% and -24.0%) and pricing (-4.6% and -0.9%).

During Q3, 43 private real estate funds raised \$21.1 billion in new fund equity, for a total of \$78.7 billion year to date. In December 2016, global private real estate dry powder totaled \$240.0 billion, \$135.0 billion of which is targeting the US.

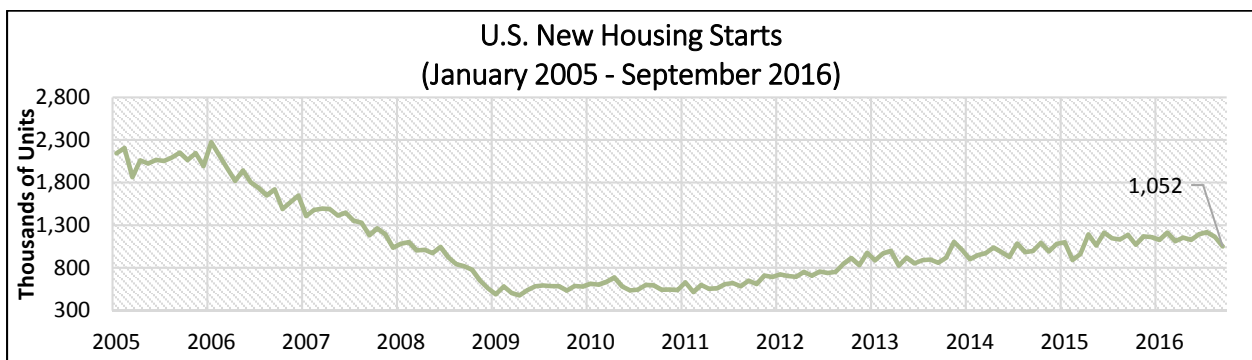
Throughout 2016, CMBS issuance has slowed as lenders begin to conform to tougher lending standards and forthcoming risk-retention rules, meanwhile a wave of 2006 and 2007 10-year commercial real estate debt is maturing forcing many to seek out non-traditional lenders to refinance properties. Given constrained lending, default rates are starting to notch up. Since the election interest rates have risen, and current Fed forecasts indicate further rate increases into 2017 that will create additional headwinds for those looking to refinance.

Sources: NCREIF, Reis, AEW, Commercial Mortgage Alert, RCA, Preqin, TREPP, WSJ, Bloomberg, RAPM

Timber Market Commentary

The NCREIF Timberland Index (“NTI”) returned 0.67% during the 3rd quarter, consisting of 0.68% income and -0.01% appreciation. Over the trailing one-year the NTI returned 3.28% trailing its since inception annualized average of 12.04%. For the trailing one-year period the Northwest region continues to lead at 6.20% followed by the South at 3.06%, and the Northeast and Lake States at -3.00% and -2.88%, respectively.

Global timber demand rebounded in the third quarter of 2016, lifted in part by increased appetite from China. Both global sawtimber and global pulpwood prices moved higher for the period. In the South, timber pricing for sawlog and pulpwood softened marginally during the quarter in response to favorable harvesting conditions and increased Canadian imports. Meanwhile in the Pacific Northwest the log export market improved marginally during the quarter, helped by improving conditions in Japan and a rebound in China’s real estate sector. China has issued a new round of stimulus spending by the Chinese government on infrastructure creating a rebound in construction.



The US housing market sustained its pace throughout the third quarter, as new housing starts remained roughly in line with year ago levels averaging 1.14 million homes on an annualized basis. Following quarter end, October saw a 25% bump in new housing starts to 1.34 million homes, but levels returned to trend in November at 1.09 million. Robust sales of new homes have outpaced new construction, which helped push inventory lower. Given the pace of sales in August there was only 4.6-months’ supply of new single-family homes on the market. This is reflective of tight conditions as a balanced market is thought to have a 6-month inventory of unsold homes.

Although US unemployment continues to edge downward to sub 5% levels, rising home prices, stagnant wage growth, and rising interest rates are creating headwinds for homebuyers. In reaction to concerns over rising interest rates, early reports late in the fourth quarter indicated that home buying activity was on the rise as buyers are expediting their purchases to lock in lower borrowing rates.

Sources: BLS, TIAA-CREF, NCREIF, TIR, RAPM

Agriculture Market Commentary

The NCREIF Farmland Index (“NFI”) returned 1.40% in the third quarter of 2016 consisting of -0.17% appreciation and 1.57% income. Over the trailing one-year the index has returned 8.56%. Annual crops returned 1.07% for the quarter and 4.79% for trailing one-year underperforming the NFI’s since inception annualized average of 10.73%. Like annual crops, permanent crops have slowed their pace from preceding years registering at 13.14% for the trailing one-year, yet continuing to outpace the since inception annualized average of 12.44%.

Reports from the Federal Reserve districts continue to cite declining farmland values in much of the Farm Belt as excess supply continues to weigh on commodity prices. Prices in the Chicago district fell 1% from a year earlier. The Kansas City district reported irrigated farmland declining 5% and non-irrigated declining 3%. The St Louis district reported a 0.7% decrease from a year ago. For many districts, this quarter’s reports mark a four-quarter trend of declining values.

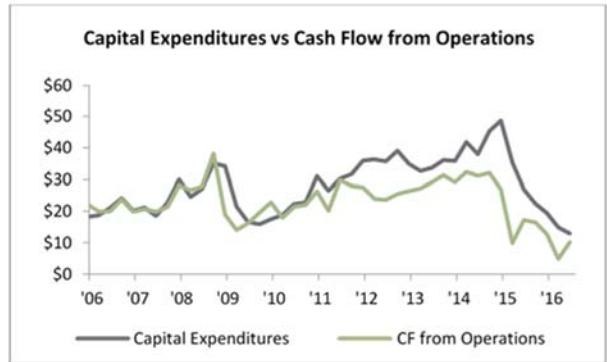
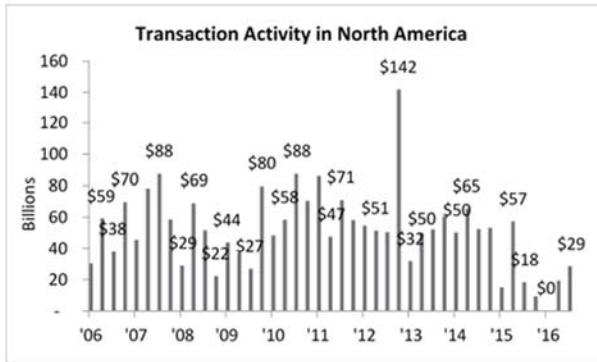
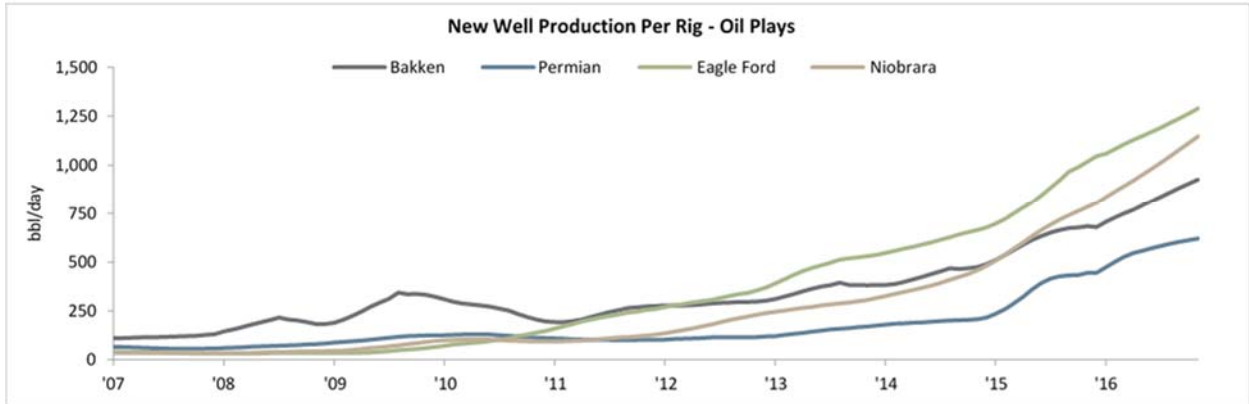
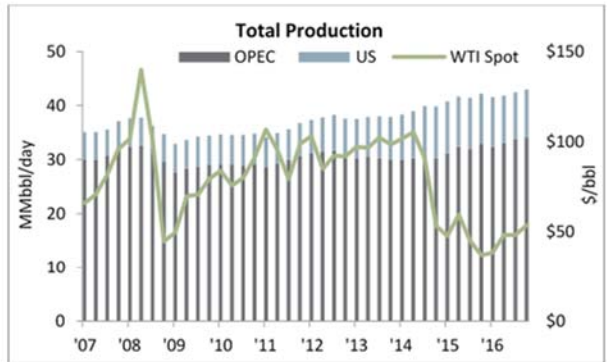
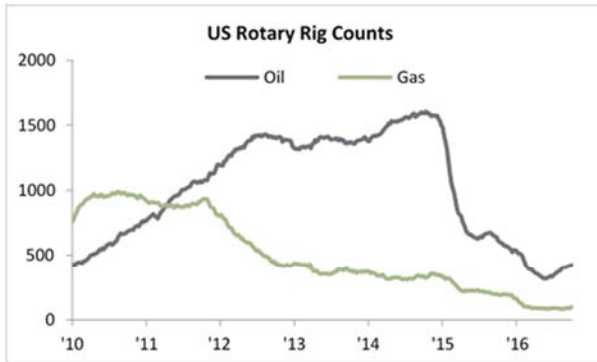
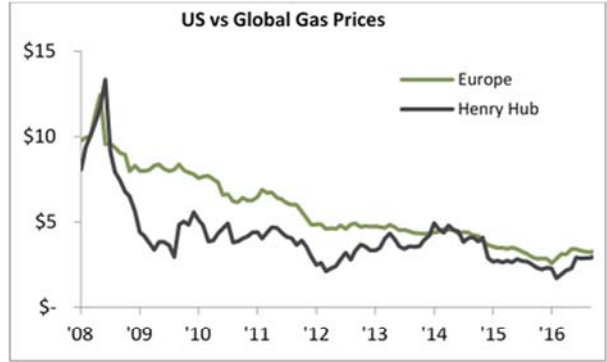
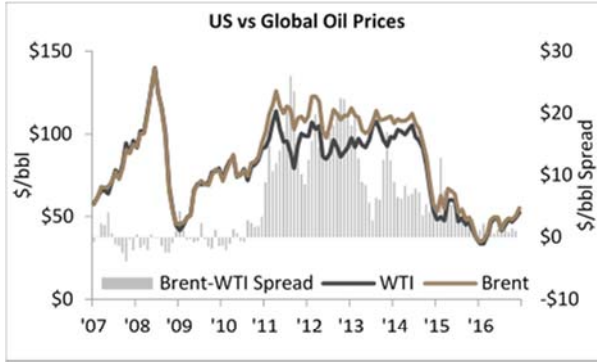
Bankers surveyed in the Kansas City and St Louis districts reported that farm incomes fell in the second quarter. Expectations are for net farm income to decline 11.5% in 2016. Reduced farm profits have prompted increased demand for farm loans while repayment rates have slowed. Lenders reported that 7% of farm loans have major or severe repayment issues, up from an average of 3% between 2011 and 2013.

Permanent crop land has fared better than annual in recent years, as high commodity prices have propelled performance, however certain crops, such as almonds and pistachios, are facing some challenges from increasing production levels. The 2016 pistachio crop is 62% larger than the record crop in 2012. This is due to: i) the rest the trees got from low yields in 2015, ii) an increase in bearing acreage, iii) more winter dormancy chilling, and iv) more water availability. Pistachio prices have dropped from \$3.75/open-in-shell pound to \$2.25/open-in-shell pound stimulating a dramatic increase in sales volume.

NCREIF Farmland Index Trailing 1-Year Returns as of September 30, 2016					
Crop Type	Number of Properties	Market Value (\$ MM)	Income Return	Appreciation Return	Total Return
Annual					
Commodity	334	\$2,378	3.19%	-1.96%	1.18%
Fresh Produce	29	\$413	4.23%	10.73%	15.29%
All Other	119	\$1,554	4.18%	3.24%	7.52%
Total Annual	482	\$4,345	3.64%	1.12%	4.79%
Permanent					
Apples	24	\$159	-1.79%	7.22%	5.30%
Almonds	67	\$984	8.95%	11.03%	20.53%
Citrus	11	\$181	8.84%	12.06%	21.86%
Pistachios	15	\$465	10.10%	-3.24%	6.70%
Wine Grapes	90	\$1,354	5.89%	5.52%	11.63%
All Other	40	\$348	8.87%	0.30%	9.19%
Total Permanent	247	\$3,490	7.40%	5.48%	13.14%
Total	729	\$7,835	5.34%	3.10%	8.56%

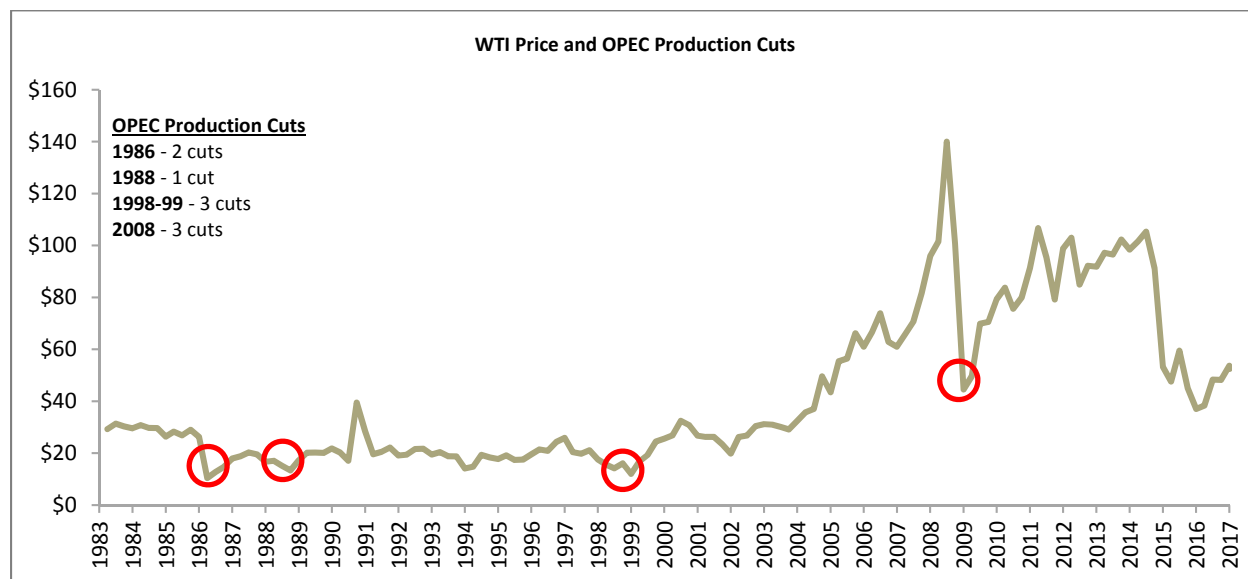
Sources: USDA, NCREIF, TIAA-CREF, WSJ, RAPM

Energy Market Overview



Sources: Baker Hughes, Bloomberg, EIA, Evaluate Energy

Energy Commentary



Over the quarter, there were two major areas of focus for oil markets: Donald Trump's election and OPEC production curtailment. Market participants are trying to decide what Trump's election means for the price of oil. The current consensus is that Trump will be pro-business, which could increase oil demand. It is also expected that he will allow natural resource exploitation in previously protected areas, thereby increasing supply. The other major factor affecting the markets is whether or not OPEC will actually curtail 1.2MMBbl/d of production, as they agreed to at the end of September. OPEC production was a record 33.8MMBbl/d in October. Russia, the world's single largest crude producer, has announced it will cut 6000kBbl/d to satisfy OPEC's request for curtailment from those outside the cartel. As the chart above shows, OPEC production cuts have historically set a floor on oil prices.

Warmer than normal weather across much of the United States over the third quarter led to lower natural gas prices, offset by increasing exports to Mexico and LNG exports. Cheniere recently completed its second train and has increased exports by 1.6 Bcf/d versus 2015. Associated gas production has increased across the US as the shales in the SCOOP, STACK, Eagle Ford and Permian are exploited, so, paradoxically, low crude prices could benefit natural gas.

Deal flow in the E&P sector increased over the third quarter and capital markets have reopened for companies with top tier assets. Divestitures are increasingly common for both high and low quality companies as a means of getting liquidity: through the third quarter, there were \$24.5 billion in asset sales. The industry is, however, still capital constrained and it is expected that producers will once again cut capex budgets. In the US, producers are focused on the Midland and Delaware basins and the SCOOP/STACK, which has translated to all time high valuations in these plays with public companies as the primary purchasers.

Sources: Bloomberg, EIA, Preqin

Appendix A

Summary of Portfolio Cash Flows – Private Investments

Quarter	Contributions	Distributions	Total
Q1 2008	9,000,000	-	9,000,000
Q2 2008	25,500,000	(446,462)	25,053,538
Q3 2008	44,852,570	(1,019,994)	43,832,576
Q4 2008	33,979,025	(1,223,450)	32,755,575
Q1 2009	5,572,204	(1,142,560)	4,429,644
Q2 2009	3,320,837	(2,831,451)	489,386
Q3 2009	1,582,090	(3,883,030)	(2,300,940)
Q4 2009	6,713,749	(1,450,747)	5,263,002
Q1 2010	4,451,516	(846,291)	3,605,226
Q2 2010	767,315	(1,188,459)	(421,144)
Q3 2010	674,058	(853,205)	(179,147)
Q4 2010	13,741,534	(1,926,081)	11,815,454
Q1 2011	2,347,300	(4,107,813)	(1,760,513)
Q2 2011	18,061,101	(4,171,517)	13,889,584
Q3 2011	8,660,670	(7,451,229)	1,209,441
Q4 2011	23,900,427	(5,389,008)	18,511,419
Q1 2012	7,907,732	(4,722,068)	3,185,665
Q2 2012	15,087,526	(2,870,248)	12,217,278
Q3 2012	26,488,091	(5,684,184)	20,803,907
Q4 2012	41,374,981	(9,937,326)	31,437,655
Q1 2013	1,622,072	(19,771,643)	(18,149,571)
Q2 2013	24,541,234	(24,772,969)	(231,735)
Q3 2013	21,645,192	(16,872,041)	4,773,151
Q4 2013	33,780,539	(27,918,591)	5,861,949
Q1 2014	68,401,433	(22,342,851)	46,058,582
Q2 2014	32,486,392	(17,048,045)	15,438,346
Q3 2014	86,760,742	(19,956,358)	66,804,383
Q4 2014	120,639,089	(32,994,436)	87,644,653
Q1 2015	37,606,375	(25,131,192)	12,475,183
Q2 2015	29,762,601	(35,017,174)	(5,254,573)
Q3 2015	57,347,509	(22,216,303)	35,131,206
Q4 2015	61,158,743	(38,507,279)	22,651,464
Q1 2016	47,496,699	(20,415,786)	27,080,913
Q2 2016	65,916,187	(59,475,787)	6,440,400
Q3 2016	113,811,031	(33,501,341)	80,309,691
Total	\$ 1,096,958,564	\$ (477,086,917)	\$ 619,871,647

Appendix B

Disclosure Statements

The foregoing investment information was prepared for the New Mexico Educational Retirement Board or its advisors or consultants solely for informational purposes and should not be relied on for any other purpose. This document (and the information contained herein) is strictly confidential. By its acceptance hereof, the recipient agrees that this document (and the information contained herein) may not be reproduced or disclosed in whole or in part to any person or entity without the prior written consent of Real Asset Portfolio Management LLC "RAPM". RAPM hereby disclaims any liability resulting from any unauthorized dissemination of this document and/or any of the information contained herein.

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The information provided in this report contains estimates, return data and valuations that are based upon assumptions and projections. Such estimates and assumptions involve judgments with respect to, among other things, future economic and competitive conditions; real asset market conditions; and the like, which may not be realized and are inherently subject to significant uncertainties and changes, all of which are difficult to predict and many of which are beyond the control of the General Partner and RAPM. Accordingly, no assurance can be given that such projections will be realized, and actual conditions, operations and results may vary materially from those set forth herein. Last, there are inherent limitations to projecting performance including: (i) illiquid assets are generally difficult to value, (ii) these projections typically involve investments that may not be disposed of for many years and RAPM generally does not control the timing or the terms of the disposition, and (iii) the projected performance calculation for a particular investment may relate primarily to residual values or projected future distributions rather than distributions actually received. Limited Partners are cautioned that the predictions and other forward-looking statements reflected in this report involve risks and uncertainty. In light of the foregoing factors, actual returns and results are likely to differ substantially from the forward-looking statements contained in this report, and Limited Partners are cautioned not to place undue reliance on such forward-looking statements and projections. The words "estimate," "anticipate," "expect," "predict," "believe" and like expressions are intended to identify forward-looking statements.

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, 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.

THE PERFORMANCE INFORMATION SET FORTH HEREIN REPRESENTS PAST PERFORMANCE AND IS NOT A GUARANTEE OF FUTURE RESULTS. Any tables, graphs or charts relating to past performance included in this document are intended only to illustrate the performance of the investments for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

Reported Net IRR is based upon manager reported cash flows to and inflows from investors and the estimated ending values as of the date of this report. Returns are net of underlying investment manager management fees, expenses and carried interest (if any) specific to the investor.

The GP (of Conservation Forestry Fund IV, LP) further acknowledges that Investor (NMERB) discloses the following information about its investments held directly and indirectly: Additionally, the Investor (NMERB) reserves the right to report “since inception” IRR and other rate of return measures for its partnership investments. Notwithstanding anything to the contrary contained in the LPA, the GP (of Conservation Forestry Fund IV, LP) hereby consents in advance to the disclosure of the foregoing information by Investor (NMERB) with respect to the Partnership (of Conservation Forestry Fund IV, LP). Investor (NMERB) agrees that in connection with disclosure of any information of the type contemplated above relating to IRR or other measures of investment return, the information set forth in such disclosure will be prepared by investor (NMERB or affiliate) and include an express statement that the Partnership (of Conservation Forestry Fund IV, LP) has not reviewed such information and makes no representation or warranty concerning its accuracy.

Reported Net IRR herein for Conservation Forestry Fund IV, LP is based upon manager reported cash flows to and inflows from investors and the estimated ending values as of the date of this report. Returns are net of underlying investment manager management fees, expenses and carried interest (if any) specific to the investor. The GP of Conservation Forestry Fund IV, LP has not reviewed stated performance and makes no representation or warranty concerning its accuracy

Multiples are calculated net of fees. The Paid in Capital (“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 to Paid in Capital (“DPI”) Multiple measures the portion of fund returns distributed to investors relative to capital contributed. 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 of Paid in Capital (“RVPI”) Multiple measures the portion of returns that are unrealized. The Total Value of Paid in Capital (“TVPI”) Multiple 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. Notwithstanding the foregoing, in instances of calculating multiples RAPM factors in all available cash flows experienced by a limited partner regardless of whether these cash flows are considered by the manager to be inside or outside of commitment, this includes but is not limited to management fees, true-ups (late closing interest), expenses, recallable distributions, and recycled contributions.