

New Mexico Educational Retirement Board

Real Estate and Natural Resources Portfolio
Quarterly Board Summary

December 31, 2016

REAL ASSET
PORTFOLIO MANAGEMENT

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Portfolio Summary

Portfolio Review

As of December 31, 2016, New Mexico Educational Retirement Board (“NMERB”) had a total portfolio value of \$11,683,011,729. NMERB’s long-term target allocations to real estate and natural resources are 7% (\$817,810,821) and 4.5% (\$525,735,528), respectively. As of December 31, 2016, net asset value (“NAV”) of the real estate portfolio was \$904,058,022 and NAV for the natural resources portfolio was \$382,756,640.

As of December 31, 2016, NMERB had \$381,061,182 of committed but uncalled allocations to private real estate managers and \$243,386,315 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	-3.46%	9.47%	12.72%
Wilshire REIT Index	-2.28%	9.60%	
Private Real Estate	3.24%	8.21%	10.54%
NCREIF Property Index	1.73%	9.18%	
Natural Resources	4.08%	4.55%	7.30%
NCREIF Timberland Index	1.18%	3.93%	
NCREIF Farmland Index	2.89%	12.61%	
CPI (All Consumers)	0.00%	1.65%	

Portfolio Highlights

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

Key Private Asset Ratios as of 12/31/2016

Paid in Capital (PIC) 0.73x

Distribution Paid in Capital (DPI) 0.43x

Residual Value Paid in Capital (RVPI) 0.79x

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	-3.46%	8.33%	11.91%	11.65%	13.52%	9.47%	3/31/2004
In-House REIT	-2.26%	7.20%	13.72%	11.82%	13.70%	9.56%	3/31/2004
Wilshire REIT - U.S. Equity	-2.28%	7.24%	13.78%	12.02%	13.84%	9.60%	3/31/2004
Brookfield U.S. Value REIT	-3.91%	8.57%	10.58%	12.60%	-	10.80%	9/30/2011
MSCI REIT Index	-2.96%	8.60%	13.23%	11.87%	13.63%	10.43%	9/30/2011
Private Real Estate	3.24%	12.07%	14.33%	15.38%	15.39%	8.21%	6/30/2008
NCREIF Property Index	1.73%	7.97%	11.01%	10.91%	11.70%	9.18%	6/30/2008
Natural Resources	4.08%	9.94%	6.37%	6.57%	6.16%	4.55%	6/30/2009
NCREIF Timberland Index	1.18%	2.59%	5.96%	7.05%	5.20%	3.93%	6/30/2009
NCREIF Farmland Index	2.89%	7.09%	10.00%	13.80%	13.26%	12.61%	6/30/2009
CPI (All Consumers)	0.00%	2.07%	1.18%	1.36%	1.61%	1.65%	6/30/2009

Calendar Year Time Weighted Returns – *Net of Fees*

	YTD	2015	2014	2013	2012	2011
Public Real Estate	8.33%	-1.01%	30.71%	3.48%	19.60%	8.78%
In-House REIT	7.20%	4.28%	31.57%	1.47%	17.11%	9.17%
Wilshire REIT - U.S. Equity	7.24%	4.23%	31.78%	1.86%	17.58%	9.24%
Brookfield U.S. Value REIT	8.57%	-4.06%	29.80%	6.40%	25.80%	-
MSCI REIT Index	8.60%	2.52%	30.38%	2.47%	17.77%	8.69%
Private Real Estate	12.07%	12.92%	18.08%	19.73%	14.31%	8.33%
NCREIF Property Index	7.97%	13.33%	11.81%	10.99%	10.54%	14.26%
Natural Resources	9.94%	7.25%	2.08%	11.33%	2.61%	2.89%
NCREIF Timberland Index	2.59%	4.97%	10.48%	9.68%	7.75%	1.57%
NCREIF Farmland Index	7.09%	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

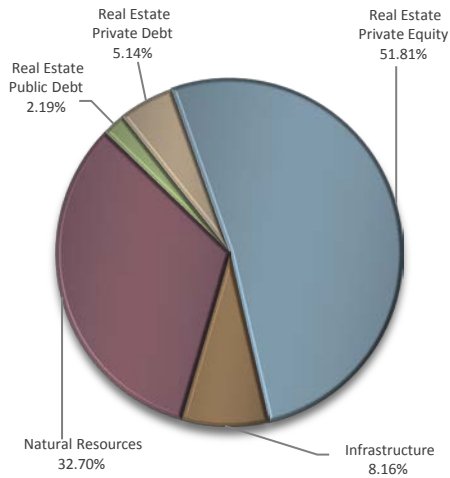
	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Private Portfolio Market Value	\$ 942,235,573	\$ 691,163,227	\$ 563,535,356	\$ 295,792,339	\$ 260,579,714
Committed Uncalled	624,447,497	650,114,560	500,638,903	569,522,524	231,187,026
Private Portfolio Market Value + Committed Uncalled	\$ 1,566,683,069	\$ 1,341,277,787	\$ 1,064,174,260	\$ 865,314,862	\$ 491,766,740
Total Number of Fund Investments	44	38	32	26	17
Total Number of Managers	29	27	25	21	14

Private Asset Multiples

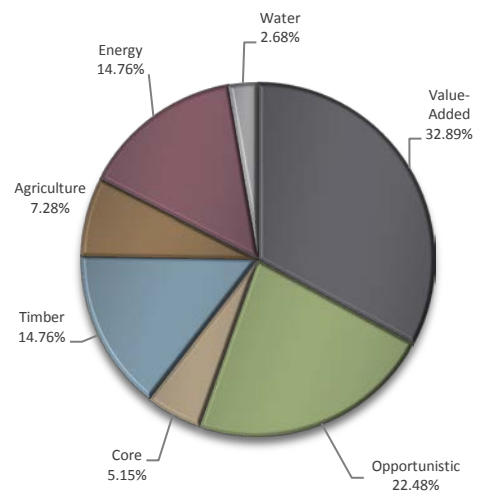
	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
PIC Multiple	.72 x	.62 x	.59 x	.42 x	.60 x
Distribution Multiple	.43 x	.42 x	.35 x	.40 x	.21 x
Residual Value Multiple	.79 x	.79 x	.82 x	.79 x	.89 x
Total Value Multiple	1.22 x	1.21 x	1.18 x	1.19 x	1.09 x

Portfolio Diversification

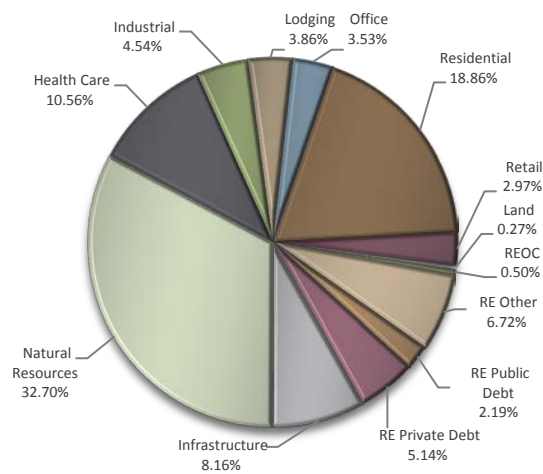
Private Diversification by Investment Class



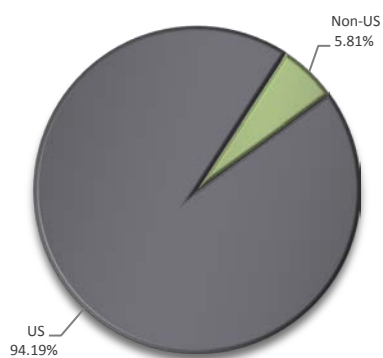
Private Asset Risk Category



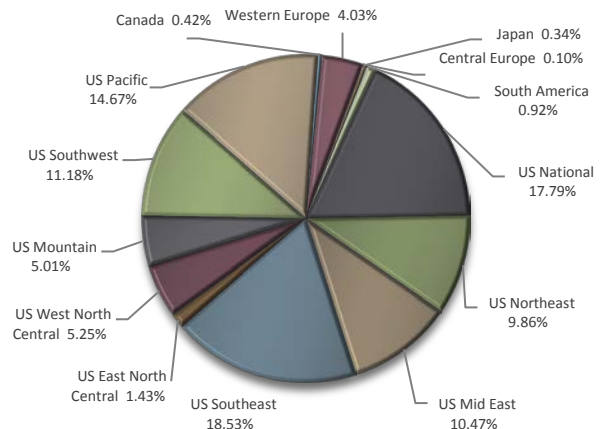
Private Asset Diversification by Investment Type



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	49,191,439	4.35%	4.35%	4.49%	4.94%	5.11%	5.40%
Prologis Targeted Europe Logistics Fund, FCP-FIS	12,373,811	6,981,161	1.62%	1.62%	2.59%	3.93%	-4.17%	-4.17%
Core Total	62,373,811	56,172,600	4.06%	4.06%	6.02%	6.62%	2.46%	3.12%
Crow Holdings Realty Partners VI, LP	50,000,000	42,504,219	14.40%	14.40%	9.87%	-	8.73%	10.27%
Crow Holdings Realty Fund VII, LP	35,000,000	21,866,781	6.89%	-	-	-	6.89%	-
Crow Retail Fund II, L.P.	30,000,000	-	-	-	-	-	-	-
Hammes Partners II, L.P.	50,000,000	30,032,924	10.26%	10.26%	-	-	11.31%	10.12%
Prudential Senior Housing Partners IV	50,000,000	48,959,668	15.40%	15.40%	16.02%	13.13%	13.13%	15.03%
Prudential Senior Housing V	35,000,000	13,323,952	14.46%	14.46%	-	-	5.33%	5.73%
RAM Realty Partners III	30,000,000	23,053,157	17.33%	17.33%	18.32%	-	17.10%	17.18%
RAM Realty Partners IV	40,000,000	17,087,400	-1.82%	-	-	-	-1.82%	-
Realterm Logistics Fund, L.P.	25,000,000	20,418,120	13.50%	13.50%	-	-	17.64%	15.33%
Realterm Logistics Fund II, LP	25,000,000	-	-	-	-	-	-	-
Rockpoint Real Estate Fund IV, L.P.	45,454,545	26,990,242	4.90%	4.90%	18.97%	-	44.66%	22.06%
Rockpoint Real Estate Fund V, L.P.	35,000,000	7,388,418	26.05%	26.05%	-	-	26.05%	8.64%
Sares-Regis Multifamily Fund, L.P.	30,000,000	36,082,997	25.17%	25.17%	17.24%	-	14.19%	17.14%
Sares-Regis Multifamily Value-Add Fund II, L.P.	30,000,000	15,489,182	-0.80%	-0.80%	-	-	-0.06%	-1.31%
Value-Added Total	510,454,545	303,197,059	13.61%	13.61%	15.04%	14.56%	14.56%	14.51%
Greenfield Acquisition Partners V, L.P.	25,000,000	1,391,650	-0.79%	-0.79%	-0.62%	5.05%	2.12%	8.42%
Kildare European Partners I, L.P.	50,000,000	22,758,748	10.69%	10.69%	-	-	12.46%	11.69%
Kildare European Partners II, L.P.	40,000,000	-	-	-	-	-	-	-
Lone Star Fund VII (U.S.), L.P.	50,000,000	4,652,908	-21.19%	-21.19%	1.74%	22.32%	26.48%	47.31%
Lone Star Fund VIII (U.S.), L.P.	50,000,000	22,824,324	-14.25%	-14.25%	15.58%	-	26.36%	19.11%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	4,435,402	13.79%	13.79%	29.85%	27.33%	29.24%	26.09%
Lone Star Real Estate Fund V (U.S.), L.P.	37,063,856	-	-	-	-	-	-	-
Raith Real Estate Fund I-A LP	50,000,000	36,645,196	13.23%	13.23%	-	-	4.74%	8.16%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	21,281,618	19.24%	19.24%	5.95%	2.84%	-23.55%	10.95%
RAPM-NMERB Co-Investment Fund, L.P.	79,520,000	86,119,428	30.38%	30.38%	-	-	30.43%	32.83%
Opportunistic Total	446,583,856	200,109,274	12.51%	12.51%	17.10%	20.07%	11.20%	15.10%
Private Real Estate Total	1,019,412,212	559,478,933	12.07%	12.07%	14.33%	15.38%	8.21%	10.54%
<i>NCREIF Property Index</i>			7.97%	7.97%	11.01%	10.91%	9.18%	
Public Real Estate								
In-House REIT	-	95,656,568	7.20%	7.20%	13.72%	11.82%	9.56%	13.11%
U.S. Value Income REIT Strategy	160,000,000	248,922,521	8.57%	8.57%	10.58%	12.60%	10.80%	9.97%
Public Real Estate Total	160,000,000	344,579,089	8.33%	8.33%	11.91%	11.65%	9.47%	12.72%
<i>Wilshire REIT - U.S. Equity</i>			7.24%	7.24%	13.78%	12.02%	9.60%	
Real Estate Total	1,179,412,212	904,058,022						12.16%

* 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	8,012,740	12.64%	12.64%	5.91%	-	5.91%	5.27%
Conservation Forestry Capital Fund II, LP	25,000,000	23,126,070	-2.28%	-2.28%	3.47%	5.33%	3.89%	4.90%
Conservation Forestry Capital Fund IV, LP	20,000,000	10,152,359	-0.28%	-	-	-	-0.28%	-
Eastern Timberland Opportunities II	45,000,000	49,558,321	3.55%	3.55%	-	-	9.68%	9.58%
Ecosystem Investment Partners II, LP	30,000,000	36,687,459	16.27%	16.27%	13.49%	6.85%	3.61%	13.79%
Ecosystem Investment Partners III, LP	50,000,000	3,401,876	-41.62%	-41.62%	-	-	93.93%	-41.91%
Timber Total	200,000,000	130,938,826	5.61%	5.61%	8.12%	8.16%	5.55%	7.55%
<i>NCREIF Timberland Index</i>			2.59%	2.59%	5.96%	7.05%	3.93%	
Blue Road Capital, L.P.	30,000,000	10,364,319	-5.43%	-5.43%	-	-	3.48%	-0.94%
Halderman Farmland Separate Account	50,000,000	24,499,150	-1.03%	-1.03%	3.35%	-	-	2.03%
Hancock GLC Farms, LLC	50,000,000	32,398,345	2.80%	2.80%	8.34%	-	8.10%	8.30%
Agriculture Total	130,000,000	67,261,814	-0.24%	-0.24%	5.92%	-	6.33%	5.03%
<i>NCREIF Farmland Index</i>			7.09%	7.09%	10.00%	13.80%	12.61%	
Bluescape Energy Recapitalization and Restructuring Fund III, LP	30,000,000	8,425,280	-	-	-	-	-	-
BP Natural Gas Opportunity Partners, L.P.	30,000,000	15,261,708	33.34%	33.34%	-	-	33.34%	64.51%
EnerVest Energy Institutional Fund XIV-A, L.P.	37,500,000	31,387,016	7.70%	7.70%	-	-	-2.94%	12.81%
Five Point Capital Midstream Fund II L.P.	50,000,000	11,129,868	-5.62%	-5.62%	-	-	-0.46%	-1.99%
Harvest MLP	50,000,000	52,203,652	1.54%	-	-	-	1.54%	-
Lime Rock Resources III	34,250,000	37,666,013	59.19%	59.19%	-	-	-11.98%	7.50%
Energy Total	231,750,000	156,073,537	26.81%	26.81%	-	-	-9.17%	11.94%
Water Property Investor, L.P.	30,000,000	28,482,463	1.65%	1.65%	-	-	-1.41%	-0.27%
Water Total	30,000,000	28,482,463	1.65%	1.65%	-	-	-1.41%	-0.27%
Natural Resources Total	591,750,000	382,756,640	9.94%	9.94%	6.37%	6.57%	4.55%	7.30%
Grand Total	1,771,162,212	1,286,814,662						11.81%

* 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.

*****Halderman Farmland Separate Account since inception returns are unavailable due to infinite negative returns in early periods from fees being called prior to capital investment, resulting in an undefined return calculation due to the lack of a net asset value.

Manager Asset Detail

	Commitment (\$)	Market Value (\$)	Contributions (\$)	Distributions (\$)	Since Inception Net IRR
Private Real Estate					
PRIMA Mortgage Investment Trust, LLC	50,000,000	49,191,439	50,000,000	(22,143,907)	5.40%
Prologis Targeted Europe Logistics Fund, FCP-FIS	12,373,811	6,981,161	12,393,159	(2,333,531)	-4.17%
Core Total	62,373,811	56,172,600	62,393,159	(24,477,438)	3.12%
Crow Holdings Realty Partners VI, LP	50,000,000	42,504,219	43,941,859	(12,022,974)	10.27%
Crow Holdings Realty Fund VII, LP	35,000,000	21,866,781	21,078,050	(389,151)	-
Crow Retail Fund II, L.P.	30,000,000	-	-	-	-
Hammes Partners II, L.P.	50,000,000	30,032,924	31,171,602	(2,914,121)	10.12%
Prudential Senior Housing Partners IV	50,000,000	48,959,668	49,593,854	(22,255,352)	15.03%
Prudential Senior Housing V	35,000,000	13,323,952	12,788,429	-	5.73%
RAM Realty Partners III	30,000,000	23,053,157	32,770,683	(24,315,575)	17.18%
RAM Realty Partners IV	40,000,000	17,087,400	18,220,906	-	-
Realterm Logistics Fund, L.P.	25,000,000	20,418,120	18,209,321	(2,155,786)	15.33%
Realterm Logistics Fund II, LP	25,000,000	-	-	-	-
Rockpoint Real Estate Fund IV, L.P.	45,454,545	26,990,242	43,806,938	(31,102,632)	22.06%
Rockpoint Real Estate Fund V, L.P.	35,000,000	7,388,418	7,129,131	(94,168)	8.64%
Sares-Regis Multifamily Fund, L.P.	30,000,000	36,082,997	28,303,605	(7,288,490)	17.14%
Sares-Regis Multifamily Value-Add Fund II, L.P.	30,000,000	15,489,182	30,445,112	(14,722,536)	-1.31%
Value-Added Total	510,454,545	303,197,059	337,459,490	(117,260,785)	14.51%
Greenfield Acquisition Partners V, L.P.	25,000,000	1,391,650	24,650,000	(32,475,949)	8.42%
Kildare European Partners I, L.P.	50,000,000	22,758,748	42,993,341	(25,621,853)	11.69%
Kildare European Partners II, L.P.	40,000,000	-	-	-	-
Lone Star Fund VII (U.S.), L.P.	50,000,000	4,652,908	49,554,503	(81,535,077)	47.31%
Lone Star Fund VIII (U.S.), L.P.	50,000,000	22,824,324	44,967,085	(34,539,425)	19.11%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	4,435,402	25,036,133	(32,490,399)	26.09%
Lone Star Real Estate Fund V (U.S.), L.P.	37,063,856	-	-	-	-
Raith Real Estate Fund I-A LP	50,000,000	36,645,196	60,649,980	(27,252,757)	8.16%
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	21,281,618	29,057,038	(18,956,277)	10.95%
RAPM-NMERB Co-Investment Fund, L.P.	79,520,000	86,119,428	64,690,281	(8,923,101)	32.83%
Opportunistic Total	446,583,856	200,109,274	341,598,361	(261,794,838)	15.10%
Private Real Estate Total	1,019,412,212	559,478,933	741,451,010	(403,533,061)	10.54%
Public Real Estate Total					
In-House REIT	-	95,656,568	776,670,071	(1,089,624,640)	13.11%
U.S. Value Income REIT Strategy	160,000,000	248,922,521	162,936,039	-	9.97%
Public Real Estate Total	160,000,000	344,579,089	939,606,110	(1,089,624,640)	12.72%
Real Estate Total	1,179,412,212	904,058,022	1,681,057,120	(1,493,157,701)	12.16%

* 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	8,012,740	8,188,126	(1,420,143)	5.27%
Conservation Forestry Capital Fund II, LP	25,000,000	23,126,070	27,450,939	(12,634,255)	4.90%
Conservation Forestry Capital Fund IV, LP	20,000,000	10,152,359	10,224,114	-	-
Eastern Timberland Opportunities II	45,000,000	49,558,321	41,189,243	(428,386)	9.58%
Ecosystem Investment Partners II, LP	30,000,000	36,687,459	29,168,557	(4,323,176)	13.79%
Ecosystem Investment Partners III, LP	50,000,000	3,401,876	4,625,143	-	-41.91%
Timber Total	200,000,000	130,938,826	120,846,122	(18,805,959)	7.55%
Blue Road Capital, L.P.	30,000,000	10,364,319	37,300,413	(26,742,373)	-0.94%
Halderman Farmland Separate Account	50,000,000	24,499,150	25,371,309	(2,054,320)	2.03%
Hancock GLC Farms, LLC	50,000,000	32,398,345	25,070,000	-	8.30%
Agriculture Total	130,000,000	67,261,814	87,741,722	(28,796,693)	5.03%
Bluescape Energy Recapitalization and Restructuring Fund III, LP	30,000,000	8,425,280	6,436,897	-	-
BP Natural Gas Opportunity Partners, L.P.	30,000,000	15,261,708	10,326,131	(69,355)	64.51%
EnerVest Energy Institutional Fund XIV-A, L.P.	37,500,000	31,387,016	30,270,417	(1,555,494)	12.81%
Five Point Capital Midstream Fund II L.P.	50,000,000	11,129,868	15,670,850	(4,227,387)	-1.99%
Harvest MLP	50,000,000	52,203,652	50,091,063	-	-
Lime Rock Resources III	34,250,000	37,666,013	35,285,021	(2,682,661)	7.50%
Energy Total	231,750,000	156,073,537	148,080,379	(8,534,897)	11.94%
Water Property Investor, L.P.	30,000,000	28,482,463	28,606,445	-	-0.27%
Water Total	30,000,000	28,482,463	28,606,445	-	-0.27%
Natural Resources Total	591,750,000	382,756,640	385,274,669	(56,137,550)	7.30%
Grand Total	\$1,771,162,212	1,286,814,662	2,066,331,789	(1,549,295,251)	11.81%

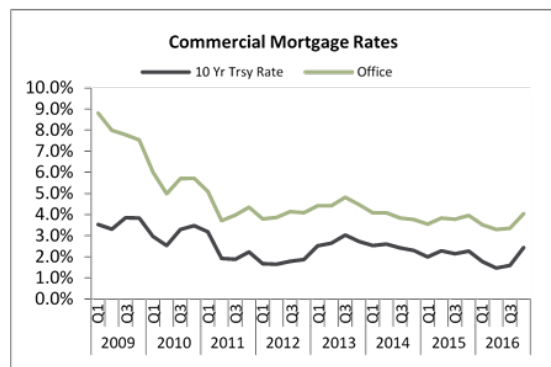
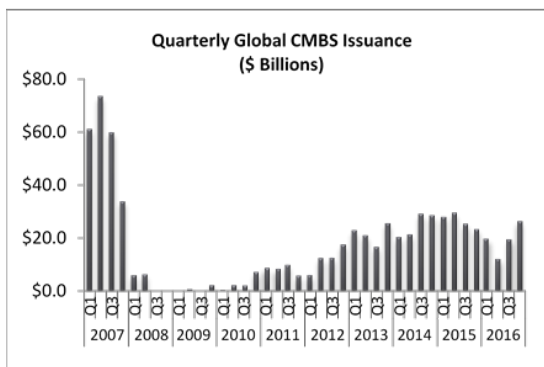
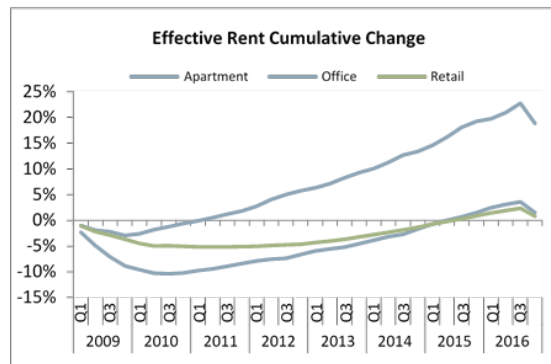
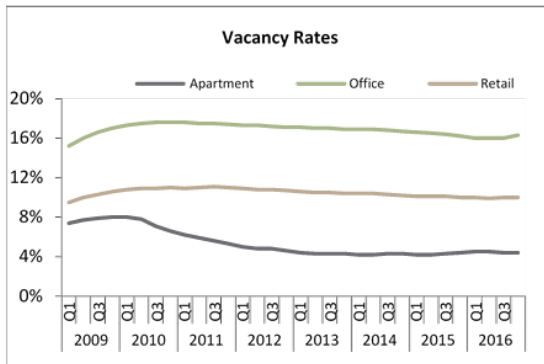
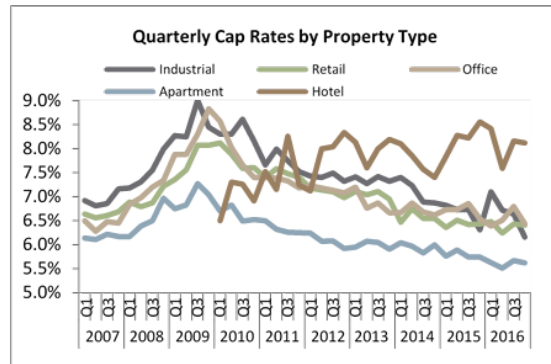
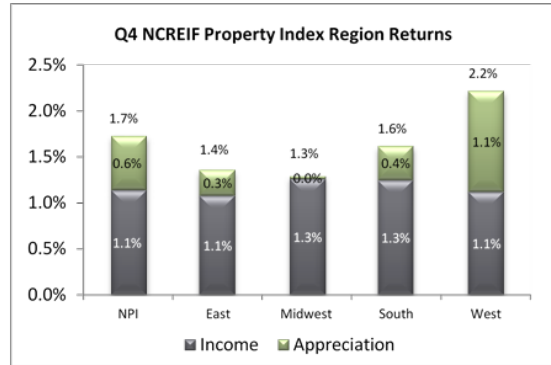
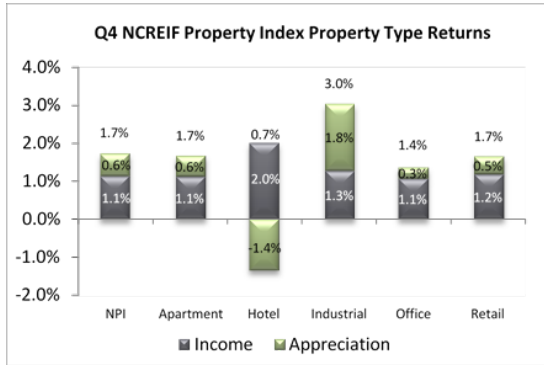
* For individual Fund performance numbers please see disclosure statements in the Appendix C.

** 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 1.73% for the quarter, bringing the annual total to 7.97% and marking the first year since 2009 below double digits. Income came in at 4.76% for the year, while appreciation was 3.10%. Compared to since inception averages, total return and income were 132 and 257 bps below, respectively, for the year while appreciation was 124 bps above. Downward pressure on income is primarily attributable to growing valuations, as fundamentals, namely NOI growth, continue to trend upward for commercial real estate as a whole.

For the year, industrial led the “big-five” property types returning 12.31% followed by retail at 9.04%, apartment at 7.33%, and office at 6.20%. Hotel returned just 4.71% for the year, consisting of 8.03% of income and -3.13% of appreciation; hotel generated the highest level of income across property types, these gains were offset by declining valuations. NOI growth for the NPI came in at 5.3% for the year, led by industrial at 7.4%, followed by apartment at 7.0%, office at 5.0% and retail at 2.6%.

Key Real Estate Indicators Trailing 1-Year Ended Q4 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.

Commercial real estate transaction volume totaled \$441 billion in 2016, lagging 2015 by \$49.3 billion or 5.7%, but registering as the 3rd highest year in Real Capital Analytics’ history behind 2015 and 2007. The slowdown in activity is partly attributable to property values hitting record levels, particularly in tier-one cities. Although there is ample dry powder, investors are becoming more measured with capital deployment. Multifamily was the only property type to grow transaction volume YOY, increasing 4.0%, a notable slowdown from 37.0% growth from 2014 to 2015. For 2016 retail, industrial and hotel all had double digit declines of -17.4%, -26.0%, and -30.1%, respectively, while office was off just -5.7%.

During Q4, 72 private real estate funds raised \$32.3 billion in new fund equity, for a total of \$117.2 billion year to date. At year end, global private real estate dry powder totaled \$237.0 billion, \$145.0 billion of which is targeting the US.

Commercial real estate lending by banks, insurance companies and other financial institutions was down 3% from 2015 at \$491 billion. Although a decline from 2015, this remains the third highest year behind 2015 and the record year of 2007. Some of the decline is due to the slowing of transaction volume during the year. Yet the overall health of the real estate market has emboldened some lenders, as only 0.59% of commercial mortgages held on balance sheets are more than 90 days delinquent, the lowest rate in more than a decade; comparatively at the end of 2010 the delinquency rate was 4.21%. Although lending activity overall has slowed, banks and insurers are getting more aggressive over deals as investment in the sector declines; some lenders are competing by making riskier mezzanine and bridge loans.

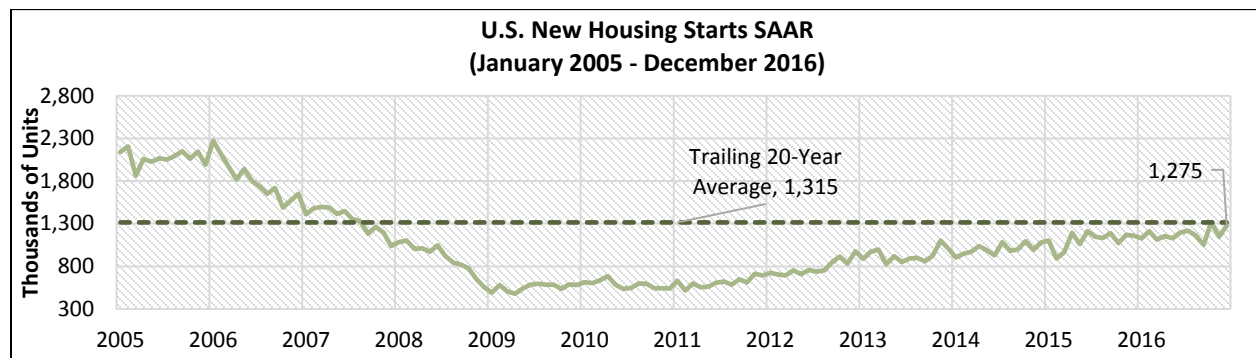
Sources: NCREIF, Reis, AEW, Commercial Mortgage Alert, RCA, Prequin, TREPP, WSJ, Bloomberg, RAPM

Timber Market Commentary

The NCREIF Timberland Index (“NTI”) returned 1.18% in the fourth quarter, rounding out the year at 2.59%. For the year, income registered at 2.58% which is in line with the trailing 10-year average, yet lags the since inception average of 5.15%. Appreciation was 0.01% for the year, indicating that valuations are essentially unchanged for the year. Regionally, the Lake States led all other regions returning 6.36% for the year, followed by the South at 2.92%, Northwest at 2.50% and Northeast at -4.95%.

Throughout 2016, the US housing recovery continued its measured climb. Ending the year with 1.275 million new housing starts on a SAAR, lagging the trailing 20-year average of 1.315 million and well below pre-GFC highs. Following a multi-year boom in multi-family housing development growth, single-family homes picked up pace during the year running 10% higher in 2016 than the previous year. US housing starts reflect a combination of multi-family and single-family homes. This tradeoff is significant for the timber industry as single-family homes on average use three times as much lumber as multi-family homes on a per unit basis. For the year, softwood lumber consumption in the country was up 11%. This growth was moderated by the fact that Canadian lumber imports, which grew by more than 25% in 2016, captured the lion’s share of the associated gains.

In October 2015, the US-Canada Softwood Lumber Agreement expired allowing Canadian producers to ship into the US on an unrestricted basis and without the burden of quotas and duties. A new lumber trade treaty is currently being negotiated to replace the expired agreement, in the meantime the US is likely to impose anti-dumping duties on Canadian lumber imports during the first half of 2017. Once these duties are put in place and a new agreement is in place lumber prices in the US are likely to jump and US lumber producers are likely to take back market share from their Canadian peers. These changes should take effect in the first half of 2017.



The Pacific Northwest showed improvement in 2016 as rising domestic demand for lumber from the housing market more than compensated for weak log exports to China. Although, Chinese demand was better in 2016 than 2015. Once duties are placed on Canadian lumber, the Pacific Northwest will benefit disproportionately. Meanwhile the US South has been slow to see improvements in pricing despite growing demand. Supply has been ample in the region. The 2016 season was particularly dry allowing improved access to timber throughout the South, and as a result of the preceding multi-year slowdown in timber demand, harvest rates have fallen well short of biological growth rates. Estimates are that Southern timber stands have an excess 1.5 years of mature, harvestable-sawlog inventory.

US timberland transactions totaled more than 2.1 million acres worth more than \$1.8 billion by year end 2016. Approximately 700,000 of these acres were bought and sold in the US South. The average price per acre for timberland sold nationally was slightly more than \$1,400 per acre. The average sales price for southern timberland was \$1,785 per acre, which was more than \$450 per acre higher than the regional average in 2015.

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

Agriculture Market Commentary

The NCREIF Farmland Index (“NFI”) returned 2.89% in the fourth quarter of 2016 consisting of 0.44% appreciation and 2.45% income. For the year, the NFI returned 7.09% registering as the lowest return since 2009 and lagging the since inception average by 4.57%. Annual cropland returned 4.71% for the year, posting the lowest annual returns for the series since inception. Permanent cropland came in at 10.13% for the year, which is a step back from preceding years, and below the since inception average 12.52%, but hardly a new low.

Of the 8 NFI regions, the Corn Belt was the only region to post negative returns for the year at -4.56%, consisting of -7.35% appreciation and 2.96% income. The region is heavily tilted toward commodity crops, namely corn and soybeans. The NFI – Commodity Index, representing all regions and 30% of the market weight of the aggregate NFI, returned 0.59% for the year, consisting of -2.49% appreciation and 3.14% income.

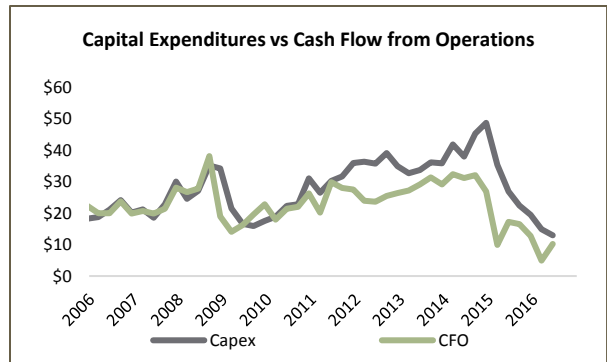
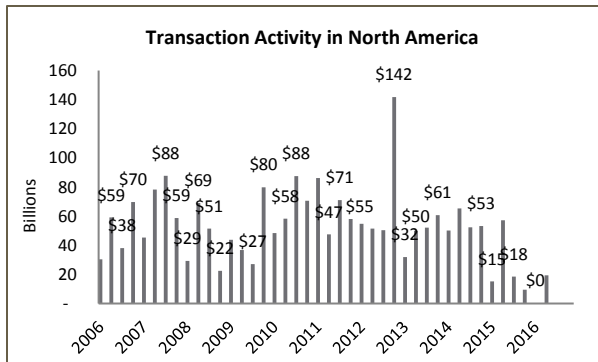
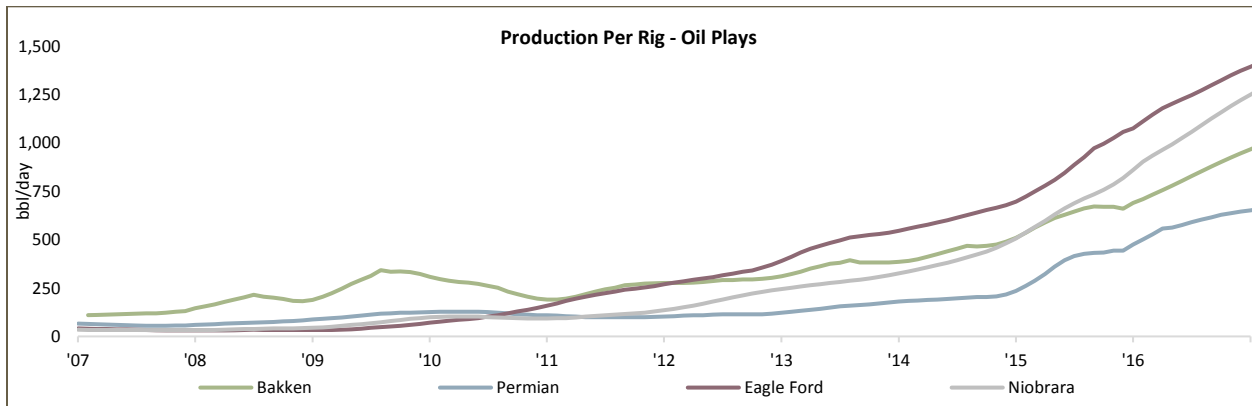
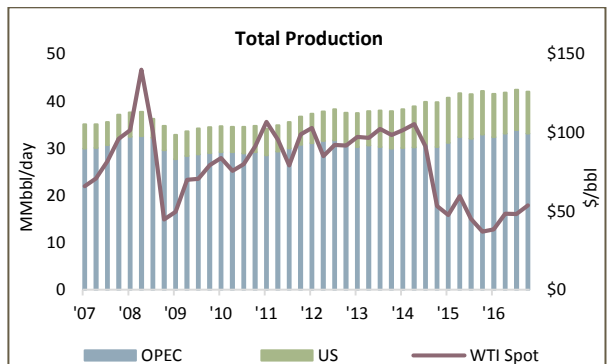
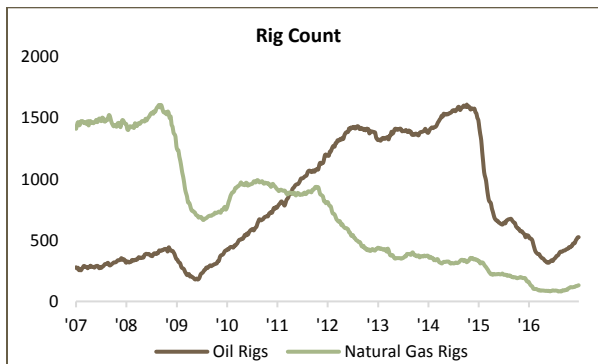
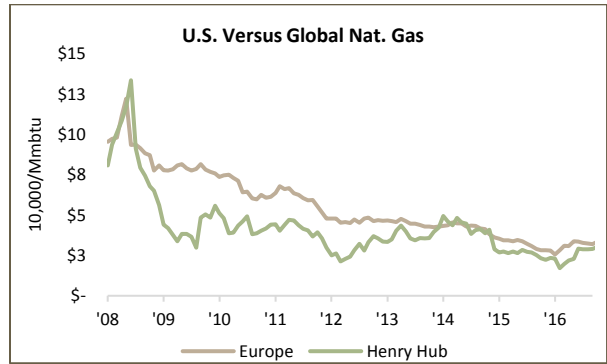
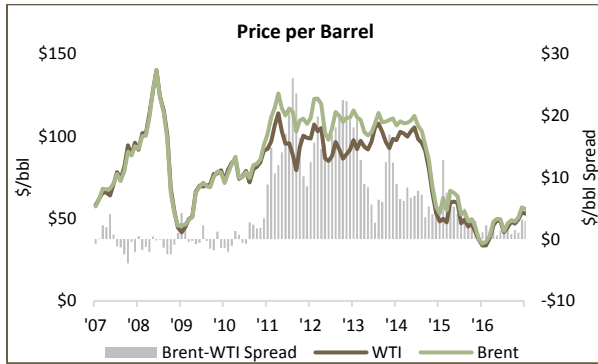
Amid a harsh drought across much of Brazil during the 2015/2016 growing season (approximately November – March), US beans and corn filled the export vacuum, resulting in burgeoning export demand, which buffered US row crop producer incomes against the more significant effects of the strong dollar and record domestic production and stocks. Still, current price levels are resulting in thin or negative margins for many producers. Overall, US net farm incomes fell by 17% in 2016, led by lower livestock prices. Outlook for the 2016/2017 Brazilian crop season looks promising, likely leading to an increase in global stocks and additional downward pressure on commodity prices.

Tree nut prices remained stable through the end of the year as international buyers continued to make opportunistic purchases amidst an attractive price environment. Lower prices are beginning to be reflected in land values. North and Central coast wine grape production wrapped up slightly below average, yet consumer demand continues to support grower profitability and capital appreciation. The 2017 water year is off to a strong start, with all regions in California tracking above 120% of the historical average precipitation.

NCREIF Farmland Index Trailing 1-Year Returns as of December 31, 2016						
Crop Type	Number of Properties	Market Value (\$ MM)	Income Return	Appreciation Return	Total Return	
Annual						
Commodity	341	\$2,401	3.14%	-2.49%	0.59%	
Fresh Produce	30	\$423	4.20%	13.41%	18.03%	
All Other	121	\$1,612	4.11%	3.50%	7.72%	
Total Annual	492	\$4,436	3.59%	1.09%	4.71%	
Permanent						
Apples	24	\$163	3.64%	10.19%	14.12%	
Almonds	68	\$955	5.41%	-1.95%	3.67%	
Citrus	11	\$179	8.95%	-1.13%	7.73%	
Pistachios	16	\$467	15.59%	-1.79%	13.59%	
Wine Grapes	91	\$1,446	6.35%	8.44%	15.12%	
All Other	42	\$351	5.38%	-0.57%	4.81%	
Total Permanent	251	\$3,562	7.17%	2.78%	10.13%	
Total	743	\$7,998	5.15%	1.86%	7.09%	

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

Energy Market Overview



Sources: Baker Hughes, Bloomberg, EIA, Evaluate Energy

Energy Commentary

Oil spent the entirety of 2016 recovering from its February lows. The expected pro-growth policies of the incoming administration in the US led cyclical sectors to outperform, and oil and gas was no exception. In the third quarter, OPEC agreed to an output limit in Algiers and in the fourth quarter, they agreed to an output reduction deal. OPEC's strategy effectively puts a floor on oil prices and related asset values. Output reductions are expected to begin in the first quarter of 2017, and it is now expected that supply and demand will once again balance in 2018, with US production acting as the swing supply to meet rising global demand. While US producers have been able to dramatically reduce costs, most of them still need prices above \$50/Bbl to generate returns and above \$55/Bbl to meaningfully increase supply. Over the course of the last price rout, over 250 energy companies went bankrupt.

Natural gas prices had a volatile quarter, ranging from \$2.03/MMBtu to \$3.68/MMBtu, in response to cold weather forecasts. For the first time in history, natural gas is expected to generate more electricity than coal in 2016.

Deal flow in the E&P sector increased into the fourth quarter and capital markets have reopened for companies with top tier assets. Deal volumes were 30% higher than the third quarter, with much of the excitement driven by the OPEC production cut agreements. Total deal value for 2016 was \$195.7 billion. These increases were driven by the upstream sector, which increased 111% in terms of number of deals and 53% in terms of deal value. Midstream deal value declined 35% over the year, though there was a large increase in the fourth quarter. Almost half of the fourth quarter's deals were shale-related, with the most interest in the Permian and the Marcellus.

Sources: Bloomberg, EIA, Preqin, PWC

Appendix B

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	32,591,051	(17,049,784)	15,541,266
Q3 2014	86,760,742	(19,962,702)	66,798,039
Q4 2014	120,856,581	(32,994,436)	87,862,145
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
Q4 2016	78,289,805	(28,551,986)	49,737,819
Total	\$ 1,175,570,520	\$ (505,646,985)	\$ 669,923,534

Appendix C

Disclosure Statements

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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.

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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.