MINUTES OF THE

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT COMMITTEE

June 25, 2009

CALL TO ORDER

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at approximately 1:10 p.m. in the Educational Retirement Board Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

A quorum was not immediately present:

Members Present:
Mr. Bruce Malott, Chair [teleconference 2:05-4:50 p.m.]
Mr. H. Russell Goff [arriving 2:10 p.m.]
Ms. Jan Goodwin

Members Excused:
Mr. Gary B. Bland

Other ERB Members Present:
Dr. Beulah Woodfin

Legal Counsel Present:
None.

Staff Present:
Mr. Bob Jacksha, Chief Investment Officer
Ms. LeAnne Larrañaga-Ruffy, Investment Officer
Mr. Steve Neel, Portfolio Manager
Mr. Jeff Riggs, Deputy Director

Others Present:
Mr. Allan Martin, NEPC
Mr. Tim McCusker, NEPC
Mr. Dan White, LFC

[Because a quorum was not present at the time of the roll call, the Committee proceeded to non-action items. Note: a quorum was present from 2:10 until 4:50 p.m.]

PRIVATE EQUITY—CONSULTANT CONTRACT UPDATE

Mr. Jacksha reported that NEPC's contract should be executed by next week.

ABSOLUTE RETURNS STRATEGY MANAGER UPDATE

Mr. Neel distributed an information packet on the ERB's hedge fund strategies and plans for redeployment. He noted that about $540 million of capital is currently in hedge fund strategies with an ultimate goal to reach a target of $700 million.

Mr. Neel reviewed a timeline for an RFI or RFP process. He commented that staff would prefer the RFI route, but the final decision would be up to the Investment Committee. He said staff would like to have a contract executed by December 2009.

Mr. Neel said approximately $160 million is available for deployment, and another $140 million will become available from the two managers who are currently winding down. He said this additional $300 million would allow the ERB to reach the 10% absolute returns strategy target.

Mr. Jacksha said staff has discussed with NEPC the possibility of "filling some holes" or getting more diversification in doing this without looking at one particular strategy. He said a fund-of-funds would be diversified.

Mr. Martin said an RFI process would allow the ERB to focus on good managers who can complement the ERB's existing managers, and concentrate on doing more in-depth research on a smaller number of more qualified firms. He added that this deeper due diligence would benefit the Fund. He said Brian Schneider and Mr. Neel have been visiting people for the last four or five months and have developed a list of several good managers with good complementary strategies.

Mr. Neel said staff has been looking at the liquidity schedule for the two managers who are winding down, and another $50-$70 million should be available by the time the ERB is ready to execute the contracts, which should be about $200 million, in December or January.

Mr. Jacksha stated that staff would decide how to redeploy the rest of the money, as it comes in, among the existing managers.

Responding to a question from Dr. Woodfin, Mr. Jacksha said there is no longer a one-year lockup with Austin Capital. Even though ERB had previously given Austin a redemption notice, it will take some time to receive the funds because they need to redeem from the underlying funds.

Mr. Neel added that Austin's liquidity schedule shows that they conservatively expect to get 70% back by Q1 2010.

In discussion on whether to pursue the RFI or RFP route, Ms. Goodwin recommended that the ERB pursue the RFI process subject to ratification by the Board at tomorrow's meeting.

INVESTMENT POLICY REVIEW

Mr. Jacksha stated that he emailed the revised draft policy out a few days ago. He noted that there were fairly extensive revisions to the policy by staff and NEPC, much of it involving language cleanup.

Dr. Woodfin commented that this is a major issue that she did not feel could be sufficiently covered by the Investment Committee today or the ERB Board tomorrow, given that both bodies have long agendas. She said she would propose to the Board that the draft policy instead be reviewed at the September retreat.

GLOBAL TACTICAL ASSET ALLOCATION RFP INTRODUCTION

Mr. Jacksha noted that the ERB has a 5% allocation target for Global Tactical Asset Allocation (GTAA).

Mr. McCusker discussed the search process, with hurdles set at a three-year track record and $500 million in assets. He said the two GTAA finalists were Bridgewater Pure Alpha and DB Advisors Integrated Global Alpha Program, and the two Risk Parity finalists were Bridgewater All Weather and AQR Global Risk Premium Fund. He stated that on-site visits were made to all of the managers last week.

Mr. McCusker said the decision was made to weight Risk Parity with 60% of the 5% allocation with the remaining 40% to GTAA.

Mr. McCusker discussed the two strategies, which were detailed in NEPC's slide presentation on "Global Tactical Asset Allocation & Risk Parity." [On file in the ERB Investment office.]

Mr. McCusker said GTAA strategies try to capture inefficiencies across global markets, and NEPC sees this as a unique source of alpha in the ERB's investment program. He said positions can include long/short positions in global equities, global sovereign bonds, global currencies, commodities, and global inflation-linked bonds; and positions are taken with market neutral goal.

Mr. McCusker said Risk Parity strategies provide a more efficient beta allocation than a traditional portfolio allocation, and portfolio construction is based on allocating risk instead of capital. He said this strategy produces similar returns (8% and above) without the volatility of an equity-dominated portfolio.

AQR Capital, Global Risk Premium

[Mr. Malott joined the proceedings during this presentation by teleconference.]

Manager and founding principal Clifford Asness and principal Gregor Andrade appeared before the Committee and presented slides. [Slide presentation on file at ERB Investment offices.]

Bridgewater, All Weather

Bridgewater principals Rob Zink and Joel Whidden appeared before the Committee and presented slides. [Slide presentation on file at ERB Investment offices.]

Bridgewater, Pure Alpha

Bridgewater principals Rob Zink and Joel Whidden appeared before the Committee and presented slides. [Slide presentation on file at ERB Investment offices.]

DB Advisors, Integrated Global Alpha

Janet Campagna, Global Head of Quantitative Investments, and Mary Wallace, Relationship Manager, appeared before the Committee and presented slides. [Slide presentation on file at ERB Investment offices.]

DISCUSSION AND RECOMMENDATION

Mr. Jacksha stated that none of the finalists used third party marketers or placement agents.

Mr. Martin noted that AQR has about 200 people within the firm, while Bridgewater has 793.

Scoring sheets were completed and submitted to staff.

Dr. Woodfin asked if there was any concern about making both investments with one firm.

Mr. Jacksha responded that the total amount would be roughly $350 million. He said the ERB does this with a few other managers and the total amount involved is not out of line with that.

Ms. Goodwin, speaking as a subcommittee, said she was comfortable with staff and NEPC recommendations to employ both strategies with Bridgewater, and would recommend this to the full Board at its meeting tomorrow.

FLASH REPORT: MAY 2009

[Deferred to Board meeting.]

OTHER INVESTMENT REPORTS

[Deferred to Board meeting.]

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at approximately 5:30 p.m.

Accepted by:

Mr. Bruce Malott, Chair