

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

August 13, 2009

CALL TO ORDER

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at approximately 1:30 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 [by teleconference]
Mr. H. Russell Goff, Acting Chair
Ms. Jan Goodwin [by teleconference]

Members Excused:

Mr. Gary B. Bland

Other ERB Members Present:

None.

Legal Counsel Present:

None.

Staff Present:

Mr. Mark Canavan
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. Kevin Tatlow, NEPC
Mr. Allan Martin, NEPC
Mr. Bill Monagle, NEPC

[A quorum was established at 1:35 p.m. when Chairman Malott joined the proceedings by teleconference. The Committee proceeded with non-action items pending his arrival.]

PRIVATE EQUITY: Q1-2009 PERFORMANCE

Mr. Tatlow reported that, as of March 31, commitments in the ERB private markets portfolio were at \$816 million. He said the ERB had terminated \$129 million of commitments, funded \$209.7 million and received back \$15.3 million in distributions. He said reported value of investments in the First Quarter was \$149.9 million, and 25.7% had been called. He stated that the IRR since inception (June 2006) was -27.16%, but the program is still deep in the J-curve and there is some drag from Buyout exposure and some early Distressed exposure.

[Mr. Malott joined the proceedings.]

Mr. Jacksha commented that, while there was a big downdraft in Distressed as of March 31, there are some indications that the quarter ending June 30 was a very good quarter for all debt, including Distressed.

Mr. Neel said that was correct. He said one early Distressed securities fund is showing 8% returns as of June 30, and is anticipating returns in the 13-16% range by the end of the fund.

Mr. Monagle said NEPC is emphasizing some J-curve mitigating strategies, and this will throw the portfolio out of balance because there will not be balance early on with Venture, Growth or Buyouts, but the ERB will have exposures to Mezzanine and Secondaries, which are opportunistic in the current environment. He said the investment strategy table detailed in NEPC's report is based on a 20-year profile, so obviously it will take a while to get there.

PRIVATE EQUITY: STRATEGIC/PACING PLAN

Mr. Monagle said NEPC was recommending that the Committee adopt a \$225 million target in Private Equity for 2009, noting that the ERB has already locked in about \$165 million in commitments, so would have \$60 million left to commit (\$40 million to Mezzanine and \$20 million to Energy). He reviewed page 4 of NEPC's Private Equity Program Review and 2009 Strategic Investment Plan, with the breakdown as follows:

- \$ 0 million to Venture (commitment to Sevin Rosen X terminated);
- \$ 0 million to Growth
- \$ 0 million to Buyouts (commitment to Lee Equity Partners terminated);
- \$80 million to Mezzanine (\$40 million committed to VSS Structured);
- \$45 million to Secondaries (\$45 million committed to Lexington Capital Partners VII);

- \$0 to Distressed;
- \$20 million to Energy; and
- \$80 million to Co-Investments (\$75 million committed to BlackRock-ERB Co-Investment and \$75 million committed to Erasmus Co-Investment, of which approximately \$70 million of the commitment has been terminated).

- The remaining allocation available for commitment:

- \$40 million to Mezzanine, and
- \$20 million to Energy

- ERB should maintain consistent commitment pace in each vintage year going forward.

Mr. Malott moved to adopt the \$225 million target allocation plan as recommended by NEPC. Ms. Goodwin seconded the motion, which passed by voice vote.

PRIVATE EQUITY: COMMITMENT UPDATE

- **NGP Energy Technology Partners II**

As an information item, Mr. Neel reported that NGP Energy Technology Partners would not agree to any of the three “big sticks” that the ERB requires in all of its contracts: a no fault divorce provision; no fault termination of investment period; and a provision for dissolution of partnership. As a result, he said, the ERB will not be moving forward with this commitment.

- **Sevin Rosen Fund X, L.P.**
- **Lee Equity Partners Fund, L.P.**

Mr. Neel reported that two \$30 million commitments made last November and December, to Sevin Rosen Fund X and Lee Equity Partners Fund, are not compatible with NEPC’s recommended strategic plan and should be rescinded.

Mr. Malott moved to rescind the commitments of \$30 million to Sevin Rosen Fund X, made in November 2008; and \$30 million to Lee Equity Partners Fund, made in December 2008. Ms. Goodwin seconded the motion, which passed by voice vote.

APPROVAL OF AGENDA

Upon motion by Mr. Malott, seconded by Ms. Goodwin, the Agenda was approved by voice vote, as amended.

APPROVAL OF MINUTES: July 9, 2009

Ms. Goodwin moved approval of the July 9 Minutes, as submitted. Mr. Malott seconded the motion, which passed by voice vote.

Q2 2009 PERFORMANCE REPORT: NEPC

Mr. Martin reviewed the 2009 Executive Summary. He noted that, since this report was generated on 6-30-09, both the equity and bond markets have continued in recovery mode, with equity markets up about 8% since this was completed.

Mr. Martin referred to some economic statistics suggesting that the pace of decline has been arrested somewhat and there has been a bottoming out of the rate of decline.

Referring to a market overview on page 2, Mr. Allen said it was a very good quarter for equities, with world equities up 28% in the quarter, but down 30.5% for the year. He noted that the Russell 3000 was up 17% in the quarter and down 26% for the year and at a negative 2% per annum for 5 years and a negative 1.5% per annum for ten years. If that is the case at the end of this year, he commented that this will have been one of the worst equity markets in the history of equity markets in the U.S.

Mr. Martin noted that, with the increase in liquidity and restoration of more normal credit market conditions, the credit markets have rebounded very strongly.

Mr. Martin said Real Estate and Private Equity were the only two sectors not experiencing rebounds in the second quarter. He said the NCREIF was down 5.2% for the quarter and down 20% for the year; and Private Equity, as measured by the Cambridge PE Lagged, was down 3.2% for the quarter and down 19% for the year. He did note that these figures are lagged by one quarter, and are also appraisal based, which also creates a delay.

Mr. Martin reported that, over the last 12 months, the Fund experienced a gross investment loss of \$1.5 billion, with \$167.8 million in net distributions during the period. He said total assets increased from \$6.2 billion at the beginning of the quarter to \$7.1 billion on 6/30/2009, with \$25.4 million in net distributions.

Mr. Martin also reported that, over the past five years, the Fund returned 2.4% per annum, trailing its policy index by 0.3% and ranking in the 46th percentile of the Independent Consultant Cooperative's Public Funds Universe. He said that, for the fiscal year ending 6-30-09, the Fund returned -17.3%, trailing its policy benchmark by 1.9%, and ranking in the 57th percentile of public funds.

Mr. Martin stated that the Fund posted a 14.1% return for the quarter, outperforming its policy index by 1.9% and ranking in the 15th percentile of public funds.

Mr. Martin said that the ERB has a 5% real estate target, and while originally it was all in REITs, the ERB has gradually moved into more institutional quality real estate in the interest of having less volatility and more long-term returns. He noted that almost one-third of the real estate allocation is now in institutional real estate, but there is still a lot in REITs, and the REITs market has a lot of volatility—for the quarter, REITs were up 31.5%, but for the year they were down 45%.

Mr. Jacksha said staff is watching the real estate market closely and will take advantage of the volatility by starting to sell off some REITS should they go up another 10-15%.

Mr. Jacksha stated that October 1 is the planned funding date for the GTAA allocation to Bridgewater. He said staff will liquidate \$180 million from BGI to raise money for that, with the rest coming from Fixed Income. He added that, because the portfolio is currently overweight in equities at about 49% versus the target of 45%, and because staff has to do some trading in BGI anyway later this month, this is an opportune time to liquidate some of that and get closer to the target. He said he shares Mr. Martin's viewpoint on the market that things look better simply because they're not going down as fast, and perhaps the market has overreacted in gauging this recovery. He said he therefore wasn't averse to holding this in cash for a month or so until Bridgewater is funded.

Mr. Jacksha said the other funds will be raised from the three core Fixed Income managers.

Mr. Jacksha commented that the Committee decided to sit tight based on staff's feeling that the core managers would recover, and that has proved to be a very good decision. In addition, he said, the Committee made an excellent decision in encouraging staff to put more money into PIMCO, because the return for the quarter was 16%. He said PIMCO going forward may not be able to draw down the ERB's full commitment—so far, \$200+ million has been invested—but it will depend on what opportunities present themselves.

Mr. Jacksha said the markets have continued to go up—between June 30 and August 12, the Fund was up another 7% (based on Northern Trust's figures), which puts the Fund at slightly over \$7.5 billion.

PROXY REPORT: Q2 2009

Mr. Malott moved approval of the Proxy Report, as presented. Ms. Goodwin seconded the motion, which passed by voice vote.

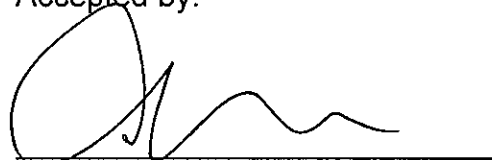
OTHER INVESTMENT REPORTS

Mr. Jacksha reported that the next meeting would take place during the September 10-11 Retreat.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at approximately 2:30 p.m.

Accepted by:

A handwritten signature in black ink, appearing to be 'Bruce Malott', written over a horizontal line.

Mr. Bruce Malott, Chair