
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INFRASTRUCTURE POLICY STATEMENT



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NEW MEXICO EDUCATIONAL RETIREMENT BOARD
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INFRASTRUCTURE POLICY STATEMENT

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NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INFRASTRUCTURE POLICY STATEMENT

I. INTRODUCTION

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

II. PURPOSE AND STANDARD OF CARE

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

III. INVESTMENT STRATEGY

For purposes of this Infrastructure Policy, “infrastructure” includes but is not limited to: (1) private equity infrastructure investments including interests owned through joint ventures and infrastructure-owning and/or operating entities (e.g., corporations, limited liability companies, and limited partnerships) (“Private Equity”), (2) private debt infrastructure investments secured by liens on real property and security interests in tangible and intangible assets (“Private Debt”), (3) public interests in infrastructure-owning and/or operating entities (“Public Equity”), and (4) public debt infrastructure investments secured by liens on real property and security interests in tangible and intangible assets (“Public Debt”). ERB Infrastructure Portfolio investments predominantly shall be *indirect* (i.e., interests in owning and operating entities such as limited liability companies or investment through commingled funds), as further described below, and not *direct* (i.e., interests in infrastructure assets, such as toll roads).

The Infrastructure Portfolio is designed to achieve a core-plus level of return through investments providing predominantly income returns with reasonable appreciation returns. Portfolio risk shall be mitigated through appropriate risk factor diversification, including infrastructure asset type and geographic diversification. Other risk factors, including leverage and liquidity, shall be managed consistent with the investment guidelines set forth in the Policy Statements. Reasonable due diligence is required in making all direct investment decisions (e.g., acquisition, financing, and disposition decisions) and in selecting investment managers and commingled funds. The Infrastructure Policy shall be reviewed at least annually by the Staff and Consultant who shall present any recommended revisions to the Real Estate Investment Committee (“REIC”).

IV. OBJECTIVES

The objectives to be accomplished through the development of the Infrastructure Portfolio are the following:

1. **Portfolio Diversification.** Use infrastructure investments to enhance the diversification of ERB's total investment portfolio, given the low or negative return correlations historically of infrastructure with other asset classes.
2. **Capital Preservation.** Protect investment capital through infrastructure investments activities that are designed to, at a minimum, preserve investment capital.
3. **Attractive Returns.** Take advantage of the attractive returns offered by infrastructure by making investments with expected returns commensurate with their respective risk levels. Also, make investments that provide most of the total return from income return, thereby increasing return certainty.
4. **Portfolio Volatility Reduction.** Reduce ERB's overall return volatility by investing in infrastructure, which has historically provided a lower return volatility than other asset classes.
5. **Inflation Hedge.** Make infrastructure investments that are likely to have a high current income return component, providing a reasonable hedge against price inflation.

V. INVESTMENT METHODOLOGY

- A. Infrastructure Portfolio Investment and Review.** The Staff, with the assistance of the Consultant, shall make investment allocations and manage and monitor the performance of the Infrastructure Portfolio consistent with the Policy Statements. The Policy Statements at a minimum shall be reviewed annually by the Staff and Consultant for consistency with investment objectives, market conditions, and other factors affecting the Infrastructure Portfolio.
- B. Risk Management System.** The Infrastructure Portfolio risk management activities, at a minimum, shall include but not be limited to: (1) evaluating the risk/return level of each investment at the time of the investment and at least annually thereafter to classify the investment and portfolio risk/return levels for compliance with the Policy Statements; (2) designating the investment expected returns and reviewing actual performance to determine consistency of return levels given the originally stated expected return, peer performance, and market conditions affecting performance; (3) analyzing portfolio risk factors, including investment type, geographic diversification, and investment structure diversification to determine compliance with risk mitigation guidelines; (4) monitoring other risk factors that cannot be mitigated through diversification, such as leverage and liquidity, to evaluate compliance with risk mitigation guidelines; and (5) conducting portfolio investment, management, and monitoring activities, as described in more detail below (Section XI: Roles and Responsibilities).
- C. Accounting and Reporting.** The Staff, with the assistance of the Consultant, shall use a portfolio accounting and reporting system that: (1) accurately reports portfolio and investment returns consistent with industry accounting and reporting standards (GIPS compliant), and (2) describes and assesses portfolio risk/return attributes on a timely basis (i.e., at least quarterly). Also, the Staff with the assistance of the Consultant shall develop a system that reconciles quarterly ERB internal and/or external records with the Consultant-monitored investment manager reports, including with respect to account balances and returns, to ensure that any variances are reconciled on a timely basis.

- D. Investment Management Services.** ERB Staff will recommend to the REIC for their approval of external investment manager or advisor upon the Staff's completion of a review of criteria described in Section X, Investment Due Diligence, and will pay reasonable compensation for investment management services from the ERB Infrastructure Portfolio. The REIC will refer such decisions to the ERB as informational items only.
- E. Contract Execution.** After legal review of all appropriate documents, the following will have contract execution authority for said documents: Chief Investment Officer, Executive Director, Deputy Executive Director, and Chairman of the Investment Committee.

VI. INVESTMENT GUIDELINES AND RANGES

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

A. Allocation Size

The allocation to infrastructure at any given time shall be no greater than the amount authorized by ERB. As of September 2007, ERB's infrastructure allocation size is fifty million dollars (\$50,000,000). The Infrastructure Portfolio target is long term in nature (i.e., at least five years), and the allocation size will fluctuate according to the relative values among infrastructure and the other ERB investment asset classes.

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

Investment Structures. The Infrastructure Portfolio may include infrastructure Private Equity, Private Debt, Public Equity, and Public Debt investments. Public Equity and Public Debt investments shall be comprised of publicly-traded limited partnerships, limited liability companies, corporations, and other entities that have investment features consistent with institutional quality infrastructure, as determined by the Staff and Consultant. The following table sets forth the guidelines governing the Infrastructure Portfolio's investment structure.

INFRASTRUCTURE INVESTMENT STRUCTURE EXPOSURE RANGES	
Investment Structure	Policy Range
Private Equity	40%-100%
Private Debt	0%-60%
Public Equity	0%-20%
Public Debt	0%-10%

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

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

VEHICLE	ADVANTAGES	DISADVANTAGES	LIQUIDITY
Open Ended Fund	<ol style="list-style-type: none"> 1. Asset type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem interest. 	<ol style="list-style-type: none"> 1. Passive investor. 2. Typically cannot replace manager. 3. Typically cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Typically fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 	Typically within 90 days unless there is an investor queue.
Closed Ended Fund	<ol style="list-style-type: none"> 1. Skilled value/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund. 	<ol style="list-style-type: none"> 1. Illiquidity during the specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Typically cannot influence manager decisions regarding acquisitions, financings and sales. 	Typically 10 to 12 year terms. In the past, some interests sold at a discount during term by investors seeking liquidity.
Public Infrastructure Securities	<ol style="list-style-type: none"> 1. Greater diversification potential. 2. Greater liquidity than private infrastructure funds. 3. Increasing market focus leading to potentially outsized returns. 4. Established organizational presence. 5. Easily verifiable performance record. 	<ol style="list-style-type: none"> 1. Increased correlation to equities. 2. More volatility than private infrastructure funds. 3. Corporate governance and transparency concerns. 4. Typically cannot influence manager decisions regarding corporate activities. 5. Passive investor. 6. Possible negative taxation consequences. 	Typically very liquid, although some public securities do not trade at volumes to allow for instant liquidity.

Open-end Commingled Funds. As shown in the following table, the Infrastructure Portfolio may have up to an 80% exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide: (1) reasonable infrastructure asset type and geographic diversification, (2) exposure to larger properties (i.e., over \$100 mil. in gross value), and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Staff, with the assistance of the Consultant, shall complete reasonable due diligence in evaluating open-end commingled funds consistent with these objectives and the investment guidelines set forth in Section X, Investment Due Diligence. No investment may be made in any open-end commingled funds with (1) less than \$500 mil. of gross assets, (2) a current investor redemption queue or the existence of a redemption queue within one year of the proposed investment date, or (3) diversification attributes that are inconsistent with the needs of the Infrastructure Portfolio as determined by the Staff with the assistance of the Consultant. Open-end commingled fund vehicles may include, but are not limited to group trusts, limited liability companies, single purpose corporations, or other vehicles that are determined by the Staff, with the Consultant's assistance, to be consistent with the Policy Statements.

Closed-end Commingled Funds. As shown in the following table, the Infrastructure Portfolio may have up to an 80% exposure to closed-end commingled funds. The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value and opportunistic investments. The Staff, with the Consultant's assistance, shall complete

reasonable due diligence in selecting closed-end fund investments, as further set forth in Section X, Investment Due Diligence. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements.

Public Infrastructure Securities. As shown in the following table, the Infrastructure Portfolio may have up to a 30% exposure to public infrastructure securities. The public infrastructure securities investments shall be made primarily to provide diversification not gained through private infrastructure investments and to provide greater Infrastructure Portfolio liquidity. The Staff, with the Consultant’s assistance, shall complete reasonable due diligence in selecting public securities investments, as further set forth in Section X, Investment Due Diligence. Public infrastructure securities may include Public Equity and Public Debt in vehicles such as limited liability companies, limited partnerships, special purpose corporations, or other vehicles that are determined by the Staff, with the Consultant’s assistance, to be consistent with the Policy Statements.

The following table sets forth the Infrastructure Portfolio investment vehicle guidelines.

INVESTMENT VEHICLE EXPOSURE RANGES	
	Policy Range
Open-End Commingled Funds	20%-80%
Closed-End Commingled Funds	20%-80%
Public Infrastructure Securities	0%-30%

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

Liquidity. The table below sets forth the Infrastructure Portfolio liquidity guidelines.

PORTFOLIO LIQUIDITY RANGES		
	Investment Type	Policy Range
LIQUID (i.e., can liquidate within 30 days- public infrastructure securities)	Public Equity and Debt Investments	0%-30%
MODERATE LIQUIDITY (i.e., investor redemption typically within one quarter including open-end equity and debt commingled funds)	Private Equity and Debt Investments	20%-80%
ILLIQUID (i.e., closed-end fund structure not providing any liquidity until fund termination and liquidation)	Private Equity and Debt Investments	20%-80%

The Staff, with the Consultant’s assistance, shall establish policy range targets with respect to portfolio liquidity, which targets shall be adjusted on an annual basis and reflected in the Infrastructure Portfolio quarterly performance reports.

C. Expected Investment and Portfolio Risk/Returns.

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

Core. Equity or debt investment in operating institutional quality infrastructure asset types (e.g., toll roads, bridges, tunnels, educational facility, timber assets). Net returns historically have been in the 4%-6% range (inflation-adjusted and net of fees) and are typically comprised of greater levels of income with appreciation matching or exceeding inflation. Core-plus assets assume slightly more operational risk and are typically comprised of slightly greater levels of asset appreciation slightly exceeding inflation. These core-plus investments include parking structure, healthcare facilities, and self-storage parks.

Value. Equity or debt investment in assets requiring slight rehabilitation, redevelopment, development, lease-up, or repositioning. Net returns historically have been in the 8%-10% range (inflation-adjusted and net of fees). Frequently, value investments involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value investment may be an energy pipeline that is purchased during a cyclical downturn in energy demand. Investment may also include more speculative asset types (e.g., railroads, energy distribution) which may contain greater risk as economic activity fluctuates. Value investments typically are expected to generate above core returns through the stabilization of an asset, which increases the end value by increasing in place income and, in many cases, increasing the earnings multiple used in selling the asset due to the reduced asset risk resulting from stabilization. Value returns are typically more dependant than core on appreciation returns with purchase prices based on income in place or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in infrastructure properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include development and financial structuring risk. Net returns have been in the 13% or higher range (inflation-adjusted and net of fees). Opportunistic investing includes toll road development, communications infrastructure, greenfield power development, water storage investments, and most emerging market infrastructure investments. Opportunistic returns typically have lower income returns than value and in many cases are originated with minimal income in place.

The following table sets forth the risk/return policy ranges for the Infrastructure Portfolio.

INVESTMENT AND PORTFOLIO RISK/RETURN RANGES				
Risk/Return	Expected Nominal Return (Gross)*	Expected Nominal Return (Net)*	Return Volatility	Policy Range
Core	10%	8%	Low-Moderate	60%-80%
Value	13%	10%	Moderate	20%-60%
Opportunistic	17%	13%	Moderate-High	0%-40%

* Assumes 200 basis points core total fee, 300 basis points value total fee, and 400 basis points opportunistic total fee.

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

Return Volatility. The investment risk/return exposure is further defined by return volatility. The return volatility guidelines are loosely defined due to lack of available, credible information with respect to private investments. The lack of relevant information is due largely to the fact that

private equity infrastructure investments are typically valued through appraisals completed annually or less frequently, which often rely upon “comparable” assets that may be markedly different. As a result, private equity returns are less volatile than public equity infrastructure returns, which are based on daily market valuations and are therefore susceptible to general market volatility. Value and opportunistic return volatilities are estimated to be greater, given the risk category and the increasing levels of appreciation returns required to accomplish returns consistent with the risk levels. Return volatility is also influenced by the type of return generated by a given investment (i.e., income vs. appreciation returns).

D. Income and Appreciation Return Mix.

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

E. Diversification. The Infrastructure Portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the Infrastructure Portfolio may have overweighted exposure in select asset types or geographies as desired by the Staff based on recommendations of the Consultant.

1. **Asset Type.** Asset type diversification is one of the most important diversification features in terms of impact on returns. The asset types have historically performed differently during economic cycles. For example, healthcare and transportation investments have historically outperformed other more economically-sensitive asset types during economic downturns.

Diversification ranges are based on the universe of available infrastructure investments and institutional investor portfolio information. The following table provides a guideline range with respect to the Infrastructure Portfolio asset type diversification.

ASSET TYPE DIVERSIFICATION RANGES	
Infrastructure Asset Type	Policy Range
Transportation	0%-45%
Energy	0%-40%
Utilities	0%-35%
Communications	0%-35%
Social	0%-30%
Water	0%-30%
Other	0%-25%

The Staff, with the Consultant’s assistance, shall establish policy range targets with respect to property type exposures, which targets shall be adjusted on an annual basis and reflected

in the Infrastructure Portfolio quarterly performance reports.

2. **Geography.** The importance of location to the long-term value of infrastructure is based on the economic fundamentals and the other risk attributes (e.g., natural disaster, governmental regulatory impact) of regional areas. While certain infrastructure asset types are difficult to localize because of their nature (e.g., railroads and pipelines), distribution of infrastructure investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

REGIONAL DIVERSIFICATION RANGES	
Geographies	Policy Range
West	0%-70%
South	0%-70%
Midwest	0%-70%
East	0%-70%
International	0%-70%

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

3. **Other.** In addition to property type and regional diversification, there are other infrastructure factors, the portfolio risk impact of which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:
 - a. **Investment Structure.** Equity, preferred equity, first lien debt, or mezzanine debt.
 - b. **Life Cycle.** Mature assets should be preferred to developmental assets, given the stabilized nature of mature infrastructure assets and their return characteristics (i.e., greater income returns).
 1. **Developmental Assets.** Developmental infrastructure assets are those assets that are in any of the following phases: construction, early operations phase, early growth, or transition.
 2. **Mature Assets.** Mature infrastructure assets are those assets that are not developmental assets, have matured, and are expected to provide a stable cash yield to investors.

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

F. Other Risk Factors.

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing asset values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen. For example, some opportunistic funds have indicated that to

liquidate investments consistent with their closed-end time frames, they are considering placing mezzanine equity or debt on appreciated investments. While this strategy may return some investor capital, it may result in excessive debt levels in the future. Accordingly, the Staff and Consultant will monitor closely the leverage level of the Infrastructure Portfolio.

The maximum leverage level established for the Infrastructure Portfolio is 75%. On an individual commingled fund basis, the leverage level can range up to 80%. On a select basis, the Staff may elect to permit the leverage to exceed 80% for a given investment if the Staff and Consultant determine it is reasonable to do so. The total Infrastructure Portfolio leverage shall not exceed 75%.

LEVERAGE LTV TARGET RANGE	
Risk	LTV Target Range
Core	60%-90%
Value	60%-80%
Opportunistic	60%-75%
Total Infrastructure Portfolio	75%

- Investor Control.** The table below describes the three levels of investor control.

Total Control. Direct investments managed by ERB’s investment managers. The Staff with the Consultant’s assistance has the ability to replace the manager and/or the ability to sell, refinance, or dispose of assets.

Limited Control. Investment in commingled fund or company structures (e.g., limited partnerships and limited liability companies) in which the ERB has significant minority or controlling interests providing governance rights and positions, such as an advisory board or board member position. Also, to a lesser degree, investment in open-end funds with redemption rights, or public infrastructure securities that provide reasonable liquidity.

Passive. Investment in closed-end vehicles providing no exit until the manager elects to dispose of investments, consistent with investment term (e.g. ten-year term).

Control is materially defined through the Funds’ ability to exit an investment. As shown in a prior table depicting the Infrastructure Portfolio investment liquidity, the Staff has the ability to dispose of liquid and moderately-liquid investments. Liquidity should be considered when evaluating an investment’s risk.

- Manager Concentration.** The Staff, with the assistance of the Consultant, shall regularly evaluate the Infrastructure Portfolio’s exposure to each advisor and manager to determine the reasonableness of each. No manager shall have assets of the Funds under management exceeding 50% of the Infrastructure Portfolio on an allocation basis, unless specifically approved by the Staff, with the assistance of the Consultant.
- Investment Concentration.** The Staff, with the assistance of the Consultant, shall regularly review the larger exposure investments within the context of the Infrastructure Portfolio to determine their reasonableness. No commingled fund investment shall exceed 50% of the Infrastructure Portfolio on an allocation basis.

VII. BENCHMARK RETURNS

The Infrastructure Portfolio's benchmark shall be the Lehman Brothers Global Aggregate Bond Index plus 250 basis points. The table below depicts the returns of these indices over the one-, three- and five-year periods.

BENCHMARK RETURNS*				
Investment Type	Benchmark	Returns		
		1-Year	3-Year	5-Year
Private Infrastructure	Lehman Government Bond Index + 250 basis points	8.1%	6.1%	6.6%
Public Infrastructure	Macquarie Global Infrastructure Index	28.4%	28.9%	19.8%

* Lehman Government Bond Index + 250 basis points return information as of June 30, 2007, and Macquarie Global Infrastructure Index return information as of February 28, 2007.

The Infrastructure Portfolio's performance shall be assessed on a quarterly basis against the performance of the benchmarks shown in the above table. The Infrastructure Portfolio on a combined total basis shall be assessed against a composite of the benchmarks shown above, with each weighted in an amount consistent with the actual or projected infrastructure investments, as determined periodically by the Staff and Consultant.

VIII. VALUATION POLICY

The Staff shall prefer investment in funds providing independent valuations on a reasonable periodic basis (i.e., no longer than every three years) on a rotating schedule (i.e., one-third of fund investments should be independently valued in Year 1, one-third in Year 2, and the final third in Year 3, with the pattern repeated in subsequent years). On an internal basis, funds shall be valued at least annually.

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

IX. PERFORMANCE MEASUREMENT

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

X. INVESTMENT DUE DILIGENCE

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

Commingled Funds. Due diligence regarding commingled funds shall be completed by the Staff with the assistance of the Consultant, and at a minimum shall include, but not be limited to, the following:

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

Investment Managers/Advisors. Due diligence regarding investment managers/advisors shall be completed by the Staff with the assistance of the Consultant, and at a minimum shall include, but not be limited to, the following:

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

The due diligence process with respect to commingled fund investments and manager/advisor selections shall be regularly reviewed and revised, as determined necessary, by the Staff and Consultant.

XI. ROLES AND RESPONSIBILITIES

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

REAL ESTATE INVESTMENT COMMITTEE ROLES AND RESPONSIBILITIES
<ul style="list-style-type: none"> ➤ Approve the infrastructure Consultant recommended by Staff and refer to full board for its approval. ➤ Approve the Infrastructure Policy, as prepared and recommended by Staff and Consultant, and refer to full board for its approval. ➤ Approve infrastructure investments and notify the full board at the next available board meeting of any actions on approved infrastructure investments taken. ➤ Approve the performance measurement report format prepared and recommended by Staff and Consultant. ➤ Monitor the performance of the overall Infrastructure Portfolio.
ERB ROLES AND RESPONSIBILITIES
<ul style="list-style-type: none"> ➤ Approve the infrastructure Consultant recommended by Staff. ➤ Approve the Infrastructure Policy, as prepared and recommended by Staff and Consultant. ➤ Approve the performance measurement report format prepared and recommended by Staff and Consultant. ➤ Monitor the performance of the overall Infrastructure Portfolio.
STAFF ROLES AND RESPONSIBILITIES
<ul style="list-style-type: none"> ➤ Prepare, with the assistance of the Consultant, the Infrastructure Policy. ➤ Review and approve the investment evaluations and/or plans developed by the Consultant with respect to each Infrastructure Portfolio investment. ➤ Review and approve each Infrastructure Portfolio commitment for consistency with the appropriate policy and for general reasonableness. ➤ Review each Infrastructure Portfolio investment redemption or liquidation for consistency with the appropriate policy and for general reasonableness. Meet with the Consultant at least annually to update and, if necessary, to make revision recommendations regarding the Policy Statements. ➤ Monitor, with the assistance of the Consultant, the Infrastructure Portfolio performance. ➤ Represent the ERB with respect to all matters related to Infrastructure Portfolio investments. ➤ Select, with the assistance of the Consultant, reasonably qualified investment managers/advisors for commingled fund investments. ➤ Select investment managers/advisors, as described in Section X, Investment Due Diligence. ➤ Select and use the Consultant to provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks.

INFRASTRUCTURE CONSULTANT ROLES AND RESPONSIBILITIES

- Assist Staff in preparing the Infrastructure Policy. Review Policy Statements annually and recommend revisions when appropriate.
- Prepare recommendations, if requested by the Staff, concerning each investment commitment. Review consistency with the Policy Statements and general reasonableness.
- Prior to presentations to the REIC, provide a legal review of key terms included in the agreements and/or memoranda associated with the prospective investment.
- Prepare recommendations, if requested by the Staff, concerning each investment redemption or liquidation for consistency with the Policy Statements and for general reasonableness. Meet with the Staff at least annually to update and, if necessary, to make revision recommendations to ERB. The consultant's recommendation shall disclose all placement agents or third party marketing agents related to each investment.
- Assist the Staff, as its fiduciary, in the monitoring and management of the Infrastructure Portfolio.
- Assist the Staff, to the extent requested, in representing the ERB with respect to all matters related to the Infrastructure Portfolio.
- Present to the Staff, as requested, reasonably qualified investment managers for review, including all relevant due diligence information. Assist the Staff, to the extent requested, in completing investment due diligence.
- Provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks and otherwise in the format requested by the Staff and/or the ERB.
- In connection with the infrastructure quarterly performance report, notify the Staff of situations involving the Infrastructure Portfolio's actual investments deviating from the investment guidelines established in the Policy Statements.