NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Natural Resources Investment Policy & Procedures

New Mexico Educational Retirement Board ("ERB") hereby adopts the following Natural Resources Investment Policy & Procedures.

POLICY

Strategic Objectives

ERB believes the risk adjusted returns and diversification of the ERB investment portfolio (the "Portfolio") can be enhanced by investing a portion of its investment allocation in natural resources.

The overall objective for the natural resources asset class is to provide for the following:

- ***Generate attractive risk adjusted returns*** through active management and ability to access managers with the expertise and capabilities to exploit market inefficiencies in the asset class.

  The illiquid nature of natural resource investments combined with the complexity of investments make it difficult for many investors to effectively access the asset class. It is the belief of ERB that by investing with top tier managers whose interests are aligned through manager co-investment and incentive based compensation, ERB can maximize risk-adjusted returns from its natural resource investments.

- ***Diversification benefits*** through low correlations with other asset classes, primarily the U.S. equity markets.

- Provide a ***hedge against unanticipated inflation***, which natural resources have historically provided due to being a primary factor of production, i.e. raw materials.

- Permit ERB to invest in ***unique opportunities*** that arise due to dislocations in markets that occur from time to time.

Allocation to Natural Resources Asset Class

ERB has approved a target natural resources allocation of up to one and one-half percent (1.5%) of the ERB Fund.

Benchmark

The natural resources portfolio is expected to generate returns, net of all fees and expenses, (i) in excess of the National Council of Real Estate Investment Fiduciaries Index for Timberland (50%) and Farmland (50%) ("NCREIF Index") over rolling five year investment time horizons.

The Board understands that, for a given partnership, fund or investment, return can only be reliably measured over the life of the partnership (typically 10+ years) or a complete market cycle. Natural resource fund holdings are typically marked to market, however, the valuation methodology used by one general partner may differ significantly from the valuation methodology used by another. In addition, the time-weighted-return performance in the first few years of a partnership's life is routinely negative due to the J-curve effect. During this period, partnerships are actively making investments and drawing management fees, which results in a negative capital account balance.

Risk and Return Assessment

As with other types of investments, natural resource investments include the risk of loss of capital on any individual investment, which can be mitigated by the diversification of investments.

Other key risk considerations for natural resources investments include:

- The illiquidity of investments.

- Market risks, including unexpected changes in the overall economy, an increase in competitive supply of new producers, competing products, and a change in natural resources demand patterns due to an economic slowdown or other factor reducing demand for their products.

- Leverage. Most natural resources investments utilize leverage in order to enhance expected returns. This leverage may cause increased volatility in reported and realized returns and increases the risk of complete loss of capital if cash flow is insufficient to pay regular debt service.

- Capital. Natural resources are a capital intensive asset class. Unexpected capital events or repairs may significantly impact returns.

- Obsolescence. Certain natural resource products or production locations can become less desirable over time leading to decreases in value.

- Weather risks. Since the production of natural resources is often dependent upon and exposed to varying weather conditions, annual production quantity, quality, and cost can be effected in negative ways. Multi-year results are often less volatile than single year results.

- Manager risk. The success of natural resource investments is often highly dependent on manager skills and timing.

- Valuation. Valuation policies vary from manager to manager and the lack of consistently applied mark to market mechanisms across funds/managers can impact reported portfolio performance.

- Capital market shifts. A change in capitalization rates due to, for example, an unexpected rise in interest rates or changes in currency exchange rates, may have a negative impact on natural resources values.

ERB believes that the expectation of net-of-fees total returns in excess of the NCREIF Index for Timberland and Farmland and the diversification benefits of the asset class justify the risks associated with natural resource investing.

Investment Alternatives

ERB's allocation to natural resources will be diversified among a variety of private market investment types in order to reduce the volatility of natural resources returns and the risk of loss of capital. The following are general guidelines for diversification of the natural resource portfolio:

ERB has divided the global natural resources investment universe into the following sectors, with descriptive attributes to follow:

Timberland

- Operating properties for the production of trees used in the forest products industry, i.e. pulp, chips, saw timber, and fuel.
- Generally have institutional qualities for size, physical attributes and location.
- Target unleveraged total real returns of 6.0% or more per year, gross of fees, with a proportion of the total return to be generated from current income and a portion of the total return generated from appreciation.
- Timberland may include some converting or transport facilities when the cash flow or appreciation characteristics are similar.
- Leverage for Timberland investments is generally up to 40% loan-to-value.

Farmland

- Row and field crop land, irrigated and non-irrigated, permanent plantings such as fruit and nut trees and vines, multi-year crops such as sugar cane and alfalfa.
- Higher than average yielding properties generally and those that have lower than average costs-of-production per unit.
- Target unleveraged gross-of-fee total returns for Farmland investments are 6% real.
- Leverage for Farmland investments is generally up to 25% loan to value (portfolio and property level).

Mitigation Banking

- Mitigation Banking is where an environmental habitat is created or restored for impact permits from regulatory agencies in advance of a real estate development impact that is required to offset or mitigate its impact. The Mitigation Bank then sells its impact permits to the developer.

- The Banks can be in various stages such as existing and permitted, under construction, or planning.

- Target gross-of-fee total returns for Mitigation Banking investments are 10% real

When evaluating natural resources investment performance, the natural resources portfolio is expected to generate returns, net of all fees and expenses, (i) in excess of the NCREIF Index for Timberland (50%) and Farmland (50%) over rolling five year investment time horizons.

Natural resource investments are permitted through a variety of structures including commingled funds (pools of capital provided by institutional or other sophisticated investors that may be partially or fully specified), direct investments (investment in a single transaction or strategy with or without other institutional partners), or co-investments (investments in larger transactions alongside a commingled fund).

Diversification and Risk Management Guidelines

In order to capitalize on the inefficiencies and the private market nature of natural resource investments, these policies establish ranges for property type exposure, rather than specific targets. ERB's intent is to adhere to these diversification guidelines for property type (timberland, farmland, mitigation banks) or location exposure while simultaneously not forcing investments in areas where the risk adjusted returns are not attractive. ERB acknowledges during the period of time when the natural resources portfolio is being established, and during times when managers may simultaneously decide to increase or lighten exposure, that investments within these diversification ranges can in the short term be inconsistent with the policy ranges. In the event of such circumstances, ERB Staff and the natural resources consultant will endeavor to reallocate capital to rebalance the natural resources portfolio over a 12 to 24 month period of time.

ERB Staff and the natural resources consultant have established the following investment diversification policy ranges:

Sub-Asset Class Allocations			Allocations by Geography	
Timberland	20% - 60%		Northern Hemisphere	30% - 70%
Farmland	20% - 50%		Southern Hemisphere	30% - 70%
Mitigation Banks	10% - 30%			

ERB will seek to control risk in its natural resources investment program by diversifying its exposure to natural resources through investments in the following:

- Property Type Diversification – The ERB shall seek diversification within the natural resources asset class through investments in timberland, farmland, and mitigation banks.

- Geographic and Economic Location Diversification – The exposure to natural resources in the Portfolio shall include investments diversified across various locations globally and in economies with different economic concentrations.

- Investment Manager Diversification – The ERB shall utilize various investment managers within the natural resources portfolio.

- Vintage Year Diversification – ERB shall seek to invest in each vintage year to avoid excessive exposure to any one natural resources cycle.

The risks associated with the natural resources portfolio shall be viewed within the context of the entire Portfolio. Accordingly, ERB will overweight segments of the natural resources portfolio in order to take advantage of relative value disparities (on a risk adjusted basis) in the global natural resources market.

Other limitations:

- ERB will limit the amount invested with one manager to no more than thirty-percent (30%) of the total allocation for natural resources investments. If one manager manages a combination of investments in the natural resources property-type allocations (e.g., timber and mitigation banking or agriculture and timber), the limit will be increased to forty-percent (40%) of the total natural resources allocation.

- The maximum investment size for any single allocation to a diversified commingled fund shall be limited to twenty-percent (25%) of the total natural resources allocation. Any one property acquired by a commingled fund manager as part of a fund should generally be no greater than 25% of the manager's portfolio (subordinate to the investment guidelines of the fund). Non-diversified direct investments in a single property shall be limited to 10% of the total natural resources allocation.

- Investments shall be held through open and closed-end funds such as limited partnerships, private REITs/REOCs, limited liability companies, separate accounts or corporations. No properties shall be held in the name of the ERB.

PROCEDURES

Role of the Real Estate Investment Committee ("REIC")

The REIC has the responsibility to approve and recommend to the full board for its approval the: (i) Natural Resources Investment Policy and Procedures; and (ii) new natural resources consultants. In addition the REIC will review and approve all investments in natural resources. The REIC approved investments will be forwarded to the full Board at its next available meeting as informational items.

Investment Selection

1. Fund and Investment Selection Process. The natural resources consultant with the assistance of ERB's Chief Investment Officer, Investment Officer and relevant ERB staff (collectively "ERB Staff") shall be responsible for sourcing and performing due diligence on natural resource investment opportunities for ERB.

ERB Staff and the natural resources consultant shall seek out, but is not limited to, investment opportunities that (i) have committed capital of twenty-five million dollars ($25,000,000) exclusive of the investment from ERB, (ii) are managed by firm principals with a track record, experience and references preferably from institutional investors, and (iii) hold out the prospects for total returns comparable to or better than similar investments made by other professionally managed pension funds investing in natural resources.

Due diligence will cover all issues as appropriate on the consultant's Due Diligence Questionnaire and additional issues that may be relevant to the investment. ERB Staff shall review potential natural resources commitments. Following completion of due diligence, a recommendation memorandum and materials outlining the transaction will be prepared by the consultant and distributed to ERB Staff. The consultant's recommendation shall disclose all placement agent, finder's fees or third party marketing agent fees related to each investment. A formal presentation outlining proposed commitments, along with a presentation from the proposed investment manager (if desired by NM ERB) shall be presented at a meeting of the Real Estate Investment Committee for comment and approval.

The legal review of all appropriate investment legal agreements, the final documentation, closing and funding will be the responsibility of ERB Staff.

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 or Chairman of the REIC.

2. Direct Investments or Co-Investments. ERB may make Direct Investments or Co-Investments across all sectors of the natural resources portfolio (e.g., Timberland, Farmland, and Mitigation Banking) on an opportunistic basis. The natural resources consultant with Staff assistance shall have primary responsibility for the sourcing, due diligence, selection, monitoring and exit of natural resources Direct Investments and Co-Investments. Direct Investments and Co-Investments shall be selectively reviewed and approved in the same manner as other natural resources commitments.

Administrative Process

The natural resources consultant with the assistance of ERB Staff shall establish processes for:

- Monitoring and documenting the progress and level of performance of each investment and fund compliance with governing documents. This will include, as appropriate, ERB and/or consultant’s attendance at annual partnership meetings and participation on limited partner advisory boards.

- Monitoring and administering the funding commitments on a timely basis and coordinating the receipt of distributions from the investments.

- Maintaining complete and accurate records of all transactions related to each investment and maintaining a portfolio accounting and financial control system designed to:

- Protect assets, detect errors and insure the reliability of information generated by funds.

- Provide timely and accurate performance reporting and asset allocation information.

Reporting Requirements

The natural resources consultant with the assistance of Staff shall provide the REIC with quarterly reports on the natural resources portfolio, which provide the following:

- List of current holdings, diversification summary, cash flows, valuations, time-weighted NCREIF compliant returns, IRR and the current status of the portfolio versus benchmarks.

- Recent historical and prospective market conditions.

- Prospective investment opportunities.

- Annual reviews of compliance/variance with the long-term policy and stated goals and objectives for the preceding 12 months and annual goals and objectives for the next 12 months.

This policy is effective as of the date below and supersedes any prior version of this policy.

<u>These Natural Resources Investment Policies and Procedures shall be subordinate to the ERB Portfolio Policy and Procedures, as amended from time to time. In circumstances when the Natural Resources Policies and Procedures conflict with the ERB Portfolio Policy and Procedures, the latter shall prevail.</u>