

Response to Questions for RFP# 2014-09-01, Private Equity Consultant

1. Are there any anticipated changes in staffing or governance which may impact the operations and/or structure of the private equity portfolio?

Answer: No

2. Given that 20% of the decision will be based upon the ability to underwrite and execute secondary and co-investment transactions, is there a minimum track record requirement for such transactions?

Answer: No.

3. Is there a preference for independent advisors as opposed to firms that also manage private equity funds (with proven secondary and co-investment track records)?

Answer: No

4. For firms that have track records of co-investment and secondary transactions, how will potential conflicts and allocation policy decisions be evaluated?

Answer: This should be governed through formal conflicts and allocation policies.

5. How many in person meetings per year are anticipated? Do you have a preliminary schedule of these meetings?

Answer: This is dependent on the annual strategic/pacing plan and opportunity set at that time. No schedule has yet been set.

6. Are we able to email an electronic version of our Acknowledgement of Minimum Qualifications Form?

Answer: Yes, please provide to Steve.Neel@state.nm.us.

7. What is ERB's expected investment pace (annual commitments) for 2015?

Answer: ERB's current Annual Strategic Plan calls for a 2015 commitment pace of six to eight funds totaling approximately \$300 million.

8. Can you confirm ERB's benchmark is S&P 500 + 500 bps, and are there any anticipated changes for the private equity program?

Answer: The following is from ERB's Private Equity policy statement:

The PE portfolio is expected to enhance the equity returns of the total Plan and generate returns, net of all fees, expenses and carried interest in excess of the Russell 3000 index plus 3%. The benchmarking vs. the Russell 3000 or other broad market indices will be done using Public Market Equivalents ("PMEs") of the indices which will be calculated

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to mirror the cash flows of the program. The ERB understands that, for a given partnership, returns can only be reliably measured over the life of the partnership (typically approximately 8-10+ years) and so the ultimate performance of the PE portfolio is difficult to judge for recent vintage years where the strategies have not yet seen significant realizations. In addition, the internal rate of return performance in the first few years of a partnership's life is anticipated to be negative for many strategies due to the J-curve effect. Partnership investments during the J-curve period may have a capital account balance lower than the invested capital due to management fees, partnership expenses and the lack of maturity in portfolio companies due to the fact that management has not yet fully incorporated growth initiatives.

Early in the life of the private equity portfolio, performance will be assessed relative to peer group data. This data will measure vintage year performance to determine that individual funds are performing in line with peer funds from a similar vintage. PME indices will also be used for intermediate and long term benchmark comparisons to public markets in order to eliminate any difference between dollar weighted and time weighted returns when comparing to public benchmarks.

9. What are the fees currently paid to the private equity consultant?

Answer: The following is excerpted from the current contract:

For the services rendered under the Contract, the Advisor shall be paid an annual fee of \$500,000 for a twelve (12) month period, to be computed after all services for the applicable period are performed, paid quarterly in arrears within thirty (30) days of the receipt of a billing statement by NMERB, which amount shall be all inclusive of Contractor's costs and expenses associated with the services provided under the Contract including, but not limited to, travel, lodging, background checks, accounting and reporting, broken deals because of due diligence, and annual fund or monitoring meetings.

10. Exhibit E: Amended and Restated Policy Regarding Placement Agent Disclosures – the instructions state the “offeror must complete, sign, and include in the proposal the responses required by the placement agent disclosure”. Where would ERB like the offeror to sign? Further, please confirm that a signature is all that is required for Exhibit E.

Answer: On company letter head please represent that your organization has read, understands and agrees to comply with ERB's placement agent policy.

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11. Exhibit A, Section 3: Would the ERB consider revising Minimum Qualification C.1 to change "public pension plans" to "institutional investors"?

Answer: Agreed.

12. Exhibit A, Section 3: Would the ERB consider revising Minimum Qualification C.2 to remove the reference to "U.S."?

Answer: Agreed.

13. Please provide more information regarding the composition of the Evaluation Committee (e.g., names, titles, roles, etc.)

Answer: The evaluation committee is yet to be formed.

14. Please provide more information regarding how many fund commitments the ERB anticipates making per year and the expected size of each commitment going forward.

Answer: See answer to question 7.

15. Please provide details on the ERB's involvement in private equity secondary purchases and co-investments, to date (e.g., commitment sizes, dates, partners, etc.). What allocation may be available for these strategies? How many secondary transactions and co-investments does the ERB contemplate completing per year?

Answer: In both co-investments and secondary LP purchases ERB has contracted with third parties either through commingled funds or separate accounts. Going forward ERB may request assistance in pricing secondary LP interests where ERB maintains a primary commitment. A listing of ERB's co-investment and secondary commitments are available at ERB's website (http://www.nmerb.org/pdfs/1Q2014_privateequity.pdf). Future allocations to separate accounts or fund managers are determined annually by ERB's strategic/pacing plan.

16. Question H.2 requests a copy of the Firm's database be provided. Can the ERB elaborate on the form of this and the type of information requested?

Answer: This question is focused on the forward calendar. Please provide a hard copy of the forward calendar of potential funds in the market in your submission.

17. Please provide details on the compensation arrangements with the incumbent private equity consultant.

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Answer: See answer to question 9.

18. Is the ERB requesting all three hard copy submissions in binders or just the original, signed copy in a binder?

Answer: All three copies.

19. The second paragraph of Exhibit A states that this form must be completed, signed and submitted by October 21, 2014 in order to qualify to receive a copy of NMERB's responses to questions concerning the RFP. However, questions concerning the RFP are due on October 7, 2014. Can you please confirm whether Exhibit A should be submitted separate from and prior to the proposal due date of October 21, 2014? Can you please also clarify the format for completion and signature of Exhibit A (given that Exhibit A has no section for completion or area for signature)? For example, is completion and signature on Exhibit A required in addition to the certification of compliance with Exhibit A that is included in Exhibit B?

Answer: Exhibit A should be submitted with your RFP response due October 21st. The completion of the signature noted in Exhibit A is for Exhibit B. Two signatures are not required.

20. What was the amount of annual fees paid to the current advisor over each of the last three years?

Answer: See answer to question 9.

21. How many commitments has NMERB made in each of the last three years (annually)? Is this investment pace expected to continue through the duration of the contract?

Answer: See ERB website for vintage year exposure
(http://www.nmerb.org/pdfs/1Q2014_privateequity.pdf).

22. Are there any changes expected in the PE allocation or amount available to commit annually?

Answer: See Answer to question 7.

23. The RFP refers to a fee proposal but there is not a section *[in?]* the body of the RFP for this item. The excel spreadsheets include a sheet that asks about services and fee information, but it is broken down individually. Can you please provide guidance on the form of fee proposal we are to provide and where this should be included

Answer: Please provide the proposal under the scope of services included in the spreadsheet.

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24. There are 11 excel sheets in the RFP workbook, many of which ask for information that is already provided in the body of the RFP. Additionally, the body of the RFP only makes reference to the sheets in the performance section of the RFP. Should we complete the entire workbook (all 11 sheets) or should we focus on the three sheets related to past performance?

Answer: If you feel that there is redundant information in your submission, please refer reader to where the appropriate question is answered in your response.

25. On the performance related spreadsheets, these appear to be structured for a discretionary manager or fund of funds which has had prior vehicles and / or retains current performance information for each of the prior funds recommended. As an advisory firm, the nature of our services vary across clients and we do not always retain the performance information of the funds we recommend and in most all cases are restricted in our ability to share such information. Is it acceptable for us to provide the information in a different format? If not, please provide guidance on how you would like us to complete the sheet with those limitations in mind.

Answer: Please provide performance data consistent with the format requested. Please note where information is either incomplete or inconsistent and why.