New Mexico Educational Retirement Board

Real Estate and Natural Resources Portfolio Quarterly Board Summary

September 30, 2012

Presented By

REAL ASSET Portfolio Management
Real Estate
Natural Resources
Infrastructure

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Portfolio Summary

Portfolio Review

As of September 30, 2012, New Mexico Educational Retirement Board ("NMERB") had a total portfolio value of $9,757,562,866. NMERB's long-term target allocations to real estate and natural resources are 5% ($487,878,143) and 3.5% ($341,514,700), respectively. As of September 30, 2012, net asset value ("NAV") of the real estate portfolio was $566,221,672 and NAV for the Natural Resources portfolio was $28,499,961.

As of September 30, 2012, NMERB had $132,354,271 of committed but uncalled allocations to private real estate managers and $76,380,000 of committed but uncalled allocations to Natural Resources managers. Not included in the numbers above are allocations to RAM Realty Partners III and Brookfield Brazil Timber Fund II for $30 and $50 million, respectively, which were approved but capital has not been contributed as of the end of the quarter. In addition, commitments to Sares Regis Group ($30m), Halderman Agricultural Separte Account ($50m), and Lone Star Real Estate Fund VIII ($50m) have been approved and are awaiting legal review, which are also not reflected in the above numbers.

Returns Summary

	Time Weighted Returns		Since Inception Net IRR
	Current Quarter	Since Inception	
Public Real Estate	0.70%	9.25%	13.32%
Wilshire REIT Index	-0.15%	9.09%	N/A
Private Real Estate	3.66%	1.36%	3.13%
NCREIF Property Index	2.34%	1.44%	N/A
Natural Resources	-0.56%	0.34%	0.48%
NCREIF Timber	0.75%	-0.70%	N/A
CPI (All Consumers)	0.84%	2.44%	N/A

Portfolio Highlights

The real estate portfolio is expected to generate returns in excess of the National Council of Real Estate Investment Fiduciaries Index ("NCREIF Index") over rolling five year investment time horizons.

Key Private Asset Ratios as of 9/30/2012

Paid in Capital (PIC) 0.56 x

Distribution Paid in Capital (DPI) 0.20 x

Residual Value Paid in Capital (RVPI) 0.86 x

Total Value Paid in Capital (TVPI) 1.07 x

Trailing Period Time Weighted Returns – *Net of Fees*

	QTR	1 Year	3 Year	5 Year	Since Inception
Public Real Estate	0.70%	34.39%	21.04%	2.09%	9.25%
In-House REIT	-0.18%	31.79%	20.55%	1.84%	9.09%
Wilshire REIT - U.S. Equity	-0.15%	32.42%	20.72%	1.73%	9.09%
Brookfield U.S. Value REIT	2.80%	41.49%	N/A	N/A	13.50%
MSCI REIT Index	0.01%	32.45%	20.53%	2.14%	10.43%
Private Real Estate	3.66%	11.94%	13.13%	N/A	1.36%
NCREIF Property Index	2.34%	10.99%	10.90%	2.26%	1.44%
Natural Resources	-0.56%	1.31%	1.35%	N/A	0.34%
NCREIF Timberland Index	0.75%	2.25%	-0.51%	3.32%	-0.70%
CPI (All Consumers)	0.84%	1.99%	2.33%	2.11%	2.44%

Calendar Year Time Weighted Returns – *Net of Fees*

	YTD	2011	2010	2009	2008
Public Real Estate	16.04%	8.82%	28.77%	27.89%	-38.31%
In-House REIT	14.27%	9.16%	28.77%	27.89%	-38.31%
Wilshire REIT - U.S. Equity	14.73%	9.24%	28.60%	28.60%	-39.20%
Brookfield U.S. Value REIT	20.62%	N/A	N/A	N/A	N/A
MSCI REIT Index	14.90%	8.69%	28.48%	28.61%	-37.97%
Private Real Estate	8.97%	8.33%	22.97%	-1.05%	N/A
NCREIF Property Index	7.80%	14.26%	13.11%	-16.86%	-6.46%
Natural Resources	-1.44%	2.89%	7.41%	N/A	N/A
NCREIF Timberland Index	1.73%	1.57%	-0.15%	-4.75%	9.52%
CPI (All Consumers)	2.54%	2.96%	1.50%	2.72%	0.09%

Portfolio Statistics

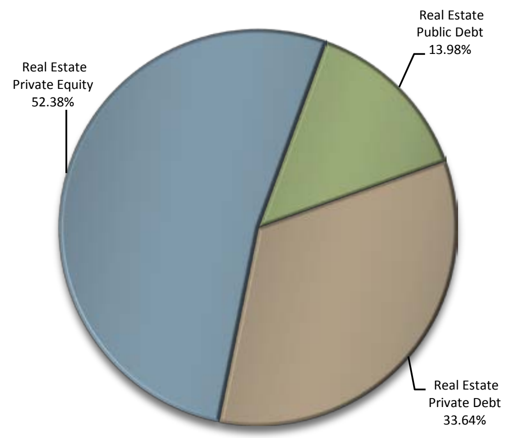
	09/30/2012	12/31/2011	12/31/2010	12/31/2009
Portfolio Market Value	$ 594,721,633	$ 543,006,209	$ 476,599,485	$ 390,763,308
Committed Uncalled	208,734,271	131,314,468	31,375,528	50,752,104
Portfolio Market Value + Committed Uncalled	$ 803,455,905	$ 674,320,677	$ 507,975,012	$ 441,515,413
Total Number of fund Investments	15	13	8	8
Total Number of Managers	13	11	7	7

Private Asset Multiples

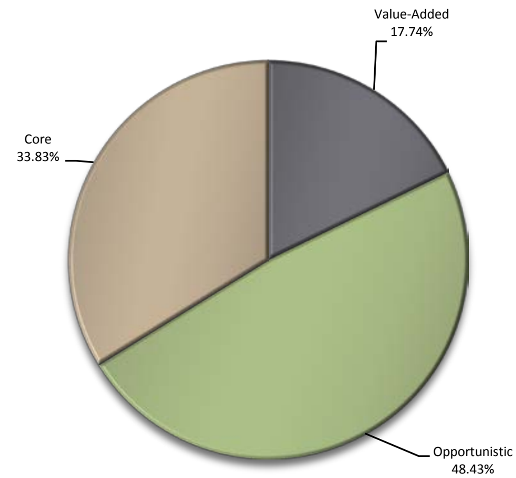
	9/30/2012	12/31/2011	12/31/2010	12/31/2009
PIC Multiple	.56 x	.51 x	.50 x	.48 x
Distribution Multiple	.20 x	.19 x	.11 x	.09 x
Residual Value Multiple	.86 x	.83 x	.85 x	.71 x
Total Value Multiple	1.07 x	1.02 x	.97 x	.80 x

Portfolio Diversification as of September 30, 2012

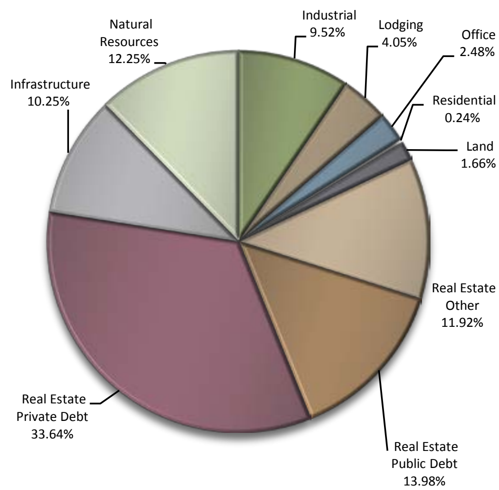
Private Diversification by Investment Class



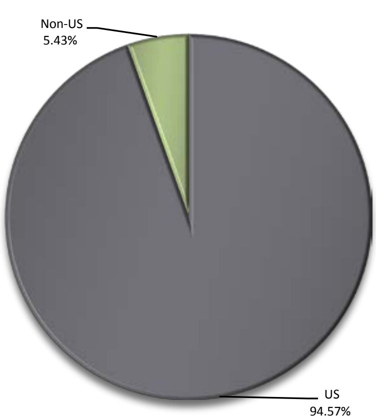
Private Asset Risk Category



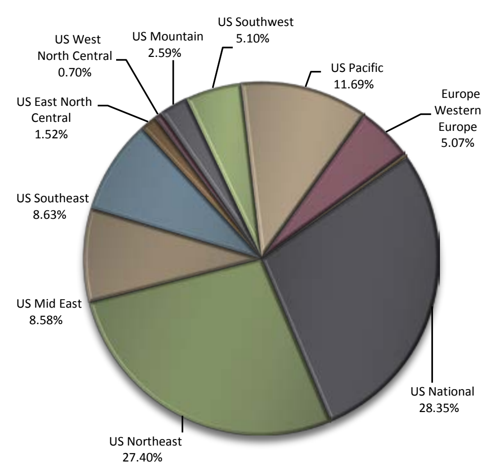
Private Asset Diversification by Investment Type



Private Asset US vs. Non-US Diversification



Private Asset Global Diversification



Combined Quarterly Portfolio Summary

Manager Statistics

Manager Performance – *Net of Fees*

	Commitment ($)	Market Value ($)	Time Weighted Returns: YTD	1 Year	3 Year	5 Year	Since Inception	Since Inception Net IRR
Private Real Estate								
Greenfield Acquisition Partners V, L.P.	25,000,000	24,304,038	3.81%	11.67%	13.58%	-	-0.71%	6.17%
Guggenheim Structured Real Estate III, LP	25,000,000	8,958,116	6.09%	7.13%	3.26%	-	-6.93%	-7.84%
Lone Star Fund VII (U.S.), L.P.	50,000,000	43,544,519	19.86%	20.85%	-	-	45.15%	29.37%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	9,746,541	19.74%	21.89%	-	-	35.81%	14.68%
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,341,612	6.87%	7.84%	10.00%	-	6.10%	6.41%
Prologis Targeted Europe Logistics Fund, FCP-FIS	10,933,751	5,648,293	-1.89%	-5.54%	-5.47%	-	-12.63%	-12.63%
Prologis Targeted US Logistics Fund	21,581,160	13,087,200	9.16%	13.67%	12.04%	-	-8.81%	-8.80%
Prudential Senior Housing Partners IV	50,000,000	9,691,542	5.29%	-	-	-	5.29%	N/A
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	24,598,107	7.72%	13.83%	-48.88%	-	-48.88%	37.13%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	(45,232)	-	-	-	-	-	N/A
Private Real Estate Total	**342,969,455**	**189,874,736**						
Public Real Estate								
In-House REIT	773,270,071	260,896,646	14.27%	31.79%	20.55%	1.84%	9.09%	13.32%
U.S. Value Income REIT Strategy	98,800,524	115,450,291	20.62%	41.49%	N/A	N/A	13.50%	13.29%
Public Real Estate Total	**872,070,595**	**376,346,937**						
Natural Resources								
Conservation Forestry Capital Fund II, LP	25,000,000	25,724,815	0.82%	4.06%	2.45%	-	1.27%	2.05%
Ecosystem Investment Partners II, LP	30,000,000	2,576,277	-28.16%	-30.57%	-	-	-26.25%	-30.66%
Hancock GLC Farms, LLC	50,000,000	198,869	-	-	-	-	-	N/A
Natural Resources Total	105,000,000	28,499,961						

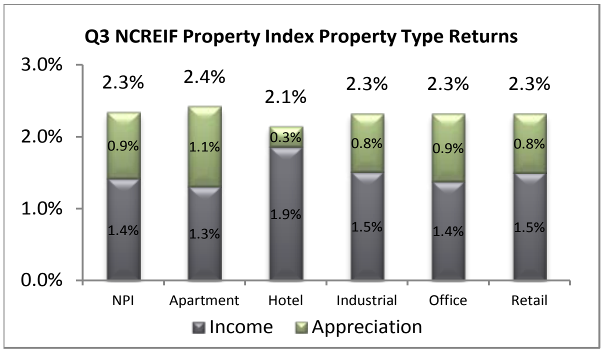
Manager Asset Detail

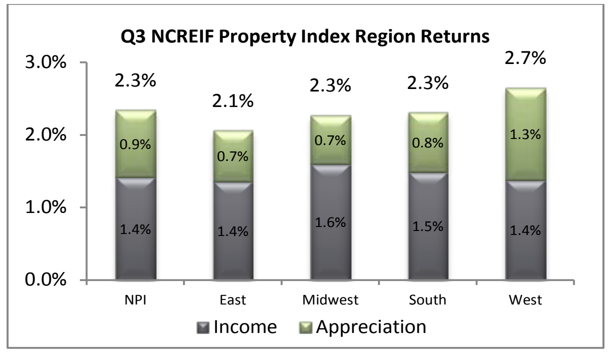
	Commitment ($)	Market Value ($)	Contributions ($)	Distributions ($)	Since Inception Net IRR
Private Real Estate					
Greenfield Acquisition Partners V, L.P.	25,000,000	24,304,038	24,650,000	(4,125,000)	6.17%
Guggenheim Structured Real Estate III, LP	25,000,000	8,958,116	25,000,000	(10,328,831)	-7.84%
Lone Star Fund VII (U.S.), L.P.	50,000,000	43,544,519	42,523,078	(5,647,800)	29.37%
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	9,746,541	11,838,616	(3,132,863)	14.68%
PRIMA Mortgage Investment Trust, LLC	50,000,000	50,341,612	50,000,000	(12,234,910)	6.41%
Prologis Targeted Europe Logistics Fund, FCP-FIS	10,933,751	5,648,293	10,933,750	(861,093)	-12.63%
Prologis Targeted US Logistics Fund	21,581,160	13,087,200	21,581,160	(1,704,648)	-8.80%
Prudential Senior Housing Partners IV	50,000,000	9,691,542	15,256,769	(5,580,921)	N/A
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	24,598,107	18,801,984	(4,382,131)	37.13%
Rockpoint Real Estate Fund IV, L.P.	45,454,545	(45,232)	585,152	-	N/A
Public Real Estate					
In-House REIT	773,270,071	260,896,646	773,270,445	(854,675,014)	13.32%
U.S. Value Income REIT Strategy	98,800,524	115,450,291	98,800,525	-	13.29%
Natural Resources					
Conservation Forestry Capital Fund II, LP	25,000,000	25,724,815	27,450,939	(2,843,302)	2.05%
Ecosystem Investment Partners II, LP	30,000,000	2,576,277	3,689,557	(269,556)	-30.66%
Hancock GLC Farms, LLC	50,000,000	198,869	200,000	-	N/A

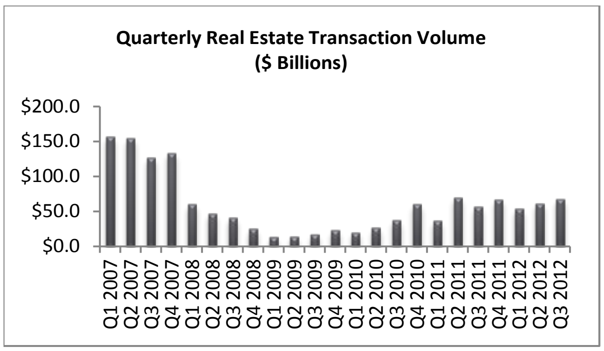
Note: (i) As of Q3 2012 end, Rockpoint Real Estate Fund IV had not called capital for investment, as such the market value shown above reflects NMERB's portion of debt related to the fund's investment activity occuring through the use of debt financing. (ii) Performance is currently unavailable until the first full quarter following initial capital investment for Rockpoint IV and Hancock GLC Farms. (iii) Distributions shown include recyclable capital and contributions shown in recallable capital as well as contributions outside of commitment.

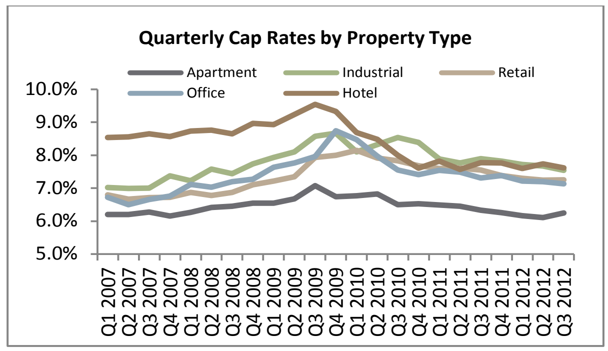
Market Overview

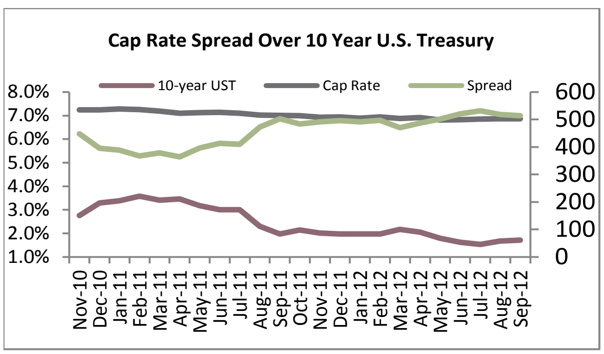
Real Estate Market Overview

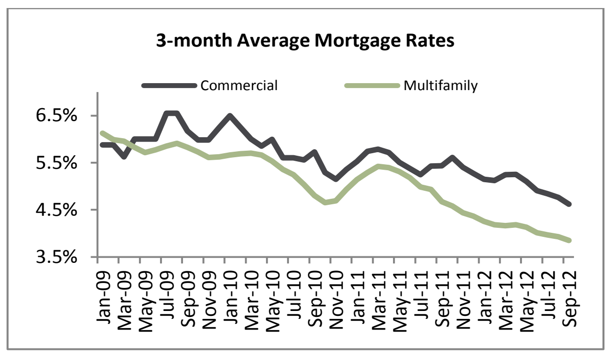


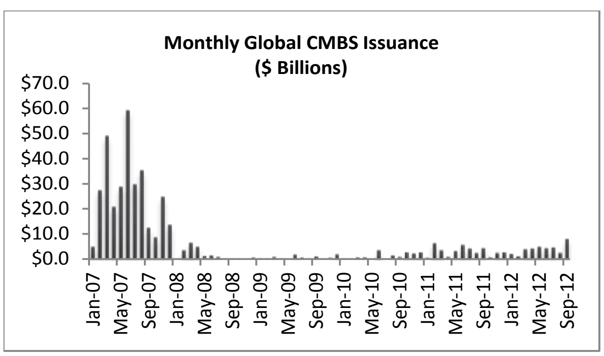


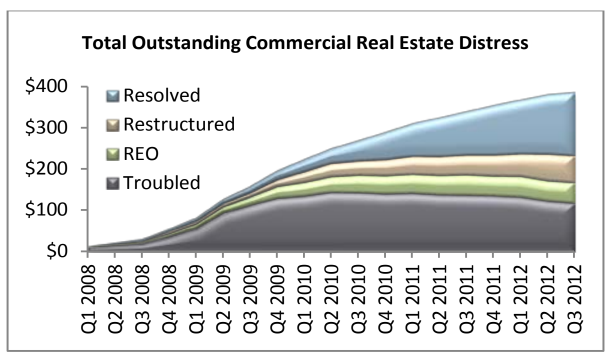












Sources: NCREIF, Real Capital Analytics

Real Estate Market Commentary

Returns across property types and regions were strong over the quarter, with apartments and properties located in the Western U.S. leading the way. Apartments have been the strongest performing sub-sector of the NCREIF index as occupancy rates and rent increases have accelerated amidst a decline in home ownership, supportive demographics and limited new supply. Vacancy rates for apartments included in the NCREIF index have reached their lowest levels since 2001, with apartments being the only sector with vacancy below its long-term average. These trends are beginning to support new supply in prime multi-family markets, where construction permits have accelerated and inventory additions are expected to come online in 2014 and beyond.

Transaction activity was also strong over the quarter at $67 billion, a 19% increase from a year ago. The increase in transaction activity was primarily driven by industrial and multi-family properties, along with a marked increase in sales of development sites suitable for multi-family properties. Cap rates were essentially flat over the quarter, with office, retail and multi-family cap rates trending toward their historic lows reached in 2007. Given the historically low cap rates in apartments, transaction activity is shifting toward secondary and tertiary markets while making development more attractive.

The cap rate compression seen in stabilized properties is partially driven by investors' hunt for yield amidst historically low 10-year Treasuries. Over the quarter, the 10-year Treasury hit an all-time low with an average rate in July of 1.53% before ticking up slightly to 1.72% in September. Even at 1.72%, the average cap rate for all properties at 6.86% represents a 514 bps yield spread over 10-year Treasuries. These rates and spreads should continue to encourage investor demand for real estate assets.

Historically low 10-year Treasuries have also lowered financing costs and fostered a supportive lending environment. Over the quarter, the average 7-10 year fixed rate debt on commercial properties dropped from 4.9% to 4.6%, while the average rate for multi-family properties dropped from 4.0% to 3.9%. With mortgage rates in the range of 4.0-4.5%, even transaction cap rates of 6.5% can result in cash-on-cash yields to investors of 8-9% with conservative leverage. Debt securitization markets are also improving. Though still well-below the monthly volumes seen in 2006-2007, global issuance of CMBS was $14.9 billion in Q3 2012 compared to $10.7 billion over the same time period in 2011.

The slowly improving fundamentals and capital markets are resulting in lower levels of distressed real estate, with resolved and restructured properties now accounting for a larger share of the outstanding distress than that are troubled or in REO servicing. Defaults and transfers to special servicing of loans on commercial property slowed materially to $5.8 billion in Q3 2012, half the levels of the prior quarter. The percentage of sales associated with distress has fallen from nearly 20% at the beginning of 2010 to 10% in Q3 2012, while recovery rates have also improved, particularly for apartment and CBD office properties.

Sources: NCREIF, Real Capital Analytics, Commercial Mortgage Alert

Timber Market Commentary

Finally, it appears as though the U. S. residential housing market is building momentum. After years of increasing affordability, record low interest rates, and growing pent-up demand, buyers are increasingly active. Purchases of existing inventory is firming prices and reducing supply. Meanwhile, housing starts in October 2012 were at a seasonally adjusted rate of 894,000, 42% above October 2011.

Demand for lumber was increasing prices even before hurricane Sandy wreaked havoc on the Northeast region. As often occurs, markets build a foundation for improvement and then an additional impetus solidifies an uptrend. Forecasts are now calling for North American lumber mills to saw 52.5 billion board feet, 5.4% more than 2011 and the most since 2008. Lumber prices lead log and stumpage prices. Access to tracts during winter months this year is expected to have a significant effect on log prices.

Sources: U. S. Department of Commerce, U. S. Census Bureau.

Agriculture Market Commentary

The most severe drought in decades in the U.S. translated in Q3 into a decline in world coarse grain production of 38 million metric tons or 3.3%. Corn yields in the Midwest U.S. were also down 25% but other grains and production in other non-drought affected areas helped mitigate the impact. Consumption is expected to decline by 1.7% due to price increases of 50%. A greater reduction in production than in consumption resulted in a further decline in commodity inventories. The stocks-use ratio is forecast to decline from 14.3% to 12.9%, a very tight level. In our view, the global situation supports a continuation of strong agriculture commodity prices.

Expansion of land devoted to soybean production and higher yields in Brazil have made Brazil the largest soybean producer in the world taking that title away from the U. S. Since there is more opportunity for Brazil to expand further, Brazil is expected to maintain this position going forward.

Farmland values in the U.S. have continued to increase primarily in the Midwest driven by high commodity prices and adequate crop insurance coverage. The 7th District Federal Reserve Bank of Chicago (includes the states of Iowa, Wisconsin, Michigan, Northern Illinois, and Northern Indiana, also known as the central Corn Belt) reports a 13% increase in farmland values over the 12 month period ending September 30, 2012 including a 5% increase in the 3rd quarter. Increased grain and feed prices are significantly increasing costs for livestock and dairy producers. Unless retail prices can be increased, farmers who purchase rather than grow their own feed will suffer severely reduced to negative profit margin.

Sources: USDA-Foreign Agricultural Service, Seventh District Federal Reserve Bank of Chicago.

Mitigation Banking Market Commentary

As of the end of the third quarter, the number of active or pending US mitigation banks increased 14% during the year. Estimates put credit sales at $1.6 billion. The growth in mitigation banks was expected as since 2008, banks were preferred to other forms of mitigation by regulatory agencies.

There are now 24 water quality trading programs in the US. The EPA hopes to expand these programs from point source polluters to include non-point sources of pollution, such as agriculture. It is expected that these trading systems will expand as a market based solution to environmental pollution, aiding compliance with the Clean Water Act through the mitigation bank system.

In 2012 the California Department of Fish and Game had announced it was not going to process any new mitigation bank proposals due to being short of staff. This panicked the industry and caused a group to form with the express purpose of supporting legislation that would allow applicants to be charged a fee, which would be used to increase the administrative resources available to process, at least in part, mitigation banking applications. The application fee approach has been adopted and will begin to operate in 2013. Some industry participants view this as a pilot program that, if successful, may be adopted in additional states during this time of budget limitations.

Source: US Army Corps of Engineers, RIBITs (Regulatory In Lieu Fee and Bank Information Tracking System), California Department of Fish and Game

Appendix A

Summary of Portfolio Cash Flows

Quarter	Contributions	Distributions	Total
Q4 2003	51,000,000	-	51,000,000
Q1 2004	140,000,000	-	140,000,000
Q2 2004	125,450,000	-	125,450,000
Q4 2004	720,438	(720,438)	0
Q4 2005	-	(8,918,532)	(8,918,532)
Q1 2006	200,000	(92,452,388)	(92,252,388)
Q3 2006	-	(20,189,000)	(20,189,000)
Q4 2006	500,000	(51,495,881)	(50,995,881)
Q1 2007	-	(59,700,000)	(59,700,000)
Q2 2007	-	(77,400,000)	(77,400,000)
Q3 2007	277,650,000	(77,410,778)	200,239,222
Q4 2007	-	(58,200,000)	(58,200,000)
Q1 2008	82,200,000	(23,500,000)	58,700,000
Q2 2008	25,500,000	(50,900,520)	(25,400,520)
Q3 2008	44,852,570	(5,419,994)	39,432,576
Q4 2008	85,979,025	(80,673,450)	5,305,575
Q1 2009	55,122,204	(3,792,560)	51,329,644
Q2 2009	3,720,837	(5,031,451)	(1,310,614)
Q3 2009	2,182,090	(55,883,030)	(53,700,940)
Q4 2009	7,213,749	(3,850,747)	3,363,002
Q1 2010	4,451,516	(2,196,291)	2,255,226
Q2 2010	767,315	(1,688,459)	(921,144)
Q3 2010	1,174,065	(28,453,205)	(27,279,140)
Q4 2010	13,741,534	(4,526,081)	9,215,454
Q1 2011	3,250,560	(6,061,073)	(2,810,513)
Q2 2011	18,061,101	(4,971,517)	13,089,584
Q3 2011	106,908,262	(105,955,014)	953,249
Q4 2011	24,029,828	(7,889,008)	16,140,820
Q1 2012	8,040,365	(56,922,068)	(48,881,703)
Q2 2012	15,226,717	(4,900,403)	10,326,314
Q3 2012	26,639,799	(6,684,184)	19,955,615
Total	$ 1,097,942,177	$ (899,101,884)	$ 198,840,293

Appendix B

Notes to the Performance Report

Multiples are calculated net of fees using private investments only.

The PIC Multiple is the cumulative contributed amount divided by committed capital. This multiple indicates how much of committed capital has been paid in.

The Distribution Multiple ("DPI") measures the portion of fund returns distributed to investors. When DPI is the equivalent of 1, the Fund has broken even. A DPI of greater than 1 indicates that the Fund has generated profit to the investors.

The Residual Value Multiple ("RVPI") measures the portion of returns that are unrealized.

The Total Value Multiple ("TVPI") provides information regarding the value of the investment relative to its cost basis, not taking into consideration the time invested.

Paid in Capital Ratios reflect all contributions made divided by the total commitments, without making adjustments for contributions that may be offset by recallable or true-up distributions.

Consistent with calculating Paid in Capital, Distributions to Paid in Capital Ratios reflect all distributions received divided by the aggregate total of contributions.

RAPM believes this is the most accurate way to reflect the cash flows experienced during the investment, though Paid in Capital and Distributed to Paid in Capital ratios may not exactly equal those values shown on manager-provided capital statements if the manager is adjusting for recallable distributions or true-up distributions for the Fund. All managers treat these classifications differently and therefore, RAPM utilizes actual cash flows experienced for calculating key ratios as of the quarter end.

Diversification statistics are based on net investment value.

All indices are gross of fee indices.

REIT returns and and Private Asset returns are calculated using different methodologies. The REIT returns are based on the monthly returns as reported by the Custodian and are calculated in accordance with accepted standards for daily liquid securities that require interim period monthly calculations for months in which large external cash flows occur. Private Asset returns are also calculated in accordance with accepted standards for these components using time weighted total rate of return that considers the timing of external cash flows; however, it does not distinguish between large and small cash flows and therefore does not utilize interim period performance to mitigate the impact of significant cash-in and outflows.

All performance numbers reflect data as reported to RAPM by the investment managers. RAPM has made an effort to verify the integrity of the data, including cross referencing what was reported for performance with fund financial and investor capital statements. However, RAPM serves as a data aggregator and reporter of fund level performance data and, therefore, cannot guarantee the accuracy of the underlying data reported by fund managers.