

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

May 15, 2007

CALL TO ORDER

A Regular Meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at approximately 2:00 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
Mr. James B. Lewis [joining later by teleconference]
Mr. Jeffrey M. Riggs

Members Excused:

Mr. Gary B. Bland

Other ERB Members Present:

None.

Legal Counsel Present:

None.

Staff Present:

Mr. Steve Neel, Portfolio Manager
Ms. LeAnne Larrañaga-Ruffy, Investment Officer
Mr. Greg Trujillo, IT Network Specialist

Others Present:

Mr. Saul Meyer, Aldus Equity Partners
Mr. Holland Gary, Aldus Equity Partners

[Because no quorum was immediately present, the Committee proceeded with non-action items.]

FUNDING UPDATE: ERB STAFF

Mr. Neel reported that the hedge funds reallocation is now fully funded with impressive YTD returns of almost 5%.

Mr. Neel stated that the real estate contract for a consultant has been executed, and a strategic planning session is scheduled for June 21.

On a funding update note, Mr. Neel reported a total of \$165 million in commitments in the private equity program, with year-to-date commitments at about \$105 million.

Mr. Neel stated that contracts with HM Capital and Industrial Opportunity Partners (IOP) have been executed and staff is awaiting the first closing. He said Newstone should be executed within the next week, and staff is in contract negotiations with Psilos.

APPROVE INVESTMENTS: ERB STAFF AND ALDUS EQUITY

1. Goode Partners

Mr. Meyer preceded this item with an update on the ERB Allocation Plan. He noted that, over the last 12 months, Aldus has reviewed 345 offerings.

Mr. Meyer said the \$20 million recommended investment in Goode Partners, a domestic buyout fund, would fill about 80% of what Aldus plans in the domestic buyout space.

Mr. Gary stated that Aldus was recommending a \$20 million investment in Goode Partners, a \$200 million lower middle market fund focusing on the consumer sector. He said the three-member team has an above-average amount of operating expertise and depth, particularly for the lower middle market, making this a compelling opportunity. He stated that the team members are highly experienced operating and private equity professionals with background in companies such as Gap, Inc. and Avon.

Mr. Gary stated Goode and its portfolio companies benefit from the participation of their highly involved Advisory Partners, one of whom (Tom Saunders) offices with the group. He added that Goode does not hesitate to rotate partners through based

on their usefulness and level of engagement with the Fund and the portfolio companies. He said the group has the ability to source deals, sit on boards, work closely with companies, and act as management — and this is a deep bench that they draw from to add mass and capability to the overall team.

Mr. Gary said that, even though this is a first time Fund, the three partners have worked together in the past for a minimum of five years both on private equity deals and in operational environments. He added that, when Aldus considers cohesion issues, it likes to look at process, and Aldus observed that this is a “well-baked” process that shows a deep level of maturity given the relatively young stage of the Fund. He also noted that Goode has already executed three deals using this process successfully, demonstrating that the group is able to work effectively together.

Mr. Gary stated that the group has deep consumer operating expertise, and focuses on management infrastructure and branding. He said Aldus noted a very consistent focus on these areas and an ability to drive fundamental EBITDA value and make strong operational improvements as opposed to employing a simple buy-and-lever type strategy. He stated that the backgrounds of the management professionals that this group typically inserts into these entrepreneurial businesses tend to be very high caliber talent. He added, “The CEOs that the groups have worked with have said things like, ‘It’s one of the best decisions they have made,’ ‘They did what they said,’ and so forth — I mean, very amazing consistency across the board in terms of the references on their ability to be effective on the operating front.”

Mr. Meyer added, “And to a point where they actually stood out from the average references that we tend to get.”

Mr. Gary said the track record Aldus examined was based primarily on Mr. Oddi’s experience at Saunders Karp & Megrue (SKM); and overall, the consumer investments led by Mr. Oddi produced a 32.7% gross IRR and a 4.8x investment multiple. He said Aldus created a simulated fund based upon these investments, and noted that the top quartile returns are the result of the highly proactive, operationally-focused investment strategy that will be employed by Goode in this Fund.

Mr. Gary stated that the group is already up and operating, and three deals are already done. Focusing on one deal in particular, Mr. Gary stated that Shabby Chic is a designer, wholesaler, and retailer of a complete line of furniture and home décor products sold under the “Shabby Chic” trade name. He said that Goode invested a total of \$7.4 million in the transaction, which closed August 2006.

General Partners David Oddi and Jose Ferreira presented slides.

Mr. Malott commented that restaurants and eyeglasses, for instance, are very divergent businesses, and asked how Goode addresses such a broad consumer umbrella.

Mr. Ferreira responded that Goode has narrowed the consumer base down to four verticals of interest: retail; consumer brands; direct selling/marketing, and restaurants. He said Goode is able to leverage its ability to build brands, manage large numbers of people and select locations, so there are a lot of common skills that are required across all of these categories. He added that Goode's strategy is all about leveraging their experience, so they only invest in companies where one of the partners has in-depth hands-on experience with that particular business. He stated that Mr. Oddi grew up in the restaurant business, for example, when his family owned a small chain in Rhode Island.

Responding to questioning from Mr. Neel, Mr. Ferreira said Goode had their first closing in early February, and have gotten three commitments since then with several more in the pipeline. Mr. Oddi added that they are racing towards a mandated closing date implemented by one of their existing LPs, and are slated for a \$25 million commitment later this week. He said they have between \$125 million and \$175 million soft-circled at this point.

Mr. Oddi clarified for Mr. Neel that Goode RAD Holdings is the vehicle that consolidated Goode's investment, along with Goldman Sachs' investments, into Shabby Chic.

Mr. Oddi discussed lessons learned from two portfolio write-offs (World Bazaars and Organizing Living).

[Mr. Lewis joined the proceedings by telephone and heard a summary of the presentation and recommendation.]

Mr. Riggs moved to approve a commitment of \$20 million, not to exceed 10% of the committed capital of the fund, to Goode Partners Consumer Fund I, L.P. subject to and contingent upon New Mexico state law, New Mexico Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork.

Mr. Lewis seconded the motion, which passed by voice vote.

ADJOURN

Its business completed, the Investment Committee ended the meeting at approximately 2:50 p.m.

Accepted by:

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

Mr. Bruce Malott, Chair