A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at 12:00 p.m. in the Educational Retirement Board Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

A quorum was present:

**Members Present:**
- Mr. H. Russell Goff, Chair
- Ms. Jan Goodwin
- Dr. Beulah Woodfin

**Members Excused:**
None.

**Legal Counsel Present:**
None.

**Other ERB Members Present:**
Ms. Mary Lou Cameron, Chairwoman [by telephone; signing off at 2:00]

**Staff Present:**
- Mr. Bob Jacksha, CIO
- Mr. Mark Canavan, Real Estate Portfolio Manager
- Ms. Christine Ortega, Investment Financial Analyst
- Mr. Steve Neel, Deputy CIO
- Mr. Jude Perez, Portfolio Manager

**Others Present:**
- Mr. Allan Martin, NEPC
- Mr. Kevin Tatlow, NEPC
- Mr. Andrew Brett, NEPC [by telephone]
- Dr. Tom McGuckin
- Mr. Mark Heine, KL Gates
- Mr. Steve Gruber, RAPM
- Ms. Anne Hanika-Ortiz, LFC
- Ms. Judith Beatty, Recorder
APPROVAL OF AGENDA

Dr. Woodfin moved approval of the Agenda, as published. Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

APPROVAL OF MINUTES: May 24, 2012

Dr. Woodfin moved approval of the May 24 Minutes, as submitted. Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

RAM – REAL ESTATE APPROVAL

Mr. Canavan, who was present with Steve Gruber of RAPM, presented staff’s recommendation of a $30 million commitment in Ram Real Estate Fund III, L.P. He stated that the ERB’s 2012 pacing plan calls for $50 million in value add real estate; and this commitment will round out the planned commitments for the year in the value add space.

-- Ram Real Estate Fund III (RAM III) is the third fund sponsored by Ram Realty Services (RAM). With a family history in real estate dating back four generations to 1921, RAM is dedicated to the investment and management of commercial, retail and multifamily real estate. The Fund managers for the current offering are Peter and Casey Cummings, respectively the third and fourth generations of the Cummings family to invest in real estate.

-- Peter Cummings, father of Casey Cummings, formed Southern Realty Group in 1978 specifically to master plan and develop Martin Downs, which was then isolated pastureland in South Florida. By the 1990s, Martin Downs was a thriving community of 10,000 residents surrounded by Palm City, which had a population of 20,000 in 2000 and is still growing. Through RAM, the successor company to Southern Realty Corp, the Cummings family still controls properties in and around the Martin Downs area, including the Martin Downs Town Center in Palm City.

-- Today the company invests in the broader geographic area of the Southeast, including Charlotte, Raleigh, Tampa, Orlando, Miami, West Palm Beach, Atlanta and Nashville.

-- Until 1996, family capital funded all investment and development activities of Southern Realty Group. Because of the family’s long history and record of success, SRG had long been receiving interest from high net worth individuals and institutions wanting access to investment in or alongside SRG projects. In 1996, SRG began seeking
investments from outside investors, and in 2000 the company re-branded SRG as RAM Realty Services.

-- Since 2000, RAM has entered into numerous joint ventures, specifically with insurance companies, to help build out their real estate programs.

-- In 2003, RAM sponsored their first commingled closed end fund, Community Reinvestment Partners (CRP), which was designed to help the banking and financial industries fulfill their regulatory requirements under the Community Reinvestment Act, which required certain investments within low income housing areas to help bring up the socioeconomic status within blighted neighborhoods and other such areas.

-- RAM II (2007 vintage) targeted retail and multifamily housing.

-- RAM III, the current fund offering, will target investments in value add retail and multifamily real estate in the Southeastern U.S. The Fund will acquire properties through purchase of underperforming or nonperforming loans where the underlying collateral is the property targeted for acquisition.

-- Consistent with the company’s history of investing side by side with their investors, the Cummings family and the fund’s management are investing a sizable portion of their net worth in RAM III.

Addressing staff’s investment thesis, Mr. Canavan commented that a tremendous amount of commercial mortgage-backed securities are coming due in the next 4-5 years that financed a lot of U.S. retail and residential (specifically multifamily) real estate. The commercial mortgage-backed securities markets collapsed in 2008 and 2009, and because of court rulings, it is very difficult for the CMBS markets to come back. This has significantly reduced dollars available to loan into the economy, and provides an enormous opportunity for value add real estate.

Mr. Gruber stated that RAM III is a $200 million fund with a cap of $275 million, and will be restricted to acquisitions in multifamily and neighborhood retail properties, although the Fund could end up investing in 100 percent of one or the other depending on opportunities as they arise.

Mr. Gruber reviewed a track record analysis done by RAPM.

Mr. Gruber stated that RAPM analyzed the Ram transaction record by isolating distressed debt loan-to-own purchases and value add properties, these being most similar to the Fund III strategy. Counting realized and unrealized properties, the projected returns are a 25% gross leveraged IRR and a 1.6x gross multiple. Historically, these strategies on a realized and projected basis have consistently returned more than invested capital, as 30 of the 33 transactions in this group show positive performance.
Peter Cummings and Casey Cummings appeared before the Committee and made a presentation.

-- Ram has 95 full time employees who are deployed throughout the major markets where Ram does business in the Southeast, which is a reflection of their conviction that real estate is fundamentally a local operating business.

-- There is no substitute for ownership taking the responsibility of managing its own assets. This “boots on the ground” approach explains their strong track record.

-- Since 1996, Ram has deployed $500+ million of equity in 90 transactions with a combined value of $1.5 billion, including debt; and about 50-55 of these transactions have been fully realized with gross IRRs in the mid 30s and multiples on invested capital of 3x.

-- The results of their realized and unrealized transactions are a 22% IRR and a multiple on invested equity of 1.4x.

-- Ram focuses on major markets in the Southeast: Atlanta, Charlotte, Ft. Lauderdale, Miami, Nashville, Orlando, Raleigh, Tampa and West Palm Beach (“Target Markets”)

-- A total of 1.25 million jobs are projected to be created in these Target Markets by 2015. Despite what happened during the slowdown, these markets are growing at a rate twice the national average and adding jobs at 1.5 times the rate of the national average.

-- Ram believes that the Fund’s intended targeted markets are becoming more widely accepted as institutional property markets, but have not yet been subject to substantial increases in value.

-- Target Markets are leaders in the new economy sectors, including medical care and research, technology and financial services. In-migration and favorable business climate contribute to impressive projected growth rates in both population and employment.

-- Ram believes that this is an excellent opportunity to capitalize on near term uncertainty and distress in markets that continue to have solid long-term fundamental dynamics.

-- Ram is a fundamental real estate operator that has a healthy balance between an entrepreneurial culture and institutional discipline and experience acting as a fiduciary.

-- Ram is operating in an environment with a reduced set of competitors because a lot of firms did not survive the last downturn.
-- Very few firms with Ram’s platform also have discretion over capital, which is a huge differentiating factor for Ram when buying distress.

-- Ram has a strong alignment of interests, having itself already invested $11 million in Fund III.

Ms. Goodwin asked for information on the Ram investment committee.

Casey Cummings responded that the investment committee is made up of Peter and Casey Cummings; CFO David Dean; CIO Jim Stine; COO Ivy Greaner; and Mike Hammon, President of Residential Development. Four affirmative votes are required, and all investment committee members see the property before voting on a deal.

Casey Cummings discussed Jacaranda Plaza, a Fund III investment in Plantation, Florida, with a forecasted gross levered IRR and multiple are 25% and 2.25x, respectively.

[Peter and Casey Cummings left the proceedings.]

Mr. Jacksha said he likes the regional focus and the focus on property types, where Ram gets deep into the details. He cited their long track record of experience and terms that are below market rates as positives.

Mr. Gruber said he and Brent Burnett toured properties from Ram’s office in Palm Beach Gardens to Miami, as well as Jacaranda Plaza. In addition, there were a series of conference calls and meetings. He commented that RAPM was very impressed by the depth of the team in Ram’s offices.

Dr. Woodfin moved that the Investment Committee approve a commitment of $30 million to RAM Real Estate Fund III, L.P., subject to and contingent upon New Mexico state law, Educational Retirement Board policies and negotiation of final terms and conditions and completion of appropriate paperwork.

Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

CALEDON INFRASTRUCTURE COINVESTMENT FUND – INFRASTRUCTURE APPROVAL

Mr. Jacksha stated that, as the Committee will recall, the ERB hired Caledon as infrastructure consultant last year following an RFP process; as part of that, the submissions included details on coinvestment fund structures from all of the respondents. He said the ERB has used this structure before in private equity, and the BlackRock Cointvestment Fund has been very successful, with an IRR at about 20% since inception. There is also the RAPM NM Secondary Opportunity Fund.
Mr. Jacksha said a major advantage is that the economic terms are much better than those of a regular fund, and there is more control in terms of what goes into a co-investment fund.

Mr. Canavan stated that staff is recommending an $85 million commitment to an ERB infrastructure co-investment fund. He said the ERB Board established an allocation in 2007 to Real Assets with infrastructure as part of the overall allocation, making New Mexico one of the first public pension funds in the U.S. to do this; and since that time, an increasing number of public funds are expressing interest in investing in infrastructure and are finally entering the infrastructure markets through closed and open-ended, commingled managed funds. Established investors such as the ERB were able to negotiate better terms and push down fee structures in the industry, and build out relationships through advisory committees with large institutional investors that have a lot of negotiating and economic power.

Mr. Canavan stated that co-investment is rapidly becoming the preference of investors with established programs like ERB. While ERB staff does possess the prerequisite skill-sets required to run a direct or co-investment platform, it is not possible to run a co-investment program in house.

Mr. Canavan stated that the investment team has debated the strengths and weaknesses of various platform approaches, and recommends the creation of a “private label” fund exclusively formed for the benefit of ERB as the method to best execute on a co-investment strategy. In essence, ERB creates its own GP/LP fund structure much like the RAPM NM Secondary Opportunity Fund and the BlackRock/ERB Co-Investment Fund.

Mr. Canavan reviewed the RFP, interview and selection process conducted by the Investment Department between March and July 2011 as part of seeking out advisors with industry specific expertise, experience and staffing to augment the ERB’s pre-existing infrastructure program, with the Investment Committee ultimately choosing Caledon Capital Management.

Mr. Canavan discussed the management fee and other terms.

Allan Martin, Andrew Brett (by telephone) and Kevin Tatlow of NEPC, consultant for the NMERB Infrastructure Co-Investment Fund, were present for this item.

Mr. Martin stated that Mr. Jacksha had asked that NEPC, as a third party independent expert, opine on Caledon’s ability to manage a co-investment vehicle and the competitiveness of the fee. He noted that NEPC provided this service as part of its general advisory relationship with the ERB, so there was no independent fee charged.
Mr. Brett discussed the benefits of the fee structure offered by Caledon, and the due diligence he conducted, which included holding reference calls with three clients to discuss Caledon’s capabilities related to the co-investment program, a reference call with Mr. Hussain’s former employer and a review of Caledon’s direct investment experience.

Mr. Brett cited preliminary concerns:

-- The NMERB co-investment program will be the fourth such mandate for Caledon and the first US infrastructure client.

-- Asif Hussain and Noi Spyratos are the primary infrastructure professionals and are expected to provide a large portion of due diligence for the NMERB co-investment program. Caledon needs to continue to build out staff in order to support the growing business.

-- Caledon does not have an official track record, although NEPC has confirmed that they have done direct deals.

-- Client plans from reference calls are new programs and have not initiated the co-investment portion of the program, so they were not able to provide feedback on completed deals.

Mr. Canavan said he also did some background checks, but of a different type. Because the ERB often negotiates advisory committee positions on various funds in which the ERB is invested, ERB staff has exposure to some of the world’s largest infrastructure investors and some of the world’s largest sovereign wealth funds. Mr. Canavan said he has called people at the sovereign wealth funds, one of which is a former employer of Mr. Hussain, to find out their underwriting capacity and their impression of working with Mr. Hussain or with the Caledon team. He said all of the feedback was very positive.

Points raised in NEPC’s memorandum to the Committee:

-- Caledon is an infrastructure and private equity advisor that was founded in 2006 and has been advising institutional investors since 2007. The firm has $3.6 billion under advisement and 11 total professionals on staff (one more firm partner is expected to be added this summer).

-- Caledon has 3 Canadian clients with similar co-investment mandates, although the mandates have yet to commence since they are programs enacted within the past few years. NMERB would be Caledon’s first US-based client with this mandate.

NEPC’s recommendation stated, “Subject to the normal business risks associated with running a program with a small advisor without a verifiable track record specific to the proposed co-investment program, we believe Caledon is sufficiently qualified and
experienced to advise NMERB staff on the infrastructure co-investment program. Caledon’s professionals on staff have sufficient experience with direct infrastructure and private equity deals to make them qualified to evaluate potential co-investment deals on behalf of NMERB. The proposed fees for the co-investment program are also sufficiently discounted from fees that would be charged by fund managers offering co-investment participation directly to the Plan.”

David Rogers and Asif Hussain joined the proceedings and made a presentation.

-- Caledon’s professionals have substantial global investing experience: 40 years of private equity; 25 years of infrastructure; and many individuals are from pension plans and other fiduciary investor roles.

-- David Rogers was an early board member of the ILPA while at OMERS and a contributor to the establishment of ILPA policies and procedures.

-- Caledon professionals are fully versed on the Institutional Limited Partners Association (ILPA) private equity principles and best practices.

-- Caledon applies a fiduciary approach to all client mandates by acting as an extension and complement to a client’s in-house investment team.

-- Asif Hussain previously worked in the Middle East for Abu Dhabi Investment Authority (ADIA), a large pension plan investor in infrastructure. Prior to that, he was with Borealis, the OMERS investment infrastructure arm.

-- Noi Spyratos came to Caledon from a Toronto-based family firm that invested mostly in energy and energy-based infrastructure.

-- David Rogers was formerly head of private equity at OMERS, one of Canada’s largest and most active direct investors.

-- Over $2.7 billion invested within Caledon’s direct infrastructure program.

-- There are currently 12 people on the Caledon team. A new partner will be announced in July 2012 and Caledon is actively recruiting two new infrastructure investment professionals, who are expected to join the team in the fall of 2012. Further additions to the investment team will be made over time concurrent with Caledon’s business growth.

Mr. Hussain presented an overview of the investment process, which allows the ERB veto authority on each deal.
Mr. Rogers discussed the backgrounds of Dean Metcalf and Patrick Madigan, the initial members of the Advisory Committee. Over time, Caledon will seek to have 3-4 members on the Committee.

Mr. Rogers reviewed the fee structure, noting that the potential fee savings of co-investments lead to improved net returns.

Mr. Hussain said the geographic focus of the ERB’s co-investment program will be in OECD countries, although there is flexibility within the program to opportunistically look at other countries.

Mr. Hussain said the focus will be in the economic infrastructure sectors of transport, utilities, energy and communications towers.

Ms. Goodwin reminded Caledon that the ERB will not invest in social infrastructure.

[Caledon representatives left the proceedings.]

Mr. Jacksha stated that the co-investment strategy is one ERB staff likes to use in the private markets to help lower the ERB’s cost and potentially get a better return with more control. He said the Caledon team has the background in working with well-known players in the infrastructure space, so they have the experience. He said the terms are good, and there is a good alignment of interests. He said he expected that Caledon would make most of their money through carry rather than the management fee.

Dr. Woodfin moved that the Investment Committee approve a commitment of $85 million to the NMERB infrastructure co-investment fund, managed by Caledon Capital Management, subject to and contingent upon New Mexico state law, Educational Retirement Board policies and negotiation of final terms and conditions and completion of appropriate paperwork.

Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

[Break.]

PRIVATE EQUITY PROGRAM UPDATE

Mr. Neel presented an update on the private equity portfolio.

-- The contract with W Capital, a secondary direct manager, has been fully executed and a capital call is anticipated shortly.

-- Contract negotiations with TPG Growth Fund are almost complete.
Q1 valuations are coming in. A nice uptick in the program is anticipated.

Two on-site due diligence visits will be conducted in New York and Boston in July, addressing a $40 million commitment in the ERB’s satellite buyout growth space.

**ARES CORPORATE OPPORTUNITY FUND IV – PRIVATE EQUITY APPROVAL**

Mr. Neel presented staff’s recommendation of a $40 million investment to Ares Corporate Opportunities Fund IV (ACOF IV).

-- Ares Management was founded in 1997 by Antony Ressler and John Kissick, both of whom were partners from Apollo Management. Bennett Rosenthal, who came from the leveraged finance group at Merrill Lynch, joined them later.

-- Ares today manages $52 billion in assets in three distinct silos: private equity; capital markets; and private debt.

-- ERB has had a relationship with Ares since 2007, when it committed $30 million to Ares Special Situations Fund I (SSF I). ERB recommitted to the same strategy in 2010 in SSF III.

-- As of March 2012, SSF I has returned a net IRR of 12.3% with a 1.5x investment multiple, clearly in the top quartile for vintage 2007 private equity investment. SSF I to date has returned $12 million of the original $30 million invested.

-- SSF III is early in the life of the fund, holding its final fund raise mid 2011. Since inception, that fund has returned a net IRR of 3% with a 1.03x investment multiple.

-- ACOF is North American-centric with the ability to deploy 20% of their capital outside of North America.

-- ACOF strategy is an all-weather strategy, where they can employ a classical buyout structure in robust markets, or can focus on distressed strategies in depressed markets.

-- ACOF’s management fees are among the best in the industry and are very LP friendly.

Dr. Woodfin noted that the ERB’s $40 million would be 1% of ACOF IV, which is relatively small, as typically the ERB is invested in somewhat smaller funds and has a 5-10% stake.
Mr. Neel said that is correct – the ERB will not be able to have a board seat with the fund, although there is the possibility of getting observer’s rights. He said the fund is already oversubscribed, with more demand for capacity than available space.

Mr. Jacksha commented that the only disadvantage of having a smaller percentage is there is less leverage in the negotiation process.

Mr. Neel reviewed the investment selection process and due diligence conducted in support of the Ares investment. [Page 17 of staff’s memorandum.]

NEPC advisor Kevin Tatlow presented his report, with the following highlights:

-- ACOF has a flexible mandate. It will do distressed opportunities when available and rescue financing when that is available, and traditional buyout. A lot of their buyouts have real growth character to them.

-- ACOF is a lower risk manager, particularly when doing buyouts. They impose a conservative capital structure on the companies they are investing in, something these companies did not have before and consequently suffered as a result of the economy. If the history of the strategy is averaged out through 3 funds, it is about 3 times debt to EBITDA. More recently, it has been below the 3x.

-- They take a traditional private equity approach with their portfolio companies. They focus at the governance level, instituting a long-term solid strategic planning process and working with the company to execute that process. They are active at the board level over the life of the investment.

Mr. Tatlow reviewed the advantages of this investment:

-- The fund has a group of professionals who have been managing this strategy together for 12 years. The organization has a large number of sector analysts on the debt side.

-- The fund’s flexible mandate provides a great strength in the strategy, but they are very structured and process-driven in terms of how they source deals.

-- The firm has a significant GP commitment of $200 million to ACOF IV, which creates a strong alignment of interest.

-- There is a non-auction emphasis. They tend to avoid auctions unless there is a real advantage to a certain transaction.

-- Terms are very attractive and investor friendly.
-- The fund raise was extremely brisk – 90% of the investors in the prior fund have returned to invest in ACOF IV.

Mr. Tatlow reviewed potential issues:

-- Performance in the prior fund is very strong, benefiting from a unique investment environment (credit crisis). Fund IV may not be investing in an environment as highly favorable for the strategy.

-- In terms of regulatory risk, Ares is different from a lot of other private equity firms in terms of having a publicly traded strategy within the house. They have higher compliance standards because of that fund. NEPC feels Ares does an outstanding job, however, in managing this and this is evident in all of NEPC’s interactions with them.

Mark Heine, KL Gates, discussed compliance.

-- Ares has been SEC registered for some time; while everyone is now required to be SEC registered, not all of the newer funds may have the compliance and conflict of interest protocols fully in place to give effect.

-- Robust LP rights.

-- With respect to the lawsuit filed by the ex-CIO of the ERB, the complaint does not include any allegations relating to Ares, and counsel at Ares is confident that the suit will be dismissed and that there is no basis for the complaint.

-- In connection with the NY Attorney General’s investigation a couple of years back, Ares was asked to provide various documents and information, and fully complied, and no other issues arose out of that.

-- Ares has provided campaign contribution and placement agent information to the ERB. There are no relevant campaign contributions to disclose, and there is not a placement agent involved.

Ares Management Senior Partner David Kaplan and Client Relations manager Merritt Hooper appeared before the Committee. Mr. Kaplan made a slide presentation with the following highlights:

-- ACOF IV is the fourth private equity fund of Ares Management and has closed on aggregate commitments of about $4.2 billion through June 8, 2012, with a hard cap of $4.7 billion. The Fund is expected to close within two weeks.

-- Ares Management is an SEC-registered investment advisor with about $52 billion under management headquartered in Los Angeles with 13 offices around the globe.
-- The Ares Management platform is a highly functional network of 500 employees, including 240+ investment professionals covering investments in 1,100+ companies across 30+ industries.

-- Ares’ private equity strategy takes a flexible approach in that, in more down-oriented market environments, they will do distressed and rescue investing. In more up-oriented markets, they buy companies through equity.

-- Performance is top quartile and top decile. Prequin recognizes Ares as the most consistent performing buyout fund manager in the US.

-- The Ares platform is highly integrated, and they share a significant amount of information across their three asset classes -- Ares Private Equity Group, Ares Capital Markets Group, and Ares Private Debt Group (a “non-bank bank” that is the largest private debt originator in the US today).

-- The Private Equity Group manages approximately $9 billion in committed capital focusing on opportunistic majority or shared-control investments, principally in undercapitalized middle market companies.

-- The six senior partners comprise the Fund’s investment committee, plus a senior advisor in the Capital Markets Group. There are four operating advisors who provide help through expertise and experience in their respective industries.

-- Ares feels that ACOF II will achieve 22-23% IRR over time, which is very strong performance for a 2006 vintage fund. ACOF III currently has a 40% IRR. To date, Ares has returned $3.2 billion to investors.

Dr. McGuckin asked why Ares feels it will continue to generate such high returns, given current economic conditions.

Mr. Kaplan responded that private equity has been going through a lot of changes. While in the past people could make money in private equity by buying businesses, putting lots of leverage on them, and then selling them, today “you have to stand for something different.” He said there are firms with industry specialization that are able to identify something misunderstood by the market, or they are able to grow the business more rapidly simply because they have made changes. He said Ares does not take this approach, however – they have a huge footprint in the market, understand capital markets, and so can actually identify and spot inefficiencies in the capital markets better than most; and they marry that up with a proven track record of identifying franchise businesses that have organic growth opportunities. He commented, “Private equity, if done right, in my opinion -- if you’ve got a distinctive strategy that’s not just buying a business and putting leverage on it -- you can absolutely find things out there that will continue to deliver 20% and 40% returns.”
Mr. Kaplan stated that over-leverage is everywhere right now, which enhances volatility – and because Ares touches the capital markets as a private equity shop, that volatility is very good for Ares. If a 2008 or 2009 situation comes up again, they will be able to take advantage of that.

[Ares representatives left the meeting.]

Mr. Jacksha commented that the ERB has known Ares since 2007, and they have done well for the ERB. He said the terms are favorable, and he was in favor of this commitment.

Dr. Woodfin moved that the Investment Committee approve a commitment of $40 million, plus any notional interest, to Ares Corporate Opportunities Fund IV, L.P. The commitment shall not exceed 20 percent of the committed capital of the fund and is subject to New Mexico state law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents and negotiation of final terms and conditions and completion of appropriate paperwork.

Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

**ASSET ALLOCATION POLICY – BENCHMARK REVISION**

Mr. Jacksha stated that, as discussed at the last meeting, NEPC had indicated they wanted to change the benchmark for opportunistic credit, as they didn’t think the high yield corporate bond benchmark captured all of the different strategies.

Mr. Jacksha said the ERB opportunistic credit bucket includes some corporate bonds and some loan strategies, so a better mix would be 50% Merrill Lynch U.S. High Yield BB-B (2% constrained)/50% Credit Suisse First Boston Levered Loan Index.

Mr. Jacksha commented that Benchmark, one of the fund-of-funds, looked at the Waterfall Eden Fund (high yield ABS) to try to determine what was a good benchmark, and found that this levered loan index was the best match they could find for that particular fund – so he feels this better matches up with the ERB loan strategies and at least some of the other strategies, as well.

Mr. Martin stated that, when the ERB started investing in credit opportunities, the hope was to get high yield-like returns with less volatility, so the ERB used the high yield index. Over long periods of time, the ERB has generally done better with that index, but with lower volatility. In the short run, however, because the index includes CCC-rated securities, the ERB has trailed that index in up markets and led that index in down markets. He said the new benchmark more accurately reflects what the ERB is actually invested in, noting that the last quarterly report included the new benchmark to show the effect, which smoothes out the index and makes it look less volatile.
Dr. Woodfin moved that the Investment Committee recommend to the Board that it approve the benchmark revision to the Asset Allocation Policy, specifically in opportunistic credit.

Ms. Goodwin seconded the motion, which passed unanimously by voice vote.

**Q4 2011 REAL ASSETS PERFORMANCE REPORT**

Mr. Gruber summarized the highlights of the portfolio as of December 31, 2011.

-- The ERB has a 5% allocation to real estate, or $450 million. At this time, the NAV of the real estate portfolio was $520 million because of overexposure within the public real estate passively managed account, which was subsequently rebalanced.

-- Since inception, $295 million in commitments have been made to real estate managers. This would not include allocations to additional real estate funds of $45 million and $30 million, which were approved but had not yet closed.

-- It is early in the life of this program, and at year end there was $122 million of uncalled committed capital, and a private real estate NAV of $145 million.

-- There is a 3% target to Natural Resources, or $269 million. Year-end NAV was $23 million spread between two managers. Since inception, there has been $40 million committed to the two managers. The committed number excludes $50 million to an agriculture fund, as it was not finalized until Q2.

-- ERB has investments in 11 managers of 13 funds.

**APRIL FLASH REPORT**

Mr. Jacksha reviewed the April Flash Report, reflecting an NAV at $9,567,971,374 and one-month returns of .22%, exceeding the benchmark of –0.03%. He noted that there were negative returns in all of the equity markets in April, with the exception of REITs, and there were positive returns in the debt markets.

Dr. Woodfin asked for discussion on the performance of Alliance Bernstein in international value.

Mr. Martin responded that Alliance has been the ERB’s most underperforming manager for a while, now. He said they are very measured in their strategy, so there are periods where their strategy is out of favor, and so it is not unusual for them to trail for a
period of time. However, their underperformance has been persistent and it may be time to evaluate and potentially terminate them.

Mr. Jacksha said he would ask Alliance to appear at the July Committee meeting.

OTHER INVESTMENT REPORTS AND DISCUSSIONS

Mr. Jacksha said preliminary returns for May are estimated to be near –3.5%.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 4:35 p.m.

Accepted by:

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H. Russell Goff, Chair