MINUTES OF THE

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

PRIVATE EQUITY INVESTMENT COMMITTEE

January 10, 2007

A Regular Meeting of the New Mexico Educational Retirement Board Private Equity Investment Committee convened on this date at approximately 1:00 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. Gary Bland [arriving 1:30 p.m.]
Mr. James Lewis [arriving 1:30 p.m.]
Mr. Jeffrey M. Riggs, Acting Executive Director

Members Excused:
None.

Other ERB Members Present:
None.

Legal Counsel Present:
Mr. Robert Shulman

Staff Present:
Mr. Frank C. Foy, Deputy Chief Investment Officer
Mr. Steve Neel, Portfolio Manager
Ms. LeAnne Larrañaga-Ruffy, Investment Officer

Others Present:
Mr. Bob Jacksha
Mr. Saul Meyer, Aldus Equity
Mr. Richard Ellman, Aldus Equity

PRIVATE EQUITY STRATEGIC PLAN OVERVIEW: SAUL MEYER, ALDUS EQUITY

Aldus Equity partners Saul Meyer and Richard Ellman made this presentation.

Mr. Meyer reviewed Aldus Equity's Allocation Plan for the ERB for 2007 based on a targeted annual commitment level of $200 million, and with a sector allocation as follows:

LBO	$110 million	55% of portfolio
Venture Capital	$ 20 million	10% of portfolio
Mezzanine Finance	$ 40 million	20% of portfolio
Special Situations	$ 30 million	15% of portfolio

Mr. Meyer said Aldus felt this number to be very conservative and so would leave the ERB in no danger of becoming over-allocated in any way.

Mr. Meyer also clarified that, by the end of 2007, the ERB could expect to see about $25 million of the $200 million committed. He said this investment pace would have to continue for about four or five years in order to get $400 million invested, because whenever the ERB commits money to a fund, it takes the fund three or four years to deploy the monies. In the interim, he said, the ERB would begin to see returns from its earlier investments.

Mr. Malott asked if it was theoretically possible to be overcommitted, then, and Mr. Meyer responded that it was possible. Mr. Malott said he wanted to be sure the Board understood that, under those circumstances, it might have to change the allocation percentage. Mr. Meyer responded that this was correct and was always the issue in the private equity arena: "You're always chasing something. You can never be perfectly on target. You're either behind or you're ahead."

In reviewing the proposed total portfolio for 2007, Mr. Meyer said it was important not to look at any one fund in a vacuum, but to look at total return in a diversified portfolio.

[Mr. Bland and Mr. Lewis joined the proceedings in the course of this review.]

Mr. Meyer and Mr. Ellman presented an overview of the private equity market as well as recent trends, opportunities, and challenges in that market.

INVESTMENTS

Levine Leichtman Capital Partners — *Deep Value Fund*

Mr. Ellman stated that Levine Leichtman Capital Partners, which was formed in 1984, was raising a $500 million distressed debt fund focusing on middle market companies in the service, manufacturing and consumer products sectors. He noted that the members of the team investing in this Fund have over 125 years of direct experience in the distressed market, with a history of 300+ distressed transactions and 80+ restructurings and work-outs. He said five of the seventeen investment professionals in LLCP have been working together and investing together since the mid 1990s.

Mr. Ellman noted that LLCP has a very risk-mitigated strategy that provides for current income while capturing equity upside, and the team has deep domain expertise in the sectors it will be focusing on. He said their average investment is $20-$30 million in these middle market companies, which LLCP defines as companies with $50 million to $500 million in revenue.

Mr. Ellman said LLCP's key strategy is to buy the fulcrum security, which enables them to execute a debt-oriented conservative approach that provides them an opportunity get solid and consistent returns. He said the restructuring process then enables them to gain control of these investments and in many cases capture the equity upside, which is good for the ERB's portfolio because they are earning a stream of interest income and generating strong risk-adjusted returns.

Mr. Ellman said Aldus feels the middle market is both lucrative and underserved by institutional investors, particularly in the distressed arena; at the end of 2005 (and this trend continues), there was $2 billion of capital dedicated and earmarked for investment in an $80 billion distressed middle market arena, so clearly this is ripe for strong returns executed by a superior team such as Levine Leichtman.

Mr. Ellman said a key component of LLCP's strategy is to invest in strong companies that are over-leveraged and then re-lever the balance sheet and basically fix the company's economic structure in order to create strong returns.

Mr. Ellman also stated that Aldus was impressed by the extreme thoroughness of LLCP's due diligence process prior to making any investment.

Mr. Ellman said Aldus isolated the deep value investments made by LLCP and observed a 37.5% gross IRR as of August 31, 2006. He also noted that the unrealized investments made by LLCP were performing extremely well. He stated that the overall portfolio, including structured equity deals, reflected top quartile returns, and their track record since inception showed strong returns across multiple cycles.

Managing director and co-founder Arthur Levine, general partner Steven Hartman and senior managing director/portfolio manager John Klinge appeared before the Committee and presented slides.

Responding to questioning from Mr. Lewis, Mr. Levine said there were very few competitors in this space because most of the people who do controlled debt strategies focus on large deals, feeling that it requires the same amount of work to make what they perceive as less money. He also pointed out that there is a lot of hedge fund activity where hedge funds are searching for yield, and because hedge funds do not have investors locked up for long periods, they prefer large cap companies where there is a lot of depth and liquidity. He said there is virtually no liquidity in the area where Levine Leichtman is focused, however, because the buyer has to be prepared to hold the investment through a restructuring and into maturity, and so there are very few players structurally in this market.

Mr. Lewis asked Mr. Levine if he thought the market niche where Levine Leichtman was focused ($50-$500 million) might change, and Mr. Levine responded that they have been in this for 22 years and it has served them very well so far, so they have no plans to change it.

Mr. Levine stated that LLCP has raised $480 million in the past year and plans to close at $500 million.

Mr. Bland asked Mr. Meyer if Aldus would be comfortable in increasing their recommendation from $15 million to $20 million, as this would allow LLCP to close out their fund at the targeted $500 million, and Mr. Meyer responded that Aldus was fine with that.

Mr. Bland moved that the PEIC recommend to the Educational Retirement Board a commitment of $20 million to Levine Leichtman Capital Partners Deep Value Fund 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.

[Break.]

Perseus Partners VII, L.P.

Mr. Meyer stated that Aldus was recommending a $15 million commitment in Perseus Partners VII, a $1 billion middle market buyout fund focused on three areas: business services, focusing on undervalued or troubled businesses; biotechnology and medical devices, and energy and engineering technology.

Mr. Meyer said Frank Pearl, one of the earliest leaders in the LBO industry, founded Perseus Partners; prior to that, he was a principal at Wesray Capital and in 1992 structured the Gibson Greeting Cards deal, which was one of the best-known original buyout deals and which created a gross IRR of 1,357%. He added that Mr. Pearl's track record at Wesray reflects that four of his eleven deals as principal generated returns of 300+%.

Mr. Meyer stated that four of Perseus's six funds have been top quartile funds, and one of the remaining two is above median and the other is below the median.

Mr. Meyer said Aldus believed an investment in Perseus made sense because this was truly one of the only funds Aldus has seen that has truly proprietary deal-flow.

Mr. Meyer said the Perseus team encompassed 22 professionals in three countries.

Addressing strategy, Mr. Meyer said Perseus's three vice chairmen, James Johnson, Richard Holbrooke and John Schwieters, are extremely well-networked and are all very involved with the firm and are largely responsible for Perseus's proprietary deal-flow.

Mr. Meyer noted that Perseus has had very good performance across multiple market cycles, and overall Aldus feels there is a large amount of vetted value within that portfolio and that the funds will produce a 1.5x return.

Frank Pearl and Chip Newton, principals with Perseus, presented slides.

Mr. Pearl noted that Perseus almost never participates in an auction, and 52 of the 53 investments they have made have been sourced proprietarily. He said this is because they work in sectors where there is almost no other capital competing with them.

Mr. Pearl stated that Perseus stopped investing in venture capital about three years ago, preferring to invest where they have control. He said they now invest in buyouts and growth equity, where profound expertise is required. He stated that Perseus is very hands-on with investments and is not afraid to dig into difficult situations; on the day they bought Converse, they changed 11 of the 13 members of the management team. He added that very few firms are willing to take this step.

Mr. Pearl stated that they have closed on $450 million and will close on another $250 million in the next 30-45 days, and probably have 40 investors who are seriously doing due diligence. He said some of them have been doing this for six to nine months because they are overloaded with re-ups that they are trying to finish. He added that they have made a concerted effort to expand their investment base to include endowments and foundations that they haven't had as investors in the past, and this has also taken additional time.

Mr. Pearl also noted that every single institutional investor in their private fund, save one, has reinvested in Fund VII and in nearly every instance they have increased the amount of their investment.

Mr. Malott asked Mr. Pearl what the time frame was for deployment of capital and Mr. Pearl responded that their average is three and one-half to four years, but it could be longer because of various consolidations. He noted that they have closed three deals at this point.

Responding to questioning from Mr. Neel, Mr. Pearl stated that Perseus 2000 was not a bad fund and would most certainly be above the median at 1.5x, which they thought a conservative outlook for a fund of that generation.

Mr. Bland moved that the PEIC recommend to the Educational Retirement Board a commitment of $15 million to Perseus Partners VII, 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. Malott seconded the motion, which passed by voice vote.

MISCELLANOUS BUSINESS

Private Equity Meeting Dates

Following discussion, the Committee agreed to meet on the second Wednesday of each month from 2:00 p.m. to 4:00 p.m.

PRIVATE EQUITY INVESTMENT PROCEDURES: ERB STAFF

[Deferred to next meeting.]

ADJOURN

Its business completed, the Private Equity Investment Committee adjourned at approximately 3:20 p.m.

Accepted by:

Bruce Malott, Chair