
Private Equity Procedures

The NM ERB is a market rate program that is open to all private equity funds that meet certain statutory and policy requirements and guidelines. Specifically, each private equity fund wishing to qualify must be a limited partnership, limited liability company or corporation that:

- (1) Is an appropriate investment opportunity with the potential for returns superior to traditional investment opportunities, and not otherwise prohibited by the Board. Investments shall generally fall within the categories defined below:
 - a. Buyout and Corporate Restructuring Capital: Investments in leveraged buyouts, management buyouts, equity buyouts, employee buyouts, buy-and-build, other acquisition strategies and restructurings, and related uses of capital
 - b. Venture Capital: Investments in relatively small, rapidly growing, private companies in various stages of development
 - c. Mezzanine Financing: Unsecured debt or preference shares offering a high return with greater risk than the senior layer of debt but a lower level of risk than the equity piece. It may incorporate equity-based options, such as warrants
 - d. Special Situations :may include:
 - i. *Distressed Securities*: Debt or equity securities investments in troubled companies, under the assumption that the securities will appreciate in value following a restructuring of the company's obligations. This includes, but is not limited to, investments in companies that are insolvent or unable to pay their debts as they come due. This may include companies subject to the Bankruptcy Reform Act, specifically Chapter 7 (Liquidation) and Chapter 11 (Reorganization), and companies under-going restructurings outside of Bankruptcy Court
 - ii. *Secondary Funds*: Funds that acquire partnership interests in existing venture and buyout funds.
 - iii. *Other investments as deemed appropriate.*
- (2) Holds out the prospects for capital appreciation from such investments comparable to similar investments made by other professionally managed private equity funds;
- (3) Has a minimum committed capital of fifty million dollars (\$50,000,000) exclusive of the investment with ERB ;

- (4) Accepts investments only from accredited investors, as that term is defined in Section 2 of the Federal Securities Act of 1933, as amended, (15 U.S.C. Section 77(b)) and rules and regulations promulgated pursuant to that section; and
- (5) Has full-time management with at least five years of direct private equity experience.

Expected Returns. On a relative basis, the return objective for Private Equity Investments is 400 bps over the S&P 500 index net of fees, expenses and carried interest. The Board understands that, for a given partnership, return can only be reliably measured over the life of the partnership (typically 10+ years). Private equity funds are not typically marked to market and the valuation methodology used by one general partner may differ from the valuation methodology used by another. In addition, the IRR performance in the first few years of a partnership's life is routinely negative due to the J-curve effect. During this period, partnerships are actively making investments and drawing management fees, which results in negative capital account balance.

Risk. The Board understands that Alternative Investments are illiquid and will have a long term holding period. When used with publicly traded assets, the asset class helps diversification and reduces risk at the total fund level. Nonetheless, the Board expects that the Consultant will take all appropriate measures to reduce risks that are not adequately compensated for by expected return. Such measures include, but are not necessarily limited to, diversification, due diligence, and governance activities.

Illiquidity. By its nature, Alternative Investments are not designed to meet any short-term liquidity needs of the System. The Board should assume that the investments in this asset class are illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

Advisory Board. The Board may consider obtaining a limited partner advisory board seat for partnership investment that will be considered on a case-by-case basis.

Limitation on Percent of Partnership's Total Commitments. If an investment is made under this section, not more than fifteen percent (15%) of the amount authorized for investment in any one year may be invested in any one private equity fund, and such investment shall not exceed twenty percent (20%) of the committed capital of that fund.

Private Equity Investment Committee Meeting Times. The Investment Committee shall meet with Aldus and the proposed private equity fund(s) at 2:00 pm on the second Wednesday of each month, unless otherwise decided, in order to approve annual allocations to private equity and to approve individual managers and funds. For the purposes of defining the total amount of private equity in the NM ERB fund, calculations of current holdings shall be made on a cost basis.

PEIC notification of full board. Investments shall be made pursuant to this section only upon the approval of the Private Equity Investment Committee (PEIC). The PEIC's actions will be included on the full board's agenda as information items only.

Contract Execution. After legal review of all appropriate documents the following will have contract execution authority for said documents: Chief Investment Officer, Executive Director and Deputy Executive Director.