NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT POLICY STATEMENT

December 4, 2020

TABLE OF CONTENTS

PURPOSE OF THE STATEMENT

The New Mexico Educational Retirement Board (NMERB) is responsible for the administration of a defined benefit plan for New Mexico Educational employees. NMERB is governed by the New Mexico Constitution, Article XX, Section 22, the Educational Retirement Act, Chapter 22, Article 11 NMSA 1978, and the NMERB Rules, 2.82.1 through 2.82.12. NMAC. Section 22-11-13 authorizes the NMERB to invest or reinvest the Fund in accordance with the Uniform Prudent Investor Act, Sections 45-7-601 through 45-7-612 NMSA 1978. The NMERB will discharge its duties with respect to investing the Educational Retirement Fund ("Fund"):

1. Solely in the interest of, and for the exclusive purposes of, providing benefits to members and their beneficiaries and defraying reasonable expenses of administering the system.
2. By investing and managing the Fund as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the Fund. In complying with this duty, the NMERB will exercise reasonable care, skill and prudence. Individual investments will be evaluated in the context of the NMERB portfolio as a whole and not in isolation, as well as a part of the continuing overall investment strategy.
3. By using an asset allocation strategy that reflects the mission of the NMERB and is consistent with its fiduciary duty.

This Investment Policy Statement (IPS) establishes a policy for investment and management of the Fund and sets forth guidelines and procedures for investment practices. It is the aim of NMERB to assure members that contributions to the Fund will be prudently invested and managed prudently in light of the investment philosophy contained in this IPS and techniques tempered by experience and knowledge.

The IPS outlines objectives, restrictions and responsibilities so that:

1. The NMERB, the Investment Committee, staff, investment managers, investment consultants, custodians and other service providers understand the objectives and policies for the management of Fund assets.
2. Investment managers understand their charge and limitations concerning the Fund assets entrusted to them.
3. Investment consultants understand the overall environment for the management of Fund assets.
4. Custodians and other service providers understand their role in the oversight and management of Fund assets.

INVESTMENT PHILOSOPHY

NMERB's investment philosophy and techniques will be based upon a set of widely accepted investment principles. The investment philosophy is summarized by the following:

1. Strategic asset allocation has the most significant impact on investment results. NMERB will develop and maintain strategic asset allocation targets and ranges that optimally attain the investment objectives described below. The *current* strategic asset allocation is set forth in Appendix A.
2. Some investment markets are more efficient than others. NMERB's investments will reflect this mix of market conditions. When appropriate, NMERB will seek to profit from capital market inefficiencies and market dislocations that may occur periodically.

3. Trading costs have a significant impact on returns. NMERB's investment positions will take trading costs into consideration.
4. Monitoring of investments and asset managers is a good administrative practice. Procedures for this are outlined in Appendix B.
5. Performance measurement and attribution are essential in assessing the effectiveness of investment strategies. Procedures for this are outlined in Appendix B.
6. Rebalancing of the Fund's assets in light of experience and expectations is necessary for attainment of investment objectives. Procedures for this are outlined in Appendix C.
7. NMERB recognizes that management fees are an important consideration, but NMERB also recognizes that fees are secondary in importance to return and risk goals. Fees are a component of the net return of an investment and a potentially small savings in fees can easily be outweighed by the performance of different managers or different asset classes. While some fee savings may be achieved, this policy recognizes that reducing fees is not always possible, depending upon the supply/demand dynamics for a specific asset class and specific managers. Staff may recommend an investment that carries higher than standard fees, but must present sound rationale in support of the recommendation. NMERB will present the Board with an annual fiscal year report detailing management fees, expenses and incentive fees paid to managers summarized by asset class. NMERB will also comply with its Transparency Policy.
8. Leverage can be used to meet portfolio asset allocation targets and tactically change the asset allocation within the ranges set under Appendix A, Asset Allocation. It can also be used to reduce portfolio concentration, to improve portfolio diversification and to improve the expected risk-return profile of the investment portfolio.

GOALS

Return: To earn an inflation-adjusted return sufficient to attain a target funding level over a time period established by the NMERB.

Risk: To undertake an appropriate level of risk in light of experience and expectations such that it is neither too low to earn a reasonable return nor so high as to incur undue investment risk given the purpose of the Fund. The assets of the Fund will be diversified such that the risk of substantial losses within any single asset class or subclass, investment type, industry or sector distribution, maturity date, rating distribution, or geographical distribution is reduced.

CONSTRAINTS

Liquidity: The NMERB is a mature pension system. The cash outflow for pension benefits is expected to be higher than contribution inflows. The Fund must maintain an easily accessible balance of cash equivalents and other reasonably liquid assets to meet benefit obligations and operating expenses as detailed in the Asset Allocation listed in Appendix A.

Investment Horizon: NMERB and the Fund are permanent entities. Therefore, the investment horizon is long-term.

Tax Considerations: NMERB is a tax-exempt entity. Investment of Fund assets will be made with a focus on total return without the distinction normally made between returns from income and returns from

capital gain. The investment managers may not be tax-exempt. The pass-through of tax liability of hedge funds, foreign tax, etc. will be addressed in contracts with individual investment managers, as necessary.

Restrictions on Investments, Prohibited Securities and Transactions: Allocation limits are listed below. These limits do not apply to the following alternative asset classes for which separate investment policies have been established: real estate, private equity, timber and agriculture, infrastructure, and hedge funds. The policies for these alternative asset classes are hereby incorporated by reference. In the case of a conflict in the provisions of this Investment Policy and the provisions of the policy specific to an alternative asset class, the alternative policy provisions will have precedence.

1. The maximum allocation to a single active manager may not exceed 15% of the aggregate market value of the Fund.
2. Portfolio leverage shall be limited to the use of derivatives and shall not exceed 20% of the total value of the portfolio excluding leverage.

ROLES AND RESPONSIBILITIES

This section gives details of the roles and responsibilities of the NMERB, Investment Committee, Investment Division, Investment Managers and Investment Consultants.

NMERB

The NMERB is vested with the authority to adopt the Investment Policy Statement and other policies as necessary and to direct their implementation, and may delegate any part of that authority at its discretion. The NMERB may select one or more general investment consultants. The NMERB will conduct the following reviews:

Actuarial study and valuation:	Annually
Actuarial experience study:	Every second year
Asset/Liability study:	Every third year

Investment Committee

An Investment Committee (IC) will be appointed in accordance with NMERB Rules. The duties of the IC include without limitation:

1. The IC will review the Investment Policy Statement periodically, to recommend changes, if necessary, to the NMERB. The review must occur at least every three years, or more frequently at the discretion of the IC or NMERB. Should changes to the Investment Policy be recommended by the IC as a result of such a review, approval from NMERB would be required.
2. The IC will develop one or more asset allocation strategies and review the current plan periodically to recommend changes, if necessary, to the NMERB. The review must occur at least every three years, and may occur more frequently, at the discretion of the IC.
3. The IC will monitor external investment managers on a continuing basis. The information included in the monitoring will include investment performance versus relevant market benchmarks, organizational changes, and adherence to assigned investment mandates and styles. Staff and the appropriate consultant[s] will assist the IC in this function by providing ongoing reporting.
4. The IC will monitor the Investment Division and internal investment managers on a continuing basis. Due diligence procedures similar to those used in monitoring external managers shall be

followed, making the necessary adjustments in criteria for resources allocated to internal operations.

5. The IC will review in a timely manner the Investment Division and consultant's reports on external and internal investment managers' performance and attribution of the performance.
6. The IC will establish trading policies for internal investment managers.
7. The IC will establish Proxy Voting Policy and Guidelines for external and internal investment managers and custodians. The current Proxy Voting Policy and Guidelines are given in Appendix E.
8. The IC will review all aspects of the investment program periodically. The review must occur at least at the following frequency and more often, if necessary.

Asset allocation:	Every third year (subject to NMERB review and approval)
Investment performance:	Quarterly
Derivatives usage:	Quarterly
Investment policy statement:	Every three years (subject to NMERB review and approval)

Investment Division

The Investment Division will supervise the management of Fund assets. To the extent that the Investment Division houses internal investment managers and analysts, it will manage the allocated moneys.

All investment staff members are expected to comply with the *Code of Ethics & Standards of Professional Conduct* published by the CFA Institute (current edition available at http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx). The *Code and Standards* are incorporated by reference.

The duties of the Investment Division and its staff include, without limitation:

1. The Staff, through a Staff Selection Committee, will select external investment managers and investment consultants, except the general investment consultant, which will be selected by the NMERB. Potential managers and consultants will be evaluated based on criteria specific to the designated asset class and investment style.
2. Staff will periodically evaluate and recommend changes, as needed, to the governing policies of the investment process. These items include, without limitation:

    a. Investment policy,
    b. Asset allocation strategies,
    c. Selection of external managers,
    d. Monitoring of external and internal managers
    e. Selection of investment consultants,
    f. Proxy voting policy and guidelines,
    g. Securities lending,
    h. Performance measurement and attribution.

3. Staff will implement and monitor strategic and tactical asset allocation strategies.
4. Staff will screen and recommend investment managers.
5. Staff will screen and recommend one or more specialist investment consultants.
6. Staff will screen and recommend one or more general consultants.
7. Staff will monitor investment managers and consultants.

8. Staff will prepare accurate, complete, and comparable investment performance reports and schedules of investment positions in a timely manner. A non-exhaustive list of reports includes:

    a. Monthly investment summary
    b. Quarterly proxy report
    c. Quarterly broker commission
    d. Reconciliation of records with those of custodian firms

9. Staff will monitor the custodial bank for accuracy and completeness of all activity of the Fund, including cash flows, trading transactions, dividends and interest.
10. Staff will monitor the manager of the securities lending program.
11. Staff will instruct and monitor proxy voting of investment managers and custodian firms.

Investment Managers
External investment managers will be considered fiduciaries while entrusted with the management of Fund assets. External investment managers will adhere to the Investment Policy, the terms and conditions of their contracts, and the ERB's Proxy Voting Policy and Guidelines.

Investment Consultants
Investment consultants, whether general or specialists, will act in a fiduciary capacity while providing consulting services to the NMERB. Consultants will adhere to the Investment Policy and the terms and conditions of their contracts. The investment consultants' duties include, without limitation:

1. Prepare and present periodic reports of investment performance;
2. Quarterly derivatives usage report;
3. Manager searches;
4. Manager evaluation;
5. Studies of asset allocation, asset and liability, actuarial assumptions, etc.;
6. Guidance on policy and procedural matters.

Custodial Banks
The custodial banks will be required to perform the usual and customary duties normally expected of such banks. Custodial banks will be required to provide on-line records and reports, accounting reports, reconciliation services, and other service included in contract.

RISK CONTROLS

The Fund will be broadly diversified across and within asset classes to limit the volatility of the total Fund investment returns and to limit the impact of large losses on individual investments on the total Fund.

Further, NMERB seeks to limit exposure to any single manager or product. The NMERB may override these policies under special circumstances. These limits do not apply to the following alternative asset classes, for which separate investment policies have been established: real estate, private equity, timber and agriculture, infrastructure, and hedge funds. The allocation limitations are as follows:

1. Under this Policy a single manager may manage up to 15% of the aggregate market value of the Fund.
2. There is no maximum allocation limitation for passive managers or passive investment products, as the absence of active management and business risk issues with passive investment

management firms make any limitation unnecessary. Passive portfolios can be readily transferred to and managed by another firm in the unlikely occurrence of an event that could put the Fund's assets at risk.

3. Further contractual limitations will be imposed on managers as appropriate, with individual mandates as determined by Investment Division staff.
4. Manager compliance with restrictions will be monitored by Investment Division staff through reporting provided by the Custodian and other service providers.

Custodial Banks:

The NMERB minimizes deposit custodial credit risk, which is the risk of loss or failure of the depository bank, by obtaining the necessary documentation to show compliance with state law and a perfected security interest under federal law. The custodial bank(s) will have sufficient financial strength to protect the interests of the NMERB and will be required to perform the usual and customary duties normally expected of such banks. The custodial bank(s) will be required to provide on-line records and reports, accounting reports, reconciliation services, and other services included in the custodial bank contract. All assets shall be registered and held in the name of the custodial bank(s) provided that the bank's records clearly indicate that the assets held are a part of the NMERB's account. The custodial bank(s) shall maintain documentation to substantiate the NMERB ownership and chain of control for assets.

APPENDIX A. ASSET ALLOCATION

The NMERB has adopted a strategic Asset Allocation Plan, containing weights, ranges and benchmarks for each asset class. Over time, the Plan is expected to achieve the NMERB's assumed overall rate of return on Fund investments of seven percent (7.00%). Minimum and maximum allocations provide a range within which assets may fluctuate. Achieving the target weights is a long-term goal. Investments in non-public markets, such as private equity and real estate, take some time to implement. The NMERB recognizes that, in the short term, a particular asset position may represent an intermediate point in the process of attaining its target weight.

Asset Allocation Policy

Asset Class	Target Weight	Range	Benchmark
PUBLIC MARKETS			
EQUITIES			
Domestic Equities:	17%	8-30%	
Large Cap	14%	7-25%	S&P 500
Small/mid Cap	3%	0-5%	Russell 2500
International Equities:	14%	5-25%	
Developed	5%	0-10%	MSCI EAFE
Emerging Markets	9%	2-15%	MSCI Emerging Markets
Total Equities	**31%**	**15-55%**	
FIXED INCOME			
Opportunistic Credit	16%	0-30%	50% Merrill Lynch U.S. High Yield BB-B (2% constrained)/50% CSFB Levered Loan Index
Core Bonds	6%	0-20%	Barclays Capital Aggregate Bond Index
Emerging Market Debt	2%	0-8%	JP Morgan GBI-EM Global Diversified (Unhedged)

Total Fixed Income	**24%**	**10-58%**	
ALTERNATIVES			
Real Estate/REITS	8%	0-15%	NCREIF Property Index/ Wilshire REIT Index
Real Assets	9%	0-16%	CPI + 4%
Private Equity	15%	0-24%	ILPA Private Markets Benchmark – All Funds Index
Diversifying Assets:			
Global Tactical Asset Allocation	2%	0-6%	LIBOR +200 basis points
Risk Parity	3%	0-6%	LIBOR +200 basis points
Other	7%	0-12%	LIBOR +200 basis points
Total Alternatives	**44%**	**10- 65%**	
Cash	**1%**	0% - 25%	

The minimum and maximum allocations serve as guidelines, allowing the assets in each asset class to fluctuate. At times, the Investment Committee may elect to exceed the target weights or deviate from the minimum and/or maximum allocations in a particular asset class. Any deviation must be approved by the Investment Committee and may not last for more than twelve months without the approval of the NMERB.

To ensure the greatest diversification possible, NMERB has structured its investments by style and sector within individual asset classes. The strategic role of each asset class in the NMERB's Asset Allocation Policy is summarized below. Individual manager guidelines will be specified in the contracts with those managers.

ASSET CLASSES

Assets classes may be managed using traditional long-only management techniques or through alternative strategies. Alternative strategies include long/short strategies, portable alpha, and various types of derivatives, including futures, options and swap contracts. Hedging may be employed, depending upon the specific strategy and its goals.

Public Equities

Domestic Equity

The portfolio will be allocated to Domestic Equity as indicated in the asset allocation table above.

The NMERB believes that the domestic equity market is a relatively efficient market, offering little opportunity for active managers to add value in a traditional long-only strategy. Therefore, this exposure is implemented using the internally managed S&P 500 and S&P 400 Index portfolios and through the use of derivatives to manage exposure when deemed appropriate.

The equities of companies that own or operate prisons will be excluded from both of the internally managed index portfolios. This exclusion will not apply to derivative exposure, as it is not practical to do so.

International Equity

The portfolio will be allocated to International Equity as indicated in the asset allocation table above. Similar to the structure in domestic equity, active and passive strategies, utilizing growth and value styles, may be equally weighted, with an additional weighting to core. Exposure may be managed using derivatives when deemed appropriate.

Fixed Income

NMERB's fixed income structure may include corporate and government issued debt including, but not limited to, mortgages, bank loans, loan participations, and structured notes. Credit quality will vary, and may include the entire spectrum from U.S. Treasury securities to the debt of companies in bankruptcy. The specific credit criteria will depend upon the strategy employed by individual managers. Credit quality and other criteria specific to each manager and strategy will be addressed in each manager's contract.

Opportunistic Credit
This asset class will encompass a wide variety of global investment types including:

1. Investment grade bonds,
2. High yield bonds,
3. Convertible bonds,
4. Leveraged loans,
5. Mortgage loans, both residential and commercial,
6. Distressed debt,
7. Collateralized bond, loan or debt obligations,
8. Derivative instruments including but not limited to futures, swap contracts, options, currency forward contracts and swaptions.

Core Fixed Income

The fixed income team of the NMERB will manage the Core Bonds Fund (Fund) internally and invest in the U.S. dollar (USD)-denominated debt capital markets. Eligible debt instruments include, but are not limited to, U.S. Treasuries, Agency debentures, residential and commercial mortgage-backed securities, asset-backed securities, municipal debt, investment-grade corporate issuance, and cash equivalents. Portfolio managers may use derivatives to take synthetic long positions and to hedge risks associated with credit, duration, idiosyncratic and active risk. Derivatives may also be used to manage exposure when deemed appropriate.

The investment objective of the Fund is to earn, through active management, the rate of return of the policy benchmark over a full market cycle. The policy benchmark for the Fund is the Barclays Capital U.S. Aggregate Bond Index. This bond market benchmark is a passive representation of the publicly traded investment grade U.S. debt market.

The NMERB will manage the Fund according to written investment guidelines detailed in the Core Fixed Income Investment Policy. The Fund portfolio managers will diversify the investments across and within asset sectors to limit the volatility of investment returns and to minimize the impact of large losses associated with individual investments. All securities must be rated investment grade at the time of purchase by one or more national rating agencies except as specifically outlined in the Core Fixed Income Investment Policy. The Fund may hold securities that fall below investment grade after purchase at the discretion of the fixed income team.

Emerging Market Debt
This market consists primarily of sovereign government and corporate debt issued in less developed countries. Both types may be investment grade or below investment grade and may be denominated in

U.S. Dollars or a foreign currency. Individual managers may employ traditional or alternative strategies and instruments or a combination of the two. Guidelines for strategies will be included in each manager's contract.

Non Traditional Asset Classes - Alternative Investments

Sub-classes within alternative investments include: real estate, private equity, hedge funds, real assets, and diversifying assets. Separate investment policy statements have been developed for real estate, private equity, hedge funds, and real assets. A brief discussion of each category follows.

Real Estate
NMERB's real estate portfolio is designed to provide an intermediate level of return with a low correlation to either fixed income or equity markets. Publicly traded equity securities of Real Estate Investment Trusts (REITs) and private real estate investments held in partnerships or other structures may be included in this portfolio.

Private Equity
Private equity investments typically have a low correlation to other investment asset classes and should contribute to the reduction of risk and the enhancement of returns on a total investment portfolio basis. Primary investment vehicles will include limited partnerships and fund-of-funds. NMERB does not anticipate direct investments in individual private businesses.

Real Assets
The long-term objective of this asset class is to provide returns in excess of investment grade bonds with substantially less volatility than equity markets. This portfolio will include investments in infrastructure, natural resources, timber and agriculture.

The infrastructure portfolio will include investments in public assets that have semi-monopoly positions, such as toll roads, electricity generators and distributors, seaports and airports, pipelines, rail links, royalties, public/private partnerships and other similar assets. The primary investment vehicle is expected to be commingled funds but may take other forms.

Diversifying assets
The primary characteristic of this asset class is a low correlation to public equities and public bonds. The strategies may be long-only or long/short in nature. It will include three sub-classes:

1.) Global Tactical Asset Allocation (GTAA)
Global Tactical Asset Allocation ("GTAA") provides an additional layer of diversification to the Fund's portfolio. The GTAA strategy is designed to strategically adjust the exposure to global stock, bond, commodity and currency markets, with the goal of outperforming broad market benchmarks over time. GTAA managers may utilize active or passive portfolios to accomplish this.

GTAA managers are expected to evaluate and invest in global investment instruments, including derivative instruments. Derivatives may be used to obtain market exposure or mitigate risk at the discretion of the individual manager within the guidelines of each manager's contract.

2.) Risk Parity
Risk parity is an approach to investment portfolio management which focuses on allocation of risk rather than the allocation of capital based on asset classes. The risk parity approach seeks to adjust various asset class allocations to the same risk level by leveraging or deleveraging the individual asset classes. The risk parity philosophy holds that by equalizing the risk, the risk parity portfolio can achieve greater

diversification, have a higher Sharpe ratio and be more resistant to market downturns than a traditional portfolio.

3.) Other

This category may contain other strategies and asset classes not described above. These may include, but are not limited to reinsurance, royalty strategies of various types, litigation finance, risk premia strategies other than risk parity, and various hedge fund strategies that exhibit low correlation to traditional assets. Allocations may be structured as comingled or separate accounts.

Leverage

The use of derivatives in the portfolio shall include, but is not limited to, futures, swaps, options, and forwards and may be exchange-traded, traded over-the-counter and/or cleared. It may be used in any of the Asset Classes, but is expected to be primarily in the public securities, both equity and fixed income.

APPENDIX B. INVESTMENT AND MANAGER PERFORMANCE MONITORING

NMERB's investments will be reviewed on a quarterly basis, at a minimum. Performance will be evaluated on a total return basis, which includes realized and unrealized gains and losses and investment income. For performance evaluation purposes, assets will be valued at the market values available to staff at the end of the quarter. Quarterly reports will contain detailed investment performance and attribution information. The General Consultant will be responsible for preparing the quarterly performance reports and will also prepare monthly "flash" reports.

The NMERB portfolio performance will be compared to a custom benchmark index. This index will be agreed upon by the IC and the General Consultant and will be consistent with the asset allocation targets in force at the time.

APPENDIX C. REBALANCING OF FUND'S ASSETS

Investment Division staff will be responsible for maintaining asset allocations within the ranges adopted in the Asset Allocation table presented in Appendix A.

Staff will have the discretion to determine the timing and magnitude of rebalancing within the defined ranges. The Investment Committee may authorize temporary deviations from the asset allocation ranges detailed in the Plan.

The NMERB recognizes that the implementation of a revised Asset Allocation Plan will necessitate a transition period. During this period, actual allocations may deviate from the Plan ranges as the new Plan is implemented.

APPENDIX D. PROXY VOTING POLICY AND GUIDELINES

NMERB's objective in proxy voting is to support proposals that maximize the value of the Fund's investments over the long term. Proxy voting guidelines have been developed to ensure that the Fund is able to provide adequate assets to pay retirement benefits to the members of the Plan. NMERB believes that each portfolio's Investment Manager is in the best position to assess the financial implications presented by proxy issues and the impact a particular vote may have on the value of a security. Consequently, NMERB generally assigns proxy voting responsibility to the Investment Managers responsible for the management of each Fund portfolio. The duty of loyalty requires that the voting fiduciary exercise proxy voting authority solely in the interests of members and beneficiaries of the NMERB. NMERB may retain the services of a proxy voting service to advise and assist staff in voting proxies for internally managed portfolios. Proxy voting will be in accordance with the guidelines listed below except in cases where the proxy voting service advice conflicts with the guidelines. In such cases, the Chief Investment Officer will direct that the vote be cast in the best interest of NMERB in his or her judgement. Such instances will be reported to the Board Chair prior to such vote being cast. The Chief Investment Officer may designate a Deputy Chief Investment Officer or Portfolio Manager from the Investment Division to direct the proxy votes to the proxy voting service.

The following represents a list of common proxy issues and NMERB's guidelines for voting:

Board of Directors Issues

Corporate directors have a fiduciary duty to shareholders and the corporation they serve. Shareholders elect corporate directors to hire, monitor, compensate and, if necessary, terminate senior management. For directors to effectively discharge these responsibilities, they must be highly qualified, diligent in the performance of their duties, committed to high ethical standards, and independent of the company management they oversee. NMERB expects corporate boards to be composed of qualified individuals, at least two-thirds of whom are independent, who are open to shareholder input on issues facing the company, who challenge management with tough questions and goals, and who take action when needed to maximize the long-term value of the corporation. Additionally, NMERB believes that having an independent director serve as chairperson enhances the board's independence and effectiveness.

Election of Directors ***WITH MANAGEMENT***

A board of directors should be representative of shareholders, include a majority of independent (outside) directors, be open to shareholder input on major policy issues, and operate in such a manner to maximize share value.

Stock Ownership Requirement: ***AGAINS***T

A proposal to impose a stock ownership requirement would require directors to own a minimum amount of company stock in order to qualify as a director or remain on the board.

PROS: Directors may be more committed to making decisions which serve the best interests of shareholders if they personally own stock in the company.

CONS: Persons who would otherwise be qualified for a seat on the board may be prevented from serving, making it more difficult to attract and retain outside directors.

Classified (Staggered) Board: ***AGAINST***

Under a classified or staggered term board, the directors are divided into groups which serve staggered terms. A different group stands for election each year. Under an unclassified board, all directors stand for election annually. Classified boards may reduce the ability of shareholders to hold directors accountable annually.

PROS: Classification helps to ensure continuity of a corporate board, facilitating the board's ability to carry out long-term strategic plans.

CONS: A classified board is viewed by many as an anti-takeover device, due to the difficult and time consuming requirements necessary to change the composition of a corporate board.

Cumulative Voting ***FOR***

In cumulative voting, a shareholder's vote is equivalent to the number of shares owned times the number of directors being elected. Cumulative voting allows shareholders to cast their votes in the election of directors for a single director or apportion them in any manner they choose. Cumulative voting is a method of obtaining minority shareholder representation on a board and of achieving a measure of board independence from management control.

PROS: Cumulative voting allows minority shareholders to obtain representation on the board of directors.

Directors elected by cumulative voting rather than the normal method may be truly "outside directors," and thus would be more likely to represent the shareholders' interests and not management 's interest.

Cumulative voting can make it easier to replace incumbent management in the case of a change of control in the company.

CONS: Cumulative voting allows directors to represent the interest of the minority shareholders, or some special group instead of all shareholders.

Director/Officer Indemnification ***FOR***

In response to the increased costs of Directors and Officers (DIO) Insurance and to liberal state laws, many companies have reduced D&O coverage, and have increased the indemnification offered by the corporation. Financial protection afforded to directors and officers under state indemnification statutes, depends to a great extent on the provisions in corporate charters, by – laws, or other agreements that the corporation adopts in order to give effect to those indemnification provisions that require express corporate implementation.

PROS: Broad Indemnification clauses and decreased liability for directors are instrumental in attracting highly qualified, competent directors.

CONS: Indemnification is theoretically unlimited and only practically limited by the indemnifying company's financial resources.

Independent Directors must comprise Majority of Board ***FOR***

The role of any director is to scrutinize the highest decision makers in the company. This proposal requires that a majority of the board of directors be independent. This may also include the requirement that board composition not include current or past employees of the company or

parties to a contract paid by the company.-Director independence is important in that, to the extent possible, it ensures that directors serve the interest of shareholders.

PROS: Objective decision-making is more likely to occur; this is in the best long-term interests of shareholders.

CONS: Relevant experience may be lacking and tendency to be more conservative is at issue. Interests may be superficial in comparison to interest of executives and management who may be more aware of and committed to company's performance.

Corporate Governance Issues

Issues in this category may have a significant impact on the value of Plan investment which will vary depending on the company and circumstances involved. Some of these proposals will occur in the context of an impending or ongoing contest for corporate control, while others will have a direct effect on the likelihood of material transactions such as tender offers, leveraged buyouts, mergers, acquisitions, restructuring and spin-offs. In deterring how to vote, the voting fiduciary is not required to maximize short terms gains where disrupting the stability and continuity of the corporation is not consistent with the long-term economic best interests of Plan members and beneficiaries.

Ratification of Auditors ***WITH MANAGEMENT***

Management is generally allowed to appoint the auditors for the corporation. Shareholders may or may not ratify management's choice through a non-binding vote. Generally, shareholders should vote to approve management's decisions in this area unless circumstances indicate that management's switch in auditors is a result of the termination of the prior firm for its strict enforcement of accounting principles.

Submission of Corporate Governance Issues for Shareholder Approval ***FOR***

It is in the shareholders' best interests to be allowed to vote on corporate governance issues (as opposed to management making these decisions without allowing shareholders to vote on the issue.)

Fair Price Provision ***AGAINST***

The fair price provision is a provision in the bylaws of some publicly traded companies stating that a company seeking to acquire it must pay a "fair price" to targeted shareholders. Essentially, the fair price provision mandates that, when shareholders decide to exercise the provision, the acquiring company must pay all shareholders the same amount per share in multi-tiered shares. The fair price is frequently defined to be the highest price the offeror paid for any of the shares it acquired in the target company during a specified period before the commencement of the tender offer. If exercised, it results in all shareholders being paid the same price in the event of a takeover. An acquirer may avoid such a pricing requirement by either obtaining a supermajority vote to approve a takeover or merger, or having the proposed transaction approved by the target company's board of directors. Once in place, fair price provisions are difficult to remove. They generally require as much as an 80 percent vote of shareholders to amend the provision.

PROS: Fair price provisions force the bidder to negotiate directly with the board of directors. The argument generally used is that the board is in a better position to assess the value of the business than the shareholders and can negotiate a higher bid.

Note: Fair price provisions prevent two-tier offers. In a two-tier offer, a higher price is paid for shares needed to obtain controlling interest than is paid for the remaining shares.

CONS: Fair price provisions can thwart any type of tender offer. If there is no tender offer, then none of the shareholders receive a premium.

Note: A SEC study indicates that stock prices fall an average of l.3%, net of market transactions following the announcement of a fair price agreement. Another SEC study found that there is very little difference in the premium paid for stock in a two-tier offer.

Supermajority Voting Provision ***AGAINST***

The majority of state laws require only a simple majority vote to approve a change in the charter or bylaws. No state law requires more than a two-thirds vote. In contrast, a supermajority provision requires approval in excess of a simple majority vote. Companies will specify the size of the supermajority, which can be anywhere from 67 to 95 percent. Faced with potential voting requirements of 75 to 80 percent, changing bylaws and charters can be difficult if not impossible to alter. This results in the inability of corporate boards and management to be responsive or accountable to shareholders.

CONS: In general, provisions which require more than a majority to carry the vote are not regarded to be in the best interest of the shareholders.

Anti-Greenmail Provision ***FOR***

Greenmail refers to the practice of a company purchasing a large block of its own stock from a shareholder at an above-market price to prevent the shareholder from taking over the company or engaging in a proxy fight. The price of the stock almost always declines after the "greenmail" payment is made and the payment is considered discriminatory over all other shareholders (paying greenmail allows management to treat shareholders of the same class differently). An anti-greenmail provision generally prevents the company from repurchasing shares of its stock at an above average price without prior approval of a majority of its shareholders unless the same repurchase terms are offered to all shareholders. The interested shareholder is excluded from voting on this issue.

PROS: Funds used for reinvestment or for dividend~~s~~ payment may be exhausted by a greenmail payment. In addition, paying greenmail allows management to treat shareholders of the same class differently.

Note: A SEC study found that nonparticipating shareholders suffer substantial and significant share price declines and in general these transactions are not in the best interests of nonparticipating shareholders. The total net of market return for companies paying greenmail was -3.7%.

CONS: Paying greenmail leaves a company independent and current management in place.

Combining Several Anti-Takeover Proposals With an Anti-greenmail Proposal ***AGAINST***

CONS: It is in shareholders' best interests to be allowed to vote on anti-takeover proposals separately from anti-greenmail proposals.

Unequal Voting Rights ***AGAINST***

Unequal voting rights limit the voting rights of some shareholders and expand those of others. Unequal voting rights may be used by management to concentrate voting power or controlling interest in the hands of management. Unequal voting rights involve a variety of recapitalization plans including: issuance of a second class of stock granting voting rights different from those of common stock; granting superior voting rights to certain long-term shareholders (usually management or founding family), or; capping voting rights of shareholders who have acquired a

significant percent of the outstanding common stock.

PROS: Unequal voting rights plans allows companies to raise capital while letting management or the founding family maintain control.

Note: It allows companies to expand without fear of being taken over, or to set up and fund philanthropic causes.

CONS: Shareholders no longer have the ability to elect outside directors since management controls the majority of votes.

Note: Unequal voting rights serve as a very strong anti-takeover mechanism which serves to entrench management. The inability to obtain voting control of a company will act as a deterrent for premium payment for shares. An SEC study shows that adopting unequal voting plans can have a significant negative impact on share prices.

Opt out of a State's Anti-Takeover law or Reincorporate in another State ***FOR***

CONS: In general, it is not in the shareholders' best interests for the corporation to be restricted by strict anti-takeover laws.

Merger/Acquisition and other Economic issues ***REVIEWED ON A CASE-BY-CASE BASIS***

Each individual issue will be reviewed to determine if it is in the shareholder's best interests.

New Security Issuance Issues

Increase in Authorized Common Stock ***REVIEWED ON A CASE-BY-CASE BASIS***

Excessive increases in authorized stock will be evaluated to determine the potential uses of the new stock. If the additional stock could be used as an anti-takeover defense, a vote will be cast against the proposal.

Blank check preferred stock ***AGAINST***

Blank check preferred stock provisions authorize management to create new classes of preferred stock with unspecified voting, conversion, distribution and other rights.

PROS: It can provide management with more flexibility in making certain financial decisions.

CONS: It can be used as a strong anti-takeover mechanism.

Redemption of Poison Pills ***FOR, UNLESS CIO FEELS THAT A PARTICULAR ISSUER SHOULD RETAIN ITS POISON PILL***

The term 'poison pill' describes a family of shareholder rights agreements which, when triggered by an event such as a (hostile) tender offer or the accumulation of a specified percentage of shares by an acquirer, provide the shareholders of the target company with rights to purchase additional shares or to sell shares at very attractive prices. These rights, when triggered, impose significant economic penalties on a hostile acquirer and can make a corporate takeover prohibitively expensive. Redemptions of poison pills would eliminate any such shareholder rights agreements

previously adopted.

PROS: Redemption of poison pills would remove a strong anti-takeover mechanism.

Preemptive Rights ***AGAINST***

Preemptive rights require a corporation to offer rights to current shareholders in any issuance of new stock. This allows current shareholders to retain the same percentage ownership in the company held prior to the new issue.

CONS: Providing preemptive rights is costly to the corporation and little purpose is served, since shareholders can purchase shares in the market if they want to retain the same percentage ownership

Executive Compensation Issues

A reasonable and just compensation system is fundamental to the creation of long-term corporate value. However, the past two decades have seen an unprecedented growth in compensation only for top executives and a dramatic increase in the ratio between the compensation of executives and rank-and-file workers. By any standard, many of today's executive compensation packages are excessive. Too often, directors have awarded compensation packages that go well beyond what is required to attract and retain executives, and have rewarded even poorly performing CEOs. These executive pay excesses come at the expense of shareholders as well as the company and its employees. Fund fiduciaries, including voting fiduciaries, are therefore obligated to address the issue of excessive compensation. Executive compensation packages are generally composed of annual salary, annual incentive awards, long-term incentive awards, stock options and other forms of equity compensation. The structure of a CEO's compensation package influences whether the CEO focuses on boosting the corporation's day to-day share price or concentrates on building long-term corporate value.

Golden Parachutes ***AGAINST***

A golden parachute is a special type of employment contract that is triggered when a senior executive is fired, demoted, or resigns following a takeover or change in control of a corporation. The amount paid to an individual is generally three times that person's average compensation over the last five years.

PROS: Golden parachutes are designed to insure that executives will not oppose takeovers that are in the best interests of shareholders. Golden parachutes may be necessary in order to attract and retain qualified executives.

CONS: Golden parachutes can be considered anti-takeover devices.

Note: Golden parachutes eliminate the incentive for executives to do a good job of managing the company. Executives receive lucrative severance benefits whether or not the company does well.

Golden parachutes, especially those granted during a takeover, are viewed as an example of corporate managers benefiting at the expense of shareholders.

Employee Stock Ownership Plans ***REVIEWED ON A CASE-BY-CASE-BASIS TO DETERMINE IF IT IS IN THE SHAREHOLDERS' BEST INTERESTS***

Employee stock ownership plans should be designed to provide incentives to employees

and should not be excessive.

Proxy System Issues

Confidential voting ***FOR***

The purpose of confidential voting is to protect shareholders from management pressure to change their votes before the shareholder meeting at which those votes are cast. Management's knowledge of the voting results would be restricted to the total number of shares voted and the percent voted for and against each proposal. Confidential voting does not pertain to proxy vote disclosure after the shareholder meeting

PROS: Confidential voting would prevent a company's management from contacting shareholders and exerting pressure on shareholders to change their vote on a particular issue. Confidential or secret balloting is the heart of the American system of governance and this provision would also benefit the system of corporate governance.

CONS: Non-confidential or open voting records give management the ability to more thoroughly explain their position on major issues. It allows management and shareholders to freely exchange views and discuss resolutions.

Equal Access ***FOR***

Equal access provisions allow shareholders equal access to the proxy process to propose proxy voting issues, and to management's proxy material in order to evaluate and propose a voting recommendation on proxy proposals.

PROS: It is in shareholders' best interests to have equal access to the proxy voting process.

Social Responsibility Issues

Resolutions asking For a Report on Activities of the Company ***REVIEWED ON A CASE-BY-CASE BASIS***

Vote will be cast for the proposal, if the activity is either not fully regulated or if the problem is serious enough to deserve a separate communication to shareholders.

Resolutions Asking for Cessation of Activities or the Implementation of Pro –Active Policies ***REVIEWED ON A CASE- BY-CASE BASIS***

Votes will be cast against the proposal, if (1) activity is sufficiently regulated, (2) activities refer to business operations in foreign countries where different regulations and the principles of sovereignty apply, or (3) it would impose a substantial financial burden on the company.

PROCEDURE 1. INVESTMENT MANAGER NOTIFICATION

The relationship between NMERB and the Investment Manager is one of significant importance and therefore timely communications of material changes is encouraged. Specifically, a manager under contract to NMERB must advise NMERB within 24 hours if at any time there is:

a. a significant change in investment philosophy;
b. a loss of one or more key management personnel;
c. a new portfolio manager on the NMERB account;
d. a change in ownership of the firm;
e. a change in the ownership structure of the firm; or
f. any occurrence that might potentially impact the management, professionalism, integrity, organizational structure or financial position of the management firm.

Should any of the situations outlined above occur, the manager must provide NMERB with a full explanation and the impact on the NMERB account. If deemed necessary by NMERB, the manager will be asked to meet with the Board, Investment Committee, or staff to review the relationship prior to approval of contract assignment.

PROCEDURE 2. ASSET PRICING PROCEDURE

This Policy establishes a process for the valuation of securities when a discrepancy appears in the master trustee bank's prices. The establishment of this policy includes the recognition that security prices provided by the master trustee bank's matrix pricing and third-party pricing provider prices are subject to coverage limitations Where pricing between NMERB's Investment Manager and the master trustee bank on NMERB's assets is disputed this Policy will be implemented. A Manager may provide alternative prices where the level of pricing discrepancy is, at a minimum, the greater of $1 per issue or 1% per issue.

The master trustee bank will provide official pricing for all NMERB portfolios with the following exceptions:

I. Market values for specific markets where no third-party pricing source is available may be priced by the portfolio manager.

II. The portfolio manager provides any of the following pricing estimates, listed in order of preference:

   A. the average of at least two dealer prices (bid-side);
   B. the average of one dealer price (bid-side) and a quantitatively-based estimate;
   C. an estimated price resulting from one consistently applied quantitative methodology, subject to approval by the NMERB Investment staff.

Prices provided by the portfolio manager to be used by the master trustee bank will require monthly documentation that includes the following:

1. sources and/or quantitative calculation used to determine respective issue prices;
2. percentage difference between manager's price relative to the price generated by the master trustee bank;
3. aggregate percentage of the portfolio's market value for securities priced by the manager;
4. written concurrence of the portfolio manager's compliance officer indicating portfolio manager's implementation of and compliance with NMERB's Asset Pricing policy.

PROCEDURE 3. MANAGER RECONCILIATION PROCEDURE

DOMESTIC EQUITY
(SEPARATELY MANAGED ACCOUNTS)

The New Mexico Educational Retirement Board ("NMERB") seeks to ensure greater accuracy through the implementation of a monthly reconciliation reporting process. Each NMERB Investment Manager will provide written acknowledgment of the accuracy of the master trust bank's statements and the performance results provided by NMERB's investment consultant. This reconciliation is due with the next quarterly performance report following the current month reporting period.

Master Trust Bank Reconciliation

1. Verify each security market value. List those issues outside of a 1 basis point tolerance for market valuation differences.
2. Verify accrued dividends for each issue. List those issues with differences which would impact performance results by > 5 basis points.
3. Verify total securities traded but not settled at month-end.
4. Confirm corporate actions and income collection. Note significant differences.
5. Verify miscellaneous receivables and payables and their age. Note any issues for which receivables are deemed not collectible.

Investment Consultant Reconciliation

1. Review investment consultant portfolio return and benchmark calculation on a monthly basis. Note performance differential if > 10 basis points at the portfolio level.
2. On an annual basis, provide written agreement with investment consultant's annual return calculations for portfolio and benchmark.

MANAGER RECONCILIATION PROCEDURE

NON-U.S. EQUITY

(SEPARATELY MANAGED ACCOUNTS)

The New Mexico Educational Retirement Board ("NMERB") seeks to ensure greater accuracy through the implementation of a monthly reconciliation reporting process. Each NMERB Investment Manager will provide written acknowledgment of the accuracy of the master trust bank's statements and the performance results provided by NMERB's investment consultant. This reconciliation is due with the next quarterly performance report following the current month reporting period.

Master Trust Bank Reconciliation

1. Verify each security market value. List those issues outside of a 1 basis point tolerance for market valuation differences with the exception of non-Japan Pacific Basin equities. For non-Japan Pacific Basin equities, list those issues outside of a 25 basis point tolerance for market valuation differences.
2. Verify accrued dividends for each issue. List those issues with differences which would impact performance results by > 5 basis points.
3. Verify total securities traded but not settled at month-end.
4. Confirm corporate actions and income collection. Note significant differences.
5. Verify miscellaneous receivables and payables and their age. Note any issues for which receivables are deemed not collectible.
6. Review tax reclamations receivables. Note any issues where aging presents a problem to collection.

Investment Consultant Reconciliation

1. Review investment consultant portfolio return and benchmark calculation on a monthly basis. Note performance differential if > 20 basis points at the portfolio level.
2. On an annual basis, provide written agreement with investment consultant's annual return calculations for portfolio and benchmark.

MANAGER RECONCILIATION PROCEDURE

FIXED INCOME

(SEPARATELY MANAGED ACCOUNTS)

The New Mexico Educational Retirement Board ("NMERB") seeks to ensure greater accuracy through the implementation of a monthly reconciliation reporting process. Each NMERB Investment Manager will provide written acknowledgment of the accuracy of the master trust bank's statements and the performance results provided by NMERB's investment consultant. This reconciliation is due with the next quarterly performance report following the current month reporting period.

Master Trust Bank Reconciliation

1. Verify each security market value. List those issues outside of a 25 basis point tolerance for market valuation differences with the exception of high yield bonds. For high yield bonds, list those issues outside of a 50 basis point tolerance for market valuation differences.
2. Verify accrued interest for each issue. List those issues with differences which would impact performance results by > 5 basis points.
3. List any issues for which coupon or principal payments are past due.
4. Confirm corporate actions and income collection. Note significant differences.
5. Verify miscellaneous receivables and payables and their age. Note any issues for which receivables are deemed not collectible.
6. (Non-U.S.) Review tax reclamations receivables. Note any issues where aging presents a problem to collection.

Investment Consultant Reconciliation

1. Review investment consultant portfolio return and benchmark calculation on a monthly basis. Note performance differential if > 25 basis points at the portfolio level.
2. On an annual basis, provide written agreement with investment consultant's annual return calculations for portfolio and benchmark.