New Mexico Educational Retirement Board

Real Estate and Natural Resources Portfolio
Quarterly Board Summary

March 31, 2012

Presented By

REAL ASSET Portfolio Management
Real Estate
Natural Resources
Infrastructure

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Portfolio Summary

Portfolio Review

As of March, 31 2012, New Mexico Educational Retirement Board ("NMERB") had a total portfolio value of $9,574,172,663. NMERB's long-term target allocations to real estate and natural resources are 5% ($478,708,633) and 3% ($287,225,180), respectively. As of March 31, 2012, net asset value ("NAV") of the real estate portfolio was $515,169,640 and NAV for the Natural Resources portfolio was $23,875,636.

As of March, 31 2012, NMERB had $119,289,298 of committed but uncalled allocations to private real estate managers and $22,497,965 of committed but uncalled allocations to Natural Resources managers. Not included in the numbers above are allocations to Rockpoint IV of $45 million and Hancock Farmland of $50 million, which were approved but not yet closed as of the end of the quarter. In addition, commitments of $30 million each to RAM Realty Partners and Sares Regis Group have been approved and are awaiting legal review, these too are not reflected in the above numbers.

Returns Summary

	Time Weighted Returns		
	Current Quarter	Since Inception	Net Internal Rate of Return Since Inception
Public Real Estate	10.90%	9.23%	13.48%
Wilshire REIT Index	10.79%	9.20%	n/a
Private Real Estate	3.26%	0.17%	1.79%
NCREIF Property Index	2.59%	0.37%	n/a
Natural Resources	-1.15%	0.49%	0.82%
NCREIF Timber	0.36%	-1.26%	n/a
CPI (All Consumers)	1.65%	2.69%	n/a

Portfolio Highlights

The real estate portfolio is expected to generate returns in excess of the National Council of Real Estate Investment Fiduciaries Index ("NCREIF Index") over rolling five year investment time horizons.

Key Private Asset Ratios as of 3/31/2012

Paid in Capital (PIC) 0.61x

Distribution Paid in Capital (DPI) 0.20x

Residual Value Paid in Capital (RVPI) 0.84x

Total Value Paid in Capital (TVPI) 1.04 x

Trailing Period Time Weighted Returns

	QTR	1 Year	3 Year	5 Year	Since Inception
Public Real Estate	10.90%	13.10%	44.58%	-0.41%	9.23%
In-House REIT	10.40%	12.94%	44.51%	-0.44%	9.21%
Wilshire REIT - U.S. Equity	10.79%	13.39%	44.69%	-0.67%	9.20%
Brookfield U.S. Value REIT	12.60%	N/A	N/A	N/A	9.50%
MSCI REIT Index	10.73%	13.02%	43.52%	-0.16%	9.10%
Private Real Estate	3.26%	10.95%	10.85%	N/A	0.17%
NCREIF Property Index	2.59%	13.41%	5.96%	2.88%	0.37%
Natural Resources	-1.15%	1.76%	0.49%	N/A	0.49%
NCREIF Timberland Index	0.36%	1.18%	-1.26%	4.31%	-1.26%
CPI (All Consumers)	1.65%	2.65%	2.55%	2.24%	2.55%

Calendar Year Time Weighted Returns

	YTD	2011	2010	2009	2008
Public Real Estate	10.90%	8.82%	28.77%	27.89%	-38.31%
In-House REIT	10.40%	9.16%	28.77%	27.89%	-38.31%
Wilshire REIT - U.S. Equity	10.79%	9.24%	28.60%	28.60%	-39.20%
Brookfield U.S. Value REIT	12.60%	N/A	N/A	N/A	N/A
MSCI REIT Index	10.73%	8.69%	28.48%	28.61%	-37.97%
Private Real Estate	3.26%	8.33%	22.97%	-1.05%	N/A
NCREIF Property Index	2.59%	14.26%	13.11%	-16.86%	-6.46%
Natural Resources	-1.15%	2.89%	7.41%	N/A	N/A
NCREIF Timberland Index	0.36%	1.57%	-0.15%	-4.75%	9.52%
CPI (All Consumers)	1.65%	2.96%	1.50%	2.72%	0.09%

Portfolio Statistics

	03/31/2012	12/31/2011	12/31/2010	12/31/2009
Portfolio Market Value	$ 539,045,276	$ 543,006,209	$ 476,599,485	$ 390,763,308
Committed Uncalled	141,787,263	131,314,468	31,375,528	50,752,104
Portfolio Market Value + Committed Uncalled	$ 680,832,539	$ 674,320,677	$ 507,975,012	$ 441,515,413
Total Number of fund Investments	13	13	8	8
Total Number of Managers	11	11	7	7

Private Asset Multiples

	3/31/2012	12/31/2011	12/31/2010	12/31/2009
PIC Multiple	.61 x	.59 x	.51 x	.48 x
Distribution Multiple	.20 x	.19 x	.11 x	.09 x
Residual Value Multiple	.84 x	.83 x	.85 x	.71 x
Total Value Multiple	1.04 x	1.02 x	.97 x	.80 x

Investment Detail

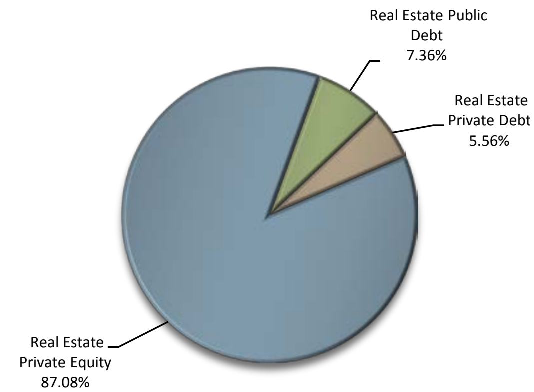
	Commitment ($)	Market Value ($)	Contributions ($)	Distributions ($)	Since Inception Net IRR
Private Real Estate					
PRIMA Mortgage Investment Trust, LLC	50,000,000	49,542,186	50,000,000	10,839,185	6.08%
Prologis Targeted Europe Logistics Fund, FCP-FIS	10,813,243	5,872,821	10,813,243	742,409	-13.30%
Prologis Targeted US Logistics Fund	21,337,702	12,486,873	21,337,702	1,458,843	-10.90%
Prudential Senior Housing Partners IV	50,000,000	3,323,547	8,002,804	4,691,098	N/A
Greenfield Acquisition Partners V, L.P.	25,000,000	22,805,591	23,650,000	3,875,000	6.08%
Guggenheim Structured Real Estate III, LP	25,000,000	9,047,331	25,000,000	9,998,831	-8.89%
Lone Star Fund VII (U.S.), L.P.	50,000,000	21,256,790	21,669,788	2,934,274	N/A
Lone Star Real Estate Fund II (U.S.), L.P.	25,000,000	4,653,632	6,025,845	1,254,248	N/A
RAPM NM Secondary Opportunity Fund, L.P.	40,000,000	23,747,181	18,027,851	3,875,014	52.76%
Public Real Estate					
In-House REIT	773,270,071	255,032,151	773,270,071	851,644,486	13.50%
U.S. Value Income REIT Strategy	98,509,625	107,401,538	98,509,625	403,459	N/A
Natural Resources					
Conservation Forestry Capital Fund II, LP	25,000,000	21,892,966	23,633,482	2,660,389	2.19%
Ecosystem Investment Partners II, LP	21,227,848	1,982,670	2,564,557	17,215	-35.26%

Note: The foregoing investment information was prepared for the New Mexico Educational Retirement Board by its advisors or consultants solely for informational purposes and should not be relied on for any other purpose. Neither the investment's sponsor nor any of its affiliates (i) has reviewed, audited, verified, approved or sanctioned such information, or (ii) makes any representation or warranty regarding the completeness or accuracy of such information or the absence of miscalculations or errors from such information.

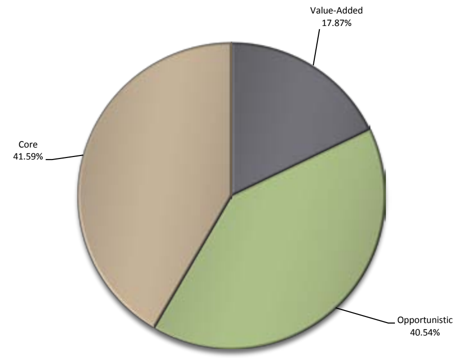
Distributions include recyclable capital. Performance is unavailable for investments with less than one full year of investment activity.

Portfolio Diversification as of March 31, 2012

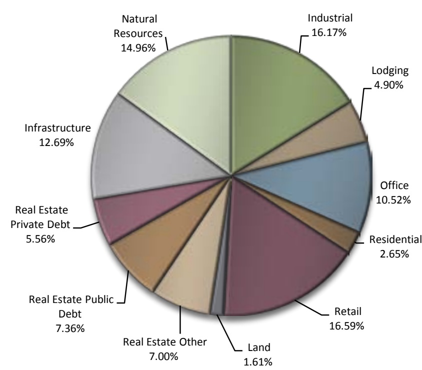
Diversification by Investment Class



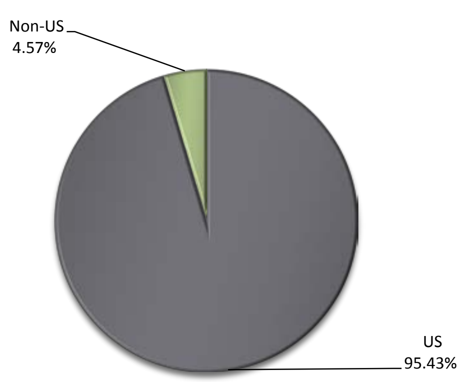
Private Asset Risk Category



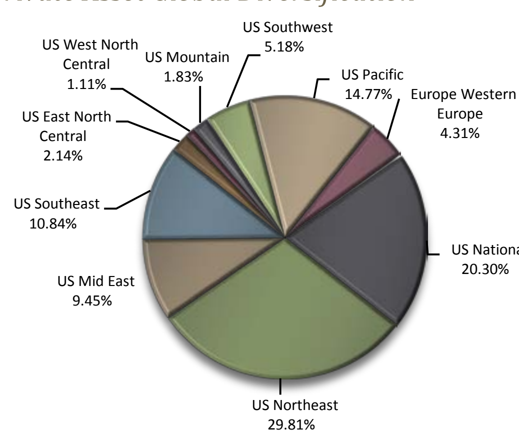
Private Asset Diversification by Investment Type



Private Asset US vs. Non-US Diversification



Private Asset Global Diversification



Market Overview

Real Estate Capital Market Conditions

Despite the economic uncertainty across the US, Europe, Latin America and Asia, one bright spot for US investors during the quarter was real estate. As shown in the public and private indices, investors have been seeking shelter in cash flowing real estate that provides income returns, hard asset exposure as a hedge against possible long term inflation and in the short term positive real rates of return.

NCREIF Property Index posted its 9th consecutive positive quarterly return, with (for the time period ending 3/31/12), quarterly returns of 2.6%, 1 year of 13.4%, 3 year of 6.0% and five year of 2.88%. The five year numbers in particular include the negative returns from the financial crisis. It appears this performance demonstrates the demand for hard assets and yield in the current environment.

The Wilshire REIT index has also provided attractive returns over the same 5 year time period with (for the time period ending 3/31/12), quarterly returns of 10.8%%, 1 year of 13.4%, 3 year of 44.7% and five year of -0.7%. The five year numbers in particular demonstrate the volatility of pricing in the public sector including the significantly negative returns from the financial crisis. Pricing has fully recovered and REITs, as measured by the Wilshire REIT Index, trade at a 14.2% premium to NAV.

During the first quarter most property types demonstrated positive performance characteristics. Vacancy declined at all property types during the quarter except for office where vacancy appears to have stabilized at 16%. Transaction volume was also up considerably across all property types reported higher transaction volume relative to the same quarter in 2011. Although we don't have concrete evidence, it appears to RAPM that banks finally appear willing to start letting properties go to market versus working with the existing borrower on maturity extensions or other modifications to original or once-already-revised loan terms.

Market Conditions by Property Type

Apartments

- The national apartment vacancy rate decreased 30 bps to 4.9% at the end of Q1; net absorption increased by 36,500 units, a gain of over 27.8% from Q4 2011; 7,300 apartment units were delivered in Q1
- Asking and effective rents rose again with asking rents up 0.5% and effective rents rising 0.9% with effective rents growing at their fastest pace since the end of 2007
- Apartment completions are forecast to remain below the 13 year average of 123,000 units nationally in 2012, however a large wave of new supply will enter the market in 2013-2014
- Transaction volume was $12.0 billion in Q1, an increase of 31.0% from the same period in 2011; Average cap-rates accelerated their decline in Q1, falling to 6.3%

Industrial

- National industrial vacancy declined 10 bps to 13.4% during Q1 which also marks the seventh consecutive quarter of declining industrial vacancy
- Demand was led by larger markets such as Seattle, Edison, and Fort Worth; Seattle saw the largest quarterly decline in availability since 2004
- New development remains on hold with a few speculative projects in select markets; construction should remain muted during 2012/2013
- Transaction volume was $5.7 billion during Q1, a 31% increase over the same period in 2011; Average cap-rates remained unchanged at 7.8%

Office

- After strong leasing momentum in Q4 2011, the office sector saw minimal leasing activity as vacancy remained unchanged at 16.0%
- Markets with significant exposure to the high-tech and energy industries continue to perform well including San Jose, Oakland, Seattle, and Houston all showing healthy absorption
- Transaction volume for the quarter was $14.3 billion, an increase of 32% over the same period in 2011
- Sales in the office sector continue to be driven by CBD properties in major markets, with sales of suburban properties remaining relatively flat; cap rates remained unchanged at 7.3%

Retail

- Neighborhood and community shopping centers showed signs of improvements with vacancy rate declining by 10 bps to 10.9%, while regional mall vacancy declined by 20 bps to 9.0% in Q1
- Necessity and high-end retailers have performed well, while retailers such as Sears and JC Penny have shown decreasing revenues
- Recent announcement of Best Buy to close large traditional stores and implement smaller format stores and increase their online presence could create leasing challenges for owners of power-centers
- During the quarter, 3.1 MSF was absorbed, the second largest quarterly absorption since the first quarter of 2008
- Transaction volume across the retail sector totaled $12.5 billion, an increase of 87.0% over the same period in 2011; cap rates decreased by 30 bps to 7.1%

Hotel

- Business travel and tourism remained strong as all three key performance metrics for Q1 saw reported gains
- Occupancy increased by 3% to 56.8%; Average Daily Rate (ADR) rose by 4.0% to $103.5; and Revenue Per Available Room (RevPar) jumped by 7.9% to $58.8
- Transaction volume totaled $3.7 billion in Q1, which was essential flat from the same period in 2011; Average cap rates declined by 10 bps to 7.6% in Q1, 20 bps lower than the same period in 2011

* Clarion Partners, National Market Update: Q1 2012

Natural Resources Capital Market Conditions

Timber Market Commentary

Pacific Northwest (PNW) log prices declined over the quarter as inventories adjusted as a result of a pullback in Chinese residential construction caused by government housing policy directives designed to cool an overheated market. This price decline was consistent with that observed in Q4 2011. Despite the declines in recent quarters, we believe this is a temporary lull as Chinese demand is expected to accelerate in light of plans to construct 36 million residences between 2011 and 2015.

Asia is the largest consumer of forest resources in the world. Over the past decade, China's pulp production increased 120% reaching 176 million m^3 in 2011. Over the last five years, Asian demand growth has offset significant North American demand weakness. Today though, there are signs that N. American residential construction is slowly recovering. Housing starts in 2011 were 3.4% greater than 2010, and the U.S. Department of Commerce reported a 34% increase in seasonally adjusted housing starts in February 2012 over February 2011. A partial recovery of US demand is likely to put upward pressure on log pricing globally, as Asian wood and fiber demand continues to grow, albeit at a slower pace. Harvest capacity will have to grow to meet an increasing demand.

Meanwhile, log prices in the Southeast US (SEUS) remained steady over the quarter, though they are still significantly below their 2006 peaks. Average stumpage prices for all major product classes were slightly lower than a year ago, but up slightly from Q4 2011. Southern lumber production is growing but remains well below peak production volumes.

In the Northeast US (NEUS) prices were steady over the quarter at moderate, though profitable, levels.

Sources: RISI, US Census, FAO, Timber Mart South

Agriculture Market Commentary

Rising crop prices and easing drought conditions pushed up farmland values substantially during Q1 2012. Central Corn Belt farmland values increased by 19%, with cash rental rates increasing 17% over the quarter, as competition to lease acreage remained strong. Transaction activity was also strong over the quarter, with buyers willing to pay record prices for quality farmland. The strong farm income reduced the need for debt financing and agricultural loan demand was down over the quarter, as farmers used high cash incomes to reduce debt and invest in operating equipment.

Looking ahead, farmers expect to increase corn plantings at the expense of wheat and soybeans following record high corn profitability and favorable weather in the Midwestern US. The Foreign Agriculture Service (FAS) of the US Department of Agriculture is forecasting a production increase in world 2012/2013 coarse grain (grains other than wheat and rice) area planted, yield, and consequently, production. US corn production is an important component of global coarse grains. Forecast 2012/13 US corn production is a record 14.8 billion bushels (up 2.4 billion from 2011/12) on a yield of 166 bushels per acre, 2 bushels per acre above the 1990-2010 trends. The forecasted increase in global production along with slower global consumption growth caused forecast season average corn prices to fall to $4.20-$5.00/bu. from $6.00/bu. for 2011/12.

Sources: FAOSTAT, USDA, Federal Reserve Bank of Kansas City

Appendix A

Summary of Portfolio Cash Flows

Quarter	Contributions	Distributions	Redemptions	Total
Q4 2003	51,000,000	-	-	51,000,000
Q1 2004	140,000,000	-	-	140,000,000
Q2 2004	125,450,000	-	-	125,450,000
Q4 2004	720,438	-	(720,438)	0
Q4 2005	-	-	(8,918,532)	(8,918,532)
Q1 2006	200,000	-	(92,452,388)	(92,252,388)
Q3 2006	-	-	(20,189,000)	(20,189,000)
Q4 2006	500,000	-	(51,495,881)	(50,995,881)
Q1 2007	-	-	(59,700,000)	(59,700,000)
Q2 2007	-	-	(77,400,000)	(77,400,000)
Q3 2007	277,650,000	-	(77,410,778)	200,239,222
Q4 2007	-	-	(58,200,000)	(58,200,000)
Q1 2008	82,200,000	-	(23,500,000)	58,700,000
Q2 2008	25,500,000	(446,462)	(50,454,058)	(25,400,520)
Q3 2008	44,852,570	(1,019,994)	(4,400,000)	39,432,576
Q4 2008	85,979,025	(1,223,450)	(79,450,000)	5,305,575
Q1 2009	55,122,204	(1,142,560)	(2,650,000)	51,329,644
Q2 2009	3,720,837	(2,831,451)	(2,200,000)	(1,310,614)
Q3 2009	2,182,090	(3,883,030)	(52,000,000)	(53,700,940)
Q4 2009	7,213,749	(1,450,747)	(2,400,000)	3,363,002
Q1 2010	4,451,516	(846,291)	(1,350,000)	2,255,226
Q2 2010	767,315	(1,188,459)	(500,000)	(921,144)
Q3 2010	1,174,065	(853,205)	(27,600,000)	(27,279,140)
Q4 2010	13,741,534	(1,926,081)	(2,600,000)	9,215,454
Q1 2011	3,250,560	(4,011,073)	(2,050,000)	(2,810,513)
Q2 2011	18,061,101	(4,171,517)	(800,000)	13,089,584
Q3 2011	106,849,228	(7,392,194)	(98,633,186)	823,848
Q4 2011	23,924,425	(5,283,605)	(2,634,867)	16,005,953
Q1 2012	8,040,365	(56,922,068)	(139,191)	(49,020,894)
Total	$ 1,082,551,023	$ (94,592,184)	$ (799,848,319)	$ 188,110,519

Appendix B

Notes to the Performance Report

Multiples are calculated net of fees using private investments only.

The PIC Multiple is the cumulative contributed amount divided by committed capital. This multiple indicates how much of committed capital has been paid in.

The Distribution Multiple ("DPI") measures the portion of fund returns distributed to investors. When DPI is the equivalent of 1, the Fund has broken even. A DPI of greater than 1 indicates that the Fund has generated profit to the investors.

The Residual Value Multiple ("RVPI") measures the portion of returns that are unrealized.

The Total Value Multiple ("TVPI") provides information regarding the value of the investment relative to its cost basis, not taking into consideration the time invested.

Paid in Capital Ratios reflect all contributions made divided by the total commitments, without making adjustments for contributions that may be offset by recallable or true-up distributions.

Consistent with calculating Paid in Capital, Distributions to Paid in Capital Ratios reflect all distributions received divided by the aggregate total of contributions.

RAPM believes this is the most accurate way to reflect the cash flows experienced during the investment, though Paid in Capital and Distributed to Paid in Capital ratios may not exactly equal those values shown on manager-provided capital statements if the manager is adjusting for recallable distributions or true-up distributions for the Fund. All managers treat these classifications differently and therefore, RAPM utilizes actual cash flows experienced for calculating key ratios as of the quarter end.

Diversification statistics are based on net investment value.

All indices are gross of fee indices.

REIT returns and and Private Asset returns are calculated using different methodologies. The REIT returns are based on the monthly returns as reported by the Custodian and are calculated in accordance with accepted standards for daily liquid securities that require interim period monthly calculations for months in which large external cash flows occur. Private Asset returns are also calculated in accordance with accepted standards for these components using time weighted total rate of return that considers the timing of external cash flows; however, it does not distinguish between large and small cash flows and therefore does not utilize interim period performance to mitigate the impact of significant cash-in and outflows.

All performance numbers reflect data as reported to RAPM by the investment managers. RAPM has made an effort to verify the integrity of the data, including cross referencing what was reported for performance with fund financial and investor capital statements. However, RAPM serves as a data aggregator and reporter of fund level performance data and, therefore, cannot guarantee the accuracy of the underlying data reported by fund managers.