New Mexico Public Employees Retirement Association

ESTABLISHING A REALISTIC INVESTMENT EARNINGS BENCHMARK

INVESTMENT & PENSION OVERSIGHT COMMITTEE
JULY 27, 2011

JOELLE MEVI, CGFM
CHIEF INVESTMENT OFFICER

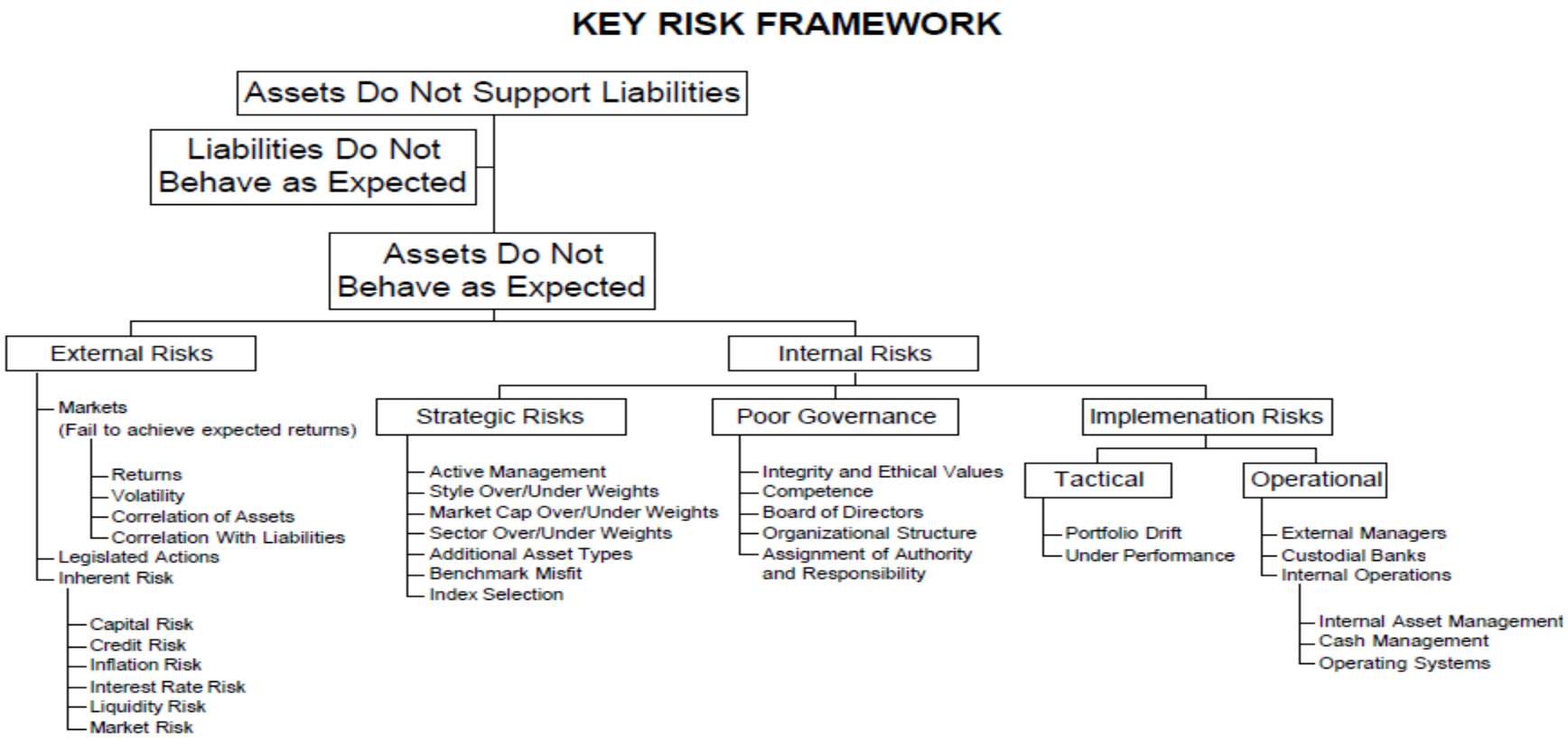
Pension Portfolio Construction Paradigm

- The actuarially-assumed target rate of return is the starting point. For NM PERA, it is 8.0%.
- Allocate investment into assets that will achieve that return, but assume the inherent risks of those assets.
- Construct a diversified asset allocation (asset mix) by using capital market assumptions and economic forecasts.
- Seek to reduce portfolio volatility by diversifying return streams: invest in non/low correlated assets.
- The goal is an optimal risk/reward balance, given certain risk tolerance levels.

Pension Risk Framework

Source:

Public Pension Systems
Statements of Key Risks and Common Practices to Address Those Risks



RV Kuhns Capital Market Assumptions
(10-year Annualized)

Figure 1: Asset Class Return and Risk Assumptions for Calendar Year 2011

Asset Class	Arithmetic Return %	Risk (Standard Deviation) %
Global Equity	8.45	17.85
US Equity		
Large/Mid Cap US Equity	8.00	17.75
Small/Mid Cap US Equity	8.75	21.75
Broad US Equity	8.15	18.10
International Equity (Non-US)		
Developed Large/Mid Cap Int'l	8.00	18.75
Developed Small/Mid Cap Int'l	8.75	22.75
Emerging Markets	10.50	28.50
Broad International	8.65	20.10
Fixed Income		
Int. Duration Fixed Income	4.50	5.50
Non-US Fixed Income (Unhedged)	4.25	9.75
TIPS	4.25	5.75
Low Duration Fixed Income	3.00	3.50
Long Duration Fixed Income	5.25	10.50
High Yield	6.75	14.50
Real Estate		
Core Real Estate	7.00	12.50
Non-Core Real Estate	10.00	21.50
REITS	7.25	18.00
Alternative Strategies		
Absolute Return	7.50	9.00
Real Return Strategy	6.25	11.25
Commodities	7.25	19.75
Private Equity	12.25	30.25
Cash and Inflation		
Inflation	2.50	3.00
Cash Equivalents	2.25	3.00

Asset Class Correlation Matrix

Figure A-1: Calendar Year 2011 Correlation Matrix

	Global Equity	Large/Mid Cap US Equity	Small/Mid Cap US Equity	Broad US Equity	Dev'd Large/Mid Int'l Equity	Dev'd Small/Mid Int'l Equity	Emerging Markets Equity	Broad International Equity	Intermediate Fixed Income	Non-US Fixed Income UH	TIPS	Low Duration Fixed Income	Long Duration Fixed Income	High Yield Fixed Income	Real Return	Core Real Estate	Non-Core Real Estate	REITs	Absolute Return	Commodities	Private Equity	Cash Equivalents	U.S. Inflation
Global Equity	1.00	0.93	0.89	0.94	0.96	0.91	0.86	0.97	0.03	0.21	0.09	-0.28	0.06	0.68	0.71	0.40	0.29	0.80	0.69	0.43	0.75	-0.06	0.05
Large/Mid Cap US Equity	0.93	1.00	0.88	0.99	0.65	0.74	0.68	0.75	0.23	0.05	0.05	0.06	0.25	0.58	0.61	0.30	0.27	0.68	0.48	0.30	0.70	0.04	0.01
Small/Mid Cap US Equity	0.89	0.88	1.00	0.93	0.64	0.77	0.70	0.71	0.16	-0.01	0.05	-0.01	0.17	0.63	0.65	0.26	0.19	0.70	0.51	0.33	0.67	-0.01	-0.01
Broad US Equity	0.94	0.99	0.93	1.00	0.67	0.76	0.70	0.75	0.21	0.04	0.05	0.04	0.22	0.60	0.63	0.31	0.25	0.70	0.50	0.31	0.71	0.03	-0.02
Dev'd Large/Mid Int'l Equity	0.96	0.65	0.64	0.67	1.00	0.95	0.71	0.99	0.17	0.43	0.10	0.03	0.19	0.51	0.72	0.32	0.25	0.80	0.49	0.43	0.60	0.00	-0.06
Dev'd Small/Mid Int'l Equity	0.91	0.74	0.77	0.76	0.95	1.00	0.80	0.94	0.04	0.33	0.17	-0.30	0.09	0.66	0.75	0.40	0.27	0.77	0.66	0.49	0.66	-0.15	0.07
Emerging Markets Equity	0.86	0.68	0.70	0.70	0.71	0.80	1.00	0.76	0.03	0.11	0.12	-0.18	0.05	0.57	0.71	0.22	0.14	0.71	0.53	0.41	0.59	-0.06	0.03
Broad International Equity	0.97	0.75	0.71	0.75	0.99	0.94	0.76	1.00	0.11	0.38	0.12	-0.12	0.12	0.56	0.74	0.36	0.24	0.81	0.48	0.46	0.67	-0.07	0.00
Intermediate Fixed Income	0.03	0.23	0.16	0.21	0.17	0.04	0.03	0.11	1.00	0.43	0.74	0.86	0.95	0.29	0.25	-0.04	-0.04	0.21	0.14	0.04	-0.25	0.25	-0.16
Non-US Fixed Income UH	0.21	0.05	-0.01	0.04	0.43	0.33	0.11	0.38	0.43	1.00	0.50	0.39	0.40	0.07	0.43	0.01	-0.07	0.34	0.08	0.23	-0.13	0.09	-0.07
TIPS	0.09	0.05	0.05	0.05	0.10	0.17	0.12	0.12	0.74	0.50	1.00	0.45	0.69	0.28	0.48	0.18	0.12	0.24	0.18	0.31	-0.14	0.01	0.10
Low Duration Fixed Income	-0.28	0.06	-0.01	0.04	0.03	-0.30	-0.18	-0.12	0.86	0.39	0.45	1.00	0.71	-0.01	-0.10	-0.04	-0.11	-0.08	0.02	-0.10	-0.36	0.50	-0.04
Long Duration Fixed Income	0.06	0.25	0.17	0.22	0.19	0.09	0.05	0.12	0.95	0.40	0.69	0.71	1.00	0.29	0.26	-0.04	-0.01	0.21	0.14	0.04	-0.18	0.15	-0.22
High Yield Fixed Income	0.68	0.58	0.63	0.60	0.51	0.66	0.57	0.56	0.29	0.07	0.28	-0.01	0.29	1.00	0.63	0.14	0.09	0.61	0.39	0.31	0.43	-0.06	0.04
Real Return	0.71	0.61	0.65	0.63	0.72	0.75	0.71	0.74	0.25	0.43	0.48	-0.10	0.26	0.63	1.00	0.47	0.30	0.85	0.62	0.81	0.48	-0.08	0.20
Core Real Estate	0.40	0.30	0.26	0.31	0.32	0.40	0.22	0.36	-0.04	0.01	0.18	-0.04	-0.04	0.14	0.47	1.00	0.90	0.37	0.35	0.35	0.45	0.25	0.07
Non-Core Real Estate	0.29	0.27	0.19	0.25	0.25	0.27	0.14	0.24	-0.04	-0.07	0.12	-0.11	-0.01	0.09	0.30	0.90	1.00	0.27	0.30	0.18	0.40	0.15	0.02
REITs	0.80	0.68	0.70	0.70	0.80	0.77	0.71	0.81	0.21	0.34	0.24	-0.08	0.21	0.61	0.85	0.37	0.27	1.00	0.46	0.38	0.53	-0.09	0.02
Absolute Return	0.69	0.48	0.51	0.50	0.49	0.66	0.53	0.48	0.14	0.08	0.18	0.02	0.14	0.39	0.62	0.35	0.30	0.46	1.00	0.48	0.53	0.19	0.15
Commodities	0.43	0.30	0.33	0.31	0.43	0.49	0.41	0.46	0.04	0.23	0.31	-0.10	0.04	0.31	0.81	0.35	0.18	0.38	0.48	1.00	0.31	-0.03	0.23
Private Equity	0.75	0.70	0.67	0.71	0.60	0.66	0.59	0.67	-0.25	-0.13	-0.14	-0.36	-0.18	0.43	0.48	0.45	0.40	0.53	0.53	0.31	1.00	-0.02	0.14
Cash Equivalents	-0.06	0.04	-0.01	0.03	0.00	-0.15	-0.06	-0.07	0.25	0.09	0.01	0.50	0.15	-0.06	-0.08	0.25	0.15	-0.09	0.19	-0.03	-0.02	1.00	0.38
U.S. Inflation	0.05	0.01	-0.01	-0.02	-0.06	0.07	0.03	0.00	-0.16	-0.07	0.10	-0.04	-0.22	0.04	0.20	0.07	0.02	0.02	0.15	0.23	0.14	0.38	1.00

Correlation greater than 0.5
Correlation between 0 and 0.5
Correlation less than 0

Capital Market Assumptions

- Capital Market (CM) assumptions (in the form of a "set" of risk, return, and correlation parameters for every asset class) are the most pervasively used tools in the management of institutional portfolios.

- The asset class behaviors that CM assumptions estimate —risk, return, and correlation—are widely accepted as the most powerful drivers of the total fund return over the long run.

- *Hence*, the mix of asset classes (and the risk, return, and correlation associated with each) are the most powerful drivers of total fund return over the long run.

Putting it all Together…

- Risk
- Return
- Correlations
- Diversification – Asset Allocation

...results in an *Efficient Frontier*

Asset Classes	Min	Max	Current Allocation	Current Target	1	2	3	4	5	6	7	8	9	10
Broad US Equity	15	50	37	35	23	19	21	22	24	26	27	29	31	35
Broad International Equity	10	30	25	25	12	19	21	22	24	26	27	29	30	30
Core Fixed Income	15	45	23	25	45	42	39	36	32	29	26	22	19	15
Real Estate - Custom	3	3	2	3	3	3	3	3	3	3	3	3	3	3
Absolute Return	9	9	8	5	9	9	9	9	9	9	9	9	9	9
Private Equity	5	5	2	5	5	5	5	5	5	5	5	5	5	5
Real Assets - Custom	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Total			100	100	100	100	100	100	100	100	100	100	100	100
Total Equity	35	65	62	60	35	38	41	44	48	51	55	58	61	65
Total Equity + Private Equity	40	70	64	65	40	43	46	49	53	56	60	63	66	70
Return			7.60	7.68	6.98	7.09	7.21	7.32	7.43	7.55	7.66	7.77	7.89	8.00
Risk (1 Year Holding Period)			11.98	12.20	8.64	9.06	9.56	10.07	10.59	11.11	11.63	12.16	12.70	13.24
Sharpe Ratio			0.34	0.34	0.40	0.40	0.39	0.38	0.37	0.36	0.36	0.35	0.34	0.34
Return (Compound)			6.94	7.00	6.63	6.71	6.79	6.85	6.91	6.98	7.04	7.09	7.15	7.20
Risk (3 Year Holding Period)			6.92	7.04	4.99	5.23	5.52	5.81	6.11	6.41	6.71	7.02	7.33	7.64
Risk (5 Year Holding Period)			5.36	5.46	3.86	4.05	4.28	4.50	4.74	4.97	5.20	5.44	5.68	5.92
Risk (7 Year Holding Period)			4.53	4.61	3.27	3.42	3.61	3.81	4.00	4.20	4.40	4.60	4.80	5.00
Risk (10 Year Holding Period)			3.79	3.86	2.73	2.87	3.02	3.18	3.35	3.51	3.68	3.85	4.02	4.19

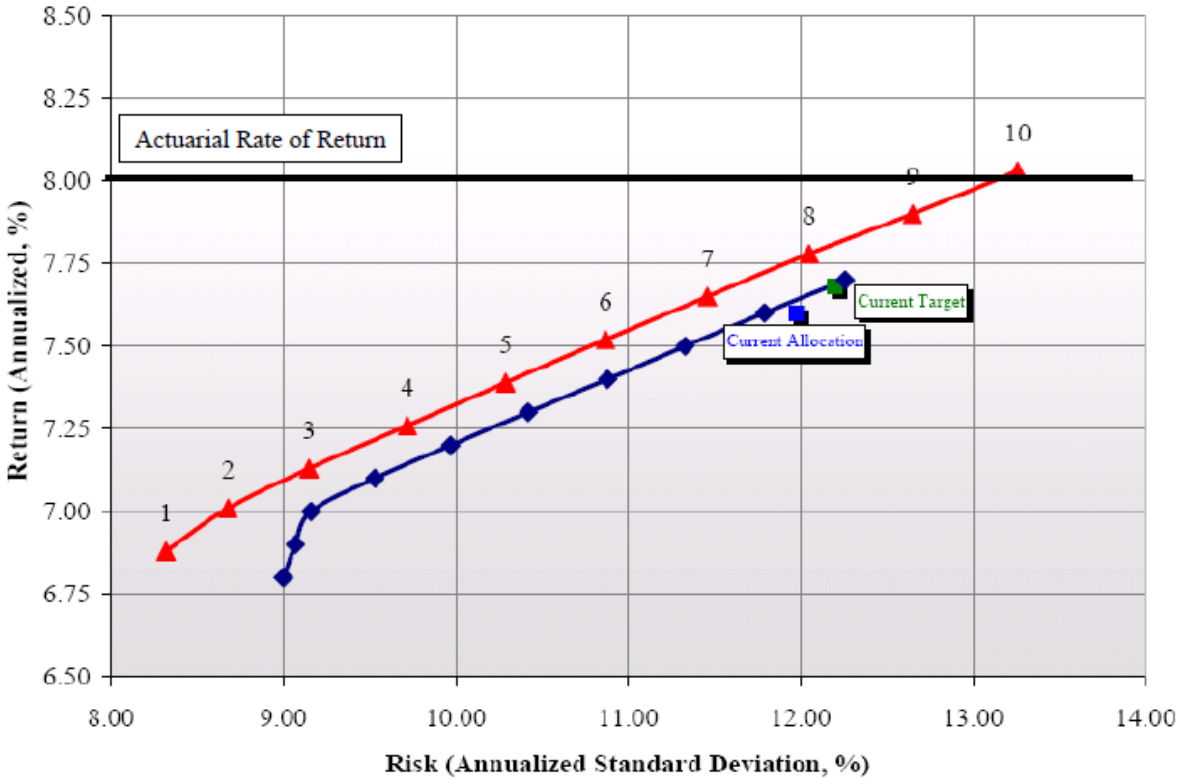
"Current Allocation" as of March 31, 2010.

As of March 31, 2010, the Broad International Index (MSCI ACW ex US) had an approximate allocation of 22% to emerging markets.

As of March 31, 2010, PERA's International Composite had an approximate allocation of 18% to emerging markets.

Efficient Frontier - The Optimal Portfolio

March 31, 2010



as of March 31, 2010.

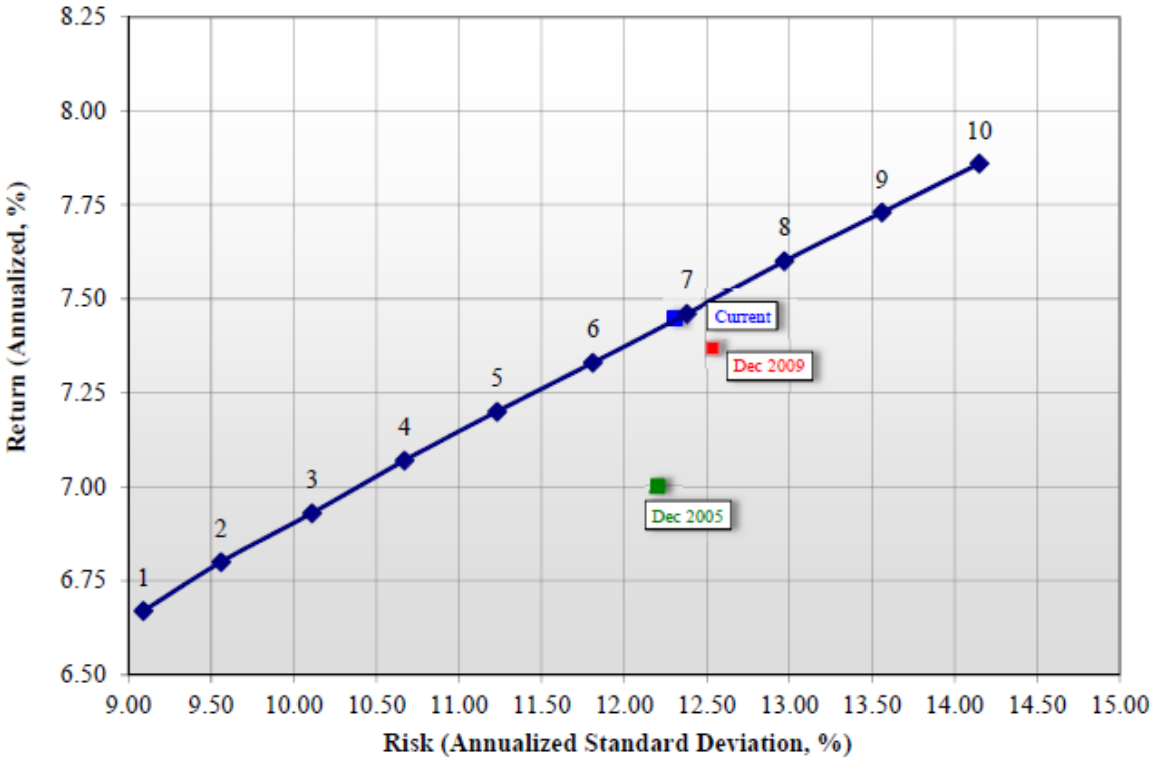
2011 Efficient Frontier

	Min	Max	1	2	3	4	5	6	7	8	9	10	Current Target	Dec. 2009 Target	Dec. 2005 Target
Broad US Equity	15	50	25	19	20	22	24	26	27	29	31	35	27	35	40
Broad International Equity	10	30	10	19	20	22	24	26	27	29	30	30	27	25	25
Int. Duration Fixed Income	15	45	45	43	39	36	32	29	26	22	19	15	26	25	35
Real Return	3	3	3	3	3	3	3	3	3	3	3	3	3	3	0
Core Real Estate	3	3	3	3	3	3	3	3	3	3	3	3	3	2	0
Absolute Return	9	9	9	9	9	9	9	9	9	9	9	9	9	8	0
Private Equity	5	5	5	5	5	5	5	5	5	5	5	5	5	3	0
Total			100	100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			40	42	46	49	53	56	59	63	66	70	59	63	65
Capital Preservation			45	43	39	36	32	29	26	22	19	15	26	25	35
Alpha			9	9	9	9	9	9	9	9	9	9	9	8	0
Inflation			6	6	6	6	6	6	6	6	6	6	6	5	0
Expected Return			**6.67**	**6.80**	**6.93**	**7.07**	**7.20**	**7.33**	**7.46**	**7.60**	**7.73**	**7.86**	**7.45**	**7.37**	**7.00**
Risk (Standard Deviation)			**9.09**	**9.56**	**10.11**	**10.67**	**11.23**	**11.81**	**12.38**	**12.97**	**13.56**	**14.15**	**12.31**	**12.54**	**12.20**
Return (Compound)			6.28	6.37	6.46	6.54	6.62	6.69	6.75	6.83	6.89	6.94	6.75	6.65	6.31
Return/Risk Ratio			0.73	0.71	0.69	0.66	0.64	0.62	0.60	0.59	0.57	0.56	0.61	0.59	0.57
RVK Expected Eq Beta (LC US Eq = 1)			0.47	0.48	0.51	0.54	0.57	0.60	0.62	0.65	0.69	0.72	0.62	0.65	0.64
RVK Liquidity Metric (T-Bills = 100)			77	76	77	77	77	77	78	78	78	79	78	82	90

2011 Efficient Frontier – The Optimal Portfolio

Comparison of PERA Portfolio **Actual** Allocations:

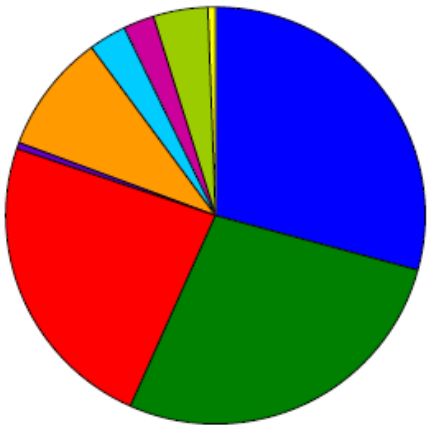
- 2005, prior to allocation to alternative investments
- 2009, 13.5% allocation to alternative investments
- 2011, 19% allocation to alternative investments



PERA Fund Asset Allocation
March 31, 2011

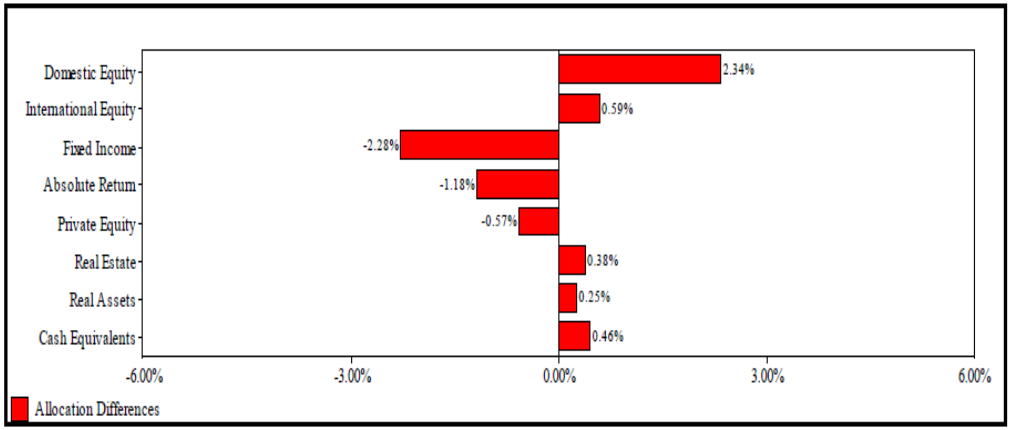
Asset Allocation by Asset Class

March 31, 2011 : $12,190,127,954



	Market Value ($)	Allocation (%)
Domestic Equity Composite	3,556,847,382	29.18
Int'l Equity Composite	3,344,597,974	27.44
Total Fixed Income Composite	2,875,369,419	23.59
Cash Equivalent Composite	55,482,331	0.46
Absolute Return Composite	1,129,478,726	9.27
Private Equity Composite	355,293,078	2.91
Real Estate Composite	288,885,676	2.37
Real Assets Composite	515,411,072	4.23
STO Cash Balance	68,762,295	0.56

Allocations shown may not sum up to 100% exactly due to rounding.



	Market Value ($)	Allocation (%)	Target (%)
Domestic Equity	3,556,847,382	29.34	27.00
International Equity	3,344,597,974	27.59	27.00
Fixed Income	2,875,369,419	23.72	26.00
Absolute Return	1,129,478,726	9.32	10.50
Private Equity	355,293,078	2.93	3.50
Real Estate	288,885,676	2.38	2.00
Real Assets	515,411,072	4.25	4.00
Cash Equivalents	55,482,331	0.46	-
Total Fund	12,121,365,659	100.00	100.00

Allocations shown may not sum up to 100% exactly due to rounding.
Asset allocation excludes STO Cash.
Portable Alpha Hedge Fund allocation as of 3/31/2011: $492,802,365.

RVKuhns

PERA's Policy Benchmarks

Asset Class	Policy Index	Strategic Asset Allocation Target
Domestic Equity	Russell 3000 Index	27.0%
International Equity	MSCI All Country Ex US Index	27.0%
Fixed Income	Barclay Capital Aggregate Index	26.0%
Private Equity [1]	Actual Private Equity Performance through 2014, Venture Economics Pooled IRR thereafter	5.0%
Absolute Return[2]	HFRI Fund-of-Funds Index	9.0%
Real Estate	75% NCREIF Property Index +3%, 25% NAREIT	3.0%
Real Assets [3]	75% Cliffwater Private Energy Index, 25% S&P GSCI Light Energy Index	3.0%

[1]The Russell 3000 Index + 3% is also an appropriate long-term benchmark.
[2]LIBOR + 4% is also an appropriate long-term benchmark
[3]CPI + 6% is also an appropriate long-term benchmark. The Cliffwater Private Energy Index is a peer universe of private energy funds.

Conclusion

- The PERA Fund is diversified across non-correlated asset classes both passively and actively managed. The asset and management mix is designed to achieve risk-adjusted returns sufficient to meet the actuarial target rate of return over the long term.
- Capital market assumptions (10 year annualized) and the Fund's efficient frontier are updated annually.
- An asset/liability study will be conducted by RV Kuhns in late 2011, following the completion of the FY11 actuarial study.
- On July 28th, the PERA Board will take action on an Actuary recommendation to reduce the target rate of return assumption to 7.75% from 8.0%

Appendix

How is PERA's Investment Performance Evaluated?

The Board compares total fund performance in two ways:

- Relative to a **benchmark** to evaluate how the Plan is performing compared to its stated target (which changes over time).
- Relative to **peers** to evaluate how the Plan is performing compared to other funds of similar type and size, and to understand best practices among the peers.

- PERA's Total Fund return is compared to the All Public Plans > $2 billion peer universe.
- It is important to note that the interim and long-term target allocations of peer public plans may differ from PERA's targets, leading to different performance results.

PERA Fund Performance Relative to Benchmarks (Interim Custom & Long-Term Target)

Period ending March 31, 2011	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Inception	Inception Date
NM PERA Total Fund	**4.05**	**21.52**	**4.05**	**13.74**	**1.73**	**2.80**	**5.14**	**5.63**	**7.75**	**9.61**	**06/01/1985**
Total Fund Interim Custom Index	3.57	19.58	3.57	12.38	3.41	4.48	5.89	5.60	7.20	N/A	
Difference	0.48	1.94	0.48	1.36	-1.68	-1.68	-0.75	0.03	0.55	N/A	
NM PERA Total Fund	**4.05**	**21.52**	**4.05**	**13.74**	**1.73**	**2.80**	**5.14**	**5.63**	**7.75**	**9.61**	**06/01/1985**
Long-Term Target Allocation	3.57	19.25	3.57	12.18	3.44	4.72	6.06	5.72	7.28	N/A	
Difference	0.48	2.27	0.48	1.56	-1.71	-1.92	-0.92	-0.09	0.47	N/A	
NM PERA Total Fund (Net)	**4.02**	**21.41**	**4.02**	**13.60**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**14.40**	**01/01/2010**

Calendar Years	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
NM PERA Total Fund	**13.90**	**21.56**	**-31.96**	**7.25**	**14.96**	**8.46**	**11.67**	**20.84**	**-5.04**	**-1.77**
Total Fund Interim Custom Index	11.99	22.76	-26.48	8.45	14.31	7.06	10.44	21.16	-8.27	-5.42
Difference	1.91	-1.20	-5.48	-1.20	0.65	1.40	1.23	-0.32	3.23	3.65
NM PERA Total Fund	**13.90**	**21.56**	**-31.96**	**7.25**	**14.96**	**8.46**	**11.67**	**20.84**	**-5.04**	**-1.77**
Long-Term Target Allocation	11.88	21.43	-25.17	9.05	14.31	7.06	10.44	21.16	-8.27	-5.42
Difference	2.02	0.13	-6.79	-1.80	0.65	1.40	1.23	-0.32	3.23	3.65

Please see Appendix for custom index definitions.

PERA Fund Performance Relative to Peers

Period ending March 31, 2011	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Inception	Inception Date
NM PERA Total Fund	**4.05**	**21.52**	**4.05**	**13.74**	**1.73**	**2.80**	**5.14**	**5.63**	**7.75**	**9.61**	**06/01/1985**
All Public Plans > $2B (Custom Peer Group) Median	3.89	19.70	3.89	13.93	3.36	4.47	6.27	6.22	7.72	9.62	
Percentile Rank	37	19	37	52	93	99	88	80	47	64	
Population	61	60	61	53	53	52	49	44	33	12	
Total Fund Interim Custom Index	**3.57**	**19.58**	**3.57**	**12.38**	**3.41**	**4.48**	**5.89**	**5.60**	**7.20**	**8.43**	**03/01/1991**
All Public Plans > $2B (Custom Peer Group) Median	3.89	19.70	3.89	13.93	3.36	4.47	6.27	6.22	7.72	8.80	
Percentile Rank	76	54	76	77	49	50	68	87	80	63	
Population	61	60	61	53	53	52	49	44	33	26	
Long-Term Target Allocation	**3.57**	**19.25**	**3.57**	**12.18**	**3.44**	**4.72**	**6.06**	**5.72**	**7.28**	**8.49**	**03/01/1991**
All Public Plans > $2B (Custom Peer Group) Median	3.89	19.70	3.89	13.93	3.36	4.47	6.27	6.22	7.72	8.80	
Percentile Rank	77	63	77	79	49	39	57	74	78	63	
Population	61	60	61	53	53	52	49	44	33	26	
NM PERA Total Fund	**4.05**	**21.52**	**4.05**	**13.74**	**1.73**	**2.80**	**5.14**	**5.63**	**7.75**	**9.61**	**06/01/1985**
All Public Plans-Total Fund	4.16	20.09	4.16	13.24	4.11	4.48	5.80	5.68	7.35	9.32	
Percentile Rank	55	29	55	41	95	97	80	53	25	40	
Population	348	344	348	333	315	203	191	162	93	24	
NM PERA Total Fund	**4.05**	**21.52**	**4.05**	**13.74**	**1.73**	**2.80**	**5.14**	**5.63**	**7.75**	**9.61**	**06/01/1985**
All Public Plans >$10B (Custom Peer Group) Median	3.81	19.83	3.81	13.29	3.01	4.36	6.24	6.14	7.51	N/A	
Percentile Rank	36	12	36	40	87	96	91	77	38	N/A	
Population	29	28	29	24	24	24	22	22	17	N/A	

PERA Custom Index Definitions

Total Fund Interim Custom Index is based on the target allocation and consists of 40% S&P 500 Index, 60% LB Aggregate Bond Index until 08/31/1992; 55% S&P 500 Index, 45% LB Aggregate Bond Index until 08/31/1995; 52.5% S&P 500 Index, 2.5% MSCI EAFE Blend, 45% LB Aggregate Bond Index until 11/30/1995; 50% S&P 500 Index, 5% MSCI EAFE Blend, 45% LB Aggregate Bond Index until 02/29/1996; 45% S&P 500 Index, 10% MSCI EAFE Blend, 45% LB Aggregate Bond Index until 11/30/1997; 45% S&P 500 Index, 15% MSCI EAFE Blend, 40% LB Aggregate Bond Index until 02/28/1999; 42% Russell 3000 Index, 18% MSCI EAFE Blend, 40% LB Aggregate Bond Index until 05/31/1999; 45% Russell 3000 Index, 15% MSCI EAFE Index (Gross), 40% LB Aggregate Bond Index until 06/30/2000; 42% Russell 3000 Index, 18% MSCI EAFE Index (Gross), 40% LB Aggregate Bond Index until 06/30/2005; 40% Russell 3000 Index, 25% MSCI EAFE Index (Gross), 35% LB Aggregate Bond Index until 06/30/2007; 40% Russell 3000 Index, 25% MSCI ACW Ex US Index (Gross), 32% LB Aggregate Bond Index, 3% 3 Mo LIBOR Index + 4% until 11/30/2007; 40% Russell 3000 Index, 25% MSCI ACW Ex US Index (Gross), 31% LB Aggregate Bond Index, 4% 3 Mo LIBOR Index + 4% until 2/29/2008; 40% Russell 3000 Index, 25% MSCI ACW Ex US Index (Gross), 30% BC US Agg Bond Index, 5% 3 Mo LIBOR Index + 4% until 12/31/2008; 38% Russell 3000 Index, 25% MSCI ACW Ex US Index (Gross), 29% BC US Agg Bond Index, 5% LIBOR + 4%, 2% Venture Economics All Private Equity Index lagged one quarter, 0.5% NCREIF Property Index, 0.5% CPI + 5% until 10/31/2009; 35% Russell 3000 Index, 25% MSCI ACW Ex US Index (Gross), 25% BC US Agg Bond Index, 7.5% LIBOR + 4%, 2.5% Venture Economics All Private Equity Index lagged one quarter, 2% NCREIF Property Index, 1% BC US TIPS Index, 1% S&P GSCI Light Energy Index, 1% CPI + 5% until 09/30/2010; and 27% Russell 3000 Index, 27% MSCI ACW Ex US Index (Gross), 26% BC US Agg Bond Index, 10.5% HFRI Fund of Funds Composite Index, 3.5% Private Equity Custom Index, 2% Real Estate Custom Index, and 4% Real Assets Custom Index thereafter.

Long-Term Target Allocation consists of the Total Fund Interim Custom Index until 06/30/2007; 35% Russell 3000 Index, 25% MSCI ACW Ex US Blended Index (Gross), 25% LB Aggregate Bond Index, 5% 3 Mo LIBOR Index + 4%, 5% Venture Economics All Private Equity Index (lagged one quarter), 2.5% NCREIF Property Index, and 2.5% CPI + 5% until 10/31/2009; 35% Russell 3000 Index, 25% MSCI ACW Ex US Blended Index (Gross), 25% BC US Aggregate Bond Index, 5% 3 Mo LIBOR Index + 4%, 5% Venture Economics All Private Equity Index (lagged one quarter), 2.5% NCREIF Property Index, 1% BC US TIPS Index, 1% S&P GSCI Light Energy Index, and 0.5% CPI + 5% until 06/30/2010; and 27% Russell 3000 Index, 27% MSCI ACW Ex US Index (Gross), 26% BC Aggregate Bond Index, 9% HFRI Fund of Funds Composite Index, 5% Private Equity Custom Index, 3% Real Estate Custom Index, and 3% Real Assets Custom Index thereafter.