

MEETING MATERIAL

Municipal Employees' Retirement System of Louisiana

January 18, 2018



Confidentiality: This evaluation is prepared by Meketa Investment Group, Inc. for the exclusive use of the Municipal Employees' Retirement System of Louisiana. This evaluation is not to be used for any other purpose or by any parties other than the System, its Board Members, employees, agents, attorneys, and/or consultants. No other parties are authorized to review or utilize the information contained herein without expressed written consent.

M E K E T A I N V E S T M E N T G R O U P

BOSTON
MASSACHUSETTS

CHICAGO
ILLINOIS

MIAMI
FLORIDA

PORTLAND
OREGON

SAN DIEGO
CALIFORNIA

LONDON
UNITED KINGDOM

www.meketagroup.com

The material contained in this report is confidential and may not be reproduced, disclosed, or distributed, in whole or in part, to any person or entity other than the intended recipient. The data are provided for informational purposes only, may not be complete, and cannot be relied upon for any purpose other than for discussion.

Meketa Investment Group has prepared this report on the basis of sources believed to be reliable. The data are based on matters as they are known as of the date of preparation of the report, and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available.

- 1. Retirement System Performance Review**
- 2. February Meeting Preview**
- 3. Bedico Creek**
- 4. Disclaimer, Glossary, and Notes**

**December 2017
Retirement System
Performance Review**

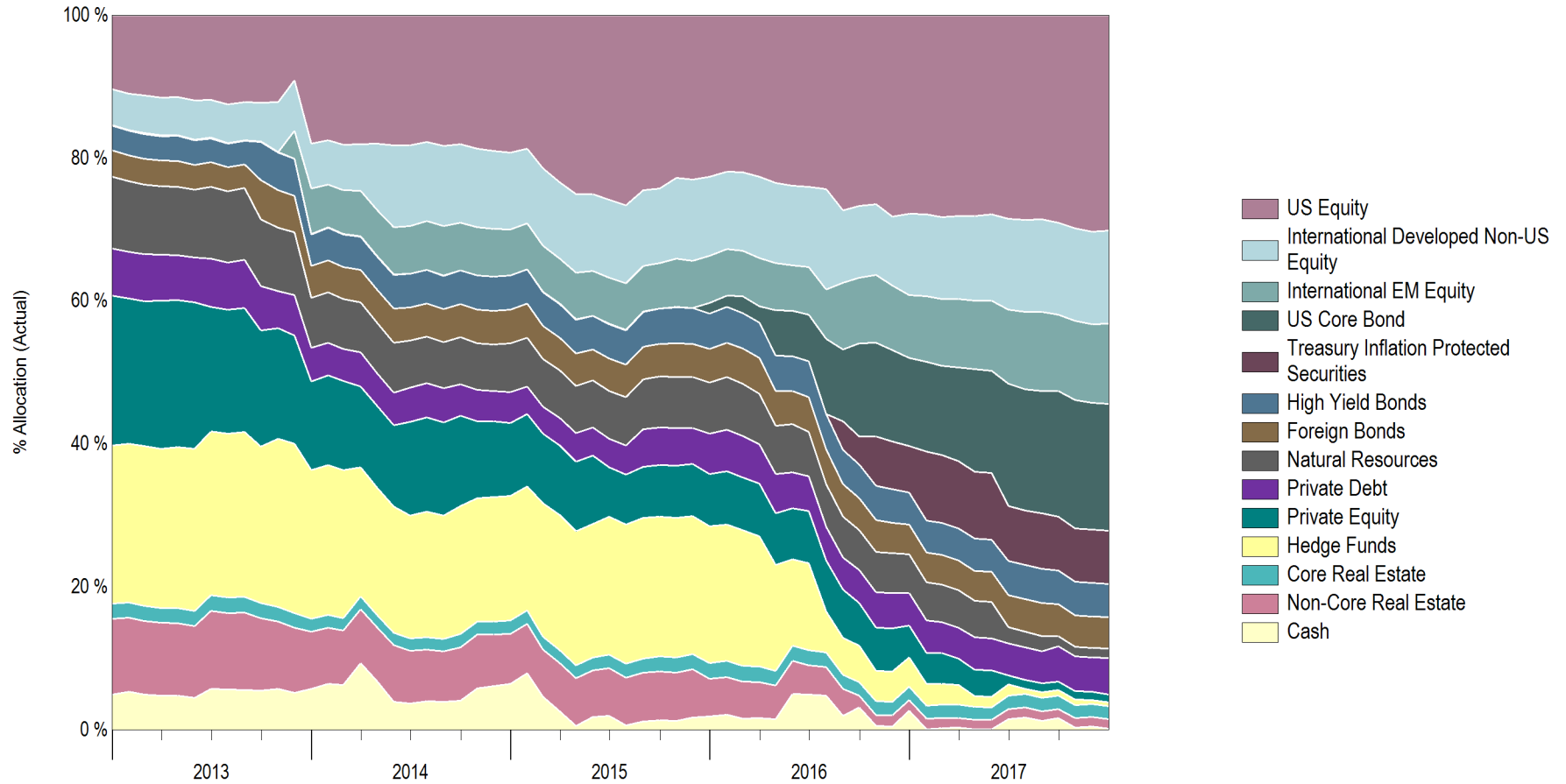
Total Retirement System Aggregate

As of December 31, 2017

Allocation vs. Targets and Policy

	Current Balance	Current Allocation	Policy	Policy Range	Within IPS Range?
US Equity	\$253,145,662	30%	28%	18% - 38%	Yes
International Developed Non-US Equity	\$109,575,720	13%	12%	7% - 17%	Yes
International EM Equity	\$94,651,752	11%	10%	5% - 15%	Yes
US Core Bond	\$149,106,305	18%	18%	8% - 28%	Yes
Treasury Inflation Protected Securities	\$62,804,116	7%	7%	2% - 12%	Yes
High Yield Bonds	\$39,101,479	5%	5%	0% - 10%	Yes
Foreign Bonds	\$36,864,089	4%	5%	0% - 10%	Yes
Natural Resources	\$11,308,445	1%	3%	0% - 6%	Yes
Private Debt	\$42,678,375	5%	3%	0% - 6%	Yes
Infrastructure	--	--	3%	0% - 6%	Yes
Private Equity	\$9,748,753	1%	2%	0% - 4%	Yes
Hedge Funds	\$4,443,479	1%	0%	0% - 5%	Yes
Core Real Estate	\$15,308,499	2%	4%	0% - 8%	Yes
Non-Core Real Estate	\$10,874,779	1%	0%	0% - 5%	Yes
Cash	\$1,433,358	0%	0%	0% - 5%	Yes
Total	\$841,044,813	100%	100%		

Asset Allocation History
5 Years Ending December 31, 2017



Total Retirement System Aggregate

As of December 31, 2017

Asset Class Net Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total Retirement System Aggregate	841,044,813	100.0	0.8	3.2	6.4	7.0	2.2	4.0	2.4	4.0	Jan-06
<i>Policy Benchmark</i>			1.3	3.8	7.8	16.3	7.1	8.1	5.3	7.0	Jan-06
<i>60% MSCI ACWI & 40% Barclays Universal</i>			1.1	3.6	7.2	15.6	6.8	7.5	4.9	6.0	Jan-06
Domestic Equity	253,145,662	30.1	0.2	6.0	11.6	19.5	10.9	14.0	8.5	8.4	Feb-06
<i>Russell 3000</i>			1.0	6.3	11.2	21.1	11.1	15.6	8.6	8.6	Feb-06
Developed Equity	109,575,720	13.0	1.3	3.8	8.2	21.9	9.0	--	--	6.3	May-14
<i>MSCI EAFE</i>			1.6	4.2	9.9	25.0	7.8	7.9	1.9	3.9	May-14
Emerging Market Equity	94,651,752	11.3	3.4	7.6	14.9	35.5	10.2	--	--	7.8	Dec-13
<i>MSCI Emerging Markets</i>			3.6	7.4	15.9	37.3	9.1	4.3	1.7	6.2	Dec-13
U.S. Core Bond Assets	149,106,305	17.7	0.5	0.4	1.2	3.4	3.1	--	--	1.1	Apr-13
<i>BBgBarc US Aggregate TR</i>			0.5	0.4	1.2	3.5	2.2	2.1	4.0	2.1	Apr-13
Treasury Inflation Protected Securities	62,804,116	7.5	0.9	1.2	2.1	3.1	--	--	--	0.6	Jul-16
<i>BBgBarc US TIPS TR</i>			0.9	1.3	2.1	3.0	2.0	0.1	3.5	0.4	Jul-16
Foreign Bond Assets	36,864,089	4.4	0.7	-0.5	2.7	13.0	3.0	--	--	1.5	Apr-13
<i>BBgBarc Global Aggregate TR</i>			0.3	1.1	2.9	7.4	2.0	0.8	3.1	1.0	Apr-13
High Yield Bonds	39,101,479	4.6	0.5	0.8	2.8	8.2	4.3	--	--	5.0	Apr-13
<i>BBgBarc US High Yield TR</i>			0.3	0.5	2.5	7.5	6.4	5.8	8.0	5.2	Apr-13

Total Retirement System Aggregate

As of December 31, 2017

	Market Value (\$)	% of Portfolio	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Core Real Estate	15,308,499	1.8	0.0	0.0	1.1	4.5	8.4	10.3	5.7	7.3	Mar-06
<i>NCREIF ODCE Equal Weighted (Net)</i>			0.0	0.0	1.7	4.9	9.1	10.2	3.7	5.3	Mar-06
Natural Resources	11,308,445	1.3	0.0	0.0	-11.3	-62.6	-30.3	--	--	-19.8	Apr-13
<i>S&P Global Natural Resources Index TR USD</i>			5.7	8.6	20.3	22.7	7.2	2.5	-0.4	3.3	Apr-13
Private Debt	42,678,375	5.1	0.0	0.0	2.8	-0.3	3.8	--	--	5.6	Apr-13
<i>BBgBarc High Yield+2%</i>			0.5	1.0	3.5	9.6	8.5	7.9	10.2	7.2	Apr-13
Private Equity	9,748,753	1.2	0.0	0.0	-0.7	-54.1	-28.9	-18.4	--	-8.0	Feb-08
<i>S&P 500 +3%</i>			1.4	7.4	13.1	25.4	14.7	19.2	11.7	12.5	Feb-08
Non-Core Real Estate	10,874,779	1.3	0.0	0.0	0.0	-2.8	-4.7	-0.6	-0.4	1.3	Feb-06
<i>NCREIF Property (1-quarter lagged)</i>			1.7	1.7	3.5	6.9	9.8	10.4	6.2	8.1	Feb-06
Hedge Funds	4,443,479	0.5									
Cash	1,433,358	0.2									

Total Retirement System Aggregate

As of December 31, 2017

Trailing Net Performance

	Market Value (\$)	% of Portfolio	% of Sector	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total Retirement System Aggregate	841,044,813	100.0	--	0.8	3.2	6.4	7.0	2.2	4.0	2.4	4.0	Jan-06
<i>Policy Benchmark</i>				1.3	3.8	7.8	16.3	7.1	8.1	5.3	7.0	Jan-06
<i>60% MSCI ACWI & 40% Barclays Universal</i>				1.1	3.6	7.2	15.6	6.8	7.5	4.9	6.0	Jan-06
Domestic Equity	253,145,662	30.1	30.1	0.2	6.0	11.6	19.5	10.9	14.0	8.5	8.4	Feb-06
<i>Russell 3000</i>				1.0	6.3	11.2	21.1	11.1	15.6	8.6	8.6	Feb-06
Northern Trust S&P 500 Index	138,328,203	16.4	54.6	1.1	6.6	11.4	21.8	11.4	--	--	12.4	Dec-13
<i>S&P 500</i>				1.1	6.6	11.4	21.8	11.4	15.8	8.5	12.4	Dec-13
<i>Large Cap MStar MF Median</i>				1.1	6.4	11.2	21.2	10.2	14.7	8.0	11.0	Dec-13
<i>Large Cap MStar MF Rank</i>				47	40	45	42	24	--	--	21	Dec-13
Northern Trust S&P 400 MidCap Index	59,737,522	7.1	23.6	0.2	6.3	9.7	16.2	11.1	--	--	11.4	Dec-13
<i>S&P 400 MidCap</i>				0.2	6.3	9.7	16.2	11.1	15.0	10.0	11.4	Dec-13
<i>Mid Cap MStar MF Median</i>				0.7	5.7	9.7	18.2	9.4	14.1	8.4	9.8	Dec-13
<i>Mid Cap MStar MF Rank</i>				75	32	52	60	19	--	--	15	Dec-13
Barrow Hanley Small Cap Value Equity	55,079,937	6.5	21.8	-2.0	4.1	14.4	17.3	11.4	14.2	11.3	10.9	Jan-06
<i>Russell 2000 Value</i>				-1.0	2.0	7.3	7.8	9.5	13.0	8.2	7.7	Jan-06
<i>Small Value MStar MF Median</i>				-0.3	3.4	8.5	9.3	8.7	13.2	8.7	8.3	Jan-06
<i>Small Value MStar MF Rank</i>				95	25	1	4	11	25	1	1	Jan-06
Developed Equity	109,575,720	13.0	13.0	1.2	3.8	8.2	21.9	8.9	--	--	6.3	May-14
<i>MSCI EAFE</i>				1.6	4.2	9.9	25.0	7.8	7.9	1.9	3.9	May-14
First Eagle International Value	34,536,860	4.1	31.5	0.7	2.2	4.9	14.4	7.0	--	--	4.3	May-14
<i>MSCI EAFE</i>				1.6	4.2	9.9	25.0	7.8	7.9	1.9	3.9	May-14
<i>Foreign Value MStar MF Median</i>				1.7	3.8	9.8	23.9	7.9	7.7	1.8	3.9	May-14
<i>Foreign Value MStar MF Rank</i>				99	80	95	96	71	--	--	35	May-14

Total Retirement System Aggregate

As of December 31, 2017

	Market Value (\$)	% of Portfolio	% of Sector	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
WCM Focused International Growth Fund	32,426,324	3.9	29.6	1.7	5.3	10.0	31.0	11.3	--	--	8.7	Jun-14
<i>MSCI ACWI ex USA</i>				2.2	5.0	11.5	27.2	7.8	6.8	1.8	4.3	Jun-14
<i>Foreign Growth MStar MF Median</i>				1.7	4.8	12.2	32.2	10.1	9.1	3.6	6.4	Jun-14
<i>Foreign Growth MStar MF Rank</i>				52	38	76	64	32	--	--	21	Jun-14
Northern Trust MSCI EAFE Index	42,612,536	5.1	38.9	1.4	3.9	9.6	25.1	--	--	--	25.1	Jan-17
<i>MSCI EAFE</i>				1.6	4.2	9.9	25.0	7.8	7.9	1.9	25.0	Jan-17
<i>Foreign MStar MF Median</i>				1.7	4.2	10.5	27.6	8.6	8.1	2.6	27.6	Jan-17
<i>Foreign MStar MF Rank</i>				69	59	64	72	--	--	--	72	Jan-17
Emerging Market Equity	94,651,752	11.3	11.3	3.4	7.6	14.9	35.5	10.2	--	--	7.8	Dec-13
<i>MSCI Emerging Markets</i>				3.6	7.4	15.9	37.3	9.1	4.3	1.7	6.2	Dec-13
Dimensional Emerging Markets Value	43,518,918	5.2	46.0	3.7	7.9	13.9	33.8	9.2	--	--	5.6	Dec-13
<i>MSCI Emerging Markets</i>				3.6	7.4	15.9	37.3	9.1	4.3	1.7	6.2	Dec-13
<i>Diversified Emerging Mkts MStar MF Median</i>				3.4	6.5	14.8	36.8	8.9	4.7	2.2	6.1	Dec-13
<i>Diversified Emerging Mkts MStar MF Rank</i>				33	18	61	68	45	--	--	59	Dec-13
Northern Trust Emerging Markets Index	51,132,834	6.1	54.0	3.2	7.3	15.8	37.0	--	--	--	27.0	Jun-16
<i>MSCI Emerging Markets</i>				3.6	7.4	15.9	37.3	9.1	4.3	1.7	27.2	Jun-16
<i>Diversified Emerging Mkts MStar MF Median</i>				3.4	6.5	14.8	36.8	8.9	4.7	2.2	25.1	Jun-16
<i>Diversified Emerging Mkts MStar MF Rank</i>				58	34	40	50	--	--	--	34	Jun-16
U.S. Core Bond Assets	149,106,305	17.7	17.7	0.5	0.4	1.2	3.4	3.1	--	--	1.1	Apr-13
<i>BBgBarc US Aggregate TR</i>				0.5	0.4	1.2	3.5	2.2	2.1	4.0	2.1	Apr-13
Northern Trust Barclays Aggregate Index	149,106,268	17.7	100.0	0.5	0.4	1.2	3.5	--	--	--	3.0	Dec-15
<i>BBgBarc US Aggregate TR</i>				0.5	0.4	1.2	3.5	2.2	2.1	4.0	3.1	Dec-15
<i>Intermediate-Term Bond MStar MF Median</i>				0.4	0.4	1.3	3.9	2.4	2.3	4.5	3.7	Dec-15
<i>Intermediate-Term Bond MStar MF Rank</i>				42	53	62	66	--	--	--	72	Dec-15

Total Retirement System Aggregate

As of December 31, 2017

	Market Value (\$)	% of Portfolio	% of Sector	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Treasury Inflation Protected Securities	62,804,116	7.5	7.5	0.9	1.2	2.1	3.1	--	--	--	0.6	Jul-16
BBgBarc US TIPS TR				0.9	1.3	2.1	3.0	2.0	0.1	3.5	0.4	Jul-16
Northern Trust TIPS	62,804,116	7.5	100.0	0.9	1.2	2.1	3.1	--	--	--	0.5	Jul-16
BBgBarc US TIPS TR				0.9	1.3	2.1	3.0	2.0	0.1	3.5	0.4	Jul-16
Inflation-Protected Bond MStar MF Median				0.9	1.2	2.1	2.9	1.7	-0.1	3.2	0.6	Jul-16
Inflation-Protected Bond MStar MF Rank				51	47	46	30	--	--	--	56	Jul-16
Foreign Bond Assets	36,864,089	4.4	4.4	0.7	-0.5	2.7	13.0	3.0	--	--	1.5	Apr-13
BBgBarc Global Aggregate TR				0.3	1.1	2.9	7.4	2.0	0.8	3.1	1.0	Apr-13
Brandywine Global Opportunistic Fixed Income	36,864,089	4.4	100.0	0.7	-0.5	2.7	13.0	2.9	2.2	5.6	6.1	Jan-06
BBgBarc Global Aggregate TR				0.3	1.1	2.9	7.4	2.0	0.8	3.1	3.9	Jan-06
World Bond MStar MF Median				0.4	0.8	2.5	7.5	2.4	1.4	4.1	4.4	Jan-06
World Bond MStar MF Rank				13	93	36	6	30	34	16	1	Jan-06
High Yield Bonds	39,101,479	4.6	4.6	0.5	0.8	2.8	8.2	4.3	--	--	5.0	Apr-13
BBgBarc US High Yield TR				0.3	0.5	2.5	7.5	6.4	5.8	8.0	5.2	Apr-13
Loomis Sayles Multisector Full Discretion	39,101,479	4.6	100.0	0.5	0.8	2.8	8.2	4.3	4.7	7.0	7.5	Jan-06
BBgBarc US Govt/Credit TR				0.5	0.5	1.3	4.0	2.4	2.1	4.1	4.3	Jan-06
BBgBarc US High Yield TR				0.3	0.5	2.5	7.5	6.4	5.8	8.0	7.8	Jan-06
Multisector Bond MStar MF Median				0.4	0.7	2.2	6.2	4.0	3.7	5.9	5.8	Jan-06
Multisector Bond MStar MF Rank				33	44	29	17	39	13	6	1	Jan-06

Total Retirement System Aggregate

As of December 31, 2017

	Market Value (\$)	% of Portfolio	% of Sector	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Core Real Estate	15,308,499	1.8	1.8	0.0	0.0	1.1	4.5	8.4	10.3	5.7	7.3	Mar-06
<i>NCREIF ODCE Equal Weighted (Net)</i>				0.0	0.0	1.7	4.9	9.1	10.2	3.7	5.3	Mar-06
Sentinel Real Estate Fund	15,308,499	1.8	100.0	0.0	0.0	1.1	4.5	8.4	10.3	5.7	7.3	Mar-06
<i>NCREIF ODCE Equal Weighted (Net)</i>				0.0	0.0	1.7	4.9	9.1	10.2	3.7	5.3	Mar-06
Natural Resources	11,308,445	1.3	1.3	0.0	0.0	-11.3	-62.6	-30.3	--	--	-19.8	Apr-13
<i>S&P Global Natural Resources Index TR USD</i>				5.7	8.6	20.3	22.7	7.2	2.5	-0.4	3.3	Apr-13
Resource Environmental Solutions	11,308,445	1.3	100.0									
Private Debt	42,678,375	5.1	5.1	0.0	0.0	2.8	-0.3	3.8	--	--	5.6	Apr-13
<i>BBgBarc High Yield+2%</i>				0.5	1.0	3.5	9.6	8.5	7.9	10.2	7.2	Apr-13
Republic Business Credit	16,257,517	1.9	38.1									
BlueBay Direct Lending Fund II, L.P.	26,160,289	3.1	61.3									
Franchise Equity Capital Partners II	260,569	0.0	0.6									
Private Equity	9,748,753	1.2	1.2	0.0	0.0	-0.7	-54.1	-28.9	-18.4	--	-8.0	Feb-08
<i>S&P 500 +3%</i>				1.4	7.4	13.1	25.4	14.7	19.2	11.7	12.5	Feb-08
Capital Spring Finance Company	7,797,085	0.9	80.0									
Louisiana Fund II	1,534,176	0.2	15.7									
Capital Spring, LLC	417,491	0.0	4.3									

Total Retirement System Aggregate

As of December 31, 2017

	Market Value (\$)	% of Portfolio	% of Sector	1 Mo (%)	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Non-Core Real Estate	10,874,779	1.3	1.3	0.0	0.0	0.0	-2.8	-4.7	-0.6	-0.4	1.3	Feb-06
<i>NCREIF Property (1-quarter lagged)</i>				1.7	1.7	3.5	6.9	9.8	10.4	6.2	8.1	Feb-06
Bedico Creek Preserve	7,930,238	0.9	72.9									
Gainesville Vision	2,908,800	0.3	26.7									
Americus Real Estate Fund II	35,741	0.0	0.3									
Hedge Funds	4,443,479	0.5	0.5									
GoldenTree Offshore Fund, Ltd.	3,727,138	0.4	83.9									
Scoggin Worldwide Distressed Fund	716,341	0.1	16.1									
Cash	1,433,358	0.2	0.2									

Footnote Appendix

- Item 1. Fiscal year begins July 1.
- Item 2. All returns are presented net of management fees.
- Item 3. As of February 1, 2016 the policy benchmark performance is 50% equities (represented by 28% Russell 3000 index, 12% FTSE All World (ex. U.S.) index, 10% MSCI EM index), 35% public fixed income (represented by performance of Barclays Universal) and 15% alternatives (represented by 4% NCREIF Property Index, 3% S&P Global Natural Resources index, 3% Barclays High Yield + 2% index, 2% S&P 500 +3% index, 3% S&P Global Infrastructure index). Prior to February 1, 2016 the policy benchmark performance is 50% equities (represented by 26% Russell 3000 index, 12% MSCI EAFE index, 12% MSCI EM index), 15% public fixed income (represented by performance of Barclays Universal) and 35% alternatives (represented by 7% HFRI Fund WC, 7% NCREIF Property Index, 7% S&P Global Natural Resources index, 7% Barclays High Yield index, 7% S&P 500 +3% index).
- Item 4. Unless otherwise noted the market values for non-public market assets are based on most recent available data from each manager adjusted for subsequent cash flows (where applicable) through the performance date of this report.
- Item 5. The following investments market values are based on the most recent MERS plan level audit valuations prepared by the System's auditor (adjusted for subsequent cash flows where applicable): Resource Environmental Solutions, Republic Business Credit, Capital Springs Finance Company, Bedico Creek Preserve, Gainsville Vision.
- Item 6. Hedge fund investments are in liquidation. The remaining value in the GoldenTree Offshore fund is in an illiquid side-pocket.

February Meeting Preview

Looking Forward to Next Month

- In February we plan to conduct the annual asset allocation review.
- The purpose of the review is to ensure the Retirement System's long-term asset allocation targets are still reasonable and prudent moving forward.
- The backbone of the analysis is based on a modeling technique called Mean Variance Optimization (MVO).
- MVO analysis seeks to predict what the long term expected return will be based on a selected asset mix.
- The inputs into the analysis (asset class return forecasts, asset class risk forecasts, asset class correlation forecasts) are quite important.
- Every January, Meketa Investment Group reviews these inputs as part of its Annual Asset Study.
- These inputs/forecasts are 20-year projections so they typically only change marginally year-over-year.
- Meketa Investment Group will review what impact (if any) these new forecasts may have on the Retirement System's asset allocation.
- If changes are recommended, Meketa Investment Group will discuss different proposals in the coming meetings.

Bedico Creek

History

- In October 2010, the Retirement System and David Waltemath created a limited liability company named Bedico Creek Preserve, LLC.
- According to the Operating Agreement, the purpose of the entity was to “engage in the ownership, improvement, construction, maintenance, operation, management, and sale of property, including Bedico Creek Subdivision in St. Tammany Parish.”

Terms

- MERS committed, and subsequently invested, seven million dollars.
- Waltemath was not obligated to invest any money originally but offered services as day to day management of the entity.

	Contribution	Ownership
MERS	Up to \$7 million	80%
Waltemath	“Services Rendered”	20%

- When cash is available, it is distributed as follows:
 - (1) MERS receives a 10% coupon on its remaining cost basis, compounded annually
 - (2) MERS receives its cost basis (principal) back
 - (3) Waltemath receives 15% of the amount in item #1
 - (4) Any remaining cash is distributed pro-rata based on ownership: 80% to MERS, 20% to Waltemath

Cash Flows

	Invested	Distributed/Received	Market Value	<i>Unrealized Multiple</i>
MERS	\$7.2 million	\$5.3 million	\$7.9 million ¹	1.8x

- MERS invested a total of \$7.2 million and has received \$5.3 million so far on its investment.

¹ This is the Equity of Bedico Creek Preserve as of 6/30/17 as per the audited report.



Disclaimer, Glossary, and Notes

The material contained in this report is confidential and may not be reproduced, disclosed, or distributed, in whole or in part, to any person or entity other than the intended recipient. The data are provided for informational purposes only, may not be complete, and cannot be relied upon for any purpose other than for discussion.

Meketa Investment Group has prepared this report on the basis of sources believed to be reliable. The data are based on matters as they are known as of the date of preparation of the report, and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available.

In general, the valuation numbers presented in this report are prepared by the custodian bank for listed securities, and by the fund manager or appropriate General Partner in the case of unlisted securities. The data used in the market comparison sections of this report are sourced from various databases. These data are continuously updated and are subject to change.

This report does not contain all the information necessary to fully evaluate the potential risks of any of the investments described herein. Because of inherent uncertainties involved in the valuations of investments that are not publicly traded, any estimated fair values shown in this report may differ significantly from the values that would have been used had a ready market for the underlying securities existed, and the differences could be material. Note that for unlisted securities the valuations may be lagged by one or more calendar quarters, or may reflect original cost.

This document may contain certain forward-looking statements, forecasts, estimates, projections, and opinions ("Forward Statements"). No representation is made or will be made that any Forward Statements will be achieved or will prove to be correct. A number of factors, in addition to any risk factors stated in this material, could cause actual future results to vary materially from the Forward Statements. No representation is given that the assumptions disclosed in this document upon which Forward Statements may be based are reasonable. There can be no assurance that the investment strategy or objective of any fund or investment will be achieved, or that the System will receive a return of the amount invested.

In some cases Meketa Investment Group assists the Trustees in handling capital calls or asset transfers among investment managers. In these cases we do not make any representations as to the managers' use of the funds, but do confirm that the capital called or transferred is within the amounts authorized by the Trustees.

Credit Risk: Refers to the risk that the issuer of a fixed income security may default (i.e., the issuer will be unable to make timely principal and/or interest payments on the security.)

Duration: Measure of the sensitivity of the price of a bond to a change in its yield to maturity. Duration summarizes, in a single number, the characteristics that cause bond prices to change in response to a change in interest rates. For example, the price of a bond with a duration of three years will rise by approximately 3% for each 1% decrease in its yield to maturity. Conversely, the price will decrease 3% for each 1% increase in the bond's yield. Price changes for two different bonds can be compared using duration. A bond with a duration of six years will exhibit twice the percentage price change of a bond with a three-year duration. The actual calculation of a bond's duration is somewhat complicated, but the idea behind the calculation is straightforward. The first step is to measure the time interval until receipt for each cash flow (coupon and principal payments) from a bond. The second step is to compute a weighted average of these time intervals. Each time interval is measured by the present value of that cash flow. This weighted average is the duration of the bond measured in years.

Information Ratio: This statistic is a measure of the consistency of a portfolio's performance relative to a benchmark. It is calculated by subtracting the benchmark return from the portfolio return (excess return), and dividing the resulting excess return by the standard deviation (volatility) of this excess return. A positive information ratio indicates outperformance versus the benchmark, and the higher the information ratio, the more consistent the outperformance.

Market Capitalization: For a firm, market capitalization is the total market value of outstanding common stock. For a portfolio, market capitalization is the sum of the capitalization of each company weighted by the ratio of holdings in that company to total portfolio holdings; thus it is a weighted-average capitalization. Meketa Investment Group considers the largest 65% of the broad domestic equity market as large capitalization, the next 25% of the market as medium capitalization, and the smallest 10% of stocks as small capitalization.

Market Weighted: Stocks in many indices are weighted based on the total market capitalization of the issue. Thus, the individual returns of higher market-capitalization issues will more heavily influence an index's return than the returns of the smaller market-capitalization issues in the index.

Maturity: The date on which a loan, bond, mortgage or other debt/security becomes due and is to be paid off.

Prepayment Risk: The risk that prepayments will increase (homeowners will prepay all or part of their mortgage) when mortgage interest rates decline; hence, investors' monies will be returned to them in a lower interest rate environment. Also, the risk that prepayments will slow down when mortgage interest rates rise; hence, investors will not have as much money as previously anticipated in a higher interest rate environment. A prepayment is any payment in excess of the scheduled mortgage payment.

Price-Book Value (P/B) Ratio: The current market price of a stock divided by its book value per share. Meketa Investment Group calculates P/B as the current price divided by Compustat's quarterly common equity. Common equity includes common stock, capital surplus, retained earnings, and treasury stock adjusted for both common and nonredeemable preferred stock. Similar to high P/E stocks, stocks with high P/B's tend to be riskier investments.

Price-Earnings (P/E) Ratio: A stock's market price divided by its current or estimated future earnings. Lower P/E ratios often characterize stocks in low growth or mature industries, stocks in groups that have fallen out of favor, or stocks of established blue chip companies with long records of stable earnings and regular dividends. Sometimes a company that has good fundamentals may be viewed unfavorably by the market if it is an industry that is temporarily out of favor. Or a business may have experienced financial problems causing investors to be skeptical about its future. Either of these situations would result in lower relative P/E ratios. Some stocks exhibit above-average sales and earnings growth or expectations for above average growth. Consequently, investors are willing to pay more for these companies' earnings, which results in elevated P/E ratios. In other words, investors will pay more for shares of companies whose profits, in their opinion, are expected to increase faster than average. Because future events are in no way assured, high P/E stocks tend to be riskier and more volatile investments. Meketa Investment Group calculates P/E as the current price divided by the I/B/E/S consensus of twelve-month forecast earnings per share.

Quality Rating: The rank assigned a security by such rating services as Fitch, Moody's, and Standard & Poor's. The rating may be determined by such factors as (1) the likelihood of fulfillment of dividend, income, and principal payment of obligations; (2) the nature and provisions of the issue; and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, BBB) are considered investment grade because they are eligible bank investments as determined by the controller of the currency.

Sharpe Ratio: A commonly used measure of risk-adjusted return. It is calculated by subtracting the risk free return (usually three-month Treasury bill) from the portfolio return and dividing the resulting excess return by the portfolio's total risk level (standard deviation). The result is a measure of return per unit of total risk taken. The higher the Sharpe ratio, the better the fund's historical risk adjusted performance.

Standard Deviation: A measure of the total risk of an asset or a portfolio. Standard deviation measures the dispersion of a set of numbers around a central point (e.g., the average return). If the standard deviation is small, the distribution is concentrated within a narrow range of values. For a normal distribution, about two thirds of the observations will fall within one standard deviation of the mean, and 95% of the observations will fall within two standard deviations of the mean.

STIF Account: Short-term investment fund at a custodian bank that invests in cash-equivalent instruments. It is generally used to safely invest the excess cash held by portfolio managers.

Style: The description of the type of approach and strategy utilized by an investment manager to manage funds. For example, the style for equities is determined by portfolio characteristics such as price-to-book value, price-to-earnings ratio, and dividend yield. Equity styles include growth, value, and core.

Yield to Maturity: The yield, or return, provided by a bond to its maturity date; determined by a mathematical process, usually requiring the use of a “basis book.” For example, a 5% bond pays \$5 a year interest on each \$100 par value. To figure its current yield, divide \$5 by \$95—the market price of the bond—and you get 5.26%. Assume that the same bond is due to mature in five years. On the maturity date, the issuer is pledged to pay \$100 for the bond that can be bought now for \$95. In other words, the bond is selling at a discount of 5% below par value. To figure yield to maturity, a simple and approximate method is to divide 5% by the five years to maturity, which equals 1% pro rata yearly. Add that 1% to the 5.26% current yield, and the yield to maturity is roughly 6.26%.

$$\frac{5\% \text{ (discount)}}{5 \text{ (yrs. to maturity)}} = 1\% \text{ pro rata, plus } 5.26\% \text{ (current yield)} = 6.26\% \text{ (yield to maturity)}$$

Sources: Investment Terminology, International Foundation of Employee Benefit Plans, 1999.
The Handbook of Fixed Income Securities, Fabozzi, Frank J., 1991.

The Russell Indices ®, TM, SM are trademarks/service marks of the Frank Russell Company.

Throughout this report, numbers may not sum due to rounding.

Returns for periods greater than one year are annualized throughout this report.

Values shown are in millions of dollars, unless noted otherwise.