

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on October 27, 2010, and published in the Lincoln Journal Star on November 7, 2010. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Osborn
Ms. Chambers (departed at 10:08 a.m. to attend PERB meeting)

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Chris Riley, Hewitt EnnisKnupp
Mr. Steve Cummings, Hewitt EnnisKnupp
Mr. Chris Sanders, Nebraska Investment Council
Ms. Gayle Wrasse, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Ms. Heather Christopher, Hewitt EnnisKnupp
Ms. Rachel Biar, Director, College Savings Program
Mr. Tim Engler, Harding & Shultz

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Mr. Mark Shepard, Public Employees Retirement Board Member
Mr. Richard Wassinger, Public Employees Retirement Board Member
Mr. Don Pederson, Public Employees Retirement Board Member
Ms. Elaine Stuhr, Public Employees Retirement Board Member
Ms. Janis Elliott, Public Employees Retirement Board Member
Judge Randall Rehmeier, Public Employees Retirement Board Member
Mr. Doug Fiddler, Buck Consultants
Ms. Tammy Ringel, Buck Consultants
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Jason Hayes, Nebraska Public Employees Retirement Systems
Ms. Vicki Huber, Nebraska Public Employees Retirement Systems
Ms. Miden Ebert, Nebraska Public Employees Retirement Systems
Mr. Fred Turner, Nebraska Public Employees Retirement Systems
Mr. John Winkelman, Nebraska Public Employees Retirement Systems
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems
Ms. Kris Kucera, Auditor of Public Accounts
Mr. Tim Channer, Auditor of Public Accounts
Ms. Kathy Tenopir, Legislative Fiscal Office
Ms. Kate Allen, Legislative Retirement Committee
Mr. Gary Bush, AS State Budget Office
Mr. Bill Mueller, Nebraska District Court Judges Association
Mr. Matt Schaefer, Mueller Robak LLC

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010**

Mr. Michael Smith, Omaha Employees Retirement System
Mr. Al Koontz, Nebraska State Education Association
Mr. Neil Bateman, Retired School Personnel
Ms. Karen Kilgarin, Nebraska State Education Association
Mr. Jerry Hoffman, Nebraska State Education Association
Mr. Korby Gilbertson, State Troopers Association of Nebraska
Mr. Eric Asboe, Nebraska Supreme Court
Mr. Paul Hammel, Omaha World Herald
Mr. Don Wesley, O'Hara Lindsay Government Relations

JOINT MEETING WITH PERB: 8:30 a.m. to 10:08 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and stated that a copy of the Open Meetings Act is located on the side table. Introductions were done by each member of the NIC and PERB.

Ms. Werner-Robertson commented on the choppy 2010 market and highlighted the activities of the Council during the past year. An Asset Liability Study was prepared by Hewitt EnnisKnupp for the Defined Benefit Plan (DB) and Cash Balance Benefit (CBB). At the Council Retreat in July the Council reviewed and evaluated the current strategic asset allocation and investment strategy for both the DB and CBB. Ms. Werner-Robertson thanked Mr. States and his staff on their hard work during the past year. Ms. Werner-Robertson also recognized Treasurer Osborn whose term as State Treasurer will end in January 2011 for his service to the State of Nebraska the past four years. Ms. Werner-Robertson stated that Mr. Steve Cummings with Hewitt EnnisKnupp will give an update on the recent acquisition of EnnisKnupp by Hewitt Associates, Inc. and the merger of Hewitt Associates, Inc. with Aon Corporation.

Mr. States introduced Ms. Gayle Wrasse, Portfolio Manager for the Operating Investment Pool. Ms. Wrasse will be retiring from the State in December after forty-two years of service. Ms. Wrasse started her career with the NIC three months after the Agency was established. Ms. Werner-Robertson also thanked Ms. Wrasse for her service and extended her thanks and appreciation to all of the Council members for their service throughout the year.

Mr. Blank introduced Judge Randall Rehmeier, who was appointed to the Board to fill the unexpired term of Judge Glenn Camerer. Mr. Blank indicated that Judge Rehmeier and Mr. Richard Wassinger will be reappointed to the Board in January 2011. Mr. Blank reviewed the past year's activities of the PERB and NPERS. Mr. Blank indicated that NPERS reduced its operating budget by 2.5% last fiscal year and 5% for this fiscal year while continuing to fulfill its mission of service excellence to approximately 110,000 members. Other accomplishments during the last year were: 1) Transitioned the IT System Maintenance and Support from Saber to the oCIO and NPERS' staff; 2) Reduced printing and postage costs by distributing the member newsletters and publications via email and online; and 3) Lowered the monthly administrative fees for members of the State and County Defined Contribution Plan, Cash Balance Benefit and Deferred Compensation Plan. Mr. Blank thanked Ms. Chambers and the NPERS' staff for their good work during the last year.

June 30, 2010, Actuarial Report on the Defined Benefit Plans and the Cash Balance Benefit by Buck Consultants: Mr. Blank introduced Mr. Doug Fiddler, Director, Retirement Actuary with Buck Consultants. Mr. Blank stated that Mr. Dave Sliskinsky was unable to attend today's meeting due to a recent injury. Mr. Fiddler distributed copies of the report, which included a review of the changes since last year and the history of investment return. Mr. Fiddler also reported on the 2010 actuarial valuation results which included the following:

- Rate of return on market value of assets was about 14%, or 6% more than 8% assumed, creating a gain to be smoothed over five years.
- Recognition of losses from 2008 and 2009 result in 1% return on actuarial value, or 7% less than 8% assumed.
- Actuarial value is 84% of market value, up from about 75% from last year. There are significant net losses of \$1.1B yet to be recognized over the next four years.
- Funded ratios all decreased since last year:

Last Year

This Year

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010**

■ School	87%	82%
■ State Patrol	90%	85%
■ Judges	102%	100%
■ State Cash Balance	97%	94%
■ County Cash Balance	100%	95%

- Contributions and court fees were sufficient to meet the actuarial requirement for Judges'.
- Additional contribution required for State Patrol and School.
- Strong economic recovery with returns significantly above the assumed return of 8% per year is needed to avoid additional State contributions over the next four years.

A copy of presentation is included in the attachments to the minutes.

Quarterly Performance Report for the Retirement Plans by Hewitt EnnisKnupp: Mr. Vandolder and Mr. Riley gave an update on the third quarter market conditions and indicated that rates remain low and are expected to continue to remain low for some time. Mr. Vandolder reported that the investment return for the DB and CBB was 9.4% for the third quarter and 10.3% for the one year ending September 30th. Mr. Riley reviewed the individual managers investing money for the DB Plan and Cash Balance Benefit. Also reviewed was the performance of the Operating Investment Pool.

Capital Market Assumptions Discussion by Buck Consultants and Hewitt EnnisKnupp: Mr. Cummings commented on the recent changes at Hewitt EnnisKnupp and discussed the organizational structure of the firm. Mr. Cummings indicated that Hewitt EnnisKnupp will continue to follow EnnisKnupp's practice of providing independent consulting services. Ms. Werner-Robertson thanked Mr. Cummings for his attendance at today's meeting and stated that the main reason EnnisKnupp was hired originally was due to its ability to provide independent consulting services. A discussion followed on the fees charged for Hewitt EnnisKnupp's services.

Mr. Vandolder and Mr. Riley discussed the methodology used by their firm to determine expected rates of return for the capital markets. Mr. Vandolder and Mr. Riley discussed the model used by Hewitt EnnisKnupp and indicated that it is ran twice a year in January and July. They reviewed the most recent estimate of the returns by asset class.

At 10:08 a.m. the Council and the PERB took a break and reconvened at 10:28 a.m.

Deferred Compensation and Defined Contribution Plans Review by Hewitt EnnisKnupp: Mr. Vandolder and Mr. Riley reviewed the current investment structure and the investment options offered in the Deferred Compensation and Defined Contribution Plans and indicated that Hewitt EnnisKnupp is recommending adding a Global Equity Fund. Adding a Global Equity Fund would provide greater diversification in equities and would be consistent with the addition of Global Equity as an asset class in the DB Plan. Adding an additional investment option could be done in 2011, but could require legislative action. Mr. Vandolder and Mr. Riley also discussed adding a U.S. Treasury Inflation-Protected Securities (TIPS) bond fund, shift from Lifestyle to Lifecycle funds, and implement tiered structure to facilitate more efficient participant decision-making. Mr. States indicated he would pursue legislation if both boards are interested in adding a Global Equity Fund.

Ms. Werner-Robertson and Mr. Blank thanked Hewitt EnnisKnupp and Buck Consultants for their presentations.

At 11:15 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 11:33 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 22, 2010, MEETING: 11:33 a.m. to 11:35 a.m. Mr. Maginn moved that the September 28, 2010, draft of the minutes of the September 22, 2010, meeting be approved with the following change: page 6 , under AUDIT COMMITTEE REPORT change the word *attend* to *participate* in the second to the last sentence. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010**

VOTING AYE: Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel
 Mr. Riffel
 Ms. Werner-Robertson

The motion carried.

CHAIRWOMAN'S COMMENTS: 11:35 a.m. to 11:37 a.m. Ms. Werner-Robertson thanked Mr. States, Mr. Vandolder, and Mr. Riley on the extra work required by them in preparing for the joint meeting with PERB.

AUDIT REPORT BY THE AUDITOR OF PUBLIC ACCOUNTS (APA): 11:37 a.m. to 11:52 a.m. Dr. DeFusco updated the Council on the recently completed Agency audit for the period July 1, 2009 through June 30, 2010. Dr. DeFusco reported that an exit conference with the APA and staff was recently held and that both he and Mr. Maginn had participated in the exit conference by phone. Mr. Maginn thanked the NIC staff for doing such a good job and thanked the APA for their review.

Mr. States introduced Mr. Tim Channer, Assistant Deputy Auditor. Mr. Channer reviewed the recently completed audit report of the NIC. Mr. Channer stated that the APA is very appreciative of the cooperation extended to them by the NIC staff during the audit. Mr. States thanked the APA for their services.

THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY HEWITT ENNISKNUPP: 11:52 a.m. to 12:06 p.m. Mr. Riley and Mr. Vandolder reviewed with the Council the Third Quarter Performance Report for the non-retirement plans. Their presentation which was included in the meeting book discussed market conditions, performance, fund monitoring, Operating Investment Pool analysis, fees, and risk characteristics.

PRIVATE REAL ESTATE PERFORMANCE AND PRESENTATION BY HEWITT ENNISKNUPP: 12:06 p.m. to 12:26 p.m.

Second Quarter 2010 Performance: Ms. Christopher reviewed with the Council the 2010 Second Quarter Performance Report for Real Estate included in the meeting book. Ms. Christopher discussed the current market conditions and the market outlook for the private real estate investments. Ms. Christopher stated that the NIC's real estate portfolio performance was very positive for the second quarter. Ms. Christopher's presentation also covered the following: market overview, real estate portfolio review, and placement agent update. Ms. Christopher also gave a preliminary review of the third quarter performance.

PRIVATE EQUITY PORTFOLIO REVIEW BY HEWITT ENNISKNUPP: 12:26 p.m. to 1:15 p.m. Mr. Vandolder introduced Ms. Karen Rode, CFA, CPA who was recently hired at HEK to lead the Global Private Equity team. Ms. Rode discussed her background and work experience with the Council. Mr. Parkinson and Ms. Rode's presentation which was included in the meeting book discussed the second quarter performance and also a pacing update.

Mr. Parkinson and Ms. Rode discussed McCarthy Capital, Fulcrum IV, LLC and a new fund being offered in early 2011, Fulcrum V, LLC. Mr. Parkinson indicated that a recommendation will be presented to the Council at the February 2011 meeting after additional follow-up and due diligence is done by the NIC staff, legal counsel, and HEK.

Introduction of Fulcrum IV, LLC and Fulcrum V, LLC: Mr. States introduced from McCarthy Capital, Mr. Michael McCarthy, Founder and Partner and Mr. Patrick Duffy, Partner. Mr. McCarthy and Mr. Duffy gave an overview of the firm and an update on Fulcrum IV, LLC. Their presentation also provided information on a proposed new fund, Fulcrum V, LLC, which will be offered in the first quarter of 2011. A copy of their presentation was included in the meeting book.

The Council took a break at 1:15 p.m. and reconvened at 1:30 p.m.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010**

PUBLIC EQUITY PORTFOLIO STRUCTURE: 1:30 p.m. to 1:54 p.m. Mr. Riley indicated that the Council had requested at the September meeting additional information on the structure of the NIC's current total equity portfolio's composition as compared with the global equity benchmark, MSCI All Country World IMI. Mr. Riley's presentation which was included in the meeting book, reviewed the total equity portfolio's market cap, style distribution, and total active/passive mix. Mr. Riley indicated that HEK is comfortable moving 25% of global to passive from active management. Following discussion, the Council requested that HEK come back with a recommendation on where the 25% would come from at the February 2011, meeting.

WG TRADING V. NIC: 1:54 p.m. to 2:22 p.m. At 1:54 p.m. Dr. DeFusco made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn Mr. Dinkel Mr. Riffel Ms. Werner-Robertson Dr. DeFusco
-------------	---

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, and Mr. Engler be present and all others in attendance were excused.

At 2:21 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel Mr. Riffel Ms. Werner-Robertson Dr. DeFusco Mr. Maginn
-------------	---

The motion carried.

Ms. Chambers joined the meeting at 2:16 p.m.

COLLEGE SAVINGS PLAN OF NEBRASKA TRANSITION BY TREASURER OSBORN: 2:22 p.m. to 2:25 p.m. Treasurer Osborn updated the Council on the transition to the new Program Manager, First National Bank Omaha and the new Plans of the Nebraska Educational Savings Trust (NEST): NEST Direct Plan, NEST Advisor Plan, and TD Ameritrade Plan. Treasurer Osborn indicated that the new plans have lower fees, more investment options, and improved services and benefits. Mr. Maginn thanked Treasurer Osborn and staff on their work on the transition.

STATE INVESTMENT OFFICER'S REPORT: 2:25 p.m. to 2:45 p.m.

Agency Budget Update: Mr. States reviewed the report included in the meeting book and indicated that the NIC is currently under-budget.

3rd Quarter Asset Summary Report: Mr. States reported that current assets under management of over \$14.7 billion.

Policy Manual Update: Mr. States stated that updates to both the NIC Policy Manual and Statutory Reference Manual were distributed to the Council.

NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 15, 2010

Indemnification of Council Members: Mr. Heinrich provided information regarding the indemnification of the Council members.

IMAs Executed since the last meeting: Mr. States reported that documents for Cornerstone Real Estate Advisers, LLC and TD Ameritrade have been completed.

2011 Meeting Schedule: The Council decided on the following meeting dates for 2011, start time 8:30 a.m.:

February 25, 2011
March 30, 2011
May 25, 2011
July 13-14, 2011
August 17, 2011
September 21, 2011
November 21, 2011

PUBLIC COMMENT ON THE AGENDA: 2:45 p.m. to 2:48 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

The Council thanked Treasurer Osborn for his service to the Council and the State of Nebraska. Treasurer Osborn stated that he has enjoyed his term and has accomplished everything he set out to do.

At 2:48 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Riffel
 Ms. Werner-Robertson
 Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel

The motion carried.


Kathy Dawes, Secretary