

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 21, 2011**

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

Public notice was posted on the Nebraska Public Meeting Calendar on October 25, 2011, and published in the Lincoln Journal Star on November 6, 2011. 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 (departed at 3:06 p.m.)
Treasurer Don Stenberg
Ms. Phyllis Chambers (departed at 10:40 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
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Scott McLerran, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Heather Christopher, Hewitt EnnisKnupp

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Sgt. Glenn Elwell, Public Employees Retirement Board, Vice Chair
Mr. Mark Shepard, 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. Dave Slisinsky, Buck Consultants
Mr. Doug Fiddler, 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. Kathy Tenopir, Legislative Fiscal Office
Ms. Kate Allen, Legislative Retirement Committee
Mr. Gerry Oligmueller, AS State Budget Office
Mr. Gary Bush, AS State Budget Office
Mr. Bill Mueller, Nebraska District Court Judges Association
Mr. Matt Schaefer, Mueller Robak LLC
Mr. Michael Smith, Omaha Employees Retirement System
Mr. Larry Scherer, Nebraska State Education Association
Mr. Neil Bateman, Retired School Personnel
Ms. Martha Stoddard, Omaha World Herald
Mr. Don Wesley, O'Hara Lindsay Government Relations

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JOINT MEETING WITH PERB: 8:30 a.m. 10:40 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 volatile financial markets and highlighted the activities of the Council during the past year. Ms. Werner-Robertson discussed the challenges the Council faces to be prudent, fiscally responsible while managing risk in order to achieve an 8% rate of return. Ms. Werner-Robertson stated that the joint meeting is a great opportunity for both boards to discuss what activities they have focused on during the last year.

Mr. Blank welcomed everyone and thanked the Council for their work. Mr. Blank thanked the PERB members, Ms. Chambers, and the NPERS' staff for their work during the past year. Mr. Blank announced that Mr. Pederson would be leaving the Board and wanted to publicly thank Mr. Pederson for his service. Mr. Blank handed out copies of *NPERS Statistics and Accomplishments* during the past year, which included 115,144 member accounts with assets of \$8.6 billion. A copy is included in the attachments to the minutes.

June 30, 2011, Actuarial Report on the Defined Benefit Plans by Buck Consultants: Mr. Blank introduced Mr. Dave Slishinsky, Actuary with Buck Consultants. Mr. Slishinsky reviewed how the rates are determined. Mr. Slishinsky distributed copies of the report, which included a review of the changes since last year, historical information, 2011 actuarial valuation results, and projections. The 2011 actuarial valuation results included the following:

- Rate of return on Market Value of Assets was about 23%, or 15% more than 8% assumed, creating a gain to be smoothed over five years.
- Recognition of losses from 2008 and 2009 result in 4% return on Actuarial Value, or 4% less than 8% assumed.
- For the School, State Patrol, and Judges' Systems, the Actuarial Value is about 100% of Market Value, up from about 84% last year. There are only small net losses of \$4.9M yet to be recognized over the next four years.
- Funded ratios all decreased since last year:

	<u>Last Year</u>	<u>This Year</u>
■ School	82%	80%
■ State Patrol	85%	82%
■ Judges	100%	98%
■ State Cash Balance	94%	94%
■ County Cash Balance	95%	93%

- Contributions and court fees were sufficient to meet the actuarial requirement for Judges'.
- Additional contribution required for State Patrol and School.
- Recognition of investment losses experienced during the economic crisis have increased unfunded liabilities and contribution rates. These rates are expected to remain at these higher levels without continued investment gains.
- An Experience Analysis is scheduled for early 2012 to review the economic and demographic assumptions.

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

Mr. Dinkel commended the Legislature and employees for stepping up with the needed contributions. Mr. Maginn requested from Buck a listing of states and their expected rates of return.

Quarterly Performance Report for the Retirement Plans by Hewitt EnnisKnupp: Mr. Vandolder and Mr. McLerran gave an update on the third quarter market conditions and discussed the European markets and the

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uncertainty in the market and political volatility. Mr. Vandolder reported that the investment return for the DB and CBB was -10.8%, marginally trailing benchmark return of -10.4%. Total Plan one-year return was 0.3%, compared to benchmark return of 0.1%. Mr. McLerran reviewed the individual managers investing money for the DB Plan and Cash Balance Benefit. Mr. McLerran reported that as of September 30, 2011, the Council has assets under management totaling over \$15 billion.

Capital Market Assumptions Discussion by Buck Consultants and Hewitt EnnisKnupp: Mr. Vandolder and Mr. McLerran's presentation, which was included in the meeting book discussed the following: 1) Current Expected Return and Risk Assumptions; 2) Methodology; and 3) NIC Defined Benefit Plan Expectations. Mr. Slishinsky and Mr. Fiddler discussed the methodology Buck Consultants uses in developing their assumptions.

The Hartford Defined Contribution Program Review: Ms. Kirsten Steiert, Senior Retirement Consultant and Mr. David Budka, Managing Director, Investment Consultant gave an update on the Deferred Compensation Plan they administer and invest. Their presentation included a third quarter performance review, statistical profile of the current participants, review of the current investment options and possible changes in the fund line up for consideration. A copy of the presentation is included in the attachments to the minutes.

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

At 10:40 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:58 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 21, 2011, MEETING: 10:58 a.m. to 10:59 a.m. Mr. Riffel moved that the October 25, 2011, draft of the minutes of the September 21, 2011, meeting be approved as written. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

CHAIRWOMAN'S COMMENTS: 10:59 a.m. to 11:00 a.m. Ms. Werner-Robertson thanked Mr. States, Mr. Vandolder, and Mr. McLerran on the extra work required by them in preparing for the joint meeting with PERB.

EXECUTIVE SESSION: 11:00 a.m. to 12:00 p.m. Mr. Maginn moved to enter into closed session for the protection of the public interest. Specifically, the reason for the closed session is: strategy session with respect to the negotiation of the terms and conditions of the proposed agreement with the investment consultant. Dr. DeFusco 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
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The motion carried.

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

At 12:00 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Dr. DeFusco made the following motion:

- Approve the Hewitt EnnisKnupp RFP response to amend the existing contracts by extending the term by five years, effective October 1, 2011, and consolidating three separate agreements into a single agreement for the fixed fee.
- Authorize the State Investment Officer to sign any documents necessary to complete approval of the Hewitt EnnisKnupp RFP response and the amendment to the contract.

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.

THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIRMENT PLANS BY HEWITT ENNISKNUPP: 12:00 p.m. to 12:20 p.m. Mr. Vandolder and Mr. McLerran reviewed with the Council the Third Quarter Performance Report for the non-retirement plans. Their presentation which was included in the meeting book included performance review, fund monitoring, risk profiles, and fees. Mr. Vandolder and Mr. McLerran also discussed the memo regarding Defined Benefit Plan Manager Ratings included in the meeting book and discussed possible actions.

STATE STREET CUSTODY BANK SERVICE REVIEW: 12:20 p.m. to 12:55 p.m. Mr. States introduced from State Street Bank, Mr. Craig teDuits, Vice President Client Management, Mr. Mark Schafer, SSB Public Funds Division Head, and Mr. Johnson Shum, Vice President, Securities Finance. Their presentation which was included in the meeting book included the following: 1) Historical Review; 2) Our Company Today; 3) Q3 2011 Financial Results & Capital Update; 4) Business Update; and 5) Securities Lending.

REAL ESTATE UPDATE BY HEWITT ENNISKNUPP: 12:55 p.m. to 1:20 p.m.
Final Second Quarter 2011 and Preliminary Third Quarter 2011 Performance Review: Ms. Christopher reviewed the 2011 2nd Quarter Real Estate Performance Update included in the meeting book. Ms. Christopher's presentation covered the following: 1) Market Overview; 2) Real Estate Portfolio Overview; and 3) Placement Agent Update. Ms. Christopher also gave a pacing update.

Introduction to Proposed Commitment to Angelo Gordon, AG Realty Fund VIII, L.P.: Ms. Christopher reviewed with the Council the Fund AG Realty Fund VIII, L.P. being offered by Angelo Gordon. Angelo Gordon's Realty Fund series strategy of acquiring interests in sub-performing and distressed real estate assets and debt which often require significant capital restructuring and asset repositioning. The Fund, AG Realty Fund VIII, L.P. is a closed-end opportunistic fund, which will focus on distressed debt situations where market peak investors are overleveraged and require material capital infusions. The Fund will seek to invest in a portfolio of assets that, after stabilization will be highly sought by traditional institutional real estate investors and may include investments in real estate companies and private debt securities. Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Angelo Gordon and AG Realty Fund VIII, L.P. Ms. Christopher

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discussed the investment merits and concerns associated with Angelo Gordon. Ms. Christopher indicated that Hewitt EnnisKnupp and the NIC staff recommend that the Council commit \$25 million to AG Realty Fund VIII, L.P. A copy of the presentation was included in the meeting book.

PRESENTATION BY ANGELO GORDON: 1:20 p.m. to 1:54 p.m. Mr. States introduced Ms. Colleen M. Casey, Managing Director and Mr. Adam R. Schwartz, Managing Director. Their presentation included an overview of the firm, investment strategy, and provided information on the proposed fund, AG Realty Fund VIII, L.P. A copy of the presentation was included in the meeting book.

Following the presentation by Angelo Gordon and discussion by the Council, Mr. Maginn moved to commit \$25 million from the Defined Benefit Plan and Cash Balance Benefit Plan to AG Realty Fund VIII, L.P. subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break and reconvened at 2:05 p.m.

AUDIT COMMITTEE REPORT: 2:05 p.m. to 2:10 p.m. Dr. DeFusco reported that he and Mr. Maginn, Audit Committee members had met with Ms. Westerman, Internal Auditor, via conference call on November 15, 2011. The Audit Committee will meet again next quarter with the Internal Auditor and report back to the Council at that time. A copy of the Audit Committee Report is included in the attachments to the minutes.

WG TRADING V. NIC UPDATE: 2:10 p.m. to 2:20 p.m. Mr. Heinrich gave a report on the status of the case.

STATE TREASURER'S REPORT: 2:20 p.m. to 2:25 p.m. Treasurer Stenberg reported that October 17, 2011, was the launch date for the FDIC-insured investment option. Treasurer Stenberg indicated that the Call Center staff have been trained and have been receiving calls on the FDIC option.

STATE INVESTMENT OFFICER'S REPORT: 2:25 p.m. to 3:14 p.m.

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

Statutory Reference Manual Update: Copies of updates to the NIC Statutory Reference Manual were distributed to the Council.

Policy Manual Update: Copies of the NIC Policy Manual were distributed to the Council. Mr. States requested Council action on the Statement of Investment Philosophy Statement to clean-up the following outdated language referenced in the policy: 1) Delete Joseph J. Soukup Trust Fund and Department of Environmental Quality Fund; 2) Update naming conventions for the Nebraska Educational Savings Plan Trust. Following discussion by the Council, Mr. Maginn moved to update the Investment Philosophy Statement by deleting reference to the Joseph J. Soukup Trust Fund and Department of Environmental Quality Fund and updating naming conventions for the Nebraska Educational Savings Plan Trust. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

OIP Portfolio Transition Update: Mr. States reported that the OIP asset transfer to internal management was made on October 12 & 13, 2011, and that the transition went very well. Mr. States indicated that staff will be reviewing the OIP overall policy and procedures in the near future.

Update on the Proposed Rule Related to Investment Personnel: Mr. States discussed the status of the proposed rule related to investment personnel. Following discussion by the Council, Dr. DeFusco made the following motion:

Pursuant to the authority granted in the Nebraska State Funds Investment Act, I move to offer exempt status to those certain employees of the Council that:

- (i) are deemed "investment managers" under the Act;
- (ii) are identified by the State Investment Officer as appropriate candidates for exempt status; and
- (iii) voluntarily accept exempt status.

The State Investment Officer shall have the authority to negotiate the terms and conditions of the employment of all exempt employees, including their compensation and benefits. This resolution shall apply to all current and future employees, until the Council takes further action. 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
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The motion carried.

IMAs Executed Since the Last Meeting: Mr. States reported that documents for the FDIC rules amendment to the College Savings Plan and the Leonard Green & Partners documents were completed.

Action Plan & Conferences: A 2012 Action Plan was included in the meeting book. Mr. States reported that he had recently attended conferences for GMO and New Mountain and that Ms. Winkler had recently attended the UBS Advisory Meeting. Mr. States indicated that he will be attending at the end of the month the PRISA Advisory Council Meeting and will be testifying at a joint hearing of the Appropriations Committee and the Health and Human Services Committee relating to the sustainability of the HeathCare Cash Fund.

2012 Meeting Schedule: The Council decided on the following meeting dates for 2012, start time 8:30 a.m.:

- February 1, 2012
- March 22, 2012
- May 24, 2012
- July 17, 2012
- August 23, 2012
- September 27, 2012
- November 19, 2012

Ms. Werner-Robertson reported that Dr. DeFusco has agreed to be re-appointed to the Council for another five year term. Ms. Werner-Robertson stated that the Governor appreciates the Council's work.

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Mr. Riffel left the meeting at 3:06 p.m.

PUBLIC COMMENT ON THE AGENDA: 3:14 p.m. to 3:15 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:15 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. Dinkel Ms. Werner-Robertson Dr. DeFusco Mr. Maginn
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.


Kathy Dawes, Secretary