

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
February 18, 2009**

A regular meeting of the Nebraska Investment Council convened at 8:40 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on February 3, 2009, and published in the Lincoln Journal Star on February 8, 2009. 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 (participated by phone 8:41 a.m. to 3:44 p.m.)  
Mr. John Dinkel  
Mr. Norm Riffel  
Ms. Phyllis Chambers  
Treasurer Osborn

**NONMEMBERS IN ATTENDANCE:**

Mr. David Bomberger, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Kevin Vandolder, Ennis Knupp + Associates  
Mr. Chris Riley, Ennis Knupp + Associates  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Brett Nelson, Ennis Knupp + Associates  
Mr. Rob Parkinson, Ennis Knupp + Associates  
Ms. Heather Christopher, Ennis Knupp + Associates  
Mr. Dan Drake, Ennis Knupp + Associates  
Mr. Jason Hayes, Deputy State Treasurer  
Ms. Rachel Biar, Director, College Savings Program  
Ms. Kathy Tenopir, Legislative Fiscal Office  
Mr. Gary Bush, DAS Budget  
Ms. Nancy Hicks, Journal Star

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:40 a.m. to 8:41 a.m.** Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

**APPROVAL OF THE MINUTES OF THE NOVEMBER 17, 2008 MEETING: 8:41 a.m. to 8:42 a.m.** Mr. Dinkel moved that the December 4, 2008, draft of the November 17, 2008, meeting be approved. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

**COUNCIL MEMBER BUSINESS: 8:42 a.m. to 8:50 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting and informed the Council that Mr. Maginn is ill today, but would be participating by phone for a portion of today's meeting. Ms. Werner-Robertson stated that the Council and staff are all sorry to see Mr. Bomberger leave. Everyone has enjoyed working with him. In presenting Mr. Bomberger with a service plaque and a Nebraska Navy Admiralship, Ms. Werner-Robertson praised Mr. Bomberger on his many accomplishments as the State's Investment Officer and appreciates the confidence he has brought to the Council. Ms. Chambers, Mr.

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Dinkel and Mr. Riffel also expressed their appreciation for Mr. Bomberger's work and dedication to the Council and to the State of Nebraska. Mr. Bomberger commented on the wonderful experience he has had working with everyone. Mr. Bomberger also stated that if the Council wanted him to testify at the upcoming legislative hearings in March, he would be available.

Mr. Bomberger informed the Council that Ms. Werner-Robertson legislative confirmation hearing on her re-appointment to the Council was held on February 5, 2009. A vote before the full Legislature is scheduled at the end of the week.

**3<sup>RD</sup> QUARTER 2008 PRIVATE EQUITY PERFORMANCE REPORT BY ENNIS KNUPP: 8:50 a.m. to 9:45 a.m.** Mr. Nelson and Mr. Parkinson reviewed with the Council the 3<sup>rd</sup> quarter performance of the private equity portfolio. Their presentation included an overview of the market, portfolio overview, pacing update, significant developments, and private equity risk/return spectrum. A copy of the report was included in the meeting book.

**PRIVATE EQUITY POLICY UPDATE: 9:45 a.m. to 9:59 a.m.** Mr. Nelson and Mr. Parkinson presented to the Council for their consideration a revised *Private Equity Statement of Investment Policy*, a copy of which was included in the meeting book. The Council requested several changes be made and decided to continue with its discussion at the March 31, 2009, Council meeting. In order to have adequate time for review, the Council requested that Ennis Knupp provide a red-lined copy to them prior to the March 31, 2009, meeting.

**PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 9:59 a.m. to 10:15 a.m.** Mr. Nelson and Mr. Parkinson reviewed with the Council a new fund being offered by Ares Management, an alternative asset manager that operates complementary strategies in distressed debt, leveraged loans, high-yield bonds, and special situations. The fund, Ares Corporate Opportunities Fund III, L.P., is a distressed debt, buyout, and growth equity fund being formed to invest in middle-market companies in a broad range of industries that require investments of \$100-400 million. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Ares Management. Mr. Parkinson discussed with the Council the investment merits and concerns of the firm. Mr. Parkinson indicated that Ennis Knupp recommends that the Council commit \$20 million to Ares Corporate Opportunities Fund III, L.P. A copy of their presentation was included in the meeting book.

The Council took a break and reconvened at 10:15 a.m.

**PRESENTATION BY ARES MANAGEMENT: 10:15 a.m. to 10:55 a.m.** Mr. Bomberger introduced Mr. Bennett Rosenthal, Senior Partner in the Private Equity Group and Ms. Merritt Hooper, Senior Vice President and Director of Investor Relations/Marketing. Mr. Rosenthal and Ms. Hooper's presentation gave an organizational overview of the firm, investment strategy, and objectives. A copy of the presentation was included in the meeting book.

Following the presentation by Ares Management, Mr. Dinkel moved to commit \$20 million to Ares Corporate Opportunities Fund III, L.P., as an additional private equity manager for the Defined Benefit Plan, Cash Balance Benefit, Investor Select, General Endowments, and the HealthCare Endowment, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

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**3<sup>RD</sup> QUARTER 2008 REAL ESTATE PERFORMANCE REPORT BY ENNIS KNUPP:** 10:55 a.m. to 11:30 a.m. Ms. Christopher and Mr. Drake reviewed the Real Estate 3<sup>rd</sup> Quarter Performance Report included in the meeting book. Ms. Christopher commented on the 3<sup>rd</sup> quarter market environment, the portfolio's investments, how they performed relative to their benchmark, and the 2009 pacing outlook.

At 11:25 a.m. Ms. Chambers left the meeting to attend a legislative hearing and returned at 1:45 p.m.

**REAL ESTATE POLICY UPDATE:** 11:30 a.m. to 12:00 p.m. Ms. Christopher and Mr. Drake reviewed with the Council a revised *Real Estate Statement of Investment Policy*, a copy of which was included in the meeting book. The Council requested several changes be made and decided to continue with its discussion at the March 31, 2009, Council meeting. In order to have adequate time for review, the Council requested that Ennis Knupp provide a red-lined copy to them prior to the March 31, 2009, meeting.

**DISCUSSION OF ENNIS KNUPP'S SCOPE OF EXPANDED SERVICES DURING TRANSITION:** 12:00 p.m. to 1:20 p.m. Mr. Vandolder and Mr. Riley distributed copies of an overview of the firm and discussed the back office services that Ennis Knupp can provide to the Acting State Investment Officer and the Agency staff during the SIO transition period. Mr. Bomberger distributed edited copies of EK's proposal for these services. Ennis Knupp discussed with the Council some of the current NIC processes and procedures and compared them with the services EK could provide. The Council requested that Mr. Vandolder, Mr. Riley, Mr. Nelson, Mr. Parkinson, Ms. Christopher, and Mr. Drake leave the meeting for further Council discussion.

Following discussion by the Council, Dr. DeFusco made the following motion:

The Chairwoman shall be authorized to enter into a contract on behalf of the Nebraska Investment Council (the "Council") with Ennis Knupp to provide support and assistance to the Council, its staff and, in particular, the acting State Investment Officer ("SIO"), during the time when the Council is seeking and installing a permanent SIO. The terms and conditions of the contract shall be substantially similar to those contained in the contract presented to the Council at its meeting on February 18, 2009, with changes discussed at the meeting. The Chairwoman may execute and deliver a contract on behalf of the Council after such contract has been reviewed and approved by legal counsel for the Council. The fees for private equity and real estate may be charged as a direct expense of the related state funds and paid from the income of such funds. For purposes of Neb. Rev. Stat. §72-1249.02, such fees shall be approved by the Council and the State Investment Officer. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The State Investment Officer approved the proposed fees.

Copies of the Ennis Knupp handout and proposal are included in the attachments to the minutes.

The Council took a break and reconvened the Council meeting at 1:35 p.m.

**4<sup>TH</sup> QUARTER 2008 PERFORMANCE REPORT:** 1:35 p.m. to 2:00 p.m. Mr. Vandolder and Mr. Riley reviewed with the Council the 4<sup>th</sup> Quarter Performance Report included in the meeting book. Mr. Riley stated that capital markets continued to face an environment of unprecedented volatility as the credit crisis impacted all sectors of the stock market across every region of the globe. Mr. Riley discussed the NIC's investment managers and their performance results.

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**COLLEGE SAVINGS PLAN UPDATE: 2:00 p.m. to 2:30 p.m.** Treasurer Osborn reported that as of December 12, 2008, the Nebraska 529 Program had 169,715 accounts, with assets totaling \$1.595 billion. Ennis Knupp updated the Council on the returns of the State Farm College Savings Plan's Oppenheimer funds. A copy of the presentation is included in the attachments to the minutes.

**UPDATE ON HARDING & SHULTZ REVIEW OF NEBRASKA LAWS GOVERNING THE NIC'S AUTHORITY AND DUTIES: 2:30 p.m. to 2:35 p.m.** Mr. Heinrich updated the Council on the progress of his firm's review of Nebraska laws governing the NIC's authority and duties.

**OPERATING INVESTMENT POOL REVIEW AND ALTERNATIVES: 2:35 p.m. to 3:15 p.m.** Mr. Bomberger indicated Mr. Vandolder and he recently completed due diligence visits to four possible managers for the Operating Investment Pool portfolio, BlackRock, PIMCO, Galliard Capital Management, Inc., and Guggenheim Partners, LLC. Mr. Vandolder's presentation on the *Custom Fixed Income Manager Search for the Operating Investment Pool* included the criteria Ennis Knupp used in evaluating each manager and the managers' proposed solutions for the portfolio. Since the Council is already familiar with two of the managers, BlackRock and PIMCO, the Council requested that Mr. Jurich arrange to have Galliard and Guggenheim present at the March 31, 2009, Council meeting. A copy of the presentation is included in the attachments to the minutes.

**STATE INVESTMENT OFFICER'S REPORT: 3:15 p.m. to 3:22 p.m.**

**Investment Manager Agreements:** Mr. Bomberger indicated that there were no agreements executed since the last Council meeting.

**Potential or Pending Legislation:** Mr. Bomberger indicated that he will be testifying at the following legislative hearings in March: March 4, 2009 (Sudan Divestment – LB140); March 11, 2009, (presentation of the 2008 Annual Report of the Nebraska Investment Council); and March 20, 2009 (NIC 2009-2011 Budget Request).

**Action Plan, conferences, and articles:** The next Council meeting will be on March 31, 2009, at the Lincoln Embassy Suites.

Treasurer Osborn left the meeting at 3:22 p.m.

**PERB UPDATE: 3:22 p.m. to 3:45 p.m.**

Ms. Chambers indicated that NPERS is finishing up on the IT conversion and are in the process of hiring a new IT manager. The current manager will be retiring once the conversion is completed. Ms. Chambers reported that the PERB has a new board member, Ms. Janis Elliott. Ms. Elliott replaces outgoing board member Mr. Dale Kahla. Ms. Chambers distributed copies of the 2009 Retirement Committee Hearing Schedule and reviewed the legislation affecting the PERB and NPERS. A copy of the schedule is included in the attachments to the minutes.

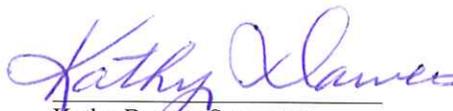
Mr. Maginn disconnected at 3:44 p.m.

At 3:45 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel Mr. Riffel Ms. Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

  
Kathy Dawes, Secretary