

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
March 31, 2009**

A regular meeting of the Nebraska Investment Council convened at 8:38 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on March 11, 2009, and published in the Lincoln Journal Star on March 22, 2009. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco (arrived at 9:00 a.m.)
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel (participated by phone 8:38 a.m. to 4:55 p.m.)
Treasurer Osborn (departed at 1:40 p.m.)

MEMBERS ABSENT:

Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Joe Jurich, Acting 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
Ms. Gayle Wrasse, 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. Keith Black, Ennis Knupp + Associates
Mr. Francois Otieno, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer
Ms. Rachel Biar, Director, College Savings Program
Mr. Gary Bush, DAS Budget
Mr. Gary Pribus, Cormac
Ms. Mary Anne Busse, Great Disclosure, Inc.

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:38 a.m. to 8:39 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 FEBRUARY 12, 2009, AND FEBRAURY 18, 2009, MEETINGS: 8:39 a.m. to 8:40 a.m. Mr. Dinkel moved that the February 19, 2009, draft of the February 12, 2009, and the February 23, 2009, draft of the February 18, 2009, meetings be approved. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn
Mr. Dinkel
Ms. Werner-Robertson

ABSENT NOT VOTING:

Dr. DeFusco
Mr. Riffel

The motion carried.

COUNCIL MEMBER BUSINESS: 8:40 a.m. to 8:43 a.m. Ms. Werner-Robertson welcomed everyone to the

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meeting and informed the Council that Mr. Riffel was unable to attend today's meeting in person, but would be participating by phone; and, that due to the recent death of her father, Ms. Chambers would not be attending. Ms. Werner-Robertson indicated that Dr. DeFusco will be arriving at today's meeting after his 8:00 a.m. class at the University. Dr. DeFusco's update on the SIO Search will be presented at that time. Ms. Werner-Robertson thanked Mr. Jurich and the NIC staff for their extra diligence during this transition period. Ms. Werner-Robertson stated that the Operating Investment Pool (OIP) presentations will be moved up in case Mr. Dinkel needs to leave early due to weather conditions. Treasurer Osborn informed the Council that he had another commitment and would need to leave the meeting early today and that Mr. Jason Hayes, Deputy State Treasurer, would be representing the Treasurer at that time.

PERFORMANCE UPDATE BY ENNIS KNUPP: 8:43 a.m. to 8:47 a.m. Mr. Riley reviewed the preliminary performance summary included in the meeting book on the Defined Benefit Plan as of February 28, 2009.

PRIVATE EQUITY PRESENTATION BY ENNIS KNUPP: 8:47 a.m. to 9:25 a.m.

Policy Update: Mr. Nelson and Mr. Parkinson reviewed and presented to the Council for their consideration a revised *Private Equity Statement of Investment Policy* included in the meeting book. The Council had suggested several changes to the Policy at the February 18, 2009, Council meeting. After discussion by the Council Mr. Maginn requested the following change be made:

- Section VIII, Risk Management - 7, Currency, would read:

7. The Council accepts there are currency risks consistent with investments outside the United States.

Following discussion by the Council, Mr. Maginn moved to adopt the Policy with this change. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

Distressed & Mezzanine Overview: Mr. Nelson and Mr. Parkinson gave an educational presentation on distressed and mezzanine strategies. Their presentation which was included in the meeting book covered the following: (1) Private equity risk/return spectrum; (2) Approaches to distressed debt; (3) Characteristics of NIC distressed debt funds; (4) Risk and return of select mezzanine funds; and (5) Comparison of current income vs. capital-appreciation.

Dr. DeFusco arrived at 9:04 a.m.

Back Office Update: Mr. Parkinson updated the Council on the expanded services Ennis Knupp is providing to Mr. Jurich, Acting State Investment Officer and the Agency staff during the SIO transition period. Mr. Parkinson reviewed the work completed, the work in progress, and the private equity activity. Mr. Parkinson indicated that the next phase would include: reconciliation of managers' transactions and capital account balances, creation of a weekly transaction activity report, inclusion of funded/unfunded schedule in quarterly reports, and a documentation process. Mr. Nelson also distributed copies of the NIC Private Equity Fund Financial Auditor Information. A copy is included in the attachments to the minutes. Mr. Maginn requested that the name of the custodian be added to this document and the updated document be provided at the May meeting. Mr. Dinkel requested that Ennis Knupp also provide monthly email updates on the portfolio.

PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 9:25 a.m. to 9:35 a.m. Mr. Nelson and Mr. Parkinson reviewed with the Council a new fund being offered by McCarthy Capital, a private equity firm

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based in Omaha, NE. The Fund, Fulcrum Growth Partners IV, L.P. is a small buyout and growth equity fund which invests in lower-middle market companies in a broad range of industries across the United States. The Fund will make equity investments between \$10.0 – 30.0 million and will focus on 1) buyouts and recapitalizations of private companies, 2) expansion of private companies through acquisitions, and 3) expansion of private companies through internal growth equity investments. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of McCarthy Capital. Mr. Parkinson discussed with the Council the investment merits and concerns associated with the firm. Mr. Parkinson indicated that Ennis Knupp recommends that the Council commit the lesser of \$10 million or 10% of the Fund, to Fulcrum Growth Partners IV, L.P. A copy of their presentation was included in the meeting book. Mr. Maginn advised the Council that in the interest of full disclosure he wanted to remind the Council that he had previously worked with McCarthy Capital when he was the Chief Investment Officer at Mutual of Omaha and because of this he would abstain from voting on this matter.

PRESENTATION BY MCCARTHY: 9:35 a.m. to 10:15 a.m. Mr. Jurich introduced Mr. Mike McCarthy, Chairman, Mr. Dana Bradford, President and Managing Partner, and Mr. Pat Duffy, Partner. Their presentation gave an overview of the firm, organization, governance, and discussed the current fund offering, Fulcrum Growth Partners IV, L.P. A copy of the presentation was included in the meeting book.

Following the presentation by McCarthy, Mr. Dinkel moved to commit the lesser of \$10 million or 10% of the Fund, to Fulcrum Growth Partners IV, L.P., as an additional private equity manager for the Defined Benefit Plan and Cash Balance Benefit, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

Having participated in the discussion by teleconference, Mr. Riffel was unable to vote. However, Mr. Riffel voiced his support and indicated that had he been present to vote, he would have voted aye.

PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 10:15 a.m. to 10:25 a.m. Mr. Nelson and Mr. Parkinson reviewed with the Council a new fund being offered by New Enterprise Associates (NEA). The Fund, New Enterprise Associates 13, L.P. (NEA 13) with a target capital commitment of \$2.5 billion and a hard cap of \$2.7 billion, is a balanced venture capital and growth equity fund, diversified by geography, stage, and industry. NEA 13 will focus on 1) buyouts and recapitalizations of private companies, 2) expansion of private companies through acquisitions, and 3) expansion of private companies through internal growth equity investments. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of NEA. 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 New Enterprise Associates 13, L.P.

PRESENTATION BY NEW ENTERPRISE ASSOCIATES: 10:25 a.m. to 10:55 a.m. Mr. Jurich introduced Mr. Patrick Kerins, General Partner. Mr. Kerins' presentation gave an overview of the firm, investment strategy, and objectives. A copy of the presentation was included in the meeting book.

Following the presentation by New Enterprise Associates, Mr. Maginn moved to commit \$20 million to New Enterprise Associates 13, L.P. as an additional private equity manager for the Defined Benefit Plan and Cash Balance Benefit, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call

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vote.

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

VOTING NAYE: Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

The Council took a break and reconvened the Council meeting at 11:10 a.m.

SIO SEARCH COMMITTEE UPDATE: 11:10 a.m. to 11:15 a.m. Dr. DeFusco informed the Council that after interviewing three search firms, the SIO Search Committee recommended the hiring of Hudepohl & Associates, Inc. to conduct a national search on behalf of the Council to find qualified candidates for the SIO position. Governor Heineman approved the contract with Hudepohl & Associates and Ms. Werner-Robertson executed the contract on behalf of the Council. Dr. DeFusco stated that Mr. Gary Hudepohl, Principal and Managing Director will be meeting with the Council, staff, outside legal counsel and investment consultant on April 3, 2009, to begin the search process. The SIO Search Committee will update the Council on the progress of the search at the May Council meeting.

REAL ESTATE PRESENTATION BY ENNIS KNUPP: 11:15 a.m. to 11:25 a.m.

Policy Update: Ms. Christopher and Mr. Drake reviewed and presented to the Council for their consideration a revised *Private Equity Statement of Investment Policy* included in the meeting book. The Council had suggested several changes to the Policy at the February 18, 2009, Council meeting. Following discussion by the Council Mr. Maginn moved to approve the policy as written. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

Back Office Update: Ms. Christopher updated the Council on the expanded services Ennis Knupp is providing to Mr. Jurich, Acting State Investment Officer and the Agency staff during the SIO transition period. Mr. Drake discussed the work completed, the work in progress, and the real estate activity. Ms. Christopher indicated that the next phase would include: reconciliation of managers' transactions and capital account balances, creation of a weekly transaction activity report, inclusion of funded/unfunded schedule in quarterly reports, and a documentation process. Ms. Christopher also distributed copies of the NIC Real Estate Fund Financial Auditor Information. A copy is included in the attachments to the minutes. Mr. Maginn requested that the name of the custodian be added to this document and the updated document be provided at the May meeting. Mr. Dinkel requested that Ennis Knupp also provide monthly email updates on the portfolio.

REAL ESTATE FUND PRESENTAION BY ENNIS KNUPP: 11:25 a.m. to 11:35 p.m. Ms. Christopher and Mr. Drake indicated that Rockpoint Group, L.L.C. will be updating the Council on their current investment Rockpoint Real Estate Fund III, an opportunistic fund. The NIC has a \$25 million commitment to the fund.

PRESENTATION BY ROCKPOINT GROUP, L.L.C.: 11:35 a.m. to 12:05 p.m. Mr. Jurich introduced Mr. Bill Walton, Managing Member, Mr. Keith Gelb, Managing Member, and Ms. Kathryn Corro, Principal, Investor

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Relations. Their presentation included an overview of the firm, the real estate market environment, and updated the Council on Rockpoint Real Estate Fund III. A copy of the presentation was included in the meeting book.

COLLEGE SAVINGS PLAN – PRESENTATION BY OPPENHEIMER UPDATE: 12:05 p.m. to 1:15 p.m. Mr. Jurich introduced Mr. Bill Raynor, Vice President CRM, Mr. Kevin Dachille, Vice President Investment Core Team, Mr. Ken Henry, Vice President Investment Officer, and Mr. Scott Hintz, Vice President for Financial Services Products, State Farm. Mr. Raynor discussed with the Council the performance of the Oppenheimer Core Bond Fund, updated the Council on changes to the investment portfolio team and advised of the relocation of the management team to New York. Mr. Henry distributed the returns of the Oppenheimer Core Bond Fund for the period October 31, 2008 through March 27, 2009. A copy of their presentation was included in the meeting book and a copy of the handout is included in the attachments to the minutes.

While State Farm indicated their preference was to retain the Oppenheimer Core Bond Fund based on the changes being implemented by Oppenheimer, Oppenheimer indicated a willingness to consider all options, including replacement of the Fund if that was the preference of the Council. The Council discussed the Fund and requested that Ennis Knupp meet with State Farm about possible alternatives to the Core Bond Fund and requested that Ennis Knupp make a recommendation at the May meeting.

OPERATING INVESTMENT POOL (OIP) REVIEW BY ENNIS KNUPP: 1:15 p.m. to 1:50 p.m. At the February 18, 2009, Council meeting Ennis Knupp was requested to assist in reviewing and recommending possible investment managers for the OIP. Mr. Francois Otieno presentation included an overview of the existing portfolio and discussed the criteria used to evaluate four investment managers: BlackRock, PIMCO, Galliard Capital Management, and Guggenheim Partners Asset Management, Inc. Each manager was requested to review the existing portfolio and provide recommendations for change while staying consistent with the NIC's investment objective of safety, liquidity and income. Since the Council is familiar with two of the managers, BlackRock and PIMCO, only Galliard Capital Management and Guggenheim Partners Asset Management, Inc. were requested to do presentations before the Council.

Treasurer Osborn left the meeting at 1:40 p.m.

PRESENTATION BY GALLIARD CAPITAL MANAGEMENT, INC.: 1:50 p.m. to 2:35 p.m. Mr. Jurich introduced Ms. Carrie Callahan, Principal, Mr. Richard Merriam, Managing Partner, and Mr. John Caswell, Managing Partner. Ms. Callahan's presentation gave an overview of the firm, investment philosophy, and process. Mr. Merriam and Mr. Caswell discussed the Nebraska portfolio and presented a recommendation which included the services provided and associated fees. A copy of the presentation was included in the meeting book.

PRESENTATION BY GUGGENHEIM PARTNERS ASSET MANAGEMENT, INC.: 2:35 p.m. to 3:54 p.m. Mr. Jurich introduced Mr. Donald Bethe, Senior Managing Director, Ms. Anne Walsh, Assistant CIO, Senior Managing Director, Mr. Scott Miner, CIO Managing Partner and Mr. Christopher L. Cook. Their presentation included an overview of the firm, review of the Nebraska portfolio and proposed changes. A copy of the presentation was included in the meeting book.

The Council discussed the pros and cons of each manager and decided to revisit the advantages and drawbacks of using outside managers. The Council requested that Mr. Jurich and Ennis Knupp provide additional information at the May 19, 2009, Council meeting. In the interim before a final decision is made by the Council, they requested that Mr. Jurich contact Mr. Rod Walker about assisting staff with the OIP investments. Because Mr. Walker previously worked with Mr. Maginn at Mutual of Omaha, Mr. Maginn would abstain from voting. Following additional discussion by the Council, Mr. Dinkel moved that Mr. Jurich contact Mr. Walker about the possibility of providing assistance with the OIP investments on a short term basis, either as a State employee or as an independent contractor. Mr. Jurich has authority to enter into an agreement on behalf of the Council with Mr. Walker on terms and conditions deemed acceptable to Mr. Jurich in his discretion. Dr. DeFusco seconded the motion. Mrs. Werner-Robertson called for a roll call vote.

VOTING AYE:

Dr. DeFusco
Mr. Dinkel
Ms. Werner-Robertson

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ABSTAINING: Mr. Maginn

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

BOARD EDUCATION-USE OF DERIVATIVES IN MANAGING INSTITUTIONAL PORTFOLIOS BY ENNIS KNUPP: 3:54 p.m. to 4:15 p.m. Mr. Jurich introduced Mr. Keith Black with Ennis Knupp. Mr. Black presentation examined the different classes of derivatives, such as futures, forwards, swaps, and options and how they can be used to reduce or increase risk. A copy of the presentation was included in the meeting book.

BOARD EDUCATION- OPPORTUNITIES FROM THE MARKET DISLOCATION BY ENNIS KNUPP: 4:15 p.m. to 4:48 p.m. Mr. Black discussed what opportunities may be available during this market downturn. Mr. Black looked at investments in direct lending funds, mezzanine funds, convertible bonds, and distressed funds. A copy of the presentation was included in the meeting book. Mr. Black also distributed a copy of the State Street Asset Global Overlay. A copy is included in the attachments to the minutes. The Council requested that Mr. Jurich and Ennis Knupp provide at the May 19, 2009, Council meeting a review of the current asset allocation and provide information on current opportunistic funds.

STATE INVESTMENT OFFICER'S REPORT: 4:48 p.m. to 5:00 p.m.

Investment Manager Agreements: Mr. Jurich indicated that he recently signed amendments to Loomis Sayles and Mondrian and also signed an amended side letter on CVC Europe.

Potential or Pending Legislation: Mr. Jurich indicated LB140 relating to Sudan Divestment is still in committee and that the deficit request has been submitted to both the Administrative Services' Budget Office and the Legislative Fiscal Office.

Action Plan, conferences, and articles: The next Council meeting will be on May 19, 2009, at the La Vista Embassy Suites. The Council will move discussion of the Securities Lending Policy included in this meeting book to the May 19, 2009, meeting. Mr. Jurich will request that PIMCO Distressed Mortgage do a presentation at the May meeting.

Mr. Riffel disconnected at 4:55 p.m.

At 5:00 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Maginn
Mr. Dinkel
Ms. Robertson
Dr. DeFusco

ABSENT NOT VOTING: Mr. Riffel

The motion carried.


Kathy Dawes, Secretary