

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 24, 2012**

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

Public notice was posted on the Nebraska Public Meeting Calendar on May 1, 2012, and published in the Lincoln Journal Star on May 13, 2012. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Treasurer Don Stenberg
Ms. Phyllis Chambers

MEMBERS ABSENT:

Mr. Norm Riffel

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Catherine Polleys, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. Rob Parkinson, Hewitt EnnisKnupp
Ms. Kathy Tenopir, Legislative Council
Ms. Kate Allen, Legislative Council

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:38 a.m. to 8:39 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE MARCH 22, 2012 MEETING: 8:39 a.m. to 8:41 a.m. Mr. Maginn moved that the April 4, 2012, draft of the minutes of the March 22, 2012, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robinson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 8:41 a.m. to 8:43 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and indicated that Mr. Riffel is unable to attend today's meeting due to a scheduling conflict. Ms. Werner-Robertson stated that asset allocation would be discussed at the July 17, 2012 Retreat. Ms. Werner-Robertson requested that Council members contact her or Mr. States if they would like a specific topic to be added to the Retreat agenda and we'll work it in. She stated that this is an opportune time for the Council to discuss other topics relating to the strategic plan.

1st QUARTER 2012 PERFORMANCE REPORT/MARKET UPDATE AND PERFORMANCE REVIEW:

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8:43 a.m. to 9:12 a.m. Mr. States discussed the revised format of the performance report, which is designed to be more user-friendly. Mr. States requested feedback on the revised report and members should let him know if there is anything else that the Council would like to have included in the report. Mr. Kotary discussed the 1st Quarter 2012 Performance Review included in the meeting book. The report included a market update, performance review, manager detail, and manager fees. Mr. Kotary reported total assets under management for all plans were \$16.8 billion as of March 31, 2012.

PRIVATE EQUITY PORTFOLIO UPDATE BY HEWITT ENNISKNUPP: 9:12 a.m. to 10:02 a.m. Ms. Rode and Mr. Parkinson reviewed the Private Equity Fourth Quarter 2011 Performance Report included in the meeting book. The report included an overview of the market, portfolio overview, fund performance, quarterly IRR comparison, vintage year performance, portfolio diversification, public and peer benchmarks, risk and return spectrum, existing portfolio by fund size, and duration of manager investments.

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

RECOMMENDATION FOR PRIVATE EQUITY COMMITMENT – NEW ENTERPRISE ASSOICATES BY MR. PARKINSON AND MR. JOE JURICH: 10:15 a.m. to 10:32 a.m. Mr. Parkinson reviewed a new fund being offered by New Enterprises Associates, a current NIC investment manager. The new Fund, New Enterprise Associates 14, L.P. (NEA 14), is a venture capital and growth equity fund. NEA 14 is similar to NEA 13, which the NIC is currently invested in. NEA 14 will be diversified by geography, stage and industry. NEA will invest in all levels of a company's growth from seed, early or late state, to public or private growth equity. NEA will invest as little as \$500,000 to seed innovations and upwards of \$75.0 million for growth investments. Because NEA 14 is similar to the investment strategy of NEA 13, no presentation by the General Partner is being made. NEA 14 plans on having a first close in early June. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of the Fund. Mr. Parkinson discussed the investment merits and concerns associated with the Fund and the Firm. Mr. Parkinson indicated that Hewitt EnnisKnupp recommends that the Council commit \$20 million to New Enterprise Associates 14, L.P. A copy of their presentation was included in the meeting book.

Mr. Jurich discussed the process taken by staff on its review of NEA 14, which included various attributes of New Enterprise Associates, its funds, investment staff, strategy and process, associated risk management, operational due diligence, performance, terms and conditions. Mr. Jurich indicated that NIC staff is recommending a commitment of \$20.0 million to New Enterprise Associates 14, L.P. for the DB/CBB Plans. A copy of the presentation was included in the meeting book.

Following the presentations by Mr. Parkinson and Mr. Jurich, Mr. Maginn moved to commit \$20 million to New Enterprise Associates 14, L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

PRIVATE EQUITY AND REAL ESTATE INVESTMENT POLICY FOLLOW-UP/REVISED PROPOSAL FOR THE LIMITED DELEGATION OF AUTHORITY TO THE SIO TO MAKE A COMMITMENT TO AN EXISTING PE/RE GENERAL PARTNER'S NEW FUND OR ADDITIONAL COMMITMENT TO AN OPEN END REAL ESTATE FUND BY MR. STATES AND HEWITT ENNISKNUPP: 10:32 a.m. to 10:55 a.m. Mr. States reviewed what the Council had previously discussed at the February 1st and March 22nd, 2012, Council meetings regarding a proposed policy delegating to the State Investment Officer (SIO) limited authority to make a commitment to a private equity fund or real estate fund by the SIO in certain circumstances. After discussion by the Council several changes were made to the proposed

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policy and staff was requested to bring an updated policy back to the Council for consideration at the May 24, 2012, meeting. Following subsequent conversations with the Staff and HEK, additional language to the policy is being suggested to authorize the SIO to make a commitment or commitments to an existing Core Open End Real Estate Fund consistent with the model pacing plan for real estate. Mr. States indicated that he is requesting that the Council adopt a policy providing limited discretionary authority for the SIO to make a follow-on commitment to the same partnership or fund which the NIC currently has a private equity or private real estate investment using the language proposed in the memo from Hewitt EnnisKnupp included in the meeting book. Ms. Williams discussed the memo with the Council and following additional discussion and revisions by the Council, Ms. Williams and Mr. States were requested to bring the updated policy back to the Council for consideration at the next regular Council meeting.

REAL ESTATE PACING FOR ENDOWMENTS AND COMMITMENT RECOMMENDATION BY HEWITT ENNISKNUPP: 10:55 a.m. to 11:05 a.m. Ms. Polleys and Mr. Rose reviewed the pacing plan for the General Endowments Plan (GE Plan) presented at the March 22, 2012, meeting, which recommended an additional \$4.0 million be committed during 2012 to the real estate investments. Ms. Polleys and Mr. Rose discussed the memo included in the meeting book recommending a commitment to Prudential (PRISA). The GE Plan currently has exposure to three Core Funds: UBS-TPF, Cornerstone Patriot and PRISA, with the least exposure to PRISA. Mr. Rose stated that PRISA is a large U.S. focused open-end, diversified Core fund that generates a high proportion of its total return from income while retaining potential for appreciation. Mr. Rose indicated that HEK is recommending a commitment for the GE Plan of \$4.0 million to Prudential PRISA. The GE Plan has already invested a total of \$2.0 million into PRISA in 2009 and 2011 and this is a follow on investment. This follow on commitment will not only help balance out the Core manager exposure but it will also push the GE Plan closer to its real estate target allocation of 5%. Mr. States and staff agree with HEK's recommendation to commit an additional \$4.0 million to Prudential PRISA.

Following discussion by the Council, Dr. DeFusco moved to commit an additional \$4.0 million from the General Endowments to Prudential PRISA subject to legal review of the investment documents by counsel provided by HEK and the Council's attorney. 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.

REAL ESTATE INVESTMENT COMMITMENT FOR DB/CBB FUNDS/ROCKWOOD FUND IX, L.P. BY HEWITT ENNISKNUPP: 11:05 a.m. to 11:31 a.m. Ms. Polleys and Mr. Rose reviewed with the Council a new fund being offered by Rockwood Capital. Rockwood Capital is a boutique real estate investment management firm focused on core, core-plus, value creation and special situation real estate investing in select U.S. markets and property sectors. The Fund, Rockwood Fund IX, L.P. is a closed end Value Added fund focused on building a portfolio of U.S. real estate with a combination of strong in-place income and the potential for income growth through real estate related value creation activities. The Fund will primarily make equity investments but does have the ability to make some structured investments in the debt portion section of the capital stack. Mr. Rose indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Rockwood Capital and Rockwood Fund IX, L.P. Ms. Polleys discussed the investment merits and concerns associated with the Firm and the Fund. Ms. Polleys indicated that Hewitt EnnisKnupp recommends that the Council commit \$20 million to Rockwood Fund IX, L.P. A copy of their presentation was included in the meeting book.

PRESENTATION BY ROCKWOOD CAPITAL: 11:31 a.m. to 12:15 p.m. Mr. States introduced Mr. Peter Falco, Co-Managing Partner and Ms. Sharon Miller, Managing Director. Their presentation included an overview of the firm, Fund IX opportunity, strategy, tactics, terms, governance, and the management team. A copy of the presentation was included in the meeting book.

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Following the presentation by Rockwood Capital, Dr. DeFusco moved to commit \$20 million from the Defined Benefit Plans and Cash Balance Benefit Plan to Rockwood Fund IX, L.P., pending legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Dinkel 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.

The Council took a break and reconvened at 12:30 p.m.

INTEREST RATE EXPECTATIONS AND ACTIVE FIXED INCOME MANAGER PORTFOLIO POSITIONING BY HEWITT ENNISKNUPP: 12:30 p.m. to 12:45 p.m. Mr. Kotary indicated that at the March Council meeting, the Council had asked HEK to query its active fixed income managers regarding their views on interest rates in the near-to-intermediate term. Mr. Kotary's presentation which was included in the meeting book provided a summary of the views of the NIC's fixed income managers and provided background on interest rates and duration.

NON-U.S. EQUITY COMPONENT STRUCTURE REVIEW BY HEWITT ENNISKNUPP: 12:45 p.m. to 12:53 p.m. Mr. Kotary's presentation provided an analysis of the current investment managers. At 12:53 p.m. Mr. Maginn made the following motion: I move to enter into closed session. The subject of the closed session involves investment managers retained by the Council for the non-U.S. equity markets investment mandates, negotiation tactics and strategies, and possible contract terms. At this time, the public interest is best served by keeping such discussion and information confidential. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

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

At 1:43 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

Ms. Werner-Robertson stated that the Council would continue with this discussion at the next regular Council meeting.

AUDIT COMMITTEE REPORT: 1:44 p.m. to 1:48 p.m. Dr. DeFusco, Chair of the NIC Audit Committee, reported meeting with Ms. Westerman, Internal Auditor, via conference call on May 21, 2012. Mr. Maginn was

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unable to attend the quarterly meeting, but was updated following the meeting by Dr. DeFusco. The NIC 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.

STATE TREASURER'S REPORT: 1:48 p.m. to 2:05 p.m. Treasurer Stenberg requested the audit of the University of Nebraska be included on the agenda for the August 23, 2012, Council meeting. Treasurer Stenberg reported that the investment changes to the Nebraska Educational Savings Trust (NEST), which the Council approved at the March 22, 2012, Council meeting, will go into effect on June 22, 2012. Plan participants will be receiving notification of the changes. Treasurer Stenberg reported winners were recently selected in the 10th annual "Why I Want to Go to College" essay contest. Treasurer Stenberg reported that Governor Heineman signed a Governor's Proclamation declaring May 29, 2012, as 529 College Savings Day, a day set aside to promote the value of state-sponsored 529 college savings plans and to encourage families to start saving for a child's or grandchild's college education. Treasurer Stenberg indicated that a press release will be issued next week announcing that the NEST has received the highest rating for its NEST Direct College Savings Plan and its NEST Advisor College Savings Plan, a "5-Cap" rating for both resident and non-resident accounts. The TD Ameritrade College Savings Plan received a "4.5 Cap" rating for resident accounts and a "4 Cap" rating for non-resident accounts. The State Farm College Savings Plan received a "4 Cap" rating for both resident and non-resident accounts. Treasurer Stenberg indicated that there are over 180,000 NEST accounts nationwide, with assets totaling \$2.7 billion, 52,000 of those are Nebraska participants.

NPERS DIRECTOR'S REPORT: 2:05 p.m. to 2:25 p.m. Ms. Chambers stated that NPERS has been busy with teacher retirements. Ms. Chambers distributed copies of NPERS' Investment Report as of December 31, 2011, and indicated that additional copies are available on NPERS' website. Ms. Chambers provided an update on the State Patrol lawsuit. Ms. Chambers reported that the compliance audit has been completed and that the results indicated that NPERS is substantially compliant. Ms. Chambers informed the Council that Hartford is going to sell its retirement business. The State currently has 862 members of the Hartford Deferred Compensation Plan. The NIC will be kept informed as the sale proceeds for review and approval of the investments for these assets as more information becomes available.

STATE INVESTMENT OFFICER'S REPORT: 2:25 p.m. to 2:52 p.m.

Legislative Update: Mr. States reviewed with the Council the legislative bills passed during the 2012 session which may have an effect on the NIC. LB916 provides an additional opportunity for active county and state defined contribution plan members to opt into the cash balance benefit plan between September 1, 2012 and October 31, 2012. LB969 provides for the gradual reduction of Health Care Cash Fund transfers from \$59.1 million for July 15, 2012 to \$50.235 million in July 15, 2015. Mr. States notes that there are several interim studies that may affect the NIC and he is working with Legislative staff to determine the NIC's participation in the studies.

Agency Budget Update: Mr. States reviewed the Agency's April 30, 2012, Budget Report which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Securities Lending Report: Mr. States indicated that a copy of the CY12 Q1 Quarterly Securities Lending Report is included in the meeting book.

Health Care Transfer: Mr. States reviewed the Health Care Endowment Fund Report included in the meeting book. The Health Care Endowment Fund (market value as of 4/30/12, of \$374.0 million), includes two separate accounts within the Fund: the NE Medicaid Intergovernmental Trust Fund (\$91.3 million, 24.4% of the total fund) and the NE Tobacco Settlement Trust Fund (\$283.1 million, or 75.6% of the total fund). Per Nebraska Revised Statute § 71-7611 "The State Treasurer shall transfer fifty-nine million one hundred thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity."

Mr. States recommended that 24.4% of the distribution be taken from the NE Medicaid Intergovernmental Trust Fund and 75.6% of the distribution be taken from the NE Tobacco Settlement Trust Fund.

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Following discussion by the Council, Mr. Dinkel made the following motion: I move that per Nebraska Revised Statute § 71-7611, the State Investment Officer advise the State Treasurer to transfer 24.4% of the \$59.1 million annual payment (or \$14.4 million) from the Nebraska Medicaid Intergovernmental Trust Fund and 75.6% of the payment (or \$44.7 million) from the Nebraska Tobacco Settlement Trust Fund. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

Action Plan, Conferences, and Articles: Conferences/meetings attended recently by NIC staff were: Ares, Quantum, Leonard Green, Cornerstone, EIF and CMEA. Staff will be attending the upcoming meetings of Landmark and Heitman. Mr. States indicated that he and Ms. Chambers will be attending the IFE's 2012 Market Makers Conference in June and he is attending the HEK Annual Client Conference.

Mr. States stated that the July 17, 2012, Council Retreat will begin at 8:30 a.m. at Quarry Oaks near Ashland, NE. The next regular meeting of the Nebraska Investment Council will be on August 23, 2012, in the Wingtip Conference Room at the La Vista Embassy Suites.

IMAs Executed Since Last Meeting: Mr. States indicated that the global equity guidelines have been amended to reflect the global equity benchmark changes and the documents for Ares IV have been completed.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 2:52 p.m. to 3:06 p.m. At 2:52 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 Company 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. Dinkel
 Ms. Werner-Robertson
 Dr. DeFusco
 Mr. Maginn

ABSENT NOT VOTING: Mr. Riffel

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 3:06 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: Ms. Werner-Robertson
 Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

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The motion carried.

PUBLIC COMMENT ON THE AGENDA: 3:06 p.m. to 3:07 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:07 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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


Kathy Dawes, Secretary