

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 18, 2010**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the Embassy Suites Hotel in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on August 9, 2010, and published in the Lincoln Journal Star on August 12, 2010. Dr. DeFusco chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Dr. Richard DeFusco, Acting Chairman
Mr. John Maginn
Mr. John Dinkel (departed at 2:20 p.m.)
Mr. Norm Riffel
Treasurer Shane Osborn (arrived at 8:47 a.m.)
Ms. Phyllis Chambers

MEMBERS ABSENT:

Ms. Gail Werner-Robertson

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Ms. Heather Christopher, Ennis Knupp + Associates
Ms. Rachel Biar, Director, College Savings Program
Mr. Jay Steinacher, Union Bank
Ms. Meg Olsen, Kutak Rock
Mr. John Allbery, First National Bank Omaha
Ms. Deborah Goodkin, First National Bank Omaha
Mr. Ken Henry, Oppenheimer Funds
Ms. Julie Libby, Oppenheimer Funds
Ms. Colleen Van Dyke, State Farm Investment Management Co.
Ms. Raquel Granahan, Oppenheimer Funds

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:35 a.m. to 8:36 a.m. Dr. DeFusco stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE MAY 26, 2010 MEETING: 8:36 a.m. to 8:38 a.m. Mr. Riffel moved that the June 1, 2010, draft of the minutes of the May 26, 2010, meeting be approved as written. Mr. Dinkel seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE: Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Mr. Riffel

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion carried.

APPROVAL OF THE MINUTES OF THE July 14-15, 2010 MEETINGS: 8:38 a.m. to 8:40 a.m. Mr. Maginn moved that the July 22, 2010, draft of the minutes of the July 14-15, 2010, meetings be approved as written. Mr. Riffel seconded the motion. Dr. DeFusco called for a roll call vote.

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VOTING AYE: Mr. Maginn
 Mr. Dinkel
 Mr. Riffel
 Dr. DeFusco

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion carried.

COUNCIL MEMBER BUSINESS: 8:40 a.m. to 8:45 a.m. Mr. States welcomed everyone to the meeting. Mr. States indicated that because of a scheduling conflict, Ms. Werner-Robertson was unable to attend today's meeting and that Dr. DeFusco would chair the meeting. Mr. States introduced Mr. Christopher Sanders. Mr. Sanders has been hired as the Back Office Manager and will start on September 1, 2010. Mr. States also indicated that Mr. Joe Spitznagel has been hired as a Portfolio Manager and will start on August 30, 2010.

PRIVATE REAL ESTATE PERFORMANCE AND PRESENTATION BY ENNIS KNUPP: 8:45 a.m. to 9:55 a.m.

1st Quarter 2010 Performance: Ms. Christopher reviewed with the Council the 2010 First 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's presentation covered the following: market overview, Real Estate portfolio review, REITs and placement agent update.

Publicly Traded REITs as Real Estate or Stock: Ms. Christopher reviewed with the Council the memo included in the meeting book on the REIT Pacing for the DB/CBB Plan. Ms. Christopher discussed both the advantages and disadvantages of the public REITs in the portfolio. Ms. Christopher discussed with the Council a J.P. Morgan slide on REITs recovery. A copy is included in the attachments to the minutes. Ms. Christopher indicated that Ennis Knupp recommends continuing the plan to decrease the Council's public REIT exposure as the Council's private real estate exposure grows with the intent to fully liquidate the public REIT portfolios.

Real Estate Commitments: Pacing Update and Acceleration of CORE Commitment Pacing for Endowments: Ms. Christopher and Mr. States also discussed the memo Core Real Estate Investments, General Endowment Plans, which was included in the meeting book. Mr. States and Ennis Knupp are recommending that the real estate core fund commitment be completed by 2012.

Introduction of Proposed Commitment to Cornerstone Property Fund: Ms. Christopher reviewed with the Council a new fund being offered by Cornerstone Real Estate Advisers, LLC. Cornerstone Real Estate Advisers, LLC is a global real estate investment firm and an indirect subsidiary of the Massachusetts Mutual Life Insurance Company. The fund, Cornerstone Patriot Fund is an open-end core fund established in 2004. The Patriot Fund will invest mainly in assets located in what Cornerstone considers to be "barrier" markets, where there are constraints (physical, economic, or otherwise) to new supply.

Ms. Christopher indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Cornerstone Real Estate Advisers, LLC. Ms. Christopher discussed the investment merits and concerns associated with the Firm. Ms. Christopher indicated that Ennis Knupp recommends that the Council commit \$50 million to Cornerstone Patriot Fund. A copy of their presentation was included in the meeting book.

PRESENTATION BY CORNERSTONE REAL ESTATE ADVISERS, LLC: 9:55 a.m. to 10:55 a.m. Mr. States introduced Mr. Brian Murdy, Portfolio Manager and Mr. Pat Kendall, Senior Director, Business Development. Their presentation included an overview of the firm, investment strategy, and a summary of the Patriot Fund. A copy of the presentation was included in the meeting book.

Following the presentation by Cornerstone Investment Advisers, LLC, Mr. Maginn moved to commit \$50 million from the Defined Benefit Plan and Cash Balance Benefit to Cornerstone Patriot Fund, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. \$20 million of the \$50 million to be proportionately liquidated from the current REITs managers. Mr. Riffel seconded the motion. Dr. DeFusco called for a roll call vote.

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VOTING AYE: Mr. Dinkel
 Mr. Riffel
 Dr. DeFusco
 Mr. Maginn

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion carried.

Mr. Maginn moved to commit \$13 million from the General Endowments to the following private real estate investments: \$6.5 million to Cornerstone Patriot Fund, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney; and \$6.5 million to UBS Trumbull Property Fund in which the Council is already invested. This commitment is in addition to the \$1 million core allocation previously allocated equally to UBS Trumbull Property Fund and Prudential PRISA Fund in 2010. The Council also requested that staff and EK review the real estate pacing schedule and report back to the Council.

VOTING AYE: Mr. Riffel
 Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion carried.

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

2nd QUARTER 2010 PERFORMANCE REPORT BY ENNIS KNUPP: 11:10 a.m. to 12:50 p.m. Mr. Vandolder and Mr. Riley reviewed with the Council the 2nd Quarter Performance Report included in the meeting book, commenting on the market environment, the portfolio's investments, and fee schedules. A revised page 31 Return Summary – All Plans was distributed to the Council. A copy is included in the attachments to the minutes. Mr. Vandolder and Mr. Riley also gave a presentation on Non-U.S./Global Equity Passive Alternatives. Their presentation which was included in the meeting book, discussed the available options to the NIC for passive investments designed to replicate the MSCI IMI Indexes. The Council requested additional information be provided at the September meeting on the effect of adding a global index portfolio to the active risk budget and the transaction costs to implement the index portfolio. Mr. Riley and Mr. Vandolder discussed the memo included in the meeting book on the NIC's current Risk Budgeting Policy and suggested that the Council consider changing the active risk budget for the global equity and fixed income asset classes. The Council requested that a draft of a revised Risk Budget Policy be presented at the September 22, 2010, meeting for consideration. A copy of the memo, BlackRock Fixed Income Downgrade was distributed by Mr. Riley. Mr. Riley discussed the recent staff and organizational changes at BlackRock and the effect they have on the Blackrock Core Plus strategy that the NIC is currently invested in. The Council requested that Ennis Knupp provide additional information at the September 22nd meeting. A copy of the memo is included in the attachments to the minutes. Mr. Vandolder and Mr. Riley also provided an update on alternative benchmarks for both the externally managed and internally managed portfolios within the Operating Investment Pool (OIP). The Council requested that Ennis Knupp provide additional information on the Bank of America Merrill Lynch index series at the September 22nd meeting.

COLLEGE SAVINGS PLAN OF NEBRASKA UPDATE: 12:50 p.m. to 2:20 p.m. Treasurer Osborn gave an update on the conversion to First National Bank Omaha as the Program Manager for the College Savings Plan of Nebraska (CSPN), effective January 2011. Treasurer Osborn introduced Mr. Bill McNamara of Oppenheimer Funds and Mr. Scott Hintz with State Farm Investment Management Co. Mr. McNamara gave an update on the program which included performance of the funds, portfolio's activity, account demographics and call center. A copy of the presentation was included in the meeting book. Mr. Hintz discussed State Farms efforts in growing the

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program. Mr. Jay Steinacher, with Union Bank the current Program Manager for the CSPN, gave an overview of the CSPN as of June 30, 2010. As of June 30, 2010, the Program had 180,258 accounts with assets totaling \$2.048 billion. A copy of Mr. Steinacher's presentation was included in the meeting book. Following the presentations, the Council discussed the distribution agreement of the CSPN with TD Ameritrade, Inc. and First National Bank of Omaha. Following discussion, Mr. Dinkel made the following motion:

I hereby move to approve TD AMERITRADE, Inc. as a distributor of the College Savings Plan of Nebraska and further move to direct the State Investment Officer to negotiate and enter into a Distribution Agreement, in conjunction with the State Treasurer and the Program Manager, upon such terms and conditions consistent with the direction of the Council provided today and upon such other terms and conditions as the State Investment Officer deems prudent and in the best interests of the Plan.

Mr. Riffel seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel

ABSENT NOT VOTING:	Ms. Werner-Robertson
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The motion carried.

NPERS Director's Report: 2:20 p.m. to 2:45 p.m. Ms. Chambers reported that NPERS' has been working on their biennial budget request and discussed the challenges of public pension plans. Ms. Chambers indicated that the presentations by Mr. Kevin Vandolder and Ms. Nancy Williams were well received by the PERB at the July PERB Retreat.

Mr. Dinkel left the meeting at 2:20 p.m.

STATE INVESTMENT OFFICER'S REPORT: 2:45 p.m. to 2:59 p.m.

Asset Summary Report: Mr. States reported current assets under management of over \$13.6 billion.

Agency Budget Update: Mr. States reviewed the Agency's July 31, 2010 Budget Report previously distributed to the Council and indicated that the Agency is under-budget for the month and fiscal YTD.

Staffing Update: Mr. States reported that Mr. Joe Spitznagel will begin working for the NIC on August 30, 2010, as a Portfolio Manager for the OIP and that Mr. Christopher Sanders will begin working on September 1, 2010, as the Back Office Manager.

Securities Lending Report: Mr. States discussed with the Council the Securities Lending Report and State Street Bank's Security Lending Report both included in the meeting book. Mr. States also reported on planned changes to the collateral reinvestment pool, Quality D Fund, and staffing changes with the State Street Global Markets team a copy of their report was included in the meeting book.

Derivatives Use Update: Mr. States reviewed the NIC Derivatives Report included in the meeting book and the discussed with the Council the NIC's Derivatives Policy and on the use of derivatives by the NIC. The report shows that the NIC is able to reconcile the derivatives positions held by various investment managers with the custody bank.

Legislative Update: Mr. States updated the Council on legislation, which directly affects the Nebraska Investment Council. A copy of his report was included in the meeting book.

Action Plan, Conferences, and Articles: The September 22, 2010, Council meeting will be at the La Vista Embassy Suites, in the Sugarloaf meeting room.

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PUBLIC COMMENT ON THE AGENDA: 2:59 p.m. to 3:00 p.m. Dr. DeFusco asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:00 p.m. Mr. Maginn moved to adjourn the meeting. Mr. Riffel seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE: Dr. DeFusco
Mr. Maginn
Mr. Riffel

ABSENT NOT VOTING: Mr. Dinkel
Ms. Werner-Robertson

The motion carried.


Kathy Dawes, Secretary