

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 23, 2012
Revised March 26, 2013**

A regular meeting of the Nebraska Investment Council convened at 8:37 a.m. at the Embassy Suites Hotel in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on August 6, 2012, and published in the Lincoln Journal Star on August 12, 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
Mr. John Conley
Treasurer Don Stenberg

MEMBERS ABSENT:

Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Randy Gerke, NPERS Deputy Director

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:37 a.m. to 8:38 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 MAY 24, 2012, AND JULY 17, 2012, MEETINGS: 8:38 a.m. to 8:40 a.m. Mr. Maginn moved that the May 30, 2012, draft of the May 24, 2012, and the July 25, 2012, draft of the July 17, 2012, meetings be approved. 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
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ABSTAINING:	Mr. Conley
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The motion carried.

COUNCIL MEMBER BUSINESS: 8:40 a.m. to 8:46 a.m. Ms. Werner-Robertson informed the Council that due to a scheduling conflict Ms. Chambers is unable to attend today's meeting. Ms. Werner-Robertson welcomed Mr. Randy Gerke, NPERS' Deputy Director, who will be representing Ms. Chambers at today's meeting. Ms. Werner-Robertson presented Mr. Norm Riffel, who recently resigned from the Council, with a plaque in appreciation for his service to the Council. Mr. Riffel thanked Mr. States and his staff for the great job they are doing and thanked Ms. Werner-Robertson for the great job she is doing as Council Chair and commended the professionalism of the Council on their work. Mr. Riffel also thanked Governor Heineman for the opportunity to serve on the board. Mr. States reviewed the day's agenda. Mr. States distributed copies of the completed Council Member Reference Guide and thanked Ms. Nancy Williams and her staff on the work they did putting the Guide together. The Guide will be supplemented with the NIC Policy Manual for new Council member's orientation.

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2ND QUARTER 2012 PERFORMANCE REPORT AND RISK BUDGET REPORT: 8:46 a.m. to 9:20 a.m.

Mr. Kotary distributed and reviewed with the Council the Market Update – Second Quarter 2012 report which included the latest market updates as of August 22, 2012. Mr. Kotary also reviewed the Second Quarter 2012 Performance Review which was included in the meeting book. Mr. Kotary's presentation provided a review of the Plans, manager review, and manager fees. Mr. Kotary reported total assets under management of \$16.7 billion. Mr. Kotary's presentation also included the annual Risk Budget Report, which indicated that all portfolios are in compliance with the active risk range established in the Risk Budget Policy and that no action is needed at this time.

REAL ESTATE PERFORMANCE AND PORTFOLIO UPDATE: 9:20 a.m. to 9:50 a.m. Mr. Rose reviewed with the Council the 1st Quarter Performance Report included in the meeting book. Mr. Rose's presentation included a market overview, real estate portfolio overview, and placement agent update. Mr. Rose reported \$448 million in assets for the DB/CBB portfolio and \$40 million in assets for the General Endowments portfolio.

PRISA SA ENDOWMENT REQUEST TO CONVERT INVESTMENT TO A PRIVATE REIT STRUCTURE: 9:50 a.m. to 10:00 a.m. Mr. States discussed the August 1, 2012, letter included in the meeting book from Prudential Real Estate Investors (PREI). The DB/CBB Plans and the Endowment Plans have investments in the Prudential Property Investment Separate Account (PRISA). PREI is creating a new investment vehicle PRISA LP as the primary vehicle for new investors to invest in PRISA. The purpose of the creation of PRISA LP is to diversify the investor base by broadening the group of institutional investors eligible to invest in PRISA. The current insurance company separate account structure limits the investment group to U.S. pension plans and certain other U.S. tax-exempt investors. PRISA LP will invest through the PRISA REIT alongside the existing insurance separate account. Mr. States along with HEK recommended to the Council that we shift from the current PRISA SA Endowment Plans investment to the PRISA LP. Following discussion by the Council, Dr. DeFusco moved to (i) adopt the recommendation of the NIC staff to direct Prudential to transfer the investment of endowment funds from PRISA SA to PRISA LP, subject to the satisfactory completion of the review of the legal documents by the NIC's legal counsel, and (ii) authorize and direct the State Investment Officer to take all actions necessary to complete the transaction, including execution of the investment documents and side-letter. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break and reconvened at 10:20 a.m.

PRIVATE EQUITY AND REAL ESTATE INVESTMENT DELEGATION POLICY PROPOSAL: 10:20 a.m. to 10:30 a.m. Ms. Williams reviewed with the Council the proposed policy included in the meeting book 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. Following discussion by the Council, Mr. Maginn made the following motion: The Nebraska Investment Council has granted the SIO the authority to make commitments and fund follow-on private equity partnerships and private closed-end real estate funds on behalf of the NIC if, and only if time is of the essence, and there is a risk that the most favorable terms for the investment will not be obtained if the SIO waits until the next regularly scheduled Council meeting to make a commitment on behalf of the NIC. The Policy is to be added as additional language to the appendices of the existing private equity and real estate investment policies. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

VOTING NAYE: Mr. Dinkel

The motion carried.

GENERAL ENDOWMENT YIELD AND INCOME ALTERNATIVE PORTFOLIO STRATEGIES: 10:30 a.m. to 11:20 a.m. Mr. Kotary provided follow-up information requested by the Council at the July 17, 2012, Retreat regarding ways the Council might consider to increase the yield within the current asset allocation framework for the 50/50 Endowments. Mr. Kotary presentation which was included in the meeting book gave several scenarios that are expected to increase portfolio yield. Following discussion by the Council, Mr. Maginn made the following motion:

- (1) Restructure the US equity portfolio by transitioning the BlackRock 1000 Index Fund to the BlackRock Russell 1000 Value Index Fund
- (2) Restructure the fixed income portfolio by changing the Loomis Sayles target allocation to 12.5% of the fixed income portfolio and lowering PIMCO to 40%.

Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

The Council requested HEK provide additional analysis to consider the cost and benefit of using active manager strategies.

DB/CBB FIXED INCOME ASSET CLASS PORTFOLIO INVESTMENT STRATEGIES AND RISK/RETURN CHARACTERISTICS: 11:20 a.m. to 11:50 a.m. Mr. Kotary presentation discussed the Council's current DB/CBB fixed income portfolio and two fixed income component-related issues that the NIC will need to address in the coming quarters: 1) Size of the allocation to Global Bonds (Rogge) and; 2) The redeployment of capital that was previously allocated to distressed mortgages. Mr. Kotary provided three options the Council might consider 1) Reinvest in Existing Managers; 2) Reinvest in Permanent Opportunity; and 3) Seek Another Cyclical/Transient Opportunity. The Council requested that HEK provide additional information on option 3.

The Council took a break and reconvened at 12:10 p.m.

NPERS' Report: 12:10 p.m. to 12:25 p.m. Mr. Gerke indicated that the School retirement season is underway, with close to 700 new June 1 effect date retirements. Mr. Gerke reported that the State and County audit is currently being conducted and that the School, Judges' and Patrol audit will begin in October. NPERS' biennial budget request is nearly complete. Mr. Gerke also reported results of the Actuarial Experience Study; changes that will affect the plan funding included: 1) lower investment return to 7.75% (increase liability); 2) lowered salary increase (decrease liability); 3) change mortality rates (increase liability); and 4) changed retirement rates (decrease liability). The Public Employees Retirement Board met on August 20, 2012, and approved the changes. The estimated additional contributions needed to fund the plans are \$80 million.

STATE TREASURER'S REPORT: 12:25 p.m. to 12:30 p.m. Treasurer Stenberg reported that as of July 31, 2012, total assets were \$2.45 billion, a year-to-date growth of 8.7%. Total accounts at the end of July were 147,589,

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a year-to-date growth of 1.9%. There were 889 new accounts in July, although active accounts decreased slightly due to seasonal activity. All plans showed an increase in assets from prior month for both Nebraska and out-of-state. For the last 12 months, Nebraska assets grew 9.4% and out-of-state assets grew 4.7%. The Treasurer's office will have a booth at the Nebraska State Fair.

STATE INVESTMENT OFFICER'S REPORT: 12:30 p.m. to 12:55 p.m.

Agency Budget Update: Mr. States reviewed the Agency's July 31, 2012 Budget Report and indicated that the Agency is under-budget for the month and fiscal YTD. Mr. States stated that no increase is anticipated in the Agency's biennial budget request.

Securities Lending Report: Mr. States reviewed with the Council the Securities Lending Report included in the meeting book and indicated that the annual Securities Lending Report will be given at the September 27, 2012, meeting.

IMAs Executed Since Last Regular Meeting: Mr. States reported no agreements were executed since the last Council meeting.

Action Plan, Conferences, and Articles: Mr. States informed the Council that CAFR testing will be done by the Auditor of Public Accounts in the upcoming weeks in the NIC's office. Mr. States and Mr. Kotary will be meeting on August 24, 2012, with the Governor's Chief of Staff/Budget staff regarding the market outlook and returns. They also will meet with Legislative staff to discuss LR518. Agenda items for the September 27, 2012, meeting at the La Vista Embassy Suites include: Private Equity update, OIP portfolio review, College Savings Plan annual review, annual Commission Recapture Report, Proxy Voting Report, Sustainability of Health Care Fund transfer, annual Securities Lending Report, and quarterly Audit Committee Report.

EVALUATION POTENTIAL NON-U.S. SECURITY FRAUD CLAIMS (IN GENERAL AND SPECIFICALLY OLYMPUS CORPORTATION): 12:55 p.m. to 1:24 p.m. Mr. Heinrich discussed the changing legal landscape after the U.S. Supreme Court's decision in Morrison v. National Australia Bank Ltd. Now claims for securities fraud which involve foreign stock issued or a foreign exchange involving fraudulent acts occurring outside the U.S. cannot be brought in U.S. courts. The Council will need to evaluate foreign securities fraud claims on a case-by-case basis. At 1:00 p.m. Mr. Dinkel made the following motion: I move to enter closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to potential litigation involving the Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. 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 Mr. Conley
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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, Mr. Kotary, and Mr. Jurich be present and all others in attendance were excused.

At 1:23 p.m. Mr. Conley moved that the Council return to open session. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

Mr. Dinkel made the following motion: The Council authorizes and directs Mr. States, SIO, to pursue securities fraud claims of the NIC against Olympus Corporation in Japan. Authorization includes hiring and monitoring outside legal counsel to recover these funds and settlement of all claims. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

PUBLIC COMMENT ON THE AGENDA: 1:24 p.m. to 1:25 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

PERIODIC SATISFACTION SURVEY OF INVESTMNT CONSULTANT: 1:25 p.m. to 1:56 p.m. At 1:25 p.m. Mr. Conley made the following motion: I move to enter closed session. The subject matter of the closed session is the evaluation of the Investment Consultant. The reason for the closed session is to protect the reputation of the Investment Consultant. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel Mr. Conley Ms. Werner-Robertson Mr. Maginn
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VOTING NAYE:	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 1:56 p.m. Mr. Maginn moved that the Council return to open session. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

STATE INVESTMENT OFFICER EVALUATION AND NEBRASKA INVESTMENT COUNCIL SELF-ASSESSMENT: 1:56 p.m. to 3:25 p.m. At 1:56 p.m. Mr. Maginn moved that the Council enter into closed session for the following:

- (1) The subject matter of the closed session is the evaluation of the job performance of the State Investment Officer. The reason for the closed session is to protect the reputation of the State Investment Officer.
- (2) The subject matter is the self-assessment of the members of the Nebraska Investment Council. The reason for the closed session is to protect the reputation of the members of the Nebraska Investment

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Council.

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 Mr. Conley
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The motion carried.

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

At 3:22 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:	Dr. DeFusco Mr. Maginn Mr. Dinkel Mr. Conley Ms. Werner-Robertson
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The motion carried.

Mr. Dinkel moved that the annual salary of the State Investment Officer be increased by 4%, effective July 1, 2012. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

At 3:25 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 Mr. Conley Ms. Werner-Robertson Dr. DeFusco Mr. Maginn
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The motion carried.



Kathy Dawes, Secretary