

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 17, 2011**

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 2, 2011, and published in the Lincoln Journal Star on August 7, 2011. Dr. DeFusco chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Dr. Richard DeFusco, Acting Chairman
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Don Stenberg
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, Hewitt EnnisKnupp
Mr. Scott McLerran, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Ms. Heather Christopher, Hewitt EnnisKnupp
Ms. Rachel Biar, Director, College Savings Program

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 25, 2011 MEETING: 8:36 a.m. to 8:37 a.m. Mr. Maginn moved that the June 1, 2011, draft of the minutes of the May 25, 2011, meeting be approved as written. 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

The motion carried.

APPROVAL OF THE MINUTES OF THE JULY 13-14, 2011 RETREAT: 8:37 a.m. to 8:38 a.m. Mr. Maginn moved that the July 25, 2011, draft of the minutes of the July 13-14, 2011, Retreat be approved as written. Mr. Dinkel seconded the motion. Dr. DeFusco called for a roll call vote.

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

ABSENT NOT VOTING: Ms. Werner-Robertson

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The motion carried.

COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:40 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. Dr. DeFusco informed the Council that the Auditor of Public Accounts had contacted Mr. States and indicated that testing for the CAFR will be next week at the NIC, but that the Agency audit will now be done on a three year cycle. Dr. DeFusco complimented the Agency's staff on a job well done.

PRIVATE REAL ESTATE PERFORMANCE AND PRESENTATION BY HEWITT ENNISKNUPP: 8:40 a.m. to 9:35 a.m.

1st Quarter 2011 Performance Report: Ms. Christopher reviewed with the Council the 2011 First Quarter Performance Report for Real Estate included in the meeting book. Ms. Christopher reported positive returns for the quarter. Ms. Christopher's presentation covered the following: market overview, Real Estate portfolio overview and placement agent update.

Introduction of Proposed Commitment to Hudson Realty Capital Fund V, L.P.: Ms. Christopher reviewed with the Council Hudson Realty Capital Fund V (HRC V). Hudson Realty Capital focuses on high-yield debt and opportunistic equity investments across multiple property types in the United States. The Fund, HRC V is a closed end opportunistic fund.

Ms. Christopher indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Hudson Realty Capital. Ms. Christopher discussed the investment merits and concerns associated with the Firm. Ms. Christopher indicated that Hewitt EnnisKnupp recommends that the Council commit \$15 million to Hudson Realty Capital Fund V, L.P. A copy of the presentation was included in the meeting book.

PRESENTATION BY HUDSON REALTY CAPITAL: 9:35 a.m. to 10:22 a.m. Mr. States introduced Mr. Sanford S. Herrick, Managing Director, Founding Principal and Ms. Precilla Torres, Managing Director, Capital Markets. Their presentation included an overview of the firm, investment strategy, and a summary of Hudson Realty Capital Fund V, L.P. A copy of the presentation was included in the meeting book.

Following the presentation by Hudson Realty Capital and discussion by the Council, Mr. Maginn moved to commit \$15 million from the Defined Benefit Plan and Cash Balance Benefit to Hudson Realty Capital Fund V, L.P., subject to (1) NIC being a member of the Fund's Advisory Board, (2) Advisory Board approval of any proposed leverage exceeding 20%, and (3) Legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Dr. DeFusco seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE: Dr. DeFusco
 Mr. Maginn

VOTING NAYE: Mr. Dinkel
 Mr. Riffel

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion failed for lack of a majority.

REAL ESTATE INVESTMENT POLICY – CONSIDERATION OF PROPOSED CHANGES: 10:22 a.m. to 10:40 a.m. Ms. Christopher and Mr. States reviewed with the Council a redline version of the proposed changes to the Real Estate Statement of Investment Policy, which was included in the meeting book. The Council made several suggestions and decided to wait until the September 21, 2011, Council meeting before making a final decision. They also requested that Hewitt EnnisKnupp also update the Private Equity Statement of Investment Policy to include the suggestions where appropriate and bring it to the September 21, 2011, Council meeting for consideration.

The Council took a break and reconvened at 10:55 a.m.

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2ND QUARTER 2011 PERFORMANCE REPORT/RISK BUDGET REPORT BY HEWITT ENNISKNUPP: 10:55 a.m. to 11:50 a.m. Mr. Vandolder and Mr. McLerran reviewed with the Council the 2nd Quarter Performance Report included in the meeting book, commenting on the market environment, the portfolio's investments, and fees. Mr. Vandolder and Mr. McLerran also gave the annual Risk Budget Report, which was included in the meeting book.

GENERAL ENDOWMENT EQUITY INCOME OPTIONS BY HEWITT ENNISKNUPP: 11:50 a.m. to 12:05 p.m. Mr. Vandolder and Mr. McLerran provided additional follow-up information on the General Endowments. Their presentation which was included in the meeting book, provided strategies the Council might consider to generate additional distributable income with limited risk. The Council will continue with its discussion on the General Endowments at the September 21, 2011, Council meeting.

OPERATING INVESTMENT POOL/GUIDELINE REVISIONS: 12:05 p.m. to 12:30 p.m. Mr. States introduced Mr. Jeremiah Garber. Mr. Garber started with the NIC on August 15, 2011, as a Portfolio Manager I, whose primary responsibility will be working with the Operating Investment Pool portfolio. Mr. Spitznagel and Mr. States reviewed the proposal for bringing the credit portion of the OIP assets managed by Galliard back in-house. A revised policy will be presented to the Council at the September 21, 2011, Council meeting. A copy of the presentation was included in the meeting book.

The Council took a break and reconvened at 12:40 p.m.

College Savings Plan of Nebraska: 12:40 p.m. to 2:10 p.m. Treasurer Stenberg requested the Council consider the addition of an FDIC Investment Option through the NEST Direct and Advisor 529 Plans. Treasurer Stenberg stated that the new option is a very conservative, safe investment choice. Treasurer Stenberg informed the Council that, if approved, the FDIC insured investment option will become available to investors in the Nebraska College Savings Plan later this calendar year, after additional administrative steps have been completed. The Bank Savings Individual Investment Option will be available through the NEST Direct College Savings Plan and the NEST Advisor College Savings Plan. Each Plan will invest all of its assets in a separate omnibus savings account held at First National Bank of Omaha. The Treasurer handed out a letter from the FDIC stating that contributions to and earnings on the investments in the new option will pass through to each account owner and qualify for FDIC insurance up to the amount set by federal law, which is \$250,000. A copy of the letter is included in the attachments to the minutes. Treasurer Stenberg introduced from First National Bank of Omaha, Ms. Deborah Goodkin, Managing Director College Savings Plans, Mr. Stacy Auman, Investment Officer, and Mr. David Cota, Senior Managing Director, First National Investment Services. Their presentation which was included in the meeting book provided additional information on the new investment option. Following discussion by the Council, Mr. Dinkel made the following motion: I hereby move to adopt the proposal today to add an FDIC insured savings plan investment option for the NEST Direct and Advisor 529 Plans and to authorize and direct the State Investment Officer to amend the current agreement with the plan manager, First National Bank of Omaha, and/or execute and deliver any instruments necessary to implement this resolution upon such terms and conditions consistent with the proposal, the guidance provided by the Council today and this motion, 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: 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 1:55 p.m.

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College Savings Plan of Nebraska – continued

FNBO Annual Report: Ms. Goodkin and Mr. Auman presentation which was included in the meeting book, gave a market overview and performance by investment option.

State Farm/Oppenheimer Quarterly Report: Mr. Bill McNamara, VP Oppenheimer Funds and Mr. Ken Henry, VP Oppenheimer Funds presentation which was included in the meeting book provided an update on the assets, accounts, and performance during the last quarter.

NPERS Director's Report: 2:10 p.m. to 2:40 p.m. Ms. Chambers reported that NPERS' has been working on School retirements and finalizing the Compliance Audit RFP. Ms. Chambers reported on the PERB Retreat with presentations by Mr. Vandolder on CY Q1 performance, Mr. Dale Comer, Assistant Attorney General, discussed the Open Meetings Laws, and Buck Consultants' modeling software for the DB/CBB Plans. Ms. Chambers stated that Mr. Blank recently retired with the Department of Agriculture after 40 years of service. Mr. Blank will continue to serve on the PERB.

COMMITTEE REPORTS: 2:40 p.m. to 2:42 p.m. Mr. States reported that no Agency audit will be conducted by the Auditor of Public Accounts for fiscal year 2011. Mr. States indicated that due diligence visits are being conducted for the Investment Consultant Search.

STATE INVESTMENT OFFICER'S REPORT: 2:42 p.m. to 3:08 p.m.

Agency Budget Update: Mr. States reviewed the Agency's July 31, 2011 Budget Report and indicated that the Agency is under-budget for the month and fiscal YTD.

Staffing Update: Mr. States reported that Mr. Jeremiah Garber began working for the NIC on August 15, 2011, as a Portfolio Manager for the OIP. Applications for the vacant Office Clerk III position are being reviewed and interviews will begin shortly.

Securities Lending Report: Mr. States reviewed with the Council the Securities Lending Report included in the meeting book.

Commission Recapture Report: Mr. States reviewed with the Council the annual Commission Recapture Report included in the meeting book. Mr. States reported that in accordance with the Commission Recapture Policy, because the recaptured commission fund's balance was less than one-half of the appropriated budget, no commission recapture transfer will be made this fiscal year.

Action Plan, Conferences, and Articles: Mr. States indicated that he will be attending the annual NASIO conference the first week of October in Portland, OR. The September 21, 2011, Council meeting will be at the La Vista Marriott Hotel.

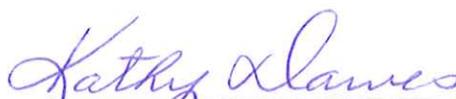
PUBLIC COMMENT ON THE AGENDA: 3:08 p.m. to 3:09 p.m. Dr. DeFusco asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:10 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Dr. DeFusco called for a roll call vote.

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

ABSENT NOT VOTING: Ms. Werner-Robertson

The motion carried.



Kathy Dawes, Secretary