

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
September 22, 2010**

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 September 21, 2010, and published in the Lincoln Journal Star on September 22, 2010. 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 (departed at 2:40 p.m.)
Treasurer Shane Osborn (departed at 2:40 p.m.)
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. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Chris Riley, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Mr. Robb Parkinson, Hewitt EnnisKnupp
Mr. Michael Sheran, Hewitt EnnisKnupp
Ms. Meg Olsen, Kutak Rock
Mr. Gary Bush, AS State Budget Office

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 AUGUST 18, 2010 MEETING: 8:38 a.m. to 8:39 a.m. Mr. Maginn moved that the August 26, 2010, draft of the minutes of the August 18, 2010, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSTAINING: Ms. Werner-Robertson

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:45 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and indicated that Mr. Riffel had a prior commitment and was unable to attend today's meeting. Ms. Werner-Robertson stated that Mr. States and Hewitt EnnisKnupp have done great follow-up work on topics discussed at the July Retreat. Mr. States introduced two new staff additions to the Nebraska Investment Council, Mr. Joe Spitznagel and Mr. Chris Sanders. Mr. Spitznagel started with the office on August 30, 2010, as a Portfolio Manager, whose primary responsibility will be working with the Operating Investment Pool portfolio.

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Mr. Sanders started with the office on September 1, 2010, as the Back Office Manager, whose primary responsibility will be working with the private equity and private real estate portfolios. Mr. States stated that a group picture of the Council will be taken before the November 15, 2010, joint meeting with PERB at the Lincoln Embassy Suites. Mr. States requested that Council members be available by 7:45 a.m. in the Regent D meeting room for the photo.

PRIVATE EQUITY UPDATE BY HEWITT ENNISKNUPP: 8:45 a.m. to 9:40 a.m.

Update on Private Equity Group Staffing: Mr. Parkinson updated the Council on Hewitt EnnisKnupp's Global Private Equity team. Ms. Karen Rode has been hired to head the firm's global private equity and infrastructure research group. Mr. Parkinson also stated that the hiring of a senior investment analyst will be announced in the near future.

Private Equity Fund Investment Reviews: Mr. Parkinson discussed the current market conditions and indicated that private equity performance is picking up, which is benefiting the Nebraska investments. Mr. Parkinson and Mr. Sheran discussed performance and recent market trends. A copy of their presentation was included in the meeting book.

Private Equity Pacing Update: Mr. Parkinson and Mr. Sheran reviewed the portfolios by fund size and strategy and discussed the risk/return spectrum of the investments. A copy of their presentation was included in the meeting book.

Introduction of Proposed Commitment to Ares Mezzanine Fund, L.P.: Mr. Parkinson and Mr. Sheran reviewed with the Council a new fund being offered by Ares Capital Management LLC, an alternative asset manager, that operates complementary strategies in private equity, private debt, and public debt markets. The fund, Ares Mezzanine Partners, L.P. will make mezzanine investments in middle-market companies. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Ares Capital Management LLC. Mr. Parkinson and Mr. Sheran discussed the investment merits and concerns associated with the firm. Mr. Parkinson indicated that Hewitt EnnisKnupp recommends that the Council commit \$15 million to the fund, Ares Mezzanine Partners, L.P. A copy of their presentation was included in the meeting book.

PRESENTATION BY ARES CAPITAL MANAGEMENT LLC: 9:40 a.m. to 10:36 a.m. Mr. States introduced Mr. Mitch Goldstein, Senior Partner, Mr. Mark Affolter, Managing Director, and Ms. Merritt Hooper, Head of Client Relationships. Their presentation included an overview of the firm, a summary of the fund, Ares Mezzanine Partners, L.P. and a review of the team managing the fund. A copy of their presentation was included in the meeting book.

Following the presentation by Ares Capital Management LLC, Mr. Maginn moved to commit \$15 million to the fund, Ares Mezzanine Partners, 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.

The Council took a break and reconvened at 10:48 a.m.

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NON-U.S. EQUITY PORTFOLIO INDEX CONVERSION BY HEWITT ENNISKNUPP: 10:48 a.m. to 11:18 a.m. As a follow-up to a July Retreat discussion item, the Council had requested at the August 18, 2010, Council meeting that Mr. States and Hewitt EnnisKnupp (HEK) provide additional information on the fees and the cost to convert the current non-U.S. Index portfolio from the MSCI All Country World ex-U.S. Index to the MSCI All Country World ex-U.S. Investible Market Index (MSCI ACWXUS-IM Index). Mr. Vandolder and Mr. Riley discussed the available options to the NIC for passive investments designed to replicate the MSCI Global IMI Index. Their presentation which was included in the meeting book, provided organizational information, product characteristics, and performance on two of the NIC's current managers, BlackRock and SSgA. They also provided information on the transaction costs associated with moving to a passive strategy benchmarked against the MSCI ACWXUS-IM Index, for each of these managers. Mr. Vandolder indicated that HEK makes the following recommendations: 1. That the NIC transition the passive investment benchmarked against the MSCI All Country World ex-U.S. Index to a strategy benchmarked against the recently created MSCI All Country World ex-U.S. Investible Market Index to provide NIC with a more expansive proxy of the non-U.S. equity markets. As a representation of the broad market, HEK recommends clients replicate beta in the broadest form. For the non-U.S. markets, HEK believes that this is through the MSCI Investible Market Indexes. 2. That either BlackRock or SSgA, the two most significant providers of these services, be chosen to manage the index portfolio. The NIC utilizes them both for various passive and active strategies across its plans. 3. The cost savings is greater should the NIC choose SSgA as its vendor. However, by choosing to move to a passive strategy benchmarked against the MSCI ACWXUS-IM Index, the management fee will move up slightly for the lowest cost alternative. Mr. States said that he agrees with HEK's recommendation to change the passive non-U.S. equity benchmark to the MSCI ACWXUS Index and recommends that SSgA be selected as the provider of the service. Following discussion by the Council, Mr. Dinkel moved to adopt the recommendations to change the passive investment benchmark to the MSCI All Country World ex-U.S. Investible Market Index and appoint SSgA as the service provider. 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.

GLOBAL EQUITY INDEX STRATEGIES BY HEWITT ENNISKNUPP: 11:18 a.m. to 11:53 a.m. The Council had requested at the August 18, 2010, Council meeting that Hewitt EnnisKnupp provide additional information on adding a global passive investment to help control costs and risk in the global equity asset class. Mr. Vandolder and Mr. Riley's presentation, which was included in the meeting book discussed the available options to the NIC for passive investments designed to replicate the MSCI Global IMI Index. After discussion, the Council requested the SIO and HEK to provide information on the amount of indexation in the combined U.S. equity, non-U.S. equity and Global equity portfolios before they make a decision on whether a passive global equity investment should be added. No changes will be made at this time to the manager structure for this asset class.

FIXED INCOME STRUCTURE REVIEW BY HEWITT ENNISKNUPP: 11:53 a.m. to 12:36 p.m. As requested by the Council at the August 18, 2010, Council meeting, Mr. Vandolder and Mr. Riley provided information on the fixed income strategy. Their presentation which was included in the meeting book, provided historical information, current approach, and the effect on the risk and return characteristics of the fixed income asset class by adding a global fixed income manager. Currently the NIC structure uses a fixed income core and core-plus approach that primarily invests in investment grade U.S. fixed income, but permits some non-U.S. fixed income exposure and high yield debt. Mr. Vandolder indicated that Hewitt EnnisKnupp recommends that the Council consider updating the structure of the fixed income portfolio using a Dual Bond portfolio. Mr. Vandolder also commented on how the structure relates to the recently completed Asset Liability Study; and also recommends that the NIC conduct a search for a global fixed income manager to better represent the fixed income opportunity set available to investors. The SIO recommended that a search not be started. A decision first needs to be made on the investment manager structure for the fixed income asset class. The NIC asked the SIO and HEK to

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provide more information on the portfolio characteristics and the composition of the existing fixed income holdings before it takes any action.

OIP BENCHMARK REVIEW BY HEWITT ENNISKNUPP: 12:36 p.m. to 12:48 p.m. The Council had requested that Hewitt EnnisKnupp provide information on the appropriate benchmark for the Operating Investment Pool and the benchmark for the Galliard corporate bond investments. Mr. Vandolder and Mr. Riley reviewed several intermediate Government/credit benchmarks that are available through Barclays Capital and Bank of America. A copy of their presentation was included in the meeting book. Following the presentation the Council decided no changes would be made at this time.

The Council took a break and reconvened at 1:10 p.m.

DELIBERATION AND ACTION ON REQUEST FROM HEWITT ENNISKNUPP RELATED TO AON TRANSACTION: 1:10 p.m. to 1:45 p.m. The Council discussed the recent merger of Hewitt EnnisKnupp with Aon Corporation. As required by the Securities and Exchange Commission, Hewitt EnnisKnupp is requesting that the Nebraska Investment Council execute an Assignment of Advisory Agreement in order for Hewitt EnnisKnupp to continue to serve as the NIC's adviser upon the closing of the Aon-Hewitt Inc. transaction. The Council requested that Mr. Vandolder and Mr. Riley leave the meeting for further Council discussion. After additional discussion, Dr. DeFusco made the following motion: In response to the request of Hewitt EnnisKnupp to consent to the acquisition of Hewitt Inc. by Aon Corporation dated August 30, 2010, I hereby move to authorize the State Investment Officer to execute and deliver the consent to the acquisition on behalf of the 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
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

Mr. Vandolder and Mr. Riley rejoined the meeting.

NPERS DIRECTOR'S REPORT: 1:45 p.m. to 1:56 p.m. Ms. Chambers reported that NPERS has been busy working on a large number of retirements for the Plans. Ms. Chambers indicated that NPERS had recently submitted their biennial budget request. Ms. Chambers informed the Council that Mr. Jason Hayes has been hired as NPERS' legal counsel following the retirement of Mr. Joe Schafer. Ms. Chambers reported that the Ameritas contract will be up for renewal next year and that NPERS will be negotiating a new contract. Ms. Chambers reported that she will be attending a briefing with the Retirement Committee regarding LR542 on September 24, 2010 to discuss the Agency's budget.

COLLEGE SAVINGS PLAN OF NEBRASKA (CSPN) UPDATE: 1:56 p.m. to 2:10 p.m. Mr. Heinrich updated the Council on the status of the transition of the program management of the CSPN from Union Bank to First National Bank Omaha and indicated that Council approval is needed on several agreements. Mr. Heinrich discussed the follow-up negotiations which occurred since the last Council meeting and the remaining outstanding terms of the distribution agreement with TD Ameritrade. Following discussion by the Council, Dr. DeFusco made the following motion: I hereby move to authorize and 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 at the Council meeting on August 18, 2010, and as supplemented today, and upon such other terms and conditions as the State Investment Officer deems prudent and in the best interest of the Plan. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

Mr. Heinrich discussed a proposed amendment to the Program Management Agreement, which relates to a proposed agreement between First National Bank of Omaha and State Farm/Oppenheimer. Following discussion by the Council, Dr. DeFusco made the following motion: I hereby move to authorize the State Investment Officer to negotiate and enter into an amendment to the Program Management Agreement with First National Bank of Omaha authorizing the Program Manager to collect fees for services provided to State Farm/Oppenheimer; provided that such fees shall not be charged to plan participants. The State Investment Officer may execute an amendment to the Program Management Agreement consistent with this resolution and 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. Maginn 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.

Mr. Heinrich discussed the proposed subcontract between U-Promise and First National Bank of Omaha. Following discussion by the Council, Dr. DeFusco made the following motion: I hereby move to authorize the State Investment Officer to review and, in his judgment and discretion and based upon the direction provided by the Council today, to provide or withhold consent to the proposed subcontractor agreement by and between the Program Manager, First National Bank of Omaha, and the proposed subcontractor, U-Promise. The State Investment Officer may execute or withhold execution of any documents on behalf of the Council necessary to effectuate the terms of this resolution and may negotiate terms and conditions acceptable in the discretion of the State Investment Officer. 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.

AUDIT COMMITTEE REPORT: 2:10 p.m. to 2:13 p.m. Dr. DeFusco reported that Mr. Maginn and he had attended the Agency's entrance conference with the Auditor of Public Accounts (APA) on August 24, 2010. Dr. DeFusco stated that the audit is for the period, July 1, 2009 through June 30, 2010. The audit will include the examination of the financial records, compliance, and internal controls. Dr. DeFusco reported that the APA completed its field work last week and that both he and Mr. Maginn plan to participate in the exit conference in the near future. A final report will be given to the Council at the November 15, 2010, Council meeting.

STATE INVESTMENT OFFICER'S REPORT: 2:13 p.m. to 3:14 p.m.

Discussion of new lawsuit: Receiver on behalf of WG Trading v. NIC: Mr. States provided historical information on the 2001 Westridge investment and the new lawsuit that had recently been filed by the Receiver on behalf of WG Trading. Mr. Heinrich discussed information regarding the lawsuit that was publicly available, but

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advised that legal strategy and advice should not be discussed in open session. At 2:19 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 against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Mr. Dinkel 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, and Mr. Heinrich be present and all others in attendance were excused.

At 2:39 p.m. Mr. Dinkel moved that the Council return to open session. 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.

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

Biennium Budget Request as Submitted: Mr. States reported on the 2011-2013 Biennium Budget Request recently submitted to the State Budget Office.

Efficiency Review Plan: Mr. States reported on the Agency's responses to the Efficiency Review Plan, which was submitted with the 2011-2013 Biennium Budget Request.

Sustainability of Health Care Fund Transfer: Mr. States distributed revised copies of the report, dated September 22, 2010. Mr. States indicated that Neb. Rev. Stat. § 71-7611 requires the State Investment Officer to report to the Legislature on or before October 1 of every even-numbered year on the sustainability of the annual transfer of \$59.1 million from the Nebraska Medicaid Intergovernmental Trust Fund and the Nebraska Tobacco Settlement Trust Fund to the Nebraska Health Care Cash Fund. The report stated that based on current information, the annual transfer of \$59.1 million appears sustainable over the next ten years, but that for the first time the annual transfers are projected to exceed annual inflows. A copy of the revised report, which includes a cover letter and a cash flow projection for the next ten years for the Health Care Endowment Fund is included in the attachments to the minutes.

Proxy Voting Report: Mr. States reviewed with the Council the annual Proxy Voting Report, which was included in the meeting book and indicated that all manager's proxy voting policies and voting records are on file in the NIC office and available for review.

Commission Recapture Report: Mr. States reviewed the annual Commission Recapture Report included in the meeting book. Mr. States reported that in accordance with the Commission Recapture Policy, because the

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recaptured commission fund's balance was less than one-half of the appropriated budget, no commission recapture transfer will be made this fiscal year.

University Fund N Report: Mr. States reviewed the 2nd Quarter Performance Report for the University of Nebraska – Fund N, which was included in the meeting book.

IMAs executed since last meeting: Mr. States reported contracts were renewed for BlackRock/BGI, Heitman, Turner, PIMCO, Acadian, MFS, BlackRock Mortgage, Merit, Oppenheimer custodian contract, and the approval of the Hewitt EnnisKnupp Assignment of Advisory Agreement at today's meeting.

Action Plan, Conferences, and Articles: The November 15, 2010, joint meeting with the PERB will be at the Lincoln Embassy Suites, in Regent D and is scheduled to begin at 8:30 a.m. Mr. States reminded Council members that a group photo of the Council will be taken before the meeting at 7:45 a.m. Also, members were requested to bring their 2011 calendars with them for scheduling of the 2011 Council meetings.

Mr. States advised the NIC that he would be attending the upcoming NASIO conference in Mobile, Alabama on October 3-6th, and that he and Mr. Jurich were going to the Accel-KKR annual meeting and visiting a fixed income manager at the end of September.

Mr. Dinkel and Treasurer Osborn left the meeting at 2:40 p.m.

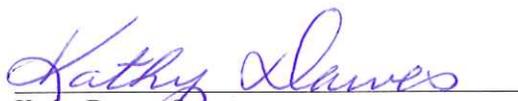
PUBLIC COMMENT ON THE AGENDA: 3:14 p.m. to 3:15 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:15 p.m. Mr. Maginn moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Dinkel
Mr. Riffel

The motion carried.


Kathy Dawes, Secretary