

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
September 27, 2012**

A regular meeting of the Nebraska Investment Council convened at 8:36 a.m. at the Embassy Suites Hotel in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on September 10, 2012, and published in the Lincoln Journal Star on September 16, 2012. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

- Ms. Gail Werner-Robertson
- Dr. Richard DeFusco (departed at 3:15 p.m.)
- Mr. John Maginn
- Mr. John Dinkel
- Mr. John Conley
- Treasurer Don Stenberg
- 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
- Mr. Rob Parkinson, Hewitt EnnisKnupp
- Mr. Adrian Kurniadjaja, Hewitt EnnisKnupp
- Mr. Joe Jurich, Nebraska Investment Council
- Ms. JoLynn Winkler, Nebraska Investment Council
- Mr. Jeremiah Garber, Nebraska Investment Council
- Mr. Joe Spitznagel, Nebraska Investment Council
- Mr. John Schembari, Kutak Rock

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 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 23, 2012, MEETING: 8:37 a.m. to 8:38 a.m. Mr. Maginn moved that the August 28, 2012, draft of the August 23, 2012, meeting be approved. Mr. Conley 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

The motion carried.

COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and indicated that the Council has a very busy agenda for the meeting and needs to keep on schedule. Mr. Kotary distributed and reviewed a Preliminary Performance Summary of the Defined Benefit Plan as of August 31, 2012. A copy of the handout is included in the attachments to the minutes.

PRIVATE EQUITY UPDATE BY HEWITT ENNISKNUPP: 8:40 a.m. to 10:18 a.m.

First Quarter 2012 Private Equity Performance and Funds Review/Pacing Update: Mr. Parkinson reviewed with the Council the 1st Quarter Performance Report included in the meeting book, which included a market overview, private equity portfolio overview, and pacing update. Mr. Parkinson reported positive 1st quarter performance. Mr. Parkinson indicated that the current private equity allocation target for the DB/CBB Plans is 5%. The Plan is currently behind its target due to historically low levels of capital call activity and unexpected early

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exits/liquidity from private equity managers. For 2013, Hewitt EnnisKnupp is recommending a range of \$140 to \$160 million in new commitments to be allocated to five to six new investments. It is expected that several existing managers will be back in the market with new funds in 2013.

General Endowments and Health Care Endowments: Mr. Parkinson stated that the current private equity allocation target is 5% and that the plan is currently behind its target due to a slow deployment of capital. For 2013, Hewitt EnnisKnupp is recommending a range of \$10 to \$20 million in new commitments to be allocated to one or two new fund of funds or secondary fund investments. RCP Advisors, LLC. is currently in the market with RCP VIII, L.P. which will close early in 2013. It is expected that RCP Advisors, LLC will be back in the market with a new fund every 18 to 24 months. Mr. States indicated that HarbourVest Partners, LLC are here today to discuss a new fund, Dover Street VIII, L.P.

Introduction of Proposed Commitment to Dover Street VIII, L.P.: Mr. Parkinson reviewed with the Council a fund being offered by HarbourVest Partners, LLC. The Fund, Dover Street VIII focuses on global secondary investments in venture capital, buyout, and other private equity assets. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of HarbourVest Partners, LLC. Mr. Parkinson discussed the investment merits and concerns associated with the Firm, which focuses solely on investing in private equity. Mr. States indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$15 million to Dover Street VIII, L.P. on behalf of the General Endowments and the Health Care Endowment. A copy of the presentation was included in the meeting book.

Presentation by HarbourVest Partners LLC: Mr. States introduced Mr. Michael Taylor, Managing Director and Mr. Jeff Keay, Managing Director. Their presentation included an overview of the firm, their team, track record, client service, risk controls and a summary of Dover Street VIII L.P. A copy of the presentation was included in the meeting book.

Following the presentation by HarbourVest Partners, LLC the Council discussed not only making a commitment to Dover Street VIII L.P. for the General Endowments and the Health Care Endowment, but also a commitment for the Defined Benefit and Cash Balance Benefit Plans. HEK and staff advised the NIC that the current pacing for the Defined Benefit and Cash Balance Benefit Plans would permit a commitment to Dover Street VIII, L.P. Following additional discussion by the Council, Mr. Dinkel moved to (1) commit \$15 million from the General Endowments and the Health Care Endowment to Dover Street VIII, L.P. and (2) commit \$25 million from the Defined Benefit and Cash Balance Benefit Plans to Dover Street VIII, L.P., subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. 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.

RCP Fund VIII – Staff Recommendation: Mr. Parkinson and Mr. States reviewed with the Council their recommendation to commit \$10 million from the General Endowments and the Health Care Endowment to RCP Fund VIII, L.P. being offered by one of the NIC's current managers, RCP Advisors, LLC. Mr. States indicated that in May 2011, the Council approved a commitment to RCP VII, L.P. not to exceed 10% of the fund; or to be greater than \$30 million. Due to the ongoing staff review of the spending policies for the General Endowments and the Health Care Endowment and the review by an interim Legislative committee of the sustainability of the spending plans for the Health Care Endowment Fund and the Health Care Cash Fund that there could be a need for liquidity in these funds that could not be met from the illiquid private equity investments. A \$20 million commitment was made to RCP VII, L.P. with the size of the commitment being reduced from the full \$30 million because of uncertainty about whether the spending for the Health Care Endowment would be changed during the 2012 Legislative Session. Action taken by the 2012 Legislature to reduce the annual spending from the Health Care Endowment for at least the next five years has reduced the concern over committing the full \$30 million originally recommended by HEK.

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RCP VII, L.P. closed for additional commitments near the end of 2011 before a subscription for the additional \$10 million could be completed. RCP VIII, L.P. fits the requirements developed to identify a follow-on fund under the private equity policy approved earlier this year. RCP VIII, L.P. is a lower middle-market buyout fund of funds private equity fund. A copy of HEK's analysis and rating of RCP Advisors, LLC was included in the meeting book. Following discussion by the Council, Mr. Maginn moved to commit \$10 million from the General Endowments and the Health Care Endowment to RCP VIII, L.P., subject to 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. Dinkel
 Mr. Conley
 Ms. Werner-Robertson
 Dr. DeFusco
 Mr. Maginn

The motion carried.

The Council took a break and reconvened at 10:26 a.m.

GENERAL ENDOWMENT FUNDS INVESTMENT POLICY AND ASSET CLASS BENCHMARKS: 10:26 a.m. to 10:31 a.m. At the August 23, 2012 Council meeting the Council approved two changes to the asset allocation and investment management mandates for the General Endowments. The Council approved to adjust the benchmark for the large cap U.S. equity index portfolio from the Russell 1000 Index to the Russell 1000 Value Index and increase the Loomis Sayles fixed income core-plus portfolio weight from 2.5% to 12.5% of the fixed income asset class allocation and reduce the PIMCO core-plus fixed income portfolio to 40% of the fixed income assets and rebalance the portfolios to the new targets. The purpose of the changes is to increase the dividend and interest income component of the investment return for the General Endowments in order to distribute more income without changing the current asset allocation. HEK provided a review of the effect of the changes on the U.S. equity investment portfolio risk and return characteristics in their presentation included in the meeting book. The changes will introduce some benchmark misfit into the investment performance of the General Endowment Funds when comparing it to the current policy benchmark for the U.S. Equity asset class of the Dow Jones U. S. Total Stock Market Index. HEK recommends that the Council change the General Endowment Funds' investment policy benchmark for U.S. equity to a custom weighted blend of 90% of the Russell 1000 Value Index, 5% of the Russell 2500 Growth Index and 5% of the Dow U.S. Small Cap Value Index 2500. The custom benchmark will eliminate most of the benchmark misfit created by the change in the U.S. Equity Index Portfolio. Following discussion by the Council, Mr. Conley moved to adopt HEK's recommendation to modify the General Endowment Funds Investment Policy Statement to specify that the benchmark for the U.S. Equity asset class be a blend of 90% of the Russell 1000 Value Index, 5% of the Russell 2500 Growth Index and 5% of the Dow Jones U.S. Small Cap Value Index 2500. 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.

NON-U.S. EQUITY INVESTMENT MANAGER PORTFOLIO ASSIGNMENTS: 10:31 a.m. to 11:45 a.m. Mr. Kotary introduced Mr. Adrian Kurniadjaja, Senior Consultant with Hewitt EnnisKnupp. As a follow-up to the May 24, 2012, the Council had directed the SIO and HEK to find an alternative structure for the public equity asset class for the DB and CBB Plans, which included changes to the Non-U.S. Equity manager mandate. The structure chosen was to pair Baillie Gifford with the passive allocation to replicate the ACWI ex-U.S. IMI mandate, increase the passive component and the Baillie Gifford emerging markets allocations to about 75% of the asset class and select a new active ACWI ex-U.S. IMI manager with a broad all cap mandate. Mr. Kurniadjaja and Mr. Kotary discussed the selection process used by HEK and the NIC staff to implement this strategy, which included the

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process for selecting a new manager and the recommendation to select Gryphon International Investment Corporation to manage a MSCI ACWI ex-U.S. IMI portfolio. Gryphon International Investment Corporation, based in Toronto, Canada, is an international equities manager founded in 1995 by current portfolio managers Mr. Alex Becks, and Mr. Larry McManus. The firm manages two investment strategies in the same style, International and Global Equities. Mr. Kotary indicated that representatives from Gryphon International Investment Corporation and AMD Capital LLC a third-party marketing firm employed and paid solely by Gryphon will be presenting at today's meeting. Mr. States indicated that Gryphon is aware of the Council's policy on the Disclosure of Third Party Representation and that they are in compliance with the policy. A copy of HEK's presentation was included in the meeting book.

Presentation by Gryphon International Investment Corporation: Mr. States introduced Mr. Larry McManus, CFA, Portfolio Manager and Mr. David Nyren, Principal, AMD Capital. Mr. McManus and Mr. Nyren gave an overview of the firm, its philosophy, strategy, and performance. A copy of their presentation was included in the meeting book.

Following discussion by the Council Dr. DeFusco made the following motion: (1) Increase the passive index portfolio for the non-U.S. equity asset class to 57.5%; (2) Change the passive BlackRock ACWI ex-U.S. IMI index portfolio benchmark to the MSCI World ex-U.S. IMI which does not include emerging markets; (3) Increase the Baillie Gifford emerging markets portfolio to 17.5% of the asset class from 12.3%; (4) Allocate the remaining 25% of the asset class to a single MSCI ACWI ex-U.S. IMI mandate; (5) Notification to GMO and McKinley Capital Management that the assets assigned to them for investment are being withdrawn and their services in accordance with their investment management agreement are being terminated; (6) Select Gryphon International Investment Corporation to manage a MSCI ACWI ex-U.S. IMI portfolio with an allocation of 25% of the non-U.S. equity asset allocation of the DB/CBB Plans, and authorize the State Investment Officer to take all action necessary to implement this resolution, including execution of an investment management agreement with Gryphon International Investment Corporation, subject to legal review by the Council's attorney. Mr. Conley 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.

The Council took a break and reconvened at 11:55 a.m.

OPERATING INVESTMENT POOL PORTFOLIO REVIEW: 11:55 a.m. to 12:55 p.m.

Galliard Investment Management Portfolio Update: Mr. States introduced Mr. David Ferry, Senior Director. Mr. Ferry's presentation which was included in the meeting book includes the history of the NIC's Operating Investment Pool (OIP) portfolio with Galliard Investment Management, the investment strategy, the portfolio characteristics, YTD performance and performance attribution. Mr. Ferry discussed the portfolio changes made to the portfolio since Galliard took it over in 2009.

Operating Investment Pool – Internal Portfolio Update: Mr. Joe Spitznagel and Mr. Jeremiah Garber's presentation which was included in the meeting book compared the current structure of the OIP to the portfolio in 2009 and the accomplishment of goals established in June 30, 2009, which included (1) updating the investment policy statement; (2) broadening the diversification of the portfolio; (3) expanding the number of holdings; (4) increasing the number of internal portfolio managers on the OIP from one to three; (5) improve the management of the credit risk; and (6) updating technology and analytics.

Operating Investment Pool Recommendation for Internal Management: The Council discussed the progress that has been made by both the Galliard external portfolio and the internally managed portfolio. Following additional discussion by the Council, Mr. Dinkel moved to transfer the remaining portion of the OIP that is externally managed by Galliard Investment Management back to internal management effective January 1, 2013. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Mr. Conley requested that the good OIP presentations and materials that have been provided in the past by Galliard continue with the change to in-house management. Mr. Maginn commended Galliard on the work they've done for the Nebraska Investment Council.

STATE STREET BANK PRESENTATION ON DODD FRANK: 12:55 p.m. to 1:45 p.m. Mr. States introduced Mr. Charley Cooper, Senior Managing Director, State Street's eExchange and Mr. Craig teDuits, Vice President Client Management. Mr. Cooper and Mr. teDuits discussed implementation of the Dodd-Frank Act and the financial market regulatory reforms being implemented. A copy of the presentation was included in the meeting book.

NEBRASKA EDUCATIONAL SAVINGS TRUST: 1:45 p.m. to 2:25 p.m. Treasurer Stenberg discussed the accomplishments of the Nebraska Educational Savings Trust (NEST) during the past 12 months, which included a "5-Cap" rating by savingforcollege.com for the NEST Direct and Advisor Plan, cited on Kiplinger's Best List for Best Plan for Investment Selection, annual essay contest, completion of the call center relocation and promoting the NEST College Savings Plans. Representatives from First National Bank Omaha (FNBO) and State Farm will be presenting their annual reports at today's meeting.

FNBO Annual Report: Mr. David Cota, Senior Managing Director, FNBO, Ms. Deborah Goodkin, Managing Director College Savings Plans, and Mr. Stacy Auman, Investment Officer's presentation which was included in the meeting book, provided program statistics, performance by investment option, sales, marketing and promotion and servicing.

State Farm/Oppenheimer Quarterly Report: Mr. Scott Hintz, Vice President, State Farm, Mr. Ross Burkstaller, Vice President, Oppenheimer Funds, and Mr. Ken Henry, Vice President Oppenheimer Funds presentation which was included in the meeting book provided an update on the assets, accounts, and performance during the last year.

NPERS Director's Report: 2:25 p.m. to 2:55 p.m. Ms. Chambers reported on the Cash Balance election, which allows Defined Contribution Plan members to make a one-time, irrevocable election to transfer to the Cash Balance Plan during the election period September 1, 2012 through October 31, 2012. Ms. Chambers also reported that the Public Employee Retirement Board (PERB) has formed a committee to discuss what options are available with Hartford selling its investment business. Ms. Chambers stated that NPERS is starting the RFP process for actuarial services, and also gave an update on the State Patrol lawsuit.

ROBB EVANS & ASSOC. (Receiver for WG Trading) vs. NIC: 2:55 p.m. to 3:05 p.m. At 2:55 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. 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

The motion carried.

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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 3:05 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Conley 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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AUDIT COMMITTEE REPORT BY DR. DEFUSCO: 3:05 p.m. to 3:15 p.m. Dr. DeFusco, Chair of the NIC Audit Committee, reported meeting with Ms. Westerman, Internal Auditor, via conference call on September 18, 2012. Mr. Maginn was 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.

Dr. DeFusco left the meeting at 3:15 p.m.

STATE INVESTMENT OFFICER'S REPORT: 3:15 p.m. to 3:55 p.m.

Agency Budget Update: Mr. States reviewed the Agency's August 31, 2012 Budget Report and indicated that the Agency is under-budget for the fiscal YTD.

2013-2015 Biennium Budget Request: Mr. States reported the NIC's 2013-2015 biennium budget request was submitted recently, no additional appropriation was requested, and only a small increase to the Personal Service Limitation was requested.

Sustainability of Health Care Fund Transfer: Mr. States reviewed with the Council the recently submitted letter/report to Mr. Patrick O'Donnell, Clerk of the Legislature. 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. A copy of the letter/report was included in the meeting book.

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

Securities Lending Annual Report: Mr. States reviewed with the Council the Securities Lending Annual Report, which was included in the meeting book.

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 reported that the CAFR testing by the Auditor of Public Accounts was recently completed. Mr. States and Mr. Jurich will be attending the upcoming NASIO conference in Denver, CO. The next meeting will be the annual joint meeting with PERB. The meeting will be on November 19, 2012, in the Arbor Conference Room at the Cornhusker Hotel in Lincoln. .

PUBLIC COMMENT ON THE AGENDA: 3:55 p.m. to 3:56 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

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At 3:56 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.


Kathy Dawes, Secretary