

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
September 29, 2009**

A regular meeting of the Nebraska Investment Council convened at 8:33 a.m. at the Marriott Hotel in Omaha, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on September 22, 2009, and published in the Lincoln Journal Star on September 25, 2009. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Shane Osborn
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Joe Jurich, Acting State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Jeffery States, State Investment Officer, effective November 9, 2009
Mr. Kevin Vandolder, Ennis Knupp + Associates
Ms. Gretchen Bergman, Ennis Knupp + Associates
Mr. Christopher Heinrich, Harding & Shultz
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Brett Nelson, Ennis Knupp + Associates
Mr. Rob Parkinson, Ennis Knupp + Associates
Ms. Heather Christopher, Ennis Knupp + Associates
Mr. Dan Drake, Ennis Knupp + Associates
Mr. Chris Cunningham, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer
Ms. Rachel Biar, Director, College Savings Program
Mr. Gary Bush, DAS Budget Office

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:33 a.m. to 8:34 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 19, 2009: 8:34 a.m. to 8:35 a.m. Mr. Maginn moved that the August 24, 2009, draft of the August 19, 2009, meeting be approved. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

APPROVAL OF THE MINUTES OF THE SEPTEMBER 2, 2009: 8:35 a.m. to 8:36 a.m. Mr. Maginn moved that the September 9, 2009, draft of the September 2, 2009, meeting be approved. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 8:36 a.m. to 8:37 a.m. Ms. Werner-Robertson welcomed everyone to the

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meeting and stated that we have a full agenda scheduled for today. Ms. Werner-Robertson thanked the SIO Search Committee for their work and was thrilled with the process and good work that was done. Ms. Werner-Robertson stated that on behalf of the Council an offer has been made to Mr. Jeffrey W. States as the new SIO, pending approval of the Council, the Governor and a majority of the Legislature. Ms. Werner-Robertson thanked Mr. Jurich for stepping up to the plate and taking on the added responsibilities of the SIO and helping with the transition. Mr. Jurich stated that he appreciated the confidence the Council showed to him in naming him Acting State Investment Officer and thanked the teams from Ennis Kupp for their assistance and support during the transition period.

APPROVAL OF THE EMPLOYMENT AGREEMENT BETWEEN THE NEBRASKA INVESTMENT COUNCIL AND THE STATE INVESTMENT OFFICER: 8:37 a.m. to 8:40 a.m. Mr. Heinrich reviewed the SIO Employment Agreement with the Council. Dr. DeFusco moved to (a) appoint Jeffrey W. States as the State Investment Officer, subject to the approval of the Governor and a majority of the Legislature, as required by law; and (b) approve the Employment Agreement by and between the Nebraska Investment Council and Jeffrey W. States, a copy of which was considered by the Council at the meeting today, and further authorize Chairwoman Gail Werner-Robertson to execute the Employment Agreement on behalf of the Council. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

A copy of the employment agreement is included in the attachments to the minutes.

Ms. Werner-Robertson requested that Mr. States sign the SIO Employment Agreement and invited him to join the Council at the table and noted that a press release would be issued announcing Mr. States' appointment as State Investment Officer, effective November 9, 2009. Ms. Werner-Robertson stated that Mr. States has met with the Governor and that the Governor has verbally given his approval. Ms. Werner-Robertson stated that Mr. States' appointment will be forwarded to the Legislature for their consideration at the next Legislative session.

CONTRACT FOR MOVING EXPENSES: 8:40 a.m. to 8:46 a.m. Ms. Werner-Robertson stated that the Council would now discuss the bids received by Mr. States for relocating from Woodland, CA to Lincoln, NE. At that time Mr. Riffel excused himself from the meeting because he has ownership in one of the three companies (A-1 Metro Movers), which submitted bids for the move. Mr. Heinrich reviewed the bidding process with the Council and discussed the relocation expenses included in the employment agreement. Mr. Heinrich noted that notice of the bidding process was made part of the meeting notice as required by law. Mr. Heinrich stated that if Mr. Riffel's company's bid was accepted the proper disclosure documents would be filed with the Nebraska Accountability and Disclosure Commission and a copy of the contract would be available for inspection by the public as required by law. The Council heard testimony from Mr. States. The Council discussed each of the bids and decided to award the bid to the lowest bidder, Atlas Van Lines, Inc. (A-Metro Movers). Mr. Dinkel moved to approve the bid and moving contract submitted by Atlas Van Lines, Inc. (A-1 Metro Movers) dated, September 20, 2009, related to the packing and transportation of the household and personal goods of Jeffrey W. States from Woodland, CA to Lincoln, NE. Chairwoman Gail Werner-Robertson is hereby authorized on behalf of the Council to approve reimbursement to Mr. States for such moving expenses. 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
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

A copy of the bids is included in the attachments to the minutes.

Mr. States thanked Mr. Heinrich for his help in handling the bid process and indicated that the low bid was acceptable to him. Ms. Werner-Robertson thanked Mr. Riffel for the low bid submitted by his company, which would save the State money.

Mr. Riffel returned to the meeting at 8:46 a.m.

AUDIT COMMITTEE UPDATE: 8:46 a.m. to 8:56 a.m. Dr. DeFusco informed the Council that Mr. Maginn and he had attended the Agency's entrance conference with the Auditor of Public Accounts (APA) on August 27, 2009. Dr. DeFusco stated that the audit is for the period, July 1, 2008 through June 30, 2009. The audit will include the examination of the financial records, compliance, and internal controls. Dr. DeFusco reported that the APA is wrapping up field work this week and both he and Mr. Maginn will attend the exit conference in the near future. A final report will be given to the Council at the November 16, 2009, Council meeting.

PERB UPDATE: 8:56 a.m. to 9:13 a.m. Ms. Chambers reported that the IT maintenance and support agreement is being finalized with Saber, the term of the agreement is for 18 months with maintenance transitioning over to the Office of the Chief Information Officer. An exit conference with the APA for the State and County Plan was recently completed and the APA will be starting on the audit of the School, Judges', and Patrol Plan next week. Ms. Chambers reported that the PERB had a very successful retreat and that Mr. Vandolder's presentation was well received by the Board. Ms. Chambers stated that the Board is looking forward to the November joint meeting with the NIC.

PRIVATE EQUITY UPDATE BY ENNIS KNUPP: 9:13 a.m. to 9:40 a.m. Mr. Nelson and Mr. Parkinson reviewed with the Council the chart included in the meeting book on the duration of the private equity manager's investments and gave an overview of the private equity portfolio as of August 31, 2009. A copy of their presentation was included in the meeting book.

PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 9:40 a.m. to 9:50 a.m. Mr. Nelson and Mr. Parkinson reviewed with the Council a new fund being offered by Merit Capital, a private equity firm specializing in providing mezzanine financing to smaller middle-market companies located primarily in the United States that are not owned by private equity sponsors. Merit Mezzanine Fund V, L.P., ("Fund V") will seek to invest in mezzanine securities in smaller middle-market companies headquartered primarily in the United States. Fund V is seeking a first close at the end of September 2009 on \$300 million of its \$500 million target. The final close is expected to be held by the end of 2009 on a maximum of \$650 million. Mr. Parkinson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Merit Capital. Mr. Nelson discussed the investment merits and concerns associated with the firm. Mr. Parkinson indicated that Ennis Knupp recommends that the Council commit \$15 million to Fund V. A copy of their presentation was included in the meeting book. Mr. Maginn stated that in the interest of full disclosure because he is a friend of Mr. Pansing, he would refrain from the discussion and voting on Merit Capital.

PRESENTATION BY MERIT CAPITAL: 9:50 a.m. to 10:40 a.m. Mr. Jurich introduced Mr. Marc J. Walfish, Founder and Managing Director and Mr. Daniel E. Pansing, Managing Partner. Their presentation included an overview of the firm, organization, investment strategy, and performance. A copy of the presentation was included in the meeting book. Following the presentation by Merit Capital and discussion by the Council, Dr. DeFusco moved to commit \$15 million to Merit Mezzanine V, L.P., as an additional private equity manager for the Defined Benefit Plan and Cash Balance Benefit, pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

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ABSTAINING: Mr. Maginn

The motion carried.

Back Office Update: Mr. Parkinson updated the Council on the expanded services being provided by Ennis Knupp since the August 19th meeting. He reported that Mr. Christopher R. Brandely has been hired as of, October 1, 2009, as the Alternative Investments Reporting & Monitoring Manager. Mr. Brandely will oversee all of the Back Office activities.

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

REAL ESTATE PRESENTATION BY ENNIS KNUPP: 10:55 a.m. to 11:35 a.m. Ms. Christopher and Mr. Drake reviewed with the Council the 2009 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 and Mr. Drake presentation covered the following: portfolio overview, pacing update, asset management updates, portfolio diversification and funding summary.

Back Office Update: Mr. Drake updated the Council on called capital since the last meeting, advisory board meetings attended, and other activities being provided by Ennis Knupp during the SIO transition period.

OPPORTUNISTIC PORTFOLIO REVIEW BY ENNIS KNUPP: 11:35 a.m. to 11:45 a.m. Mr. Vandolder discussed the memo included in the meeting book on opportunistic investments and suggested that Ennis Knupp come back at the February meeting with suggestions for a possible opportunistic allocation.

OPERATING INVESTMENT POOL: 11:45 a.m. to 12:20 p.m. Mr. Jurich presented to the Council for their consideration a red-lined version of the current Investment Policy Statement for the Operating Investment Pool. The Council discussed the policy and made several changes. Following discussion by the Council, Mr. Maginn moved to approve the Investment Policy Statement for the Operating Investment Pool with the changes recommended by the Council. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

The Council also requested that staff provide additional monthly reports on compliance and performance.

The Council took a break and reconvened the Council meeting at 12:35 p.m.

SECURITIES LENDING POLICY BY ENNIS KNUPP: 12:35 p.m. to 12:45 p.m. Mr. Vandolder introduced Ms. Gretchen Bergman, Investment Analyst with Ennis Knupp. Mr. Jurich and Mr. Vandolder reviewed the proposed Securities Lending Policy included in the meeting book. After discussion by the Council it was decided to continue with its discussion at the November 16, 2009, Council meeting. In order to have adequate time for review, the Council requested that Mr. Vandolder send to them additional securities lending information before the meeting.

COLLEGE SAVINGS PLAN UPDATE: 12:45 p.m. to 12:55 p.m. Treasurer Osborn updated the Council on the status of the Request for Proposal and related time line for investment and administrative services for the College Savings Plan of Nebraska. Mr. Bill Raynor, Vice President Oppenheimer Funds reported that the replacement funds in the State Farm plans have been completed. Mr. Juich reported that the AIM transition is on schedule.

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PRESENTATION BY UNIVERSITY OF NEBRASKA FOUNDATION: 12:55 p.m. to 1:50 p.m. Mr. Jurich introduced Mr. Clarence L. Castner, Foundation President, Mr. Dan Morin, Senior Vice President & Treasurer, and Mr. LaRoy Brantley, Cambridge Associates. Mr. Morin gave an historical overview of the Othmer-Topp Endowment Fund, which is included in the University of Nebraska – Fund N. The Foundation is the investment manager for Fund N. Mr. Morin gave an update on the organization, investment process and results. Mr. Brantley from Cambridge Associates, which serves as the investment consultant to the Foundation, reviewed the performance report with the Council. Mr. Jurich asked the Foundation about the status of the Permanent Endowments Committee and Mr. Castner advised he would follow-up on that matter. A copy of the report was included in the meeting book.

RISK BUDGET: 1:50 p.m. to 2:09 p.m. Mr. Vandolder and Ms. Bergman gave a presentation on the types of investment risks and the process Ennis Knupp's uses to help clients measure, monitor, and manage risk.

PERFORMANCE REPORT: 2:09 p.m. to 2:25 p.m. Mr. Vandolder and Ms. Bergman reviewed with the Council the Defined Benefit Plan Preliminary Performance Summary included in the meeting book as of August 31, 2009. They also discussed with the Council the memo in the meeting book relating to the Defined Benefit Plan expenses, which covered the fees associated with investment management, consulting, and custody.

STATE INVESTMENT OFFICER'S REPORT: 2:25 p.m. to 2:43 p.m.

Agency Budget Report: Mr. Jurich reviewed with the Council the FY10 Budget Report included in the meeting book.

Investment Manager Agreements: Mr. Jurich indicated that he recently executed documents for the Oppenheimer Fund Investment amendment and the agreement with State Street Bank for the Commission Recapture program.

Miscellaneous: The Council scheduled Wednesday, February 17, 2010, for the first meeting of 2010. The remaining meeting's schedule for 2010 will be finalized at the November 16, 2009, Council meeting.

PUBLIC COMMENT ON THE AGENDA: 2:43 p.m. to 2:45 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:45 p.m. Mr. Dinkel moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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


Kathy Dayes, Secretary