

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
February 12, 2008**

A regular meeting of the Nebraska Investment Council convened at 8:38 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on January 28, 2008, and published in the Lincoln Journal Star on February 3, 2008. 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. David Bomberger, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Steve Cummings, Ennis Knupp + Associates  
Mr. Chris Riley, Ennis Knupp + Associates  
Mr. Brett Nelson, Ennis Knupp + Associates  
Mr. Rob Parkinson, Ennis Knupp + Associates  
Ms. Kristen Hanto, Ennis Knupp + Associates  
Mr. Scott Brown, Ennis Knupp + Associates  
Ms. Heather Christopher, Ennis Knupp + Associates  
Mr. Jason Hayes, Deputy State Treasurer  
Mr. Jay Steinacher, Union Bank & Trust Company  
Mr. Gary Bush, DAS Budget Office

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:40 a.m. to 8:41 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 NOVEMBER 19, 2007, MEETING: 8:41 a.m. to 8:44 a.m.** Mr. Maginn moved that the November 26, 2007, draft of the November 19, 2007, meeting be approved. Dr. DeFusco 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

The motion carried.

**COUNCIL MEMBER BUSINESS: 8:44 a.m. to 8:50 a.m.** Ms. Werner-Robertson welcomed Mr. Norman Riffel, newly appointed member of the Council and thanked him for his willingness to serve on the Council. Mr. Riffel is president of Metro Moving Services, Inc., a moving and storage company located in Omaha.

Mr. Bomberger informed the Council that there would be a change in the order of the agenda. The College Savings Plan update would follow the Custodian Bank RFP update, followed by an executive session to discuss the Custodian Bank and College Savings Plan contracts.

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Ms. Werner-Robertson stated that the Council would like to hold an educational retreat this summer to review the Asset Liability Study, asset allocation, and compensation plan. Ms. Werner-Robertson asked that the Council contact either Mr. Bomberger or she with any other ideas and suggestions for the retreat. Ms. Werner-Robertson requested that Ms. Dawes poll the Council on their availability for a one-day retreat in June.

**ENNIS KNUPP UPDATE: 8:50 a.m. to 9:05 a.m.** Ms. Werner-Robertson introduced Mr. Steve Cummings, CEO of Ennis Knupp and thanked him for re-arranging his schedule, so that he could attend today's meeting. Mr. Cummings updated the Council on EK's management team for Nebraska. Mr. Cummings indicated that Mr. Kevin Vandolder, who was unable to attend today's meeting, and Mr. Chris Riley will be the relationship managers for the NIC. Mr. Cummings discussed Ennis Knupp's Client Conference, which is held every 18 months and will forward to the Council conference information when it becomes available. A copy of Mr. Cummings presentation is included in the attachments to the minutes.

**PRIVATE EQUITY FUND PRESENTATION: 9:05 a.m. to 9:40 a.m.** Mr. Brett Nelson and Mr. Rob Parkinson reviewed with the Council the current General Endowments and the Healthcare Endowment asset allocation. Mr. Parkinson stated that in accordance with the NIC's Statement of Investment Objectives and Policies for Alternative Investments, the current strategy includes a 5% allocation to private equity. Mr. Parkinson indicated that given the size and expected growth rates of the endowments, a fund-of-funds vehicle would be the best path to investing in private equity. Mr. Nelson discussed a pacing goal in order to reach the target allocation by 2014. Mr. Nelson indicated that Ennis Knupp recommends that the NIC allocate \$45 million of the combined General and Healthcare Endowments to a fund-of-funds manager.

Mr. Bomberger discussed with the Council several possible fund-of-funds managers to consider in order to meet this mandate. The Council requested that Mr. Bomberger invite Abbott Capital to the April 8, 2008, meeting to do a presentation on Abbott Capital V1. Following discussion by the Council, Mr. Maginn moved that the Council adopt Ennis Knupp's recommendation that the NIC allocate \$45 million of the combined General and Healthcare Endowments to a fund-of-funds in order to reach its goal of a 5.0% allocation by 2014. 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
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The motion carried.

Mr. Nelson and Mr. Parkinson reviewed with the Council a new fund being offered by Bridgepoint Capital Limited, a Pan-European middle-market buyout group. The fund, Bridgepoint Europe IV, L.P. makes control investments in established, middle-market European companies. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Bridgepoint Capital Limited. Mr. Parkinson discussed with the Council the investment merits and concerns of the firm. Mr. Parkinson indicated that Ennis Knupp recommends that the Council commit up to 20 million euros (approximately \$28 million at current exchange rates) in Bridgepoint Europe IV, L.P. A copy of their presentation was included in the meeting book.

**PRESENTATION BY BRIDGEPOINT CAPITAL LIMITED: 9:40 a.m. to 10:15 a.m.** Mr. Bomberger introduced Mr. John Barber, Partner and Mr. John Davison, Director. Their presentation gave an organizational overview of the firm, investment strategy, and performance. A copy of their presentation was included in the meeting book.

The Council discussed what they liked and disliked about Bridgepoint Capital. After discussion, Mr. Maginn moved to adopt Ennis Knupp's recommendation to commit 20 million euros to Bridgepoint Europe IV, L.P. pending legal review of the Limited Partnership Agreement by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

At 10:15 a.m. the Council took a break and reconvened at 10:30 a.m.

**REAL ESTATE INVESTMENT STRATEGY AND POLICY BY ENNIS KNUPP: 10:30 a.m. to 11:00 a.m.** Mr. Scott Brown and Ms. Heather Christopher discussed with the Council the revised Statement of Investment Objectives and Policies for Real Estate included in the meeting book. The Council requested several changes be made and decided to continue with its discussion at the next Council meeting.

**REAL ESTATE FUND PRESENTATION: 11:00 a.m. to 11:15 a.m.** Mr. Brown and Ms. Christopher gave an overview of CB Richard Ellis Investors (CBREI), a global real estate investment firm. CBREI is currently offering CBRE Strategic Partners U.S. Opportunity Fund V. Mr. Brown and Ms. Christopher discussed the strengths and concerns of the firm. Mr. Brown indicated that Ennis Knupp recommends that the Council commitment up to \$25 million in CBRE Strategic Partners U.S. Opportunity Fund V.

**CB RICHARD ELLIS INVESTORS: 11:15 a.m. to 12:00 p.m.** Mr. Bomberger introduced Mr. Vance G. Maddocks, President and Mr. W. Cabell Grayson, Jr., Senior Managing Director. Their presentation included an overview of the firm, philosophy, investment team, strategy, objectives, and process. A copy of the presentation is included in the attachments to the minutes.

The Council discussed what they liked and disliked about the fund. Following discussion, Mr. Dinkel moved to commit \$25 million to CBRE Strategic Partners U.S. Opportunity Fund V, pending legal review by the Council's attorney. 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

The motion carried.

**COMPENSATION PRACTICES AT PUBLIC PLANS: 12:00 p.m. to 12:35 p.m.** Mr. Bomberger introduced Mr. Chris Murphy, McLagan Partners, who joined the meeting via telephone conference call. Mr. Bomberger indicated that Mr. Murphy had recently met with NIC staff to review their job duties and responsibilities. Mr. Murphy's presentation reviewed public fund's competitive best practices and included the following: pay philosophy, recruiting, retention strategy, and incentive compensation process. A copy of the presentation is included in the attachments to the minutes.

**CUSTODIAN BANK RFP UPDATE BY ENNIS KNUPP: 12:35 p.m. to 12:40 p.m.** Ms. Kristen Hanto, Ennis Knupp and Mr. Bomberger updated the Council on the Custodian Bank RFP. Ms. Hanto indicated that all RFP responses have been reviewed and evaluated by Ennis Knupp. Mr. Bomberger stated that staff from both the State Treasurer's Office and the NIC had recently conducted on-site due diligence visits with the final candidates, BNY Mellon, JP Morgan, Northern Trust, and State Street Bank.

**COLLEGE SAVINGS PLAN UPDATE: 12:40 p.m. to 12:50 p.m.** Treasurer Osborn updated the Council on the Nebraska 529 Program. As of December 31, 2007, the Program had 158,343 accounts, with assets totaling \$2.02 billion. Treasurer Osborn stated that 19,217 new accounts were opened in 2007, with a participant in every county in the State. Treasurer Osborn noted that the College Savings Plan of Nebraska, one of the four investment programs in the Nebraska 529 Program, was recently recognized as one of the top five plans in the country by Kiplinger's Personal Finance and received a top three ranking from Morningstar Investments. Passage of LB 338

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during the 2007 legislative session had a significant impact on the increase in new accounts and assets, as well as the ratings received by the Program. LB 338 increased the deduction from \$500 to \$2,500 for households filing separate returns, and \$1,000 to \$5,000 for all other returns.

**EXECUTIVE SESSION: 12:50 p.m. to 1:30 p.m.** Mr. Dinkel moved to enter into closed session for the protection of the public interest. The subject matter of the closed session will be for Custodian Bank Services. The reasons for the closed session are to: (1) review certain confidential information submitted in confidence by the custodian bank candidates to the Council as part of the contract award process; and (2) discuss and develop negotiation tactics and strategies, which should be discussed privately to avoid disclosure of such tactics and strategies to the custodian bank candidates. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Mr. Dinkel moved to enter into closed session. The subject matter of the closed session is the contracts related to the Nebraska College Savings Plan Program. The reason for the closed session is to discuss and develop contract negotiation tactics and strategies, which should be kept confidential to protect the public interest. Mr. Maginn 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

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. Bomberger, Mr. Heinrich, Mr. Riley, Ms. Hanto, Mr. Hayes, Mr. Jurich, and Ms. Winkler be present and all others in attendance were excused.

At 1:10 p.m. Mr. Riley, Ms. Hanto, Mr. Jurich, and Ms. Winkler left the meeting.

At 1:30 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Maginn 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.

Mr. Dinkel moved to authorize the State Investment Officer to negotiate and, upon reaching favorable agreement terms, enter into a contract on behalf of the Council for Custodian Bank Services. The negotiations shall be conducted in conjunction with the State Treasurer, who shall also be a party to the contract. Any proposed contract shall be reviewed and approved by the agency's legal counsel before signing.

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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.

At 1:35 p.m. the Council took a break and reconvened at 1:45 p.m.

**4<sup>TH</sup> QUARTER PERFORMANCE REPORT BY ENNIS KNUPP: 1:45 p.m. to 2:00 p.m.** Mr. Riley distributed copies of the 4<sup>th</sup> Quarter Performance Report and commented on the 4<sup>th</sup> quarter market environment, the portfolios' investments, and how the Plans performed relative to their benchmark. A copy of the report is included in the attachments to the minutes.

**NON-US EQUITY PORTFOLIO STRUCTURE: 2:00 p.m. to 2:15 p.m.** Mr. Riley reviewed with the Council the NIC's non-U.S. equity portfolio, which is a combination of a passive investment, a core-to-value investment, and an emerging markets portfolio. To better diversify the non-U.S. equity assets, staff along with Ennis Knupp are recommending adding a growth-oriented manager. Included in the meeting book were profiles of several managers Ennis Knupp believes should be considered by the Council. The Council requested that Mr. Bomberger bring back to the Council his recommendation at the April 8, 2008, meeting.

**ASSET LIABILITY STUDY UPDATE BY ENNIS KNUPP: 2:15 p.m. to 2:25 p.m.** Mr. Bomberger indicated that Ennis Knupp would present the Asset Liability Study (ALS) at the April 8, 2008 Council meeting. Mr. Riley stated that the ALS is for the strategic asset allocation policy for the Defined Benefit Plan. The primary focus of the ALS is to determine the split between all equity-type assets and fixed income. Copies of the ALS will be sent to Council members before the April meeting for their review. A copy of the presentation was included in the meeting book.

**INVESTOR SELECT FUND CHANGES BY ENNIS KNUPP: 2:25 p.m. to 2:30 p.m.** Mr. Riley discussed with the Council the memo in the meeting book regarding the Investor Select Fund. Mr. Riley indicated that because the strategy of the Investor Select Fund is to mimic the investment strategies within the DB Plans, Ennis Knupp recommends that the Investor Select Fund revise its passive allocation by transitioning the investments of the Russell 1000 Growth and DJ Wilshire 5000 Index Funds managed by BGI to the manager's Russell 1000 Index Fund to align the equity allocation with that of the DB Plans. Following discussion by the Council, Mr. Maginn moved to adopt Ennis Knupp's recommendation. 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.

**STATE INVESTMENT OFFICER'S REPORT: 2:30 p.m. to 2:45 p.m.**  
**IMA's executed since the last meeting:** Mr. Bomberger indicated that agreements executed since the last Council meeting were with Sun Capital, New Mountain, PIMCo, Wayzata, BlackRock Mortgage, and The Jordan Company's Resolute Fund II.

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**Asset Summary Report:** Mr. Bomberger distributed copies of the 4<sup>th</sup> Quarter Asset Summary Report. Mr. Bomberger reported current assets under management total over \$15.3 billion. A copy of the report is included in the attachments to the minutes.

**Agency Budget Report:** Mr. Bomberger discussed with the Council the Agency's Budget Report, which was included in the meeting book.

**Potential or pending legislation:** Mr. Bomberger reported that the Council's deficit request hearing was held on Monday, February 4, 2008, and that the Legislature's Appropriations Committee has approved the NIC's request for funding additional staff and additional real estate consulting services. Mr. Bomberger indicated that Senator Synowiecki recently introduced LB 1143, which provides funding for a comprehensive review of the NIC's current statutory, regulatory, and organizational structure. Mr. Bomberger stated that a legislative hearing for LB 992 and LB 1143 is scheduled for Tuesday, February 19, 2008. LB 992 is intended to demonstrate Nebraska's disapproval of the Sudanese government by instructing the NIC to divest from Sudanese companies or companies doing substantial business in Sudan. Mr. Bomberger will be testifying at the hearing on the impact this legislation would have on the NIC. Ms. Werener-Robertson and Mr. Dinkel also plan to attend the hearing. Mr. Bomberger reported that the NIC's Annual Report to the Legislature is scheduled for Thursday, March 27, 2008. Council members will receive their copy in advance of the hearing.

**Statement of Financial Interests:** Mr. Bomberger distributed copies of the Statement of Financial Interest forms to be filed by the Council members by April 1, 2008.

**Action Plan, Conferences, Next Meeting:** Mr. Bomberger indicated that the next Council meeting would be April 8, 2008, in Lincoln in the Embassy Suites' boardroom. Council members will be notified as soon as possible when the June retreat is scheduled.

**PERB UPDATE: 2:45 p.m. to 3:05 p.m.** Ms. Chambers reported that nearly 1,600 State and County Plan members chose to switch their Defined Contribution (DC) accounts to the Cash Balance Benefit during the recent election period, which was held from November 1, 2007, through December 31, 2007. Ms. Chambers informed that Council that the PERB has a new member, Ms. Elaine Stuhr, who replaces Mr. Roger Rea. Ms. Stuhr is a former State Senator and was chairwoman of the Nebraska Retirement Systems Committee. Ms. Chambers updated that Council on current legislation affecting NPERS: LB 711 changes the time periods in which members of the School and Judges' Plans may apply for retirement benefits; LB 938 allows beneficiaries of deceased State and County DC's members the ability to make investment changes; LB 967 removes the language that requires fees for annual audits to be paid from the School Plan assets to the budget of the Auditor of Public Accounts; LB 1147 modifies the language used to determine annual cost of living adjustments to retiree benefit payments. Ms. Chambers discussed the Patrol Plan's Deferred Retirement Option Plan (DROP), which takes effect September 1, 2008. Ms. Chambers also indicated that she received a letter from Senator Schimek that NPERS has complied with the recommendations of the 2006 Legislative Performance Audit.

At 3:05 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:	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel

The motion carried.

  
Kathy Dawes, Secretary