

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2007**

A regular meeting of the Nebraska Investment Council convened at 8:40 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on November 7, 2007, and published in the Lincoln Journal Star on November 11, 2007. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Mr. Earl Scudder (departed at 3:45 p.m.)
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Ms. Chambers (departed at 10:25 a.m. to attend PERB meeting)
Treasurer Osborn (departed at 2:30 p.m.)

NONMEMBERS IN ATTENDANCE:

Mr. David Bomberger, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Brian Birnbaum, EnnisKnupp + Associates
Mr. Christopher Heinrich, Harding & Shultz
Mr. Brett Nelson, Ennis Knupp + Associates
Mr. Rob Parkinson, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer
Ms. Rachel Rezabek, Director, College Savings Program
Mr. Jay Steinacher, Union Bank & Trust Company

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Mr. Roger Rea, Public Employees Retirement Board Member, Vice-chair
Judge Glenn Camerer, Public Employees Retirement Board Member
Mr. Richard Wassinger, Public Employees Retirement Board Member
Mr. Dale Kahla, Public Employees Retirement Board Member
Mr. Mark Shepard, Public Employees Retirement Board Member
Mr. Don Pederson, Public Employees Retirement Board Member
Sgt. Glenn Elwell, Public Employees Retirement Board Member
Mr. Dave Slishinsky, Buck Consultants
Ms. Tammy Ringel, Buck Consultants
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Joe Schaefer, Nebraska Public Employees Retirement Systems
Ms. Sheila Linder, Nebraska Public Employees Retirement Systems
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems
Mr. Jerry Brown, Nebraska Public Employees Retirement Systems
Ms. Jan Fox, Nebraska Public Employees Retirement Systems
Ms. Jane Bond, Nebraska Public Employees Retirement Systems
Ms. Kathy Tenopir, Legislative Fiscal Office
Ms. Kathy Moore, Nebraska Supreme Court
Mr. Gary Bush, DAS Budget
Ms. Cathy Schapmann, Nebraska State Education Association
Mr. Bill Mueller, District Court Judges Association
Mr. Paul O'Hara, County Court Judges Association
Mr. Neil Bateman, Retired School Personnel
Mr. Ben Mattern, Ameritas
Mr. Thomas Meola, State Troopers Association of Nebraska

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Mr. Korby Gilbertson, State Troopers Association of Nebraska
Ms. Mary Campbell, State Troopers Association of Nebraska
Mr. Jerry Crain, Public
Ms. Sheryl Adler, Public

JOINT MEETING WITH PERB: 8:45 a.m. to 10:25 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and stated that a copy of the Open Meetings Act is located on the side table. Ms. Werner-Robertson indicated that the Council would like to recognize Mr. Scudder at this time. Ms. Werner-Robertson stated that Mr. Scudder's term on the Council ends on December 31, 2007, and that he is a candidate for the University of Nebraska Board of Regents. Ms. Werner-Robertson presented Mr. Scudder with a plaque in appreciation for his contribution and outstanding service to the State and plan participants. Ms. Werner-Robertson indicated that the Governor has appointed Mr. Norm Riffel to the Council effective January 1, 2008.

Ms. Werner-Robertson highlighted some of the accomplishments of the NIC over the past year, which included the following:

- Assets under management grew to over \$15 billion
- Alternative investments, six new private equity funds and four new real estate funds
- Onsite visits by NIC staff to all managers except DFA
- Restructured Domestic Equity Portfolio
- Restructured investment options and fund line-ups for the AIM College Savings Plan and Hartford Deferred Compensation Plan
- No audit findings during the FY07 agency audit by the Auditor of Public Accounts

Ms. Werner-Robertson complimented Mr. Bomberger and his staff on their hard work and achievements during the past year and thanked Mr. Birnbaum for his work on behalf of the Council.

Mr. Blank reviewed the past year's activities of the PERB and NPERS, which included the following:

- Ms. Chambers' smooth transition as executive director
- Performance Audit reporting
- Record keeper change and reconciliation process moving in the right direction
- Changes in the computer system

Mr. Blank hoped to continue this annual meeting with the NIC and stated that the PERB has confidence in the NIC.

Actuarial Presentation to the Retirement Board and Investment Council by Mr. David Slisinsky: Mr. Slisinsky distributed copies of the report, which included a review of the actuarial process of the Defined Benefit Plans and the Defined Contribution Plan's Cash Balance Benefit and the 2007 actuarial valuation of each of the Plans.

Quarterly Performance Report for the Retirement Plans by Ennis Knupp: Mr. Birnbaum discussed the individual managers investing money for the DB Plans and the State and County Retirement Plans, and their performance results.

Discussion by Buck Consultants and Ennis Knupp regarding their expected rates of return and corresponding consequences: Mr. Slisinsky and Mr. Birnbaum each explained the methodology used by their firms to determine expected rates of return. Mr. Slisinsky explained that the actuary performs an analysis using the building block method. This method uses the asset allocation policy of the plans' assets, historical information regarding the real rates of return of the asset classes used, historical information on inflation, expected administrative expenses, and expected future experience over a long-term time horizon. Mr. Birnbaum distributed copies of *EnnisKnupp Capital Markets Modeling Assumptions – Updated July 2007*. Mr. Birnbaum stated that Ennis Knupp uses a theoretical, global Capital Asset Pricing Model (CAPM) methodology to obtain expected returns for individual asset classes for the next 15 years. The CAPM methodology requires two "anchors" that

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describe the tradeoff between risk and expected return. These anchors are the return estimates for U.S. equity and U.S. fixed income, from which all other asset class return estimates are derived.

Ms. Werner-Robertson thanked Ennis Knupp and Buck Consultants for their presentations and congratulated them on the excellent investment returns.

Copies of the presentations are included in the attachments to the minutes.

At 10:25 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:40 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 25, 2007, MEETING: 10:40 a.m. to 10:43 a.m. Mr. Maginn moved that the October 29, 2007, draft of the minutes of the September 25, 2007, meeting be approved. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 10:43 a.m. to 10:45 a.m. Mr. Bomberger introduced Mr. Chris Riley, Senior Investment Analyst with Ennis Knupp who will be working with Mr. Birnbaum. Ms. Werner-Robertson commented on Ennis Knupp's Client Conference, which she recently attended. Ms. Werner-Robertson felt that the conference was well done and encourages members to attend it in the future.

3RD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY ENNIS KNUPP: 10:45 a.m. to 11:05 a.m. Mr. Birnbaum reviewed with the Council the 3rd quarter performance report for the non-retirement plans. Mr. Bomberger indicated that an Asset Liability Study would be done by Ennis Knupp during the first part of 2008. Ms. Werner-Robertson stated that she would like to streamline the process of manager selection by delegating more of the tactical implementation of asset allocation and strategic decision to staff and Ennis Knupp. Mr. Bomberger distributed copies of the University of Nebraska Fund N Investment Performance Report for the 3rd quarter. A copy of the report is included in the attachments to the minutes.

EXECUTIVE SESSION: 11:05 a.m. to 11:40 a.m. Mr. Maginn moved that the Council enter into closed session to discuss the development of negotiation tactics and strategies related to the Nebraska College Savings Plan Program contracts, which should be kept confidential to protect the public interest. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

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

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At 11:40 a.m. Mr. Scudder moved that the Council return to open session. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break at 11:42 a.m. and reconvened at 11:50 a.m.

BLACKROCK MORTGAGE INVESTORS, L.P.: 11:50 a.m. to 1:10 p.m. Mr. Bomberger introduced Mr. Mark Warner, Managing Director and Mr. Robert Capaldi, Managing Director. Mr. Bomberger indicated that Mr. Warner and Mr. Capaldi would be presenting on the BlackRock Mortgage (MBS) Investors Fund, an opportunistic closed-end fund, which is being established by BlackRock. Mr. Warner and Mr. Capaldi provided an overview of the firm, its philosophy and process and investment strategy. A copy of the presentation was included in the meeting book.

Mr. Birnbaum discussed with the Council the memo in the meeting book regarding the BlackRock Mortgage Investors Fund. He indicated that because of the short investment window for this opportunity, Ennis Knupp was not able to complete its comprehensive due diligence process. But, Ennis Knupp is comfortable with the offering because of their experience with BlackRock and a review of the fund structure. The Council discussed what they liked and disliked about the fund. Following discussion Mr. Maginn moved to target \$75 million with commitments up to \$100 million to BlackRock Mortgage (MBS) Investors Fund, subject to legal review by the Council's attorney including compliance with the Council's Derivatives Policy. Mr. Bomberger reported that the Council's total exposure to these funds (e.g. PIMCO & BlackRock) would not exceed 7% of total fixed income investments. Mr. Scudder seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

PRIVATE EQUITY FUND PRESENTATIONS – NEW MOUNTAIN CAPITAL AND WAYZATA INVESTMENT PARTNERS BY ENNIS KNUPP: 1:10 p.m. to 1:20 p.m. Mr. Nelson and Mr. Parkinson reviewed with the Council New Mountain Partners III, LP (NMP III) fund, which is being established by New Mountain Capital (NMC). Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of NMC and NMP III. Mr. Parkinson discussed with the Council the investment merits and concerns of the firm. Based on their due diligence, Ennis Knupp believes NMC is capable of implementing its current investment strategy in NMP III and recommends that the Council commit up to \$25 million in NMP III.

Mr. Nelson and Mr. Parkinson reviewed Wayzata Opportunities Fund II, LP (WOF II), which is being established by Wayzata Investment Partners, LP (Wayzata). A thorough qualitative and quantitative assessment of Wayzata has been conducted by Ennis Knupp. Mr. Parkinson discussed the investment merits and concerns of the firm. Mr. Nelson indicated that Ennis Knupp believes Wayzata is capable of implementing its current investment strategy in WOF II and recommends that the Council commit up to \$15 million in WOF II.

PRESENTATION BY NEW MOUNTAIN CAPITAL: 1:20 p.m. to 1:55 p.m. Mr. Bomberger introduced

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Mr. Michael Flaherman, Managing Director. Mr. Flaherman's presentation included an overview of the firm, its philosophy and approach, and investment strategy. A copy of the presentation was included in the meeting book.

PRESENTATION BY WAYZATA INVESTMENT PARTNERS, LP: 1:55 p.m. to 2:30 p.m. Mr. Bomberger introduced Mr. John Foley, Partner. Mr. Foley's presentation included an overview of the firm, its philosophy and approach, and investment strategy. A copy of the presentation was included in the meeting book.

Following the presentations, the Council discussed what they liked and disliked about each of the funds. Mr. Maginn moved to allocate \$25 million to New Mountain Partners III and \$15 million to Wayzata Opportunities Fund II, subject to legal review by the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Treasurer Osborn left the meeting at 2:30 p.m.; Deputy Treasurer Hayes represented Treasurer Osborn for the remainder of the meeting.

The Council took a break at 2:30 p.m. and reconvened at 2:45 p.m.

REAL ESTATE INVESTMENT STRATEGY BY ENNIS KNUPP: 2:45 p.m. to 3:20 p.m. Mr. Brown joined the meeting by conference call. Mr. Brown reviewed with the Council the current real estate investment strategy and recommended updating the real estate portion of the Statement of Investment Policy. Following discussion, the Council requested that Mr. Bomberger and Mr. Brown prepare by the next Council meeting a redline copy of the Statement of Investment Policy with their recommendations. A copy of the presentation was included in the meeting book.

STATE INVESTMENT OFFICER'S REPORT: 3:20 p.m. to 3:50 p.m.

3rd Quarter Asset Summary Report: Mr. Bomberger reviewed the assets and investment returns for each of the portfolios in the report with the Council. Mr. Bomberger reported that current assets under management total over \$15.3 billion, up 11% over last year. A copy of the report was included in the meeting book

Report on NASIO 2007: Mr. Bomberger updated the Council on the 2007 NASIO Conference he attended in October, in Seattle, WA.

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

SIO Succession Plan: Mr. Bomberger reviewed with the Council the updated SIO Succession Plan, which was included in the meeting book. The Council discussed and suggested changes to the Succession Plan. Following discussion, Mr. Maginn moved to approve the updated Plan with the suggested changes. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

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The motion carried.

Mr. Scudder left the meeting at 3:45 p.m.

Action Plan, conferences, and articles: Mr. Bomberger updated the Council on the Custodian RFP timeline. The following is the schedule for the 2008 Council meetings, start time 8:30 a.m.:

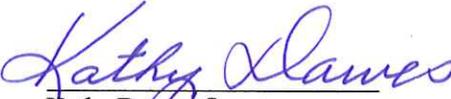
February 12, 2008, Lincoln Embassy Suites
April 8, 2008, Lincoln Embassy Suites
June 3, 2008, Omaha Marriott Hotel
August 12, 2008, Omaha Marriott Hotel
October 7, 2008, Omaha Marriott Hotel
November 17, 2008, joint meeting with PERB, Lincoln Embassy Suites

At 3:50 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:	Dr. DeFusco Mr. Maginn Mr. Dinkel Ms. Werner-Robertson
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ABSENT NOT VOTING:	Mr. Scudder
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The motion carried.


Kathy Daves, Secretary