

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 17, 2008**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on October 29, 2008, and published in the Lincoln Journal Star on November 2, 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 (arrived at 12:20 p.m.)
Mr. John Dinkel
Mr. Norm Riffel
Ms. Chambers (departed at 9:40 a.m. to attend PERB meeting)

MEMBERS ABSENT:

Treasurer Osborn

NONMEMBERS IN ATTENDANCE:

Mr. David Bomberger, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Steve Cummings, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Brett Nelson, Ennis Knupp + Associates
Mr. Rob Parkinson, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer (represented the State Treasurer)
Ms. Rachel Biar, Director, College Savings Program

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Sgt. Glenn Elwell, Public Employees Retirement Board Member
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. 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. Vicki Huber, 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. Miden Ebert, Nebraska Public Employees Retirement Systems
Mr. Jeremy Nordquist, Legislative Retirement Committee
Ms. Kathy Tenopir, Legislative Fiscal Office
Mr. Gary Bush, DAS Budget
Ms. Kris Kucera, Auditor of Public Accounts
Ms. Mary Jochim, Sterling Financial Advisors
Mr. Bill Mueller, District Court Judges Association
Mr. Paul O'Hara, County Court Judges Association
Mr. Neil Bateman, Retired School Personnel

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Ms. Cathy Schapmann, Nebraska State Education Association
Ms. Nancy Reimer, Ameritas
Mr. Korby Gilbertson, State Troopers Association of Nebraska
Ms. Nancy Hicks, Lincoln Journal Star
Ms. Anna Sullivan, Public

JOINT MEETING WITH PERB: 8:35 a.m. to 9:40 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 stated that the joint meeting is a good opportunity to learn more about the activities of each board. Ms. Werner-Robertson indicated that the meeting would include a June 30, 2008, actuarial report of the Defined Benefit Plans by Mr. David Slishinsky, Buck Consultants, followed by a 3rd quarter performance report for the retirement plans by Mr. Chris Riley, Ennis Knupp. Mr. Riley would also give an update on the plans as of October 31, 2008. Introductions were done by each member of the NIC and the PERB. Mr. Blank indicated that the PERB has a very busy schedule today, besides the joint meeting, legislative hearings are also being held this afternoon. Mr. Blank highlighted some of the responsibilities and activities of the PERB and NPERS over the past year, which included the following:

- NPERS is responsible for the administration of the six State retirement plans with approximately 105,000 members
- Over 1,500 members transferred into the Cash Balance Benefit during the Cash Balance election period
- PERB approved a dividend payment for Cash Balance Benefit participants of the State and County Plans
- Implementation of the Deferred Retirement Option Plan (DROP) in September
- IT conversion is in full motion
- Record keeper reconciliation is being completed

Mr. Blank thanked the Board, NPERS staff, and Ms. Chambers on their hard work and dedication during the last year.

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

June 30, 2008, Actuarial Report on Defined Benefit Plans by Buck Consultants: Mr. Slishinsky 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 2008 actuarial valuation results.

Quarterly Performance Report for the Retirement Plans by Ennis Knupp: Mr. Riley discussed the third quarter market downturn. Mr. Riley commented on the government bailouts of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), AIG and the U.S. Treasury's \$700 billion rescue bill. Mr. Riley reviewed the 3rd quarter performance of the Plans and indicated that Nebraska's DB Plans performed better than half of the comparable sector. Mr. Riley reviewed a preliminary performance summary of the DB Plan as of October 31, 2008

Update on Ennis Knupp: Ms. Werner-Robertson introduced Mr. Steve Cummings, CEO of Ennis Knupp the NIC's investment adviser. Ms. Werner-Robertson stated that Ennis Knupp has been hired to serve as the U. S. Treasury Department's investment adviser for the implementation of the Troubled Asset Relief Program (TARP), the \$700 billion rescue program. Ennis Knupp will assist in evaluating potential asset managers, developing and maintaining investment policies and guidelines and assisting with the oversight of the portfolio's multiple asset managers.

Mr. Cummings gave an overview of the firm. Mr. Cummings stated the importance of developing and maintaining a consistent long term investment strategy. Mr. Cummings commented on the use of alternative investments and a well diversified portfolio. Mr. Cummings stated that the market is under a lot of stress and discussed the dangers of market timing. Ennis Knupp was selected by the U. S. Treasury for a one year engagement with the U. S. Treasury to aid in restoring confidence in the financial sector. Mr. Cummings feels that

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the market will recover, but regulations will look different and will be improved.

Discussion by Buck Consultants and Ennis Knupp regarding their expected rates of return and corresponding consequences: Mr. Slishinsky and Mr. Riley each explained the method used by their firms to determine expected rates of return. Mr. Slishinsky discussed the formula used in determining the 8% assumed rate of return and indicated that if investment return assumptions are not achieved, the legislature will make up the difference and/or contributions rates will need to be adjusted. Mr. Riley discussed the model used by Ennis Knupp and indicated that it is ran twice a year in January and July.

Ms. Werner-Robertson stated that although it's a challenging period we're in, the Council feels very confident with its adviser, Ennis Knupp. Ms. Werner-Robertson thanked Ennis Knupp and Buck Consultants for their presentations. Mr. Blank commented that the relationship between each board is very good. Mr. Dinkel thanked both chairs and each director on the great job that they are doing.

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

At 9:40 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:00 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 30, 2008, MEETING: 10:00 a.m. to 10:05 a.m. Mr. Dinkel moved that the October 6, 2008, draft of the minutes of the September 30, 2008, meeting be approved. 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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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

REAL ESTATE PRESENTATION: 10:05 a.m. to 10:45 a.m.

Core Real Estate for the Endowments: Ms. Christopher discussed with the Council the General Endowment Plans' real estate pacing goals included in the meeting book. Ms. Christopher indicated that Ennis Knupp recommends that the NIC allocate an additional \$28 million of the combined General and HealthCare Endowments to six non-core fund of funds and two core funds in order to reach its goal of a 5% allocation by 2012. Following discussion by the Council Mr. Riffel moved to approve a plan to allocate \$2 million per year to core real estate funds over the next five years. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel Mr. Riffel Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

Mr. Bomberger indicated that the NIC will continue to work towards the full 5% allocation to real estate in the coming year.

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Real Estate Investment Policy and Pacing Update: Ms. Christopher discussed the current Statement of Investment Objectives and Policies for Alternative Investments, which includes both real estate and private equity. It is recommended that real estate and private equity should each have their own stand alone policy. Ms. Christopher discussed with the Council the draft of the Real Estate Statement of Investment Policy included in the meeting book. The Council after further review decided to take action on this policy and also a separate policy for private equity at the February 2009 Council meeting. Ms. Christopher also discussed with the Council the Real Estate DB/CBB Plan's Pacing Goals included in the meeting book.

AUDIT REPORT BY THE AUDITOR OF PUBLIC ACCOUNTS (APA): 10:45 a.m. to 10:50 a.m. Mr. Bomberger introduced Ms. Jen Person, Audit Manager and Ms. Amy Hock, Auditor-in-Charge. Ms. Person reviewed the recently completed audit report of the Nebraska Investment Council for the period July 1, 2007 through June 30, 2008. Ms. Person stated that the APA is very appreciative of the cooperation extended to them by the NIC staff during the audit. Mr. Bomberger thanked the NIC Audit Committee for their involvement throughout the audit process and thanked the APA for their services.

SECURITIES LENDING UPDATE: 10:50 a.m. to 11:25 a.m. Mr. Bomberger introduced Mr. Johnson Shum, Vice-President, State Street Bank. Mr. Shum discussed with the Council the memo included in the meeting book on State Street's Securities Lending Cash Collateral Pools. Mr. Shum indicated that the NIC's program is doing very well.

METROPOLITAN FOREIGN REAL ESTATE FUND OF FUNDS: 11:25 a.m. to 11:35 a.m. Ms. Christopher reviewed with the Council Metropolitan Real Estate (Metropolitan). Metropolitan has managed fund of funds in the value added and opportunity fund space. Metropolitan is currently establishing Metropolitan Real Estate Partners International III (MREP International III), which focuses on international (non-U.S.) funds. Metropolitan does not conduct annual fundraising for its international fund series, which target investments in Europe, Asia, and other select non-U.S. markets. Ms. Christopher indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Metropolitan Real Estate and MREP International III. Ms. Christopher discussed with the Council the investment merits and concerns. Based on Ennis Knupp's due diligence, Ennis Knupp recommends a \$10 million commitment to Metropolitan Real Estate Partners International III for the General Endowments and the HealthCare Endowment. A copy of the presentation was included in the meeting book.

PRESENTATION BY METROPOLITAN REAL ESTATE: 11:35 a.m. to 12:15 p.m. Mr. Bomberger introduced Mr. David M. Sherman, President and Ms. Beth-Anne Flynn, Senior Vice President. Mr. Sherman presentation gave an organizational overview of the firm, investment, philosophy, investment process and portfolio construction. A copy of the presentation was included in the meeting book.

Following the presentation by Metropolitan Real Estate, Mr. Dinkel moved to commit \$10 million to Metropolitan Real Estate International III, for the General Endowments and the HealthCare Endowment, 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.

VOTING AYE:	Mr. Dinkel Mr. Riffel Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

The Council took a break at 12:15 p.m. and reconvened at 12:40 p.m.

Mr. Maginn arrived at 12:20 p.m.

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COLLEGE SAVINGS PLAN UPDATE: 12:40 p.m. to 12:45 p.m. Mr. Hayes distributed reports on the Nebraska 529 Program as of September 30, 2008.

EXECUTIVE SESSION: 12:45 p.m. to 1:00 p.m. Mr. Dinkel moved that the Council enter into closed session. The subject matter of the closed session involves 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. Riffel 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.

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

At 1:00 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 Mr. Riffel
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The motion carried.

Dr. DeFusco moved to support the State Treasurer's proposal to notify Union Bank that the Program Manager Agreement will not be renewed at the end of its current term. 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
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The motion carried.

Mr. Riffel moved to approve the State Treasurer and the State Investment Officer's recommendation the Marketing and Administrative Services Agreement and the Investment Management Agreement with AIM Management Group Inc. not be renewed and that the draft letter notifying AIM be approved. 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
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The motion carried

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PRIVATE EQUITY 2ND QUARTER PERFORMANCE REPORT AND PACING UPDATE BY ENNIS KNUPP: 1:10 p.m. to 1:50 p.m. Mr. Nelson and Mr. Parkinson reviewed with the Council the 3rd quarter performance of the private equity investments, which included an overview of the market, portfolio policy objectives, and performance. Mr. Nelson and Mr. Parkinson also discussed the NIC's pacing plan. A copy of the report was included in the meeting book.

UPDATE ON GLOBAL EQUITIES TRANSITION PLAN AND POLICY REBALANCING: 1:50 p.m. to 2:20 p.m. Mr. Riley and Mr. Bomberger updated the Council on the transition plan for the increased allocation to global equities and rebalancing the Plan portfolios back to the target allocations specified in the Council's Investment Policy Statements. The Council discussed the Global Transition Worksheet previously distributed by Mr. Bomberger. Following discussion, Mr. Maginn moved to approve the global equities transition plan and to terminate the investment manager, AllianceBernstein, as part of the transition. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

VOTING NAYE: Mr. Dinkel
 Mr. Riffel

The motion carried.

The Council further discussed the rebalancing of the Plan portfolios. Mr. Bomberger advised that the Council will realize efficiencies by rebalancing the Plan portfolios simultaneously with the global equities transition. Mr. Dinkel expressed opposition to rebalancing the Plan portfolios and to the use of futures to implement the rebalancing at this time, given the volatility of the financial markets. Mr. Bomberger and Mr. Heinrich advised the Council that the Plan Investment Policy Statements require the State Investment Officer to rebalance the Plan assets halfway back to target allocation. Mr. Heinrich advised that the State Investment Officer is required to rebalance the Plan portfolios absent a change in the Investment Policy Statement by the Council. The Council took no action to change the Investment Policy Statements of the Plans.

STATE INVESTMENT OFFICER'S REPORT: 2:20 p.m. to 3:45 p.m.

Policy Manual: Mr. Bomberger distributed to the Council updated copies of the Nebraska Investment Council Policy Manual.

3rd Quarter Asset Summary Report: Mr. Bomberger reviewed the assets and investment returns for each of the portfolios in the report with the Council. A copy of the report was included in the meeting book

Report on NASIO 2008: Mr. Bomberger updated the Council on the 2008 NASIO Conference he attended in October, in Philadelphia, PA.

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 manager's 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 proposed change to the SIO Succession Plan, which was included in the meeting book. The Council discussed the change which addressed the policy relating to vacation time. Following discussion, Mr. Dinkel moved to approve the updated Plan with the suggested change. Mr. Riffel 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

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The motion carried.

Investment Manager Agreements: Mr. Bomberger indicated that the agreements executed since the last Council meeting were with IronBridge Capital Management and Mondrian Investment Partners.

Agency Budget Report and 2009-2011 Biennial Budget Request Update: Mr. Bomberger reported that he recently met with staff from the State Budget Office regarding the NIC's 2009-2011 Budget Request. The meeting was also attended by Ms. Dawes and Mr. Dinkel participated by phone.

EXECUTIVE SESSION: 3:45 p.m. to 4:15 p.m. Mr. Riffel moved that the Council enter into closed session. The subject matter of the closed session is the negotiation of terms of contracts related to Ennis Knupp and compensation of staff members and personnel matters. The reason for the closed session is to protect the privacy of such information. 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.

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

At 4:15 p.m. Mr. Dinkel moved that the Council return to open session. 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.

Action Plan, conferences, and articles: The following is the schedule for the 2009 Council meetings, start time 8:30 a.m.:

- February 18, 2009, Lincoln Embassy Suites
- March 31, 2009, Lincoln Embassy Suites
- May 19, 2009, Omaha Marriott Hotel
- August 11, 2009, Omaha Marriott Hotel
- September 29, 2009, Omaha Marriott Hotel
- November 16, 2009, joint meeting with PERB, Lincoln Embassy Suites

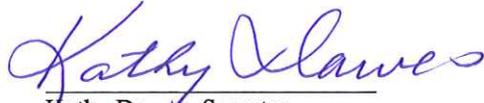
At 4:25 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.


Kathy Dawes, Secretary