

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012**

A regular meeting of the Nebraska Investment Council convened at 8:34 a.m. at the Cornhusker Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on October 24, 2012, and published in the Lincoln Journal Star on November 4, 2012. 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
Treasurer Don Stenberg
Ms. Phyllis Chambers (departed at 10:15 a.m. to attend PERB meeting)

MEMBERS ABSENT:

Mr. John Conley

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Mr. Rob Parkinson, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Mr. Richard Wassinger, Public Employees Retirement Board, Vice Chair
Ms. Elaine Stuhr, Public Employees Retirement Board Member
Ms. Janis Elliott, Public Employees Retirement Board Member
Judge Randall Rehmeier, Public Employees Retirement Board Member
Mr. Ron Ecklund, Public Employees Retirement Board Member
Ms. Rhonda Lahm, Public Employees Retirement Board Member-pending confirmation
Mr. Dave Slishinsky, Buck Consultants
Mr. Randy Halper, Buck Consultants
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Jason Hayes, Nebraska Public Employees Retirement Systems
Ms. Vicki Huber, Nebraska Public Employees Retirement Systems
Ms. Miden Ebert, Nebraska Public Employees Retirement Systems
Mr. Fred Turner, Nebraska Public Employees Retirement Systems
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems
Ms. Kathy Tenopir, Legislative Fiscal Office
Ms. Kate Allen, Legislative Retirement Committee
Mr. Gary Bush, AS State Budget Office
Mr. Matt Schaefer, Mueller Robak LLC
Ms. Nancy Fulton, Nebraska State Education Association
Mr. Al Koontz, Nebraska State Education Association
Ms. Martha Stoddard, Omaha World Herald
Mr. Don Wesley, County Judges
Ms. Nancy Reimer, Ameritas
Mr. Eric Asboe, Nebraska Supreme Court

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012**

Mr. Roger Rea, Nebraska State Education Association-Retired
Mr. John Jensen, Nebraska State Education Association-Retired

JOINT MEETING WITH PERB: 8:34 a.m. 8:45 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 reviewed the past year's accomplishments of the NIC, which included the following: 1) Appointment of John H. Conley as a new member of the Council. Ms. Werner-Robertson stated that Mr. Conley has a strong background in investments; 2) Total assets under management have risen from \$15 billion as of December 31, 2011 to a record \$17.56 billion as of September 30, 2012. Defined Benefit Plan (DB) assets went from \$7.2 billion to \$7.96 billion and the Cash Balance Benefit Plan's (CBB) assets went from \$909 million to \$1.025 billion; 3) Completion of the Council member orientation/training manual and utilized it to train our newest Council member Mr. John Conley; 4) Revised our public equity investment structure to improve tracking of manager assignments to our benchmarks, shifted the allocation of assets between some managers to improve efficiency of the portfolio and are in the process of replacing two underperforming managers; 5) Working with NPERS to implement the transfer of funds from the State and County Defined Contribution Plan (DC) to the CBB for members electing to do so. Ms. Chambers will have more information on the actual numbers, but it is about 24% of the remainder; 6) Completed the implementation of the compensation plan improvements for the investment professionals by acting to exempt them from the State Personnel System; and 7) Continue to work on staff development with two portfolio managers passing their current stage of the CFA program. Ms. Werner-Robertson also stated that the investment management cost for the DB and CBB Plans is 30 basis points compared to NASIO's reported average of 38.4 basis points. Completion of bringing the Operating Investment Pool (OIP) in-house is scheduled for the first of the new year, which will result in a savings of approximately \$800,000. Ms. Werner-Robertson indicated that an asset liability study is scheduled for 2013. Ms. Werner-Robertson stated that the Council supports the PERB in considering the lower actuarial rate.

Mr. Blank welcomed everyone and thanked the Council for their work. Mr. Blank introduced the new members of the PERB during the past year, Mr. Ron Ecklund, CPA who works for a local account and consulting firm and Mr. Stuart Simpson, a school Business Manager from North Platte. Mr. Blank stated that both have brought a lot to the board. Mr. Blank introduced Ms. Rhonda Lamb, who was appointed to the PERB to fill the vacancy brought on by the recent resignation of Sgt. Glenn Elwell. Mr. Blank reported that Mr. Jason Hayes NPERS' legal counsel has submitted his letter of resignation. Mr. Hayes has accepted a position with the Nebraska State Educational Association.

June 30, 2012, Actuarial Report on the Defined Benefit Plans by Buck Consultants: Mr. Blank introduced Mr. Dave Slishinsky and Mr. Randy Halper, Actuaries with Buck Consultants. Mr. Slishinsky presented the actuarial valuation results as of July 1, 2012. Mr. Slishinsky report discussed the purpose of an experience analysis, the 2012 actuarial valuation results, which included historical information and the changes since last year. Mr. Slishinsky also reported on the recently amended GASB statements. A copy of the presentation is included in the attachments to the minutes.

Capital Market Assumptions/Quarterly Performance Report for the Retirement Plans by Hewitt EnnisKnupp: Mr. Kotary's presentation, which was included in the meeting book discussed the following: 1) Current Expected Return and Risk Assumptions; 2) Methodology; and 3) NIC Defined Benefit Plan Expectations. Mr. Kotary gave an update on the third quarter market conditions and reviewed the performance of each of the managers. For the current asset allocation Mr. Kotary said that HEK's models forecast an annualized return of 7.0% over a 10 year period and 7.4% forecast over 30 years.

Ms. Werner-Robertson and Mr. Blank thanked Hewitt EnnisKnupp and Buck Consultants for their presentations.

At 10:15 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:35 a.m.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012**

APPROVAL OF THE MINUTES OF THE SEPTEMBER 27, 2012, MEETING: 10:35 a.m. to 10:36 a.m. Mr. Maginn moved that the October 9, 2012, draft of the minutes of the September 27, 2012, meeting be approved as written. 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. Conley
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The motion carried.

CHAIRWOMAN'S COMMENTS: 10:36 a.m. to 10:40 a.m. Ms. Werner-Robertson reported that due to a scheduling conflict, Mr. Conley is unable to attend today's meeting. Ms. Werner-Robertson thanked Mr. States and Mr. Kotary on the extra work done in preparing for the joint meeting with PERB. Ms. Werner-Robertson indicated that in order to accommodate a scheduling conflict, agenda item number nine, The University Fund N Annual Review would be moved up and be given after agenda item number five, Real Estate. Also, after agenda item number eleven, Audit Committee Report, a State Treasurer Report would be given.

THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY HEWITT ENNISKNUPP: 10:40 a.m. to 11:10 a.m. Mr. Kotary reviewed with the Council the Third Quarter Performance Report for the non-retirement plans. The presentation which was included in the meeting book included performance review, fund monitoring, risk profiles, and fees.

REAL ESTATE UPDATE BY HEWITT ENNISKNUPP: 11:10 a.m. to 11:45 a.m.

Final Second Quarter 2012 and Preliminary Third Quarter 2012 Performance Review: Mr. Rose reviewed the 2012 2nd Quarter Real Estate Performance Update included in the meeting book. Mr. Rose's presentation covered the following: 1) Market Overview; 2) Real Estate Portfolio Overview; and 3) Placement Agent Update. Mr. Rose also discussed Hewitt EnnisKnupp's memo dated November 7, 2012, regarding the 2013 Pacing for the DB/CBB Plans and the General Endowments. A copy of the memo is included in the attachments to the minutes.

UNIVERSITY FUND N ANNUAL REVIEW: 11:45 a.m. to 12:20 p.m. Mr. States introduced Mr. Jason Kennedy, Sr. Vice President, Chief Financial Officer and Treasurer, University of Nebraska Foundation and Mr. LaRoy Brantley with Cambridge Associates. Mr. Kennedy reviewed the organization and Mr. Brantley reviewed the 3rd Quarter Performance Report included in the meeting book. Mr. Kennedy advised that the Foundation and the University are negotiating a new administrative fee arrangement which would enable the parties to revise the fee in the Investment Management Agreement to reflect the expenses charged by the underlying fund managers.

The Council took a break and reconvened at 12:30 p.m.

PRIVATE EQUITY COMMITMENT RECOMMENDATION/BEECKEN PETTY O'KEEFE AND COMPANY: 12:30 p.m. to 12:45 p.m. Mr. Parkinson reviewed with the Council a fund being offered by Beecken Petty O'Keefe and Company. The Fund, Beecken Petty O'Keefe Fund IV, L.P., makes investments in middle market companies based in the United States and operating in the healthcare industry, primarily in the services and product sectors. A particular focus will be given to the clinical outsourcing and staffing, specialty distribution, medical and dental products, managed care, business outsourcing and outsourcing and information technology, pharmaceutical products and services and provider sectors. The Fund does not intend to invest in development stage businesses including medical device, biotechnology and pharmaceutical discovery ventures. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Beecken Petty O'Keefe & Company. Mr. Parkinson discussed the investment merits and concerns associated with the Firm. Mr. States indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$20 million to Beecken Petty O'Keefe Fund IV, L.P. on behalf of the DB/CBB Plans. A copy of the presentation was included in the meeting book.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012**

PRESENTATION BY BEECKEN PETTY O'KEEFE & COMPAN: 12:45 p.m. to 1:35 p.m. Mr. States introduced Mr. Ken O'Keefe, Managing Partner and Mr. Greg Moerschel, Partner. Their presentation included an overview of the firm, investment team, performance, healthcare opportunities, investment strategy, and risk management. A copy of the presentation was included in the meeting book.

Following the presentation by Beecken Petty O'Keefe & Company and discussion by the Council, Mr. Maginn moved to commit \$20 million from the Defined Benefit and Cash Balance Benefit Plans to Beecken Petty O'Keefe Fund IV, 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. Maginn Mr. Dinkel Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Conley
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The motion carried.

PRIVATE EQUITY COMMITMENT RECOMMENDATION/WARBURG PINCUS, LLC: 1:35 p.m. to 1:45 p.m. Mr. Parkinson reviewed with the Council a fund being offered by Warburg Pincus, LLC. The Fund, Warburg Pincus Private Equity Fund XI, LP. The Fund will invest in venture capital transactions, growth capital transactions, buyouts, recapitalizations and other special situations. The Firm emphasizes growth investing and has successfully built companies at all stages, from conceiving and creating venture capital opportunities, to providing capital to meet the needs of existing businesses. Warburg Pincus, LLC also invests in later-stage buyout and special situations transactions. Warburg Pincus, LLC focuses on thesis-driven growth investments backed by seasoned management teams with whom they have previously invested. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Warburg Pincus, LLC. Mr. Parkinson discussed the investment merits and concerns associated with the Firm. Mr. States indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$25 million to Warburg Pincus Private Equity Fund XI, L.P. on behalf of the DB/CBB Plans. A copy of the presentation was included in the meeting book.

PRESENTATION BY WARBURG PINCUS, LLC: 1:45 p.m. to 2:45 p.m. Mr. States introduced Mr. John W. Shearburn, Managing Partner. Mr. Shearburn's presentation included an overview of the firm, investment strategy, and performance. A copy of the presentation was included in the meeting book. The Council discussed the Fund and decided to not act on the Fund at this time.

WG TRADING V. NIC UPDATE: 2:45 p.m. to 2:50 p.m. Mr. Heinrich gave a report on the status of the case.

AUDIT COMMITTEE REPORT: 2:50 p.m. to 2:55 p.m. Dr. DeFusco reported that he and Mr. Maginn, Audit Committee members had met with Ms. Westerman, Internal Auditor, via conference call on November 14, 2012. Dr. DeFusco stated that there was nothing new to report. The 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.

STATE TREASURER'S REPORT: 2:55 p.m. to 2:57 p.m. Treasurer Stenberg stated that there were no significant changes from the last Council meeting to report.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012**

STATE INVESTMENT OFFICER'S REPORT: 2:57 p.m. to 3:24 p.m.

Commission Recapture Report and Policy Revision: Mr. States presented to the Council a revised Commission Recapture Policy for their consideration. Mr. States indicated that the policy is being revised due to a change in the use of recaptured commissions by the 2012 Nebraska Legislature, which was recommended by the Governor. The revised policy will change the treatment of recaptured commissions' from being used to offset expenses for purchased goods and services to being income for the Plan for which the commissions were generated. Following discussion by the Council, Mr. Maginn moved to adopt the revised policy as written. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

Agency Budget Update: Mr. States reviewed the report included in the meeting book and indicated that the NIC is currently under-budget.

Policy Manual Update: Copies of updated policies to the NIC Policy Manual were distributed to the Council.

Securities Lending Quarterly Report: Mr. States reviewed the Quarterly Securities Lending Report included in the meeting book.

IMAs Executed Since the Last Meeting: Mr. States reported that documents for Dover Street VIII L.P. and RCP Fund VIII have been completed and also the amendment to the BlackRock contract for repositioning of the the General Endowments.

2013 Meeting Schedule: The Council decided on the following meeting dates for 2013, start time 8:30 a.m.:

- February 26, 2013
- March 26, 2013
- May 14, 2013
- July 16, 2013
- August 27, 2013
- September 24, 2013
- November 18, 2013

Mr. States indicated that he had testified on November 13, 2012, on LR 508 on the sustainability of the Nebraska Health Care Fund and will testify on November 20, 2012, on LR 518. This study exams whether §72-1239.01 should be amended to allow the Nebraska Investment Council to invest or reinvest assets of the Nebraska's retirement systems or the Nebraska Educational Savings Plan Trust into economic development within the State of Nebraska.

Action Plan & Conferences: Mr. States indicated that a group Council photo will be taken at the February 26, 2013, Council meeting at 8:00 a.m.

PUBLIC COMMENT ON THE AGENDA: 3:24 p.m. to 3:25 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

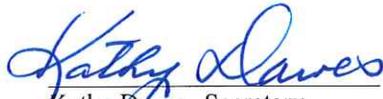
NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 19, 2012

At 3:25 p.m. Dr. DeFusco 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

ABSENT NOT VOTING: Mr. Conley

The motion carried.


Kathy Dawes, Secretary