

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the Cornhusker Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on October 20, 2015, and published in the Lincoln Journal Star on November 1, 2015. 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. John Conley
Treasurer Don Stenberg
Ms. Phyllis Chambers (departed at 10:28 a.m. to attend PERB meeting)

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, O'Neil Heinrich Damkroger Bergmeyer & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Ms. Joyce Schlautman, Nebraska Investment Council
Mr. Max Kotary, Aon Hewitt
Mr. Mike Comstock, Aon Hewitt
Mr. David Rose, Aon Hewitt
Ms. Rachel Biar, State Treasurer Office

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Richard Wassinger, Public Employees Retirement Board, Vice Chair
Ms. Kelli Ackerman, Public Employees Retirement Board Member
Ms. Janis Elliott, Public Employees Retirement Board Member
Judge J. Derr, Public Employees Retirement Board Member
Mr. Ron Ecklund, Public Employees Retirement Board Member
Ms. Patrice Beckham, Cavanaugh Macdonald
Mr. Brent Banister, Cavanaugh Macdonald
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Orron Hill, Nebraska Public Employees Retirement Systems
Ms. Vicki Huber, Nebraska Public Employees Retirement Systems
Mr. Dean Gress, Nebraska Public Employees Retirement Systems
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems
Ms. Miden Ebert, Nebraska Public Employees Retirement Systems
Senator Al Davis, State Senator
Mr. Bob Wickersham, Public
Ms. Kate Allen, Legislative Retirement Committee
Ms. Kathy Tenopir, Legislative Fiscal Office
Mr. Kenny Zoeller, Senator Mark Kolterman's Office
Mr. Jason Hayes, Nebraska State Education Association
Mr. Gerry Oligmueller AS Budget
Mr. Gary Bush, AS Budget
Ms. Martha Stoddard, Omaha World-Herald
Mr. Matt Schaefer, Mueller Robak

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015**

Mr. Neil Bateman, Public
Ms. Nancy Reimer, Ameritas
Mr. Eric Asboe, Nebraska Supreme Court
Mr. Paul Nacario, ICMA-RC

JOINT MEETING WITH PERB: 8:35 a.m. 10:28 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 thanked members of the Council, PERB, Mr. Walden-Newman and his staff for their work during the past year. Ms. Werner-Robertson stated that the joint meeting provides an opportunity for both boards to discuss their activities during the year. Ms. Werner-Robertson presented an overview of the past year, listing past accomplishments and looked ahead to the upcoming year. Ms. Werner-Robertson highlighted several items included in the report: June 30, 2015, total assets under management of \$22.3 billion (market values down as of September 30, 2015); DB FY14 return 3.9%, above the 3.4% policy benchmark; DB return was -4.8% for the quarter ending September 30, 2015, but the benchmark was lower at -5.4%. A copy of the 2015 Activity Report is included in the attachments to the minutes. Following the report, Ms. Werner-Robertson presented to Mr. Maginn whose term will end soon, with a plaque, an Admiralship in the Nebraska Navy, and a Proclamation honoring him for his ten years of service to the NIC and to the State of Nebraska. Mr. Maginn thanked Mr. Walden-Newman and his staff for the great job they are doing and thanked Ms. Werner-Robertson for her leadership as Council Chair and stated that it has been a privilege to work with members of the Council.

Mr. Wassinger welcomed everyone to the meeting and thanked the PERB, Council, Ms. Chambers and the NPERS' staff for their work during the past year. Mr. Wassinger introduced the newest members of the PERB, Ms. Kelli Ackerman, representing the School Plan, is the Business Manager for Holdrege Public Schools and Judge J. Russell Derr, representing the Judges' Plan, and is a District Judge in Douglas County. Mr. Wassinger provided data on NPERS' activities and highlighted several items, which included the following: NPERS serves 121,920 members and retirees; distributed \$654 million to retirees, with an average benefit of \$1,756, and 1 in 16 Nebraskans is a member of NPERS. A copy of the handout is included in the attachments to the minutes.

July 1, 2015 Actuarial Report on the Defined Benefit Plans by Cavanaugh Macdonald: Ms. Chambers introduced from Cavanaugh Macdonald Consulting, Ms. Patrice Beckham and Mr. Brent Banister. Ms. Beckham and Mr. Banister presented the actuarial valuation results as of July 1, 2015, for the Judges, State Patrol and School Retirement Systems. They reviewed the purposes of an actuarial valuation, historical information, methodology, and the changes since the last valuations of each of the plans. Cavanaugh Macdonald's 2015 actuarial valuation findings included the following:

- Due to the asset smoothing method, the return on the actuarial value of assets was 11.5% which created an actuarial gain
- Return of 3.8% on market value decreased the magnitude of the unrecognized investment gains
- Actuarial gain on liabilities due to no COLA being granted this year
- Funded ratios improved
- Based on 2015 valuation results, if assumptions are met and full actuarial contributions are made, all three systems are expected to reach full funding, consistent with the funding methodology in place

A copy of the presentation was included in the meeting materials.

3rd Quarter Performance Report for Retirement Plans by Aon Hewitt: Mr. Walden-Newman introduced from Aon Hewitt, Mr. Kotary and Mr. Comstock. Mr. Kotary and Mr. Comstock's presentation, which was included in

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015**

the meeting materials gave an update on the third quarter market conditions and reviewed the performance of the Defined Benefit, Cash Balance Benefit, Defined Contribution and Deferred Compensation Plan's managers. Mr. Kotary reported that as September 30, 2015, aggregated assets totaled \$21,523,790.475, which represented a decrease of approximately \$757 million from the end of last quarter.

Capital Market Assumptions by Aon Hewitt: Mr. Kotary and Mr. Comstock's presentation, which was included in the meeting materials, gave the following overview of Aon Hewitt's Capital Market Assumptions methodology:

- Aon Hewitt's asset class return, volatility and correlation assumptions
- Long-term; based on 10-year and 30-year projection periods
- Forward looking assumptions
- Best estimate assumptions (50/50 better or worse)
- Market returns; i.e., no manager alpha (other than hedge funds and private equity which are entirely actively managed)
- Global geographic coverage
- Updated quarterly

For the current asset allocation Mr. Kotary said that Aon Hewitt's models forecast an annualized return of 6.3% over a 10 year period and 6.6% forecast over 30 years. Mr. Kotary stated that given the existing market conditions, the actuarially assumed rate of return of 8.0% will likely prove challenging. Mr. Kotary indicated that based on Aon Hewitt's capital market assumptions and the defined benefit plans' asset allocation targets, the defined benefit plans have between a 1 in 3 and a 1 in 4 chance of meeting or exceeding the assumed rate of return of 8% over the next 10-to-30 years. The PERB and the NIC members continued with the discussion following the presentations.

Ms. Werner-Robertson and Mr. Wassinger thanked Aon Hewitt and Cavanaugh Macdonald for their presentations.

At 10:28 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:42 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 25, 2015 MEETING: 10:42 a.m. to 10:43 a.m.

Mr. Maginn moved that the September 28, 2015, draft of the minutes of the September 25, 2015, meeting be approved as written. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

NIC ADMINISTRATIVE REPORT: 10:43 a.m. to 11:00 a.m.

SIO Report: Mr. Walden-Newman indicated that Aon Hewitt and the investment staff are in the process of reviewing the NIC's investment policies. The first group to be reviewed will be the Private Equity Statement of Investment Policy, Real Estate Statement of Investment Policy and the Risk Budget Policy. Proposed changes for these three policies will be presented to the Council at the February 2016 Council meeting. Mr. Walden-Newman indicated that he and members of the management team are reviewing all NIC positions to make sure that we are operating with maximum productivity and efficiency.

Mr. Walden-Newman informed the Council that as a member of the University of Nebraska Permanent Endowment Committee he has been attending its meetings and has a better understanding of what is being done,

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015**

the role of all parties involved, and that things are being done in accordance with the investment management agreement between the Nebraska Investment Council, University of Nebraska Foundation, and the University of Nebraska relating to Fund N.

Legal Update: Mr. Heinrich reported that negotiations have been finalized for the ABLE contract with First National Bank Omaha and that the Ares ACOF V, L.P. and HarbourVest Dover IX, L.P. agreements are in the process of being negotiated.

Budget Report: A copy of the October 31, 2015, Budget Report was included in the meeting materials.

Quarterly Securities Lending Report: A copy of the CY15 Q3 Securities Lending Report was included in the meeting materials.

Action Plan: A copy of the Action Plan was included in the meeting materials.

Upcoming Conferences: A copy of the Upcoming Conferences Report was included in the meeting materials.

AUDIT COMMITTEE REPORT: 11:00 a.m. to 11:08 a.m. Dr. DeFusco reported that he and Mr. Maginn, Audit Committee members, had met with Ms. Joyce Schlautman, Internal Auditor via conference call on November 6, 2015. Ms. Schlautman reported that all Council policies and procedures are being followed. A copy of the Audit Committee Report was distributed to the Council and is included in the attachments to the minutes.

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION: 11:08 TO 11:38 a.m. Mr. Walden-Newman introduced Mr. Frank Daley, Executive Director of the Nebraska Accountability and Disclosure Commission (NADC). Mr. Daley distributed copies of the Statement of Financial Interests (NADC Form C-1) and a Synopsis of Conflicts of Interest Laws Applying to State Executive Branch Officials and Employees. Mr. Daley reviewed the form and discussed tips on completing it.

THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY AON HEWITT: 11:38 a.m. to 10:50 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 materials included performance review, fund monitoring, and fees. Mr. Kotary also reviewed the Alternative Investment Performance Supplement Data Report as of March 31, 2015, which was included in the meeting materials.

REAL ESTATE BY AON HEWITT 11:50 a.m. to 12:15 p.m.

PORTFOLIO PERFORMANCE: Mr. Rose's presentation which was included in the meeting materials reviewed the CY15 Q2 real estate performance. Mr. Rose gave an overview of the portfolio, discussed the DB/CBB and GE performance and pacing.

NEW FUND COMMITMENT -- Metropolitan Real Estate Partners Secondaries & Co-Investments Fund, L.P. Recommendation for General Endowments and Health Care Endowment Fund: Mr. Rose and Ms. Winkler's presentation which was included in the meeting materials discussed a fund being offered by a current NIC manager, Metropolitan Real Estate Partners (MREP). The Fund, Metropolitan Real Estate Partners Secondaries and Co-Investments Fund, L.P. strategy is to leverage MREP's primary fund-of-funds platform to source secondary investments and co-investments from existing GP relationships. The Fund will seek to take advantage of current capital market imbalances and provide investors with access to both secondary and co-investment opportunities which provides the benefit of J-Curve reduction in the non-Core space as well as participation in the on-going recovery of property fundamentals across the globe. The Fund will seek to split the Fund 50/50 for secondaries vs. co-investments and is targeting a net IRR of 15%. Mr. Rose indicated that as part of the NIC's 2015 non-Core real estate investment pacing of \$5 million and planned 2016 non-Core real estate investment pacing of \$5 million for the Endowment Plans and Health Care Endowment Fund. Mr. Rose indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of Metropolitan Real Estate Partners Secondaries & Co-Investments Fund, L.P. Mr. Rose discussed the investment merits and concerns associated with the Firm and the Fund. Mr. Walden-Newman indicated that staff and Aon Hewitt recommend that the Council commit \$10 million to Metropolitan Real Estate Partners Secondaries & Co-Investments Fund, L.P.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015**

from the General Endowments and the Health Care Endowment Fund.

Presentation by Metropolitan Real Estate Partners: Mr. Walden-Newman introduced Mr. David Sherman, Co-Founder & CO-CIO. Mr. Sherman presentation, which was included in the meeting materials gave an overview of the firm, organization, and discussed the current fund offering, Metropolitan Real Estate Partners Secondaries & Co-Investments Fund, L.P.

Following the presentation by Metropolitan, Mr. Conley moved that the Nebraska Investment Council make a \$10 million commitment to the Metropolitan Real Estate Partners Secondaries & Co-Investments Fund, L.P. for the General Endowments and the Health Care Endowment Fund, subject to completion of a legal review and satisfactory agreement of terms. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break and reconvened at 1:10 p.m.

ABLE PROGRAM: 1:10 p.m. to 2:10 p.m. Treasurer Stenberg summarized the activities of the Nebraska ABLE program since it was signed into law in May 2015. The Nebraska State Treasurer is Trustee of the Program, and the Nebraska Investment Council approves the investment options of the plan. Treasurer Stenberg indicated that First National Bank Omaha (FNBO) has been awarded the contract and is at today's meeting to discuss the program and its investment options. Treasurer Stenberg stated that once the investments are approved, we will be able to execute the program management agreement and continue to develop the ABLE program. The goal is to launch the Nebraska ABLE program by the summer of 2016. Treasurer Stenberg introduced from First National Bank Omaha, Ms. Deborah Goodkin and Mr. Steve Wade and Ms. Rachel Biar, Assistant State Treasurer. Their presentation which was included in the meeting materials gave a background of the program, its design, features, and investment options. Following their presentation, Dr. DeFusco moved (i) to approve the investment options presented by First National Bank of Omaha at today's meeting and described on page 6 of the FNBO presentation materials, and the fees and cost described on pages 6 and 8, and (ii) to delegate to and authorize the State Investment Officer to enter into an agreement with FNBO and the Nebraska State Treasurer to implement the ABLE program on terms and conditions deemed prudent in the discretion of the SIO and in accordance with Nebraska law. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

PUBLIC COMMENT ON THE AGENDA: 2:10 p.m. to 2:11 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

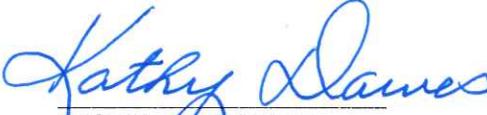
At 2:11 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Conley Ms. Werner-Robertson
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NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2015

Dr. DeFusco
Mr. Maginn
Mr. Dinkel

The motion carried.


Kathy Dawes, Secretary