

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 26, 2015**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the 1526 Building in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on February 2, 2015, and published in the Lincoln Journal Star on February 15, 2015. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. John Conley
Treasurer Don Stenberg (departed at 1:25 p.m.)
Ms. Phyllis Chambers (departed at 1:05 p.m.)

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Ms. Joyce Schlautman, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Mr. Max Kotary, Aon Hewitt
Mr. Mike Comstock, Aon Hewitt
Mr. Bruce Ingram, Aon Hewitt

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE NOVEMBER 17, 2014 MEETING: 8:37 a.m. to 8:38 a.m. Mr. Maginn moved that the February 19, 2015, draft of the minutes of the November 17, 2014, meeting be approved as written. Mr. Conley seconded the motion. Ms. Werner-Robinson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:45 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson welcomed Mr. Michael Walden-Newman who was recently hired as the State Investment Officer to Nebraska and to the Nebraska Investment Council. Mr. Walden-Newman previously served as Wyoming's Chief Investment Officer. Ms. Werner-Robertson stated that the Council is thrilled and excited to have him on board. Mr. Walden-Newman thanked the Council for the opportunity to serve as Nebraska's State Investment Officer and welcomes advice from the Council. Mr. Walden-Newman informed the Council that his appointment was confirmed by the full Legislature on February 19, 2015. Mr. Walden-Newman also stated that Mr. John Dinkel was reappointed to the Council and confirmed by the full Legislature on February 6, 2015. Mr. Walden-Newman discussed the new format being used for the meeting materials and indicated that additional staff presentations would be included in upcoming meetings.

**NEBRASKA INVESTMENT COUNCIL
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February 26, 2015**

4th QUARTER PERFORMANCE REPORT BY AON HEWITT: 8:45 a.m. to 9:20 a.m. Mr. Walden-Newman stated that effective January 1, 2015, Hewitt EnnisKnupp officially changed its name to Aon Hewitt. Mr. Kotary and Mr. Comstock reviewed the 4th Quarter 2014 Performance Review included in the meeting book, commenting on the economic and market environment. Mr. Comstock noted that at the end of calendar year 2014, the total assets under management totaled \$21.98 billion an increase of approximately \$386 million from the end of the 3rd quarter. Mr. Kotary's presentation included performance review, fund monitoring, risk budgeting and fees.

AON HEWITT CORE-PLUS FIXED INCOME ACTION PLAN: 9:20 a.m. to 9:30 a.m. Mr. Kotary and Mr. Comstock presentation which was included in the meeting book discussed the current fixed income target allocations for the Defined Benefit/Cash Balance Benefit (DB/CBB) and the General Endowments (GE). At the November 17, 2014, Council meeting the Council had discussed reducing the allocation to PIMCO within both the DB/CBB and the GE and had requested Aon Hewitt provide additional information on the core-plus fixed income portfolio at the February Council meeting. After meeting in January 2015, Aon Hewitt and the NIC's investment staff made the following determination:

- An active fixed income manager would be sought to receive roughly 1/3 of the PIMCO allocation within both the DB/CBB and the GE's fixed income allocation
- That active manager would be similar in risk profile to PIMCO (i.e., a core-plus strategy)
- The exact size of the re-allocation would be determined after the manager has been identified, and the other existing core-plus managers (i.e., BlackRock and Loomis Sayles) may see their allocation modified slightly
- Impact on portfolio yield will be given some consideration for the GE allocation
- Aon Hewitt will present summary information and analysis on a short list of core-plus bond managers to the NIC investment staff
- NIC investment staff will conduct its own diligence on these managers (as needed) and Aon Hewitt and the NIC investment staff will select a manager to recommend to the Council at its March meeting
- The recommendation will include both the size of allocation to the new manager as well as any adjustments to the sizes of the existing core-plus managers, if applicable

Mr. Kotary and Mr. Comstock's presentation also included an update on PIMCO.

AON HEWITT PRIVATE EQUITY PORTFOLIO UPDATE: 9:30 a.m. to 10:20 a.m. Mr. Ingram reviewed with the Council the CY14 Q3 Private Equity performance report. The report which was included in the meeting book reviewed the asset allocation by strategy for the Defined Benefit/Cash Balance Benefit (DB/CBB) and the General Endowments (GE) portfolios. Mr. Ingram reported that during the 3rd quarter the DB/CBB portfolio experienced mixed performance and that the GE portfolio experienced an increase. Mr. Ingram's report also reviewed the diversification breakdown of the DB/CBB portfolio benchmarking and the quarterly drivers of performance. Mr. Ingram's report also provided a pacing update for both the DB/CBB and GE portfolios. Keeping the investment pace for the DB/CBB at \$150 million in 2015 and then increasing it to \$175 million annually in 2016 would get the PE portfolio to its target allocation in 2018. The report also recommends increasing the annual allocation to \$200 million in 2020 going forward. For the GE the pacing calls for a \$20 million commitment in 2016, followed by a \$25 million commitment in 2018 and every other year thereafter. Mr. Ingram also discussed a tactical plan for 2015 based on a \$150 million commitment level and provided performance of both the DB/CBB and GE portfolios by investment and vintage year.

The Council took a break and reconvened at 10:35 a.m.

NIC OPERATING INVESTMENT POOL (OIP) UPDATE AND PERFORMANCE REVIEW BY JOE SPITZNAGEL AND JEREMIAH GARBER: 10:35 a.m. to 11:15 a.m. Mr. Spitznagel and Mr. Garber's presentation which was included in the meeting book discussed the portfolio's performance through December 31, 2014. As of December 31, 2014, the Operating Investment Pool's balance totaled over \$3.9 billion. Mr. Spitznagel and Mr. Garber reviewed the 2014 market, discussed the OIP's internal watchlist, returns, short term liquidity, net cash flow, OIP breakdown and the growth in the OIP's largest funds the General Fund and the Reserve Fund since July 2011.

**NEBRASKA INVESTMENT COUNCIL
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February 26, 2015**

INTERNAL AUDIT FUNCTION BY JOYCE SCHLAUTMAN: 11:15 a.m. to 11:40 a.m. Ms. Schlautman, NIC Internal Auditor responsible for auditing investment activity and custody bank reports discussed the Operating Investment Pool documents she reviews and provided examples of the review process. A copy of the presentation was included in the meeting book.

AUDIT COMMITTEE REPORT: 11:40 a.m. to 11:50 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 February 24, 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.

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

STATE TREASURER'S REPORT: 12:15 p.m. to 12:30 p.m. Treasurer Stenberg reported that as of December 31, 2014, total assets in the Nebraska Educational Savings Plan Trust were \$3.7 billion. There are over 225,000 accounts; more than 65,000 of those are Nebraska accounts. The average age of the child is 11 and the average age of the account owner is 50. Treasurer Stenberg discussed some of the current contests and promotions for the 529 Plans, "Why I Want to Go to College", Personal Finance Challenge for Nebraska high school students and the NEST Financial Scholars for Students program.

NPERS DIRECTOR'S REPORT: 12:30 p.m. to 1:00 p.m. Ms. Chambers distributed to the Council a listing of the legislative bills introduced this legislative session that may affect NPERS or the PERB and discussed the status of each. A copy is included in the attachments to the minutes. Ms. Chambers distributed copies of the December 15, 2014, Report of the PERB Assumed Rate Committee and is also included in the attachments to the minutes. At the September 15, 2014 PERB meeting the Committee was created to study the facts related to the 8% return assumption. Ms. Chambers reviewed the report with the Council and indicated that the report has been provided to Governor Ricketts, the State Budget Administrator, the Retirement Committee Chair, and the Appropriations Committee Chair. Ms. Chambers stated that at the January 20, 2015, PERB meeting the board formally voted that the PERB continue to use 8% as the investment return assumption for the School, Judges, and State Patrol Defined Benefits Plans and perform an actuarial experience study in 2016 based on the June 30, 2015, actuarial valuations, to determine if there should be any change in the rate of return at that time. Mr. Maginn noted that item #4 of the Report states "that the Council is taking on too much risk", rather than the NIC's question which is "How much risk do we need to take to get to the 8% rate of return?" Mr. Maginn stated that the NIC will not take on risk that can't be measured, monitored, and managed. Ms. Chambers reported that there are two vacancies on the PERB: Judge Randall Rehmeier, who represented the Judges, has resigned and has been appointed to the State Parole Board, Mr. Stuart Simpson, who represented School members, has resigned. There are two other positions that are waiting the Governor to appoint or reappoint. They are currently held by Mr. Denis Blank, representing State members, and Mr. Dennis Leonard representing the State Patrol. Ms. Chambers reported that NPERS has a new attorney, Mr. Orron Hill.

Ms. Chambers left the meeting at 1:05 p.m. to attend NPERS' Appropriations hearing

NIC ADMINISTRATIVE REPORT: 1:00 p.m. to 1:28 p.m.

SIO Update: Mr. Walden-Newman thanked staff for the help and patience since starting with the NIC. Mr. Walden-Newman informed the Council that since starting he has met with Ms. Chambers, former Governor Heineman, Governor Ricketts, the Governor's Chief of Staff, staff from the State Budget Office, Legislative Fiscal Office, Personnel, Auditors, Members of the Retirement Committee, Senator Nordquist and his staff. Mr. Walden-Newman and the investment staff have also been meeting with NIC investment managers at the NIC office. Also, Mr. Walden-Newman traveled to Chicago with Mr. Jurich, Ms. Winkler, and Mr. Heinrich to meet with members of Aon Hewitt's consulting team. Mr. Walden-Newman informed the Council that manager presentations will be given at the March 26, 2015 meeting. Mr. Walden-Newman plans to have an updated Action Plan by the March meeting and plans to have the meeting materials out to the Council sooner than has been done in the past. He informed the Council that he will be attending the NIC's Appropriations hearing on March 27, 2015.

Agency Budget Update: Ms. Dawes reviewed the Agency's January 31, 2015 Budget Report and reported that

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 26, 2015**

the Agency is currently under-budget for the fiscal year. Ms. Dawes reported that the NIC has been notified that its subscription to Standard and Poor's will increase in FY16. Ms. Dawes reported that advertising for the Accountant position has been completed and that applications are being reviewed and interviews will be scheduled soon.

IMAs and Partnership Agreements Executed Since Last Meeting: Mr. Heinrich reported that the custody and securities lending contracts with State Street Bank have been prepared. Commitments to Bridgepoint Europe Fund V, Francisco Partners IV, and Almanac VII have been completed. Subscription documents for Cornerstone Patriot Fund, Energy and Minerals Group Fund III, Resolute and Ares/EIF Management have been completed.

Securities Lending Quarterly Report: Mr. Jurich reviewed the report, which was included in the meeting book.

Upcoming Staff Travel: Mr. Walden-Newman reported that Mr. Jurich and Ms. Winkler will be attending upcoming private equity and real estate annual meetings. Mr. Walden-Newman stated that rather than attending any private equity or real estate meetings he may instead visit several investment managers at their offices.

Action Plan: The March 26, 2015 Council meeting will be at the 1526 Building, 4th Floor, Conference Room D.

Treasurer Stenberg left the meeting at 1:25 p.m.

PUBLIC COMMENT ON THE AGENDA: 1:30 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 1:30 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Conley 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.


Kathy Dawes, Secretary