

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 8, 2018**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the 1526 Building in Lincoln, NE.

The Council members were notified of this meeting by letter dated January 25, 2018. Public notice was posted on the Nebraska Public Meeting Calendar on December 19, 2017, and published in the Lincoln Journal Star on January 28, 2018. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Dinkel
Mr. John Conley
Mr. Keith Olson (left the meeting at (11:00 a.m.)
Treasurer Don Stenberg (arrived at 8:33 a.m.)
Ms. Cecelia M. Carter
Mr. Randy Gerke

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, O'Neill Heinrich Damkroger Bergmeyer & Shultz
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
Ms. Jennifer Hatfield, Nebraska Investment Council
Mr. Max Kotary, Aon Hewitt
Mr. Bruce Ingram, Aon Hewitt
Ms. Rachel Biar, Nebraska State Treasurer's Office
Mr. John Robinson III, Kiewit
Ms. Tegan Colton, UNL Journalism Student

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:30 a.m. to 8:31 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 20, 2017 MEETING: 8:31 a.m. to 8:33 a.m. Mr. Conley moved that the November 22, 2017, draft of the minutes of the November 20, 2017, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robinson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 8:33 a.m. to 8:36 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and briefly discussed the market conditions of the past week.

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INVESTMENT POLICIES PRESENTATION: 8:36 a.m. to 8:40 a.m.: Mr. Walden-Newman reviewed the process taken in updating the policies being presented to the Council for approval. Mr. Walden-Newman stated that Council member's suggestions have been included and thanked Mr. Heinrich and Mr. Kotary for their assistance in the review. Mr. Walden-Newman stated that the General Endowments' asset allocation still needs to be updated, and that Mr. Spitznagel and Mr. Garber are working on this project following the recently completed equity review. Following the discussion, Mr. Conley moved to approve the following updated Investment Council policies as presented to the Council on February 8, 2018. Copies of the policies were included in the meeting materials.

Defined Benefit Plans – School, State Patrol and Judges
Cash Balance Benefit – State and County Plans
Omaha School Employees' Retirement System (OSERS)
Operating Investment Pool (OIP)
General Endowment Funds
Health Care Endowment Fund
Aeronautics Trust Fund
Agricultural Development Fund
Excess Liability Fund
Governance Policies
Administrative Policies

Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

PRIVATE EQUITY: 8:40 a.m. to 9:12 a.m.

Private Equity Pacing: Mr. Bruce Ingram, Partner, Aon Hewitt reviewed with the Council a projected tactical plan for 2018 for the DB/CBB plans. The tactical plan was broken down by strategy with an investment pace for the DB/CBB of \$150 million in 2018. Mr. Ingram noted that since the Endowment Plan is above its target for private equity exposure, no additional investments will be made during 2018 and will resume the every-other-year pace beginning in 2019.

Resolute Fund IV:

Mr. Jurich and Mr. Ingram reviewed a new fund being offered by The Jordon Company (TJC), a current Council investment manager. The new Fund, The Resolute Fund IV, L.P. (Resolute IV), will primarily target control private equity investments and will create a diversified portfolio of profitable middle-market businesses, located principally in North America, with enterprise values generally from \$50.0 million to \$2.0 billion. Mr. Jurich provided background information on the Firm. Mr. Ingram indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of Fund IV. Mr. Ingram discussed the investment merits and concerns associated with Fund IV and the Firm. Mr. Ingram indicated that as part of the Council's 2018 private equity investment pacing of \$150 million for the Defined Benefit/Cash Balance Benefit Plans, Aon Hewitt supports the Council's staff recommendation to make a \$50 million commitment to The Resolute Fund IV, L.P., subject to completion of a legal review and satisfactory agreement of terms. Copies of their presentations were included in the meeting materials.

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Following discussion by the Council, Dr. DeFusco moved that the Nebraska Investment Council commit \$50 million of the Defined Benefit Plans and Cash Balance Benefit Plans to the Resolute Fund IV, L.P. (Fund IV) subject to completion of a legal review and satisfactory agreement of terms. Mr. Olson seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

COUNCIL ADMINISTRATIVE REPORT: 9:12 a.m. to 9:50 a.m.

Mr. Walden-Newman updated the Council on the equity transition for the Defined Benefit Plans and the Cash Balance Benefit Plans, stating that the portfolios were moved to their targets in mid-December 2017. Mr. Walden-Newman informed the Council that in December he and Max Kotary had presented to the OSERS' Board of Trustees, the OSERS portfolio's CY17 Q3 Performance Report; and plans to present performance reports in person to the Board of Trustees twice a year. Mr. Walden-Newman had also attended the Omaha Public Schools board meeting in December and had provided to the board an introduction to the Nebraska Investment Council and its approach to the management of the OSERS' portfolio. Mr. Walden-Newman requested that Council members contact him with any suggestions for the July 19, 2018, Council Retreat.

Budget Report: A copy of the report was included in the meeting materials.

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

Securities Lending Report: A copy of the report was included in the meeting materials.

Legislative Update: Mr. Walden-Newman reported on legislation that may impact the Council. On January 26, 2018, Mr. Walden-Newman attended the hearing for LB 700, which removes the obligation of the State Investment Officer and the Nebraska Investment Council to invest the funds in the University Trust Fund. The University of Nebraska is taking the lead on this legislation. Mr. Walden-Newman reported that the confirmation hearing for Mr. Conley's reappointment to the Council was also held on January 26th and that he was confirmed by the Legislature on February 2, 2018 for another five year term. The Council also discussed legislation affecting NPERS and OSERS. Mr. Walden-Newman reported that the Retirement Committee will consider two amendments to LB 548 on February 14, 2018. One would allow the Omaha School Board to issue pension obligation bonds without a vote of the people. A second amendment would intercept from annual state aid to the Omaha School District an amount required to pay the annual Actuarially Required Contribution.

AUDIT COMMITTEE REPORT: 9:50 a.m. to 10:05 a.m. Dr. DeFusco reported that he and Mr. Conley, Audit Committee member, had recently met with Ms. Joyce Schlautman, Internal Auditor via conference call on January 30, 2018. 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 10:20 a.m.

STATE FARM COLLEGE SAVINGS PLAN: 10:20 a.m. to 10:47 a.m. Mr. Corey Schieler, CFA, Director, State Farm Mutual Funds, Ms. Deborah Goodkin, Managing Director, First National Bank of Omaha, Mr. Stacy Auman, CFA, Director, First National Bank of Omaha and Ms. Rachel Biar, Program Director of the College Savings Plan of Nebraska. Copies of the presentations were included in the meeting materials. Mr. Schieler discussed the Department of Labor's fiduciary rule and the changes being proposed for The State Farm College Savings Plan. Mr. Schieler stated that State Farm is seeking Council approval of a new investment line-up, the mapping from the old investment options to the new investment options, and new fee structure. First National Bank Omaha (FNBO) will continue to be the Program Manager and First National Capital Markets will serve as

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the Distributor of the Plan. State Farm will be transitioning the record-keeping services of the Plan from Oppenheimer to First National/Ascensus, effective, August 4, 2018. Ms. Goodkin gave an overview of the proposed Plan changes and investment changes. Ms. Goodkin also discussed the investment option changes as outlined on pages 3 and 4 of the FNBO's presentation. Ms. Goodkin noted a correction that needs to be made to the footnote at the bottom of page 4, which should read:

**In addition, the account owner will be charged a \$25 annual account fee, charged \$6.25 per quarter, waived for any account owner/beneficiary account that exceeds \$20,000 on the last day of the quarter.*

Mr. Walden-Newman indicated that staff and Aon Hewitt support the proposals.

Following the presentation and discussion by the Council, Dr. DeFusco moved to approve the investment recommendations for The State Farm College Savings Plan as outlined on page 3 and 4 of the *Changes to The State Farm College Savings Plan*, February 8, 2018 presentation, with the correction on page 4 as noted by Ms. Goodkin.

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

DE-MYSTIFYING DERIVATIVES: 10:47 a.m. to 11:50 a.m.: Mr. Walden-Newman introduced from PIMCO, Mr. Michael Chandra, Senior Vice President and Ms. Sasha Talcott, Vice President. Their presentation which was included in the meeting materials covered the following on derivatives:

- Common derivative instruments used to manage fixed income portfolios
- Risks associated with these instruments and how they compare and differ from cash bonds
- How derivatives are used in an effort to efficiently manage a portfolio's risk profile and generate excess returns

Mr. Olson left the meeting at 11:00 a.m.

The Council took a break and reconvened at 12:25 p.m.

PRIVATE CREDIT PROJECT: 12:25 p.m. to 12:58 p.m. Mr. Jurich and Mr. Sanders gave an update on the Private Credit Project they are leading. Their presentation which was included in the meeting materials discussed possible structure and implementation. Mr. Jurich indicated that they plan to make a recommendation to the Council at the May 24, 2018.

PUBLIC COMMENT ON THE AGENDA: 12:58 p.m. to 12:59 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

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NEXT MEETING: 12:59 p.m. to 1:00 p.m. Thursday, March 22, 2018 – 1526 K Street Building, Conference Room D, Lincoln, NE

At 1:00 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Olson

The motion carried.



Kathy Dawes, Secretary