

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
July 19, 2018**

An Education Retreat of the Nebraska Investment Council convened on July 19, 2018, at 8:33 a.m. at the Quarry Oaks Golf Club, Ashland, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on June 1, 2018, and published in the Lincoln Journal Star on July 8, 2018. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson, Chairwoman  
Dr. Richard DeFusco  
Mr. John Dinkel  
Mr. John Conley  
Mr. Keith Olson  
Treasurer Don Stenberg (departed at 1:00 p.m.)  
Mr. Randy Gerke  
Ms. Cecelia M. Carter

**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  
Ms. Jennifer Hatfield, Nebraska Investment Council  
Mr. Chris Sanders, Nebraska Investment Council  
Mr. Joe Spitznagel, Nebraska Investment Council  
Mr. Jeremiah Garber, Nebraska Investment Council  
Mr. Max Kotary, Aon Hewitt  
Mr. Mike Comstock, Aon Hewitt  
Ms. Jeanna Cullins, Aon Hewitt  
Mr. Bruce Ingram, Aon Hewitt  
Mr. Chae Hong, Aon Hewitt  
Ms. Sarah Gal, Aon Hewitt  
Senator Mark Kolterman, Nebraska Legislature  
Senator John Stinner, Nebraska Legislature  
Senator John Murante, Nebraska Legislature  
Ms. Kathy Tenopir, Legislative Fiscal Office  
Ms. Kate Allen, Nebraska Retirement Systems  
Ms. Janis Elliott, Public Employees Retirement Board  
Mr. Jim Schulz, Public Employees Retirement Board  
Mr. Jim Ripa, Omaha School Employees Retirement System  
Mr. Don Erikson, Omaha School Employees Retirement System  
Mr. Neil Sullivan, AS State Budget Office  
Mr. Jason Hayes, Nebraska State Education Association  
Mr. Joshua Shasserre, Nebraska Attorney General's Office  
Mr. John Robinson III, Kiewit

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:33 a.m. to 8:35 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.

**WELCOME, INTRODUCTIONS, AND OPENING REMARKS: 8:35 a.m. to 8:40 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting and thanked everyone who had a part in preparing for the meeting. Topics of discussion at today's meeting will include: The Global Investment Landscape, Endowment Asset Allocation, and Good Governance.

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**THE GLOBAL INVESTMENT LANDSCAPE: 8:40 a.m. to 9:50 a.m.** Mr. Walden-Newman provided background information on the Council's new Defined Benefit, Cash Balance Benefit, and OSERS Plan's public equity portfolio, which has been in place for over a year. The new plan reset the entire public equity portfolio to the latest best thinking that active bets are best placed with global equity experts. Today's panel from the Council's current global equity managers will report on where they are finding the best opportunities for Nebraska in today's global economy. Mr. Walden-Newman introduced the following panel members: Mr. Tony Troilo, Client Relationship Manager, Mr. Alex Ogan, Partner, Portfolio Management, Arrowstreet Capital, LP; Mr. Steven Voorhis, Vice President, Dodge & Cox; Ms. Kate Mead, Institutional Portfolio Manager, Ms. Kim Hyland, Director – Relationship Management, MFS Investment Management; and Mr. Sheldon Hanau, Director, Industry Research, Americas, Ms. Julie Rancourt, Relationship Manager, Wellington Management. A copy of their presentation was included in the meeting materials.

At 9:50 a.m. the Council took a break and reconvened at 10:05 a.m.

**ENDOWMENTS ASSET ALLOCATION: 10:05 a.m. to 10:21 a.m.** Mr. Spitznagel and Mr. Garber leads for the Council's Blank Sheet Equity Review discussed the staff's recommendation that would align the endowment public equity portfolios with those of the retirement plans' public equity portfolios. Mr. Kotary and Mr. Comstock's presentation, which was included in the meeting materials, included a comparison of the current equity allocation and a proposed allocation for both the Health Care and 50/50 Endowments. They discussed the rationale for the proposal; and support Council staff's recommendation to adopt an equity structure within the Health Care and 50/50 Endowments that aligns with what has been put in place for the retirement plans. Mr. Kotary discussed the proposed equity allocations for the Health Care Endowment listed on page 5 and for the 50/50 Endowments listed on page 6 of the presentation. Mr. Kotary stated that moving to an approach to equities that aligns with the structure that the retirement plans adopted last year will result in:

- Modest reduction in home country bias (≈5%)
- Increased use of active management (from ≈20% to ≈37% of equity portfolio)
- Cap-weighted exposure to Developed and EM equities within Non-U.S. Equity component

The manager line-up differences relative to the retirement plans restructuring:

- Gryphon (non-U.S. Equity) and Arrowstreet (Global Equity) were never funded within the endowments as they lacked suitable non-ERISA vehicles. Gryphon was not a part of the recently implemented DB/CBB Plans equity structure, but Arrowstreet was
- For the endowments' global equity allocation, Aon is recommending a cap-weighted exposure to Wellington's Global Small-Cap strategy (i.e., 15%), and then splitting the remaining 85% of component assets evenly between MFS (Quality/Growth) and Dodge & Cox (Core/Value)

Following Council discussion Dr. DeFusco made the following motion: I move that the Nebraska Investment Council for the Health Care and 50/50 Endowments adopt the recommended allocations as listed on pages 5 and 6 of the Endowment Equity Allocation presentation; also to dismiss managers Baillie Gifford for international equity, and Blackrock for passive global equity to implement the new allocations. Mr. Olson 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

The motion carried.

Copies of pages 5 and 6 of the Endowment Equity Allocation presentation by Aon are included in the attachments to the minutes.

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**ENDOWMENTS ASSET ALLOCATION (continued) 10:21 a.m. to 10:52 a.m.**

**Health Care Fund Report:**

Mr. Walden-Newman introduced from the Legislative Fiscal Office, Ms. Liz Hruska. Mr. Walden-Newman invited Ms. Hruska to speak to the Council on the Health Care Cash Fund and related funds, the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Transfer Trust Fund. The Nebraska Tobacco Settlement Trust Fund is funded through revenue received from tobacco-related litigation to which the State is a party. The Nebraska Medicaid Intergovernmental Trust Fund is funded through an intergovernmental transfer which provides funding for health care expenditures determined by the Legislature. By law the State Investment Officer is required to report to the Legislature on or before October 1 of every even-numbered year on the sustainability of these transfers. Ms. Hruska's presentation, which was included in the meeting materials discussed the history and purpose of the funds, each fund's funding source, legislation, and current programs being funded.

**Health Care Endowment Sustainability:** Mr. Kotary gave an overview of the Health Care Endowment, which includes the Nebraska Tobacco Settlement Trust and the Nebraska Medicaid Intergovernmental Trust; reviewing the 3/31/18 market values, asset allocation, investment goals, historical legislative spending policy, and provided Aon's forecasted market values through 2035. A copy of the presentation was included in the meeting materials.

**GOOD GOVERNANCE: 10:52 a.m. to 11:58 a.m.** Ms. Jeanna Cullins, Partner, Aon Hewitt presentation, which was included in the meeting materials discussed the importance of good governance and the need for boards to have policies and practices in place to help them meet their fiduciary responsibilities. Ms. Cullins discussed succession planning, continuing education for board members, importance of board meetings, current issues and topics affecting public fiduciaries.

At 11:58 a.m. the Council took a break and reconvened at 12:30 p.m.

**PUBLIC COMMENT ON THE RETREAT AGENDA: 12:30 p.m. to 12:35 p.m.** Senator Kolterman stated that he, along with Senator Stinner would like to publicly thank the following boards and their staff members for their work and for the open relationship the Legislature has with each of them, the Council, PERB, and OSERS. Ms. Werner-Roberson thanked the Legislature for its work and for giving the Council the resources needed to do its work.

**COUNCIL GOVERNANCE AND STATE INVESTMENT OFFICER REVIEWS: 12:25 p.m. to 1:50 p.m.**  
At 12:35 p.m. Dr. DeFusco moved that the Council enter into closed session for the following:

The subject matters are as follows:

1. The evaluation of the job performance of the State Investment Officer.
2. The performance evaluation of the Nebraska Investment Council.

The reasons for the closed session are as follows:

- A. With respect to matter #1, to protect the reputation of the State Investment Officer.
- B. With respect to matter #2, to protect the reputation of the members of the Nebraska Investment Council and its staff.

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Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

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

At 12:55 p.m. Mr. Walden-Newman left the meeting.

At 1:00 p.m. Treasurer Stenberg left the meeting.

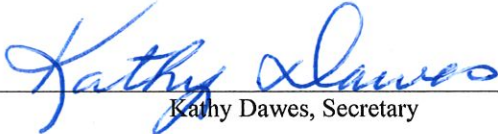
At 1:50 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Olson seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Conley Mr. Olson Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel
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At 1:52 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:	Mr. Olson Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel Mr. Conley
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The motion carried.

  
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Kathy Dawes, Secretary