

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
July 9, 2020**

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 on September 19, 2019, Council meeting. Public notice was posted on the Nebraska Public Meeting Calendar on June 17, 2020, and published in the Lincoln Journal Star on June 28, 2020. Ms. Werner-Robertson chaired the meeting and Ms. Hatfield recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Dinkel
Mr. John Conley
Dr. Keith Olson (arrived at 8:34 a.m.)
Treasurer John Murante
Ms. Cecelia M. Carter
Mr. Randy Gerke (departed at 12:07 p.m.)

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Jennifer Hatfield, 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
Ms. Joyce Schlautman, Nebraska Investment Council
Mr. John Robinson III, Kiewit
Mr. Max Kotary, Aon, via teleconference
Mr. Mike Comstock, Aon, via teleconference
Mr. Bruce Ingram, Aon, via teleconference
Mr. Chae Hong, Aon, via teleconference
Ms. Katie Allen, Retirement Systems Committee, via teleconference

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 MARCH 12, 2020, MEETING: 8:31 a.m. to 8:32 a.m. Mr. Conley moved that the March 16, 2020, draft of the minutes of the March 12, 2020, meeting be approved as written. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSTAINING: Dr. DeFusco

ABSENT NOT VOTING: Dr. Olson

The motion carried.

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COUNCIL MEMBER BUSINESS: 8:32 a.m. to 8:35 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson commented on the current volatile market conditions. Ms. Werner-Robertson mentioned she had many discussions with Mr. Walden-Newman and Mr. Kotary since the last Council meeting regarding the pandemic. Ms. Werner-Robertson had reached out to the Governor discussing what other measures can be taken during these uncertain times. Ms. Werner-Robertson stated today's meeting would include a presentation on the Operating Investment Pool (OIP). Ms. Werner-Robertson thanked Mr. Garber, Mr. Spitznagel, and Mr. Walden-Newman for doing a great job with the OIP and mentioned Governor Ricketts thanked them too.

Mr. Walden-Newman mentioned to the Council that Aon Consultants; Mr. Kotary, Mr. Comstock, Mr. Ingram, and Mr. Hong would be joining the meeting via teleconference.

CLOSED SESSION - COUNCIL INVESTMENT CONSULTANT AND LEGAL COUNSEL REVIEW: 8:35 a.m. to 10:04 a.m. Dr. DeFusco moved that the Council enter into closed session. The subject matter is the evaluation of the job performance of the Council's investment consultant and legal counsel. The reason for the closed session is to protect the reputation of the investment consultant and legal counsel.

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

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

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

At 10:04 a.m. Dr. DeFusco moved that the Council return to open session. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

INVESTMENT PERFORMANCE REPORT: 10:04 a.m. to 11:17 a.m. Mr. Walden-Newman introduced Mr. Comstock joining the meeting via teleconference. Mr. Comstock reviewed the First Quarter 2020 Performance Review Report commenting on the current market conditions, asset allocation, performance and fund monitoring. Total assets under management were \$26.3 billion. The First Quarter 2020 Performance Review and the Fourth Quarter 2019 Alts Performance Review was included in the meeting materials.

Mr. Walden-Newman introduced Mr. Kotary joining the meeting via teleconference. Mr. Kotary reviewed Second Quarter Market Update commenting on the market reactions to COVID-19 and its impact on valuations and performance. A copy of the report which was distributed to the Council is available on the Council's website.

PRIVATE EQUITY COMMITMENT: 11:17 a.m. to 12:09 p.m. Mr. Walden-Newman introduced Mr. Ingram joining the meeting via teleconference. Mr. Jurich and Mr. Ingram reviewed a new fund being offered by McCarthy

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Capital, a current Council investment manager. The new Fund, McCarthy Capital Fund VII, L.P. (Fund VII), is a small buyout fund, investing in lower-middle market companies in a variety of industries across the United States. Mr. Jurich provided the background information and Mr. Ingram indicated that Aon has conducted a thorough qualitative and quantitative assessment of Fund VII. Mr. Ingram discussed the investment merits and concerns associated with Fund VII and the firm. Mr. Ingram indicated that as part of the NIC's 2020 private equity investment pacing of \$150 million for the Defined Benefit/Cash Balance Benefit Plans, Aon supports the NIC staff's recommendation to make a \$50 million commitment to McCarthy Capital Fund VII, L.P., subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on Aon's due diligence of this fund and is supported by its full due diligence report. A copy of their presentation was included in the meeting materials.

McCARTHY CAPITAL PRESENTATION: Mr. Jurich informed the Council that Mr. Patrick Duffy, President and Managing Partner would be joining the meeting via teleconference. Mr. Duffy's presentation which was included in the meeting materials discussed the Firm, performance, investment strategy, and principles.

Following the presentation and discussion by the Council, Dr. DeFusco moved that the Council commit \$50 million of the Defined Benefit Plans and Cash Balance Benefit Plans to McCarthy Capital Fund VII, L.P. subject to completion of a legal review and satisfactory agreement of Terms. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break at 12:09 p.m. and reconvened at 12:36 p.m.

PRIVATE EQUITY COMMITMENT (continued): 12:36 p.m. to 12:52 p.m. Mr. Jurich and Mr. Ingram, via teleconference, reviewed a new fund being offered by a current Council manger, New Mountain Capital LLC, New Mountain VI, L.P. (Fund VI). New Mountain Capital LLC is a private equity firm that emphasizes growth and value-add initiatives to generate returns primarily in North America. Mr. Ingram indicated that Aon has conducted a thorough qualitative and quantitative assessment of New Mountain VI, L.P. Mr. Ingram discussed the investment merits and concerns associated with the Firm and the Fund. Mr. Ingram indicated that as part of the Council's 2020 private equity investment pacing of \$150 million for the Defined Benefit/Cash Balance Benefit Plans, Aon supports the NIC staff's recommendation to make a \$50 million commitment to New Mountain Fund VI, L.P., subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on Aon's due diligence of Fund VI, L.P. and is supported by its full due diligence report. A copy of their presentation was included in the meeting materials.

Following the presentation and discussion by the Council, Dr. DeFusco moved that the Council commit \$50 million of the Defined Benefit Plans and Cash Balance Benefit Plans to New Mountain Fund VI, L.P. subject to completion of a legal review and satisfactory agreement of Terms. 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 Dr. Olson
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The motion carried.

REAL ESTATE COMMITMENT: 12:52 p.m. to 1:19 p.m. Mr. Walden-Newman introduced Mr. Hong joining the meeting via teleconference. Ms. Winkler and Mr. Hong reviewed a new fund being offered by a current Council manager, Torchlight Investors. Torchlight Debt Opportunity VII, L.P. (Fund VII) is a closed-end real estate debt fund

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which focuses on high yield real estate debt investments. Ms. Winkler provided the background information. Ms. Winkler stated that Council staff is recommending a \$54 million commitment to Torchlight VII, L.P. which is to be allocated to the following plans: \$50 million to the Defined Benefit and Cash Balance Benefit Plans, \$3 million to the General Endowments, and \$1 million to the Health Care Endowment subject to completion of a legal review and satisfactory agreement of terms. Mr. Hong indicated that Aon has conducted a thorough qualitative and quantitative assessment of Fund VII. Mr. Hong discussed the investment merits and concerns associated with Fund VII and the Firm. Mr. Hong stated that Aon supports Council's staff recommendation to make a \$54 million commitment to Torchlight Debt Opportunity Fund VII subject to completion of a legal review and satisfactory agreement of terms. This recommendation is made in consideration of the DB/CBB and the 50/50 & Healthcare Endowments, a total of \$76 million to be committed to a Non-Core capital in 2020. Copies of their presentations were included in the meeting materials.

TORCHLIGHT INVESTORS PRESENTATION: Ms. Winkler informed the Council that Mr. Dan Heflin, Partner, CEO/Co-CIO and Mr. Michael Romo, Partner Manager Director would be joining the meeting via teleconference. Their presentation which was include in the meeting materials gave an overview of the firm, organization, investment strategy, and the current market.

Following their presentation and discussion by the Council, Dr. DeFusco moved that the Nebraska Investment Council commit \$54 million to Torchlight VII, L.P. which is to be allocated to the following plans: \$50 million to the Defined Benefit Plans and Cash Balance Benefit Plans, \$3 million to the General Endowments, and \$1 million to the Health Care Endowment. Approval is subject to completion of legal review and satisfactory agreement of terms.

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

The motion carried.

GENERAL ENDOWMENT FUNDS INVESTMENT POLICY AMENDMENT: 1:19 p.m. to 1:31 p.m. Mr. Walden-Newman introduced Mr. Kotary joining the meeting via teleconference. Treasurer Murante, Ms. Winkler, and Mr. Kotary provided an overview of the Meadowlark Scholarship Program. LB610 was passed in 2019 and established the Meadowlark Act. It is outlined in statute 85-2801 to 85-2805. This act establishes the Meadowlark Program and the Meadowlark Endowment Fund. The Meadowlark Scholarship Program is to promote postsecondary education opportunities by providing and funding a NEST529 account for babies born on or after January 1, 2020, who are residents of Nebraska at the time of birth. The Meadowlark Endowment Fund which is administrated by the State Treasurer and invested by the State Investment Officer is a new cash fund that the State Treasurer will accept qualified private contributions and credit these to the endowment fund. The money deposited in the fund will be invested by the State Investment Officer.

NIC staff and Aon are recommending the Meadowlark Endowment Fund be invested in the same fashion as the General Endowment Funds. The initial contribution to Meadowlark Endowment fund is expected to be around \$500,000. The current Investment Policy Statement for the General Endowments has been updated to reflect the changes.

Following the presentation and discussion by the Council, Dr. DeFusco moved to approve General Endowment Funds Investment Policy Statement which includes the addition of the Meadowlark Endowment Fund. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

AUDIT COMMITTEE REPORT: 1:31 p.m. to 1:43 p.m. Dr. DeFusco and Mr. Conley, Audit Committee members had met with Ms. Schlautman, Internal Auditor, via conference call on June 24, 2020. Dr. DeFusco congratulated

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everyone on the internal audit. Dr. DeFusco, members of the Council, and staff congratulated Ms. Hatfield on her new position as the Business Manager. Ms. Werner-Robertson thanked Dr. DeFusco and Mr. Conley with the audit committee report. A copy of the Audit Committee's Report which was distributed to the Council is available on the Council's website.

OPERATING INVESTMENT POOL (OIP) REVIEW: 1:43 p.m. to 2:09 p.m. Mr. Garber and Mr. Spitznagel provided an update of the OIP which included a review of the monthly cash flow, OIP balance, and asset class breakdown. They discussed the stress test for monitoring possible risk(s) to the portfolio. Ms. Werner-Robertson thanked Mr. Garber and Mr. Spitznagel for doing a great job in handling the State's OIP. Ms. Werner-Robertson mentioned Governor Ricketts thanked them too. Dr. DeFusco, Mr. Conley, Mr. Dinkel, and Dr. Olson thanked Mr. Garber and Mr. Spitznagel for their hard work.

COUNCIL ADMINISTRATIVE REPORT: 2:09 p.m. to 2:17 p.m. Mr. Walden-Newman reported to the Council that the Fourth Quarter's General Budget Allocation fees were not taken. He also mentioned the NIC's 2021-2023 biennium budget request will be due September 15, 2020 and there will be no additional appropriation request.

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

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

Securities Lending Report: Mr. Jurich reviewed 1st quarter report included in the meeting materials.

PUBLIC COMMENT ON THE AGENDA: 2:17 p.m. to 2:18 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

NEXT MEETING: 2:18 p.m. to 2:19 p.m. Thursday, September 10, 2020 – La Vista Embassy Suites, Gatsby Conference Room, La Vista, NE.

At 2:19 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. Conley Dr. Olson Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel
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The motion carried.



Jennifer Hatfield, Secretary