

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
September 20, 2018**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the La Vista Embassy Suites, in La Vista, NE.

The Council members were notified of this meeting at the September 17, 2017, Council meeting. Public notice was posted on the Nebraska Public Meeting Calendar on July 31, 2018, and published in the Lincoln Journal Star on September 2, 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
Treasurer Don Stenberg
Ms. Cecelia M. Carter
Mr. Randy Gerke

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Max Kotary, Aon Hewitt
Ms. Sarah Gal, Aon Hewitt
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. John Robinson III, Kiewit

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 MAY 24, 2018, and JULY 19, 2018, MEETINGS: 8:31 a.m. to 8:32 a.m. Mr. Conley moved that the May 30, 2018, draft of the minutes of the May 24, 2018, meeting and the August 6, 2018, meeting, be approved as written. 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.

COUNCIL MEMBER BUSINESS: 8:32 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and thanked Mr. Walden-Newman and his staff on their work preparing for today's meeting. Ms. Werner-Robertson stated that today's meeting would include reports on CY18 2nd Quarter performance and 1st Quarter

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Alternative Investments performance. Ms. Werner-Robertson indicated that because the accounting for the CY18 Q3 Performance Report would not be completed in time for the November 19, 2018, Council meeting, the meeting has been re-scheduled for December 13, 2018.

INVESTMENT PERFORMANCE REPORT: 8:40 a.m. to 9:20 a.m. Mr. Kotary reviewed the 2nd Quarter 2018 Performance Review included in the meeting materials, commenting on the economic and market environment. Mr. Kotary's presentation also included performance review, fund monitoring, risk budgeting and fees. Mr. Kotary reported assets of nearly \$27.0 billion. Mr. Kotary reviewed the Alternative Investment Performance Supplement, as of March 31, 2018. Copies of the reports were included in the meeting materials. Mr. Kotary distributed copies of Aon Hewitt's Capital Market Assumptions and gave the following overview of Capital Market Assumption's 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 6.4% over a 10 year period and 6.5% forecast over 30 years. Mr. Kotary indicated that given the existing market conditions, lowering the actuarial assumed rate of return for the Defined Benefit Plan to 7.5% in July of 2017 and the Cash Balance Benefit Plan's actuarial assumed rate from 7.75% to 7.5% in January of 2018, increases the probability that these rates of return will be achieved. But given the existing market conditions, meeting or exceeding 7.5% is still likely to 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 an approximately 1 in 3 chance of meeting or exceeding the assumed rate of return of 7.5% over the next 10-to-30 years. A copy of the Capital Market Assumptions is included in the attachments to the minutes.

REAL ESTATE COMMITMENTS: 9:20 a.m. to 10:10 a.m. Ms. Sarah Gal, Senior Consultant, Aon Hewitt and Ms. JoLynn Winkler, Senior Portfolio Manager, Nebraska Investment Council, reviewed a fund being offered by Clarion Partners, Clarion Partners Lion Properties Fund. Clarion Partners registered as an investment advisor with the SEC in December 1981 and began operating in 1982. The Firm headquartered in New York, manages investment real estate throughout the U.S., Mexico, and Brazil on behalf of institutional investors globally. The Fund, Clarion Partners Lion Properties Fund (LPF) is a Core, open-end real estate fund with interests in a diversified portfolio of primarily institutional quality real estate assets located throughout the United States. Ms. Winkler provided background information on LPF and also gave an overview of the DB/CBB open-end core real estate funds, UBS, Prudential, and Barings. Ms. Winkler stated that Council staff is recommending for the Defined Benefit Plans and Cash Balance Benefit Plans a \$60 million commitment to Clarion Partners Lion Properties Fund subject to completion of a legal review and satisfactory agreement of terms. Also, Ms. Winkler stated that staff is recommending for the Defined Benefit Plans, Cash Balance Benefit Plans, and the Endowment Plans a full redemption of the Barings Core Property Fund and redeploy the proceeds in the Clarion Partners Lion Properties Fund. Ms. Gal discussed the investment merits and concerns associated with LPF and the Firm. Ms. Gal indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of LPF and supports Council staff's recommendations.

The Council took a break and reconvened at 10:20 a.m.

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REAL ESTATE COMMITMENTS –CONTINUED: 10:20 a.m. to 11:15 a.m.

Clarion Lion Properties Fund – Clarion Partners Presentation: Mr. Walden-Newman introduced Mr. Jeb Belford, Managing Director, Clarion Partners. Mr. Belford's presentation which was included in the meeting materials gave an overview of the firm, organization, investment strategy, performance, and discussed the current fund offering, Clarion Partners Lion Properties Fund.

Following the presentation and discussion by the Council, Mr. Dinkel moved that the Nebraska Investment Council (the Council) Defined Benefit Plans and Cash Balance Benefit Plans make a \$60 million commitment to Clarion Partners Lion Properties Fund subject to completion of a legal review and satisfactory agreement of terms; and that the Nebraska Investment Council (the Council) Defined Benefit Plans, Cash Balance Benefit Plans, and the Endowment Plans complete a full redemption of the Barings Core Property Fund and redeploy the proceeds in the Clarion Partners Lion Properties Fund. 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

The motion carried.

DIRECT LENDING: 11:15 a.m. to 11:55 a.m. Mr. Jurich, Senior Portfolio Manager gave an update on the Private Credit Blank Sheet review project that he and Mr. Sanders are leading. Council staff is proposing to restructure the Council's current public fixed income portfolio to include a 5% allocation to private credit. The Council had requested at the May 24, 2018, Council meeting additional information from a direct lending manager, Mr. Jurich introduced from Antares Capital, Mr. Matthew Liepert, Managing Director and Ms. Lauren Drach, Assistant Vice President. Their presentation which was included in the meeting materials gave an overview of direct lending discussing: 1) What it is; 2) Why does it exist; 3) Why is direct lending attractive to lenders/investors; 4) When did it all begin and how has it evolved; 5) Where can investors and managers play; 6) Use of leverage.

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

NPERS REPORT: 12:25 p.m. to 12:35 p.m. Mr. Gerke thanked the Council and staff for their assistance and help during the past year as newly appointed NPERS' Director. Mr. Gerke discussed the recent audit reports for the State and County Plans. Mr. Gerke indicated that NPERS is busy with legislative activity; reporting that Council staff is currently reviewing with NPERS the investments options within the Defined Contribution and Deferred Compensation Plans. An RFP for actuarial services is currently out.

STATE TREASURER'S REPORT: 12:35 p.m. to 12:45 p.m. Treasurer Stenberg discussed recent activities of the College Savings Program. Treasurer Stenberg reported total assets of the Nebraska Educational Savings Trust (NEST) of over \$5.0 billion, with over 260,000 accounts. SavingforCollege.com ranks both the NEST Direct Plan and the NEST Advisor Plan in the top 10 performing 529 plans. Treasurer Stenberg discussed with the Council the recent audit report of his office and indicated that he would be appearing before the Legislature's Appropriation Committee regarding it.

AUDIT COMMITTEE REPORT: 12:45 p.m. to 12:55 p.m. Dr. DeFusco and Mr. Conley, Audit Committee members, had met with Ms. Schlautman, Internal Auditor via conference call on September 11, 2018. A copy of the Audit Committee Report which was distributed to the Council is included in the meeting materials and will be posted on the Council's website.

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COUNCIL ADMINISTRATIVE REPORT: 12:55 p.m. to 1:13 p.m.

SIO Report

Staff Advisory Board Memberships: Mr. Walden-Newman and the Council reviewed the Advisory Board's list included in the meeting materials that the Council is currently a member. They discussed the pros and cons of serving on these boards. Mr. Walden-Newman informed the Council that staff from NPERS, the Legislature, and the Council are reviewing the current options offered in the Defined Contribution and Deferred Compensation Plans to see if any enhancements are needed. Mr. Walden-Newman reported that the agency's 2019-2021 Biennial Budget request was submitted on September 12, 2018. Mr. Walden-Newman also reported that the report on the Sustainability of the Health Care Transfer was filed with the Legislature on September 19, 2018.

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

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

Proxy Voting: A copy was included in the meeting materials.

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

2019 Council Meetings: The Council decided on the following meeting dates for 2019, start time 8:30 a.m.:

February 14, 2019	Lincoln
March 14, 2019	Lincoln
June 13, 2019	La Vista
July 11, 2019	Retreat/Ashland
September 12, 2019	La Vista
December 19, 2019	Lincoln

PUBLIC COMMENT ON THE AGENDA: 1:13 p.m. to 1:14 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: 1:14 p.m. to 1:15 p.m. Thursday, December 13, 2018 – La Vista Embassy Suites, Wingtip Conference Room, La Vista, NE.

CLOSED SESSION TO DISCUSS SIO EVALUATION: At 1:15 p.m. Dr. DeFusco moved that the Council enter into closed session for the following: The subject matter is the SIO evaluation. The reason for the closed session is to protect the reputation of the State Investment Officer.

Mr. Conley 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.

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

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At 1:25 p.m. Mr. Walden-Newman left the meeting.

At 1:50 p.m. Mr. Dinkel 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. Olson Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel Mr. Conley
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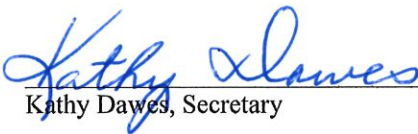
The motion carried.

Mr. Dinkel moved that the annual salary of the State Investment Officer be increased by 1.50%, effective January 1, 2019. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

At 1:50 p.m. Mr. Olson 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 Mr. Olson
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The motion carried.



Kathy Dawes, Secretary