

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

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 April 16, 2014, and published in the Lincoln Journal Star on May 11, 2014. Dr. DeFusco chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Dr. Richard DeFusco  
Mr. John Maginn  
Mr. John Dinkel  
Mr. John Conley (departed at 12:15 p.m.)  
Treasurer Don Stenberg  
Ms. Phyllis Chambers

**MEMBERS ABSENT:**

Ms. Gail Werner-Robertson

**NONMEMBERS IN ATTENDANCE:**

Mr. Jeff States, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Chris Sanders, Nebraska Investment Council  
Mr. Max Kotary, Hewitt EnnisKnupp  
Mr. Mike Comstock, Hewitt EnnisKnupp  
Ms. Nancy Williams, Hewitt EnnisKnupp  
Ms. Karen Rode, Hewitt EnnisKnupp  
Mr. Bruce Ingram, Hewitt EnnisKnupp

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m.** Dr. DeFusco 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 25, 2014 MEETING: 8:37 a.m. to 8:39 a.m.** Mr. Maginn moved that the April 9, 2014, draft of the minutes of the March 25, 2014, meeting be approved as written. Mr. Conley seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:	Dr. DeFusco Mr. Maginn Mr. Dinkel Mr. Conley
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ABSENT NOT VOTING:	Ms. Werner-Robertson
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The motion carried.

**COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:43 a.m.** Dr. DeFusco welcomed everyone to the meeting. Dr. DeFusco informed the Council that Ms. Werner-Robertson was unable to attend today's meeting and that she had requested that Dr. DeFusco chair today's meeting. Dr. DeFusco updated the Council on the status of the SIO search. Dr. DeFusco indicated that the SIO Search Committee had recently met with the search consultant, Gary Hudepohl of Hudepohl and Associates. Dr. DeFusco stated that there would be a change to the agenda presentation order with Mr. John Raymond, Energy & Mineral Group presenting at the beginning of agenda item #7, Private Equity.

**1<sup>ST</sup> QUARTER 2014 PERFORMANCE REPORT: 8:43 a.m. to 9:20 a.m.** Mr. Kotary and Mr. Comstock

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

reviewed with the Council the current market conditions and discussed the 1<sup>st</sup> Quarter 2014 Performance Report included in the meeting book. They reported total assets under management of \$20.9 billion. The report also included risk budgeting and investment management fees.

**GLOBAL FIXED INCOME PORTFOLIO STRUCTURE REVIEW:** At the March 25, 2014, Council meeting the Council had requested that the SIO and HEK provide additional information on possible managers to manage the global fixed income portfolio for the DB/CBB Plans, currently being managed by Rogge Global Partners. Mr. Kotary and Mr. Comstock's presentation which was included in the meeting book discussed four global bond managers on HEK's "Buy" list: Goldman Sachs, Loomis Sayles, PIMCO, and Wellington Management Company, LLP. Their presentation profiled the four global aggregate bond strategies in comparison to Rogge Global Partners. Mr. States indicated that the SIO and HEK recommend that the Council approve Wellington Management Company, LLP as the investment manager of the global fixed income portfolio for the DB/CBB Plans.

**Global Fixed Income Manager Alternatives**

Mr. States introduced from Wellington Management Company, LLP, Mr. Danny Sharp, Partner, Director of Midwest Region and Business Development Mgr., Mr. Edward Meyi, Vice President and Fixed Income Portfolio Manager, and Mr. Brian Doherty, Vice President and Investment Director, Fixed Income Product Mgmt. Their presentation which was included in the meeting book provided an overview of the firm, investment strategy, the management team, performance and terms. Following the presentation Mr. Maginn moved to terminate Rogge Global Partners and select Wellington Management Company, LLP to manage the global fixed income portfolio for the DB/CBB Plan, and authorize the State Investment Officer to take all action necessary to implement this resolution, including execution of an investment management agreement with Wellington Management Company, LLP, subject to legal review by the Council's attorney. Mr. Conley seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:	Mr. Maginn Mr. Dinkel Mr. Conley Dr. DeFusco
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ABSENT NOT VOTING:	Ms. Werner-Robertson
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The motion carried.

The Council took a break and reconvened at 10:45 a.m.

**PRIVATE EQUITY: 10:45 a.m. to 12:50 p.m.**

Ms. Karen Rode introduced Mr. Bruce Ingram, Partner. Mr. Ingram recently joined Hewitt EnnisKnupp from General Electric and is a member of the private equity team. Ms. Rode and Mr. Ingram reviewed the 4<sup>th</sup> Quarter 2013 Performance Report included in the meeting book. Their presentation included a review of the program, pacing and a private equity outlook. Ms. Rode and Mr. Ingram reviewed with the Council a new fund being offered by The Energy & Minerals Group (EMG). The firm located in Houston, TX is a natural resources manager. The fund The Energy & Minerals Group Fund III, L.P. (Fund III) will focus on midstream assets, minerals, and oil and gas. Ms. Rode indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of EMG and Fund III. Mr. Ingram discussed the investment merits and concerns associated with the Firm. Mr. States indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$30 million to The Energy & Minerals Group Fund III, L.P. on behalf of the DB/CBB Plans. A copy of the presentation is included in the attachments to the minutes.

**New Commitment The Energy & Minerals Group Fund III:** Mr. States introduced Mr. John Raymond, Co-Founder, CEO and Managing Partner. Mr. Raymond's presentation included an overview of the firm, investment strategy, performance, and the team. A copy of the presentation was included in the meeting book.

Following the presentation by The Energy & Minerals Group and discussion by the Council, Mr. Dinkel moved to commit up to \$40 million from the Defined Benefit Plans and Cash Balance Benefit Plans to The Energy & Minerals Group Fund III, L.P., subject to legal review of the Limited Partnership Agreement by counsel provided

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

by Hewitt EnnisKnupp and by the Council's attorney. Mr. Maginn seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:                   Mr. Dinkel  
  Mr. Conley  
  Dr. DeFusco  
  Mr. Maginn

ABSENT NOT VOTING:        Ms. Werner-Robertson

The motion carried.

**Private Equity Fund of Funds Portfolio Review:** Mr. States discussed making a commitment for the General Endowments and the HealthCare Endowment Fund. The last commitment made for these funds was in 2012. Mr. States stated that the two NIC fund of funds managers, RCP and Abbott by strategy complement each other and give us small to larger-cap diversification by vintage year across a range of industries and geographically. Mr. States indicated that we need to maintain a steady pace of commitments to have a well-diversified portfolio of investments for these funds. Mr. States indicated that the SIO recommends that the Council make an additional \$20 million commitment to Abbott Capital Private Equity Fund VII, L.P (ACE VII).

Mr. States introduced from Abbott Capital Management, LLC, Mr. Jonathan Roth Managing Director and Ms. Mona Marquardt, Principal, Investor Relations and Client Services. Mr. Roth and Ms. Marquardt's presentation which was included in the meeting book discussed the organization, strategies, processes, the NIC existing investments in Abbott Capital Private Equity Fund V and Abbott Capital Private Equity Fund VI and their current fund offering, Abbott Capital Private Equity Fund VII, L.P. (ACE VII). Following the presentation by Abbott Capital, Mr. Maginn moved to commit \$20 million from the General Endowments and the HealthCare Endowment Fund to Abbott Capital Private Equity Fund VII, subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Conley seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:                   Mr. Conley  
  Dr. DeFusco  
  Mr. Maginn  
  Mr. Dinkel

ABSENT NOT VOTING:        Ms. Werner-Robertson

The motion carried.

Mr. Conley left the meeting at 12:15 p.m.

The Council took a break and reconvened at 1:05 p.m.

**UNIVERSITY FUND N ANNUAL REVIEW: 1:05 p.m. to 1:20 p.m.** Mr. States introduced from the University of Nebraska Foundation, Mr. Jason Kennedy, Sr. Vice President, Chief Financial Officer and Treasurer. Mr. Kennedy reviewed the University of Nebraska-Fund N Report included in the meeting book.

**STATE TREASURER'S REPORT: 1:20 p.m. to 1:30 p.m.** Treasurer Stenberg provided information on the current custody bank contract with State Street Bank. The State Treasurer is responsible for the custody bank services provided to the Nebraska Investment Council (NIC) for all of the State's investments. State Street Bank was selected in 2007 to provide custody bank services to the NIC after the completion of an RFP. The contract was renewed in 2013 for a period of two years and will end on June 30, 2015. Treasurer Stenberg who plans to issue an RFP discussed the RFP process with the Council. The Treasurer, NIC, and HEK are working together to prepare the RFP, which should be released this summer. A draft copy of the RFP was included in the meeting

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

book.

**NPERS DIRECTOR'S REPORT: 1:30 p.m. to 1:50 p.m.** Ms. Chambers distributed pages from the actuarial report for the State and County Cash Balance Plans, which indicates that the County Cash Balance Plan meets the Board's criteria to grant a dividend; but that the State Cash Balance Plan does not. Ms. Chambers also distributed copies and discussed the Investment Return & Risk Report Snapshot for the Deferred Compensation Plan prepared by Mass Mutual. Ms. Chambers informed the Council that a presentation on the modeling software and rate of return will be presented by the actuaries at the July 16, 2014, PERB Retreat at Quarry Oaks. The Council is invited to attend the PERB Retreat. Copies of the handouts are included in the attachments to the minutes.

**ANNUAL HEALTH CARE TRANSFER: 1:50 p.m. to 2:05 p.m.** Mr. States reviewed the Health Care Endowment Fund Report included in the meeting book. The Health Care Endowment Fund (an adjusted market value of \$432.945 million on 3/31/14; this adjusted amount includes a market value of \$395.612 million on 3/31/14 and subsequent Tobacco contributions of \$37.333 million in April 2014), includes two separate accounts within the Fund: the NE Medicaid Intergovernmental Trust Fund (\$86.293 million, 19.9% of the total fund) and the NE Tobacco Settlement Trust Fund (\$346.652 million, or 80.1% of the total fund). Mr. States recommends that 19.9% of the July 15, 2014 distribution be taken from the NE Medicaid Intergovernmental Trust Fund and that 80.1% of the distribution be taken from the NE Tobacco Settlement Trust Fund.

Currently Nebraska Revised Statute § 71-7611 states "The State Treasurer shall transfer sixty million one hundred thousand dollars annually no later than July 15, 2014 from the Fund". "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity." The Council discussed the Fund and expressed its continued concern about the sustainability of the Health Care Endowment Fund as long as the annual distributions (transfers) continue to exceed the contributions.

Following discussion by the Council, Mr. Dinkel made the following motion: I move that in accordance with Nebraska Revised Statute § 71-7611, the State Investment Officer advise the State Treasurer to transfer from the depleting Health Care Endowment Fund, 19.9% of the \$60.100 million statutorily authorized annual payment (or \$11.979 million) from the Nebraska Medicaid Intergovernmental Trust Fund and 80.1% of the payment (or \$48.121 million) from the Nebraska Tobacco Settlement Trust Fund. The State Investment Officer is to include in the letter a statement and information showing how the current level of transfers from the Health Care Endowment Fund will result in it not being sustainable. Mr. Maginn seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:	Dr. DeFusco Mr. Maginn Mr. Dinkel
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ABSENT NOT VOTING:	Ms. Werner-Robertson Mr. Conley
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The motion carried.

**AUDIT COMMITTEE REPORT: 2:05 p.m. to 2:10 p.m.** Mr. Maginn stated that he and Dr. DeFusco, Audit Committee members, had met with the new Internal Auditor, Ms. Joyce Schlautman after the March 26, 2014, Council meeting. Dr. DeFusco reported that the Auditor of Public Accounts (APA) is conducting an agency audit and also doing CAFR testing. Mr. Maginn and Dr. DeFusco will be meeting the APA's staff following today's meeting. A copy of the Audit Committee Report was distributed to the Council and is included in the attachments to the minutes.

**RECEIPT OF LEGAL ADVICE FROM COUNSEL RELATED TO SECURITIES FRAUD CLAIM: 2:10 p.m. to 2:13 p.m.** Mr. Heinrich updated the Council on the status of the BP lawsuit and will give additional updates to the Council as information is received.

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

**RECEIPT OF LEGAL ADVICE REGARDING ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 2:10 p.m. to 2:33 p.m.** At 2:10 p.m. Mr. Maginn made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading Company against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Mr. Dinkel seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:                   Dr. DeFusco  
  Mr. Maginn  
  Mr. Dinkel

ABSENT NOT VOTING:        Mr. Conley  
  Ms. Werner-Robertson

The motion carried.

Dr. DeFusco requested that only the voting and non-voting members of the Council, Mr. States and Mr. Heinrich be present and all others in attendance were excused.

At 2:33 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Maginn seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:                   Mr. Maginn  
  Mr. Dinkel  
  Dr. DeFusco

ABSENT NOT VOTING:        Ms. Werner-Robertson  
  Mr. Conley

The motion carried.

**STATE INVESTMENT OFFICER'S REPORT: 2:33 p.m. to 2:54 p.m.**

**Legislative Update:** Mr. States reviewed legislation recently passed and signed by the Governor which directly affects the NIC. Two bills LB 713 and LB 918 were amended into LB 759. The provisions from LB 713 increase from \$1 million to \$6 million the maximum amount of time deposit open accounts available to a banks, capital stock financial institutions and qualifying mutual financial institutions willing to meet the rate and other requirements of the Nebraska Capital Expansion Act. LB 918 removes the requirement that the stable value investment strategy offered in the County and State Employees Defined Contribution Plans include a guaranteed investment contract.

**Agency Budget Update:** Mr. States reviewed the Agency's April 30, 2014, Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

**Securities Lending Quarterly Report:** Mr. States reviewed the Quarterly Securities Lending Report included in the meeting book.

**IMAs Executed Since Last Meeting:** Mr. States reported completion of the Turner Investments transfer to DFA. The Landmark Real Estate fund documentation has also been completed. Mr. States indicated that the bank loan agreement with Franklin Templeton has been set-up as a separate account and that the Loomis Sayles bank loan agreement should be completed by the end of the fiscal year. The annual Harding & Shultz contract for legal services has been executed and a copy of the contract will be sent to Council members.

**Upcoming Staff Travel:** Mr. States reported that staff will be attending private equity and real estate conferences in the upcoming months.

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
May 20, 2014**

**Action Plan:** The annual Council Retreat will be held at Quarry Oaks, Ashland, NE on July 15, 2014, beginning at 8:30 a.m. The August 26, 2014, Council meeting will begin at 8:30 a.m. at the Hilton Garden Inn Omaha West, Salon A Conference Room, Omaha, NE.

**PUBLIC COMMENT ON THE AGENDA: 2:54 p.m. to 2:55 p.m.** Dr. DeFusco asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:55 p.m. Mr. Maginn moved to adjourn the meeting. Mr. Dinkel seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:	Dr. DeFusco Mr. Maginn Mr. Dinkel
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ABSENT NOT VOTING:	Mr. Conley Ms. Werner-Robertson
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The motion carried.

  
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Kathy Dawes, Secretary