

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
July 15, 2014**

An Investment Educational Retreat of the Nebraska Investment Council convened on July 15, 2014, at 8:38 a.m. at the Quarry Oaks Golf Club, Ashland, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on June 15, 2014, and published in the Lincoln Journal Star on July 6, 2014. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. John Conley
Treasurer Don Stenberg
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Max Kotary, Hewitt EnnisKnupp
Mr. Mike Comstock, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Ms. Catherine Polleys, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. Bruce Ingram, Hewitt EnnisKnupp
Ms. Kathy Tenopir, Legislative Fiscal Office
Mr. Gary Bush, AS State Budget Office
Ms. Janis Elliott, Public Employees Retirement Board

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:39 a.m. to 8:40 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: 8:40 a.m. to 8:45 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and thanked everyone for their time in attending this meeting. Ms. Werner-Robertson thanked Mr. States on the work done arranging for today's presentations. Mr. States also thanked the HEK consultants on assisting with the agenda.

Ms. Werner-Robertson stated that today's meeting would include:

- Mr. States' Annual Review/Council Governance Review
- Current Overview of Program, Asset Allocation, and Investment Structure by HEK
- Real Estate Asset Class Review by HEK and Real Estate Panel Discussion
- Presentation by PIMCO on the "New Neutral"
- Private Equity Asset Class Review by HEK and Private Equity Panel Discussion
- General Business Session

COUNCIL GOVERNANCE AND STATE INVESTMENT OFFICER REVIEW: 8:45 a.m. to 10:17 a.m. At 8:45 a.m. Dr. DeFusco moved that the Council enter into closed session for the following: The subject matter is the evaluation of the job performance of the State Investment Officer. The reason for the closed session is to

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protect the reputation of the State Investment Officer.

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

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

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

At 9:35 a.m. Mr. Dinkel moved that the Council return to open session. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

At 9:36 a.m. Mr. Maginn moved that the Council enter into closed session for the following: The subject matter is the self-assessment of the members of the Nebraska Investment Council. The reason for the closed session is to protect the reputation of the members of the Nebraska Investment Council.

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

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

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

At 10:16 a.m. Mr. Maginn 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 Ms. Werner-Robertson Dr. DeFusco Mr. Maginn Mr. Dinkel
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The motion carried.

Mr. Dinkel moved that the annual salary of the State Investment Officer be increased by 3.50%, effective July 1,

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2014. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

At 10:17 a.m. the Council took a break and reconvened at 10:30 a.m.

CURRENT OVERVIEW OF PROGRAM, ASSET ALLOCATION, AND INVESTMENT STRUCTURE: 10:30 a.m. to 10:55 a.m. Mr. Kotary and Mr. Comstock's presentation which was included in the meeting book discussed HEK's capital market assumptions and projected returns; and gave an overview of the asset allocation of the NIC's Defined Benefit Plan. Information on a NIC peer group was also presented. The report included asset allocation; rates of return and investment performance. Following the presentation, Mr. Maginn requested that HEK provide model asset allocations to achieve the actuarial 8% rate of return.

THE REAL ESTATE ASSET CLASS/RE PANEL DISCUSSION/OPEN CONVERSATION: 10:55 a.m. to 12:20 p.m. Ms. Polleys and Mr. Rose's presentation which was included in the meeting book reviewed the NIC's real estate program for the DB/CBB Plans. Ms. Polleys and Mr. Rose discussed the four objectives stated in the Real Estate Investment Policy:

- Diversification with Other Asset Classes
- Potential Inflation Hedge
- Current Income & Appreciation
- Return Enhancement

A review of the current portfolio construction, pacing, expanded real estate allocation consideration, style allocations, cap rates, risk premiums & opportunity was also discussed. The Council indicated its desire to continue with the four objectives and the current role of real estate in the asset allocation. The mix of core/non-core strategies should be part of the regular pacing discussion.

Following their presentation three of the NIC's current real estate managers discussed their funds investment philosophy, strategy and opportunities, and answered questions from the Council. The panel included Ms. Terri Herubin, Portfolio Manager, Cornerstone Patriot Fund (Core), and joining the discussion via teleconference, Mr. Darin Bright, Portfolio Manager, Prudential PRISA II (Core-Plus) and Mr. Peter Falco, Co-Managing Partner, Rockwood Capital (Value Added).

At 12:20 p.m. the Council took a break and reconvened at 12:40 p.m.

THE NEW NEUTRAL: 12:40 p.m. to 1:30 p.m. Mr. States introduced from PIMCO, Mr. Michael Chandra, Senior Vice President and Account Manager, Mr. Curtis A. Mewbourne, Managing Director and Head of Portfolio Management, and Ms. Sasha Talcott, Vice President and Account Manager. Their presentation discussed PIMCO's secular forecast of the economic outlook for growth, inflation, and interest rates for the next five years. A copy of the presentation was included in the meeting book.

THE PRIVATE EQUITY ASSET CLASS/PE PANEL DISCUSSION/OPEN CONVERSATION: 1:30 p.m. to 3:25 p.m. Ms. Rode and Mr. Ingram's presentation which was included in the meeting book discussed the following:

- Private Equity Investment Policy and Target Review
- Allocation and Pacing Discussion
- Private Equity Performance

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Following their presentation four of the NIC's current private equity general partners discussed the current market environment; the secondary market for LP's; trends in fee structure; industry and strategy; diversification and portfolio construction; and their funds' best and worst deal. The panel included Mr. Tom Danis, Jr., Managing Principal, RCP (small-middle market buyout and growth fund of funds); Mr. Matt Cwiertnia, Senior Partner, Ares Management (small-middle market buyout and special situation fund); Mr. Michael Taylor, Senior Partner, HarbourVest Partners (secondary fund manager); and Mr. Patrick Fallon, Senior Partner, Accel-KKR (small cap buy-out and growth fund).

At 3:25 p.m. the Council took a break and reconvened at 3:35 p.m.

GENERAL BUSINESS SESSION: 3:35 p.m. to 4:24 p.m.

2015-2017 Budget Overview: Mr. States reviewed with the Council the budget process for the 2015-2017 biennium budget request and identified possible issues that will be a part of the request.

Recommendations on Mass Mutual Investment Options Changes:

Mr. States informed the Council that at the June 2014 Public Employees Retirement Board (PERB) meeting a representative from Mass Mutual gave a review of the Deferred Compensation Program (DCP) and proposed changes in the investment options for 4 of the 28 funds. Mr. States indicated that prior to that meeting he and HEK had reviewed Mass Mutual's suggestions and that he presented his recommendations to the PERB at the June 2014 meeting and is making those recommendations to the Council at today's meeting. Following discussion by the Council Mr. Conley made the following motion: (1) Remove the Davis NY Venture Fund from the plan options and transfer the assets to the Hartford Capital Appreciation Fund; (2) Remove the AllianceBernstein International Value Fund from the plan options and transfer the assets to the Templeton Foreign Fund; and (3) That the Goldman Sachs Mid Cap-Value Fund and the Hartford Total Return Bond Fund not be removed, and continue to be monitored. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

Robb Evans & Assoc. (Receiver for WG Trading) vs. NIC:

At 3:55 p.m. Mr. Maginn moved to enter 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. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn Mr. Dinkel Mr. Conley 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. States, Mr. Heinrich, and Mr. Jurich be present and all others in attendance were excused.

At 4:12 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Dr. DeFusco made the following motion: I move to approve a conditional settlement of the lawsuit filed by Robb Evans & Associates, as Receiver, on behalf of WG Trading Company, Limited Partnership (and related entities), against the Nebraska Investment Council. The Receiver filed similar but separate lawsuits against other investors in WG Trading. The lawsuit against the NIC was filed by the Receiver on August 17, 2010, in the Supreme Court of the State of New York County of New York. The lawsuit alleges that the principals of WG Trading operated the company as a Ponzi scheme, converting investor funds for their personal benefit. The lawsuit further alleges that the NIC received fictitious investment profits in the amount of \$12,050,802. The NIC withdrew from the investment in 2004. The NIC denies many of the allegations in the Receiver's Complaint. The NIC had no knowledge about the unscrupulous actions of the principals of WG Trading, and the Receiver does not allege that the NIC had any such knowledge. The NIC strongly denies it has an obligation to repay the profits. Even though the NIC is confident of its legal position in this matter, litigation involves uncertainty, risk and legal costs. The NIC believes the proposed settlement is in the best interests of its stakeholders. The Receiver and the NIC have reached a conditional agreement to settle all claims related to the lawsuit. As part of the settlement: (i) the NIC will pay to the Receiver \$800,000, (ii) the Receiver will dismiss the lawsuit, and (iii) each party will release all claims against the other party arising out of the investment. This settlement is subject to approval by the court having jurisdiction over the lawsuit and the courts having jurisdiction over the Receiver. The NIC's legal counsel has advised the NIC that this settlement has been approved by the Nebraska Attorney General. I further move to authorize the State Investment Officer, to finalize, negotiate, settle and compromise any remaining terms and conditions of the settlement on behalf of the Council, and to execute and deliver all documents related thereto on behalf of the Council, including a settlement agreement and mutual release of claims. Upon execution of the settlement documents by all parties, a copy of the signed settlement documents shall be a public record. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

Report of the SIO Search Committee: Dr. DeFusco updated that Council on the status of the SIO Search.

PUBLIC COMMENT ON THE AGENDA: 4:24 p.m. to 4:25 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 4:25 p.m. Mr. Maginn moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.


Kathy Dawes, Secretary