

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
July 17, 2012**

An Education and Policy Review Retreat of the Nebraska Investment Council convened on July 17, 2012, at 8:40 a.m. at the Quarry Oaks Golf Club, Ashland, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on June 22, 2012, and published in the Lincoln Journal Star on July 8, 2012. 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 (departed at 4:00 p.m.)  
Mr. John Dinkel  
Mr. John Conley (departed at 2:35 p.m.)  
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  
Ms. Laurel Nicholson, Hewitt EnnisKnupp  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Rob Parkinson, Hewitt EnnisKnupp  
Mr. Gary Bush, AS State Budget Office  
Ms. Kate Allen, Nebraska Retirement Systems

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:40 a.m. to 8:41 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 PURPOSE OF MEETING: 8:41 a.m. to 8:47 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson introduced Mr. John H. Conley who was appointed to the Council by Governor Heineman to fill the vacancy of Mr. Norm Riffel, who recently resigned. The Council would like to thank Mr. Riffel for his service to the Council and to the State of Nebraska. Ms. Werner-Robertson stated that the Council looks forward to Mr. Conley sharing his knowledge and input. Mr. Conley is President and Chief Executive Officer of Conley Investment Counsel, Inc., located in Omaha, NE. Mr. Conley stated that he comes from a 6<sup>th</sup> generation Nebraska family. Mr. Conley graduated from Nebraska Wesleyan and previously worked for Mutual of Omaha and Kirkpatrick, Pettis, Smith, Polian before he founded Conley Investment Counsel, Inc., 27 years ago.

Ms. Werner-Robertson stated that the Retreat with no action items on the agenda provides the Council with the opportunity to focus on asset allocation, different strategies, and the global economic outlook during these challenging times.

Ms. Werner-Robinson stated that Mr. States' annual review will be done at the August 23, 2012, Council meeting.

**OVERVIEW OF THE DAY'S PROGRAM: 8:47 a.m. to 8:50 a.m.** Mr. States indicated that several investment management firms will be presenting their global outlook for equities and bonds and suggest investment strategies and securities to diversify economic and market risk in order to achieve a good risk adjusted return. Also on the agenda is discussion by HEK on additional real estate and private equity opportunities, follow-up on alternative investment strategies that would generate a greater current yield for the endowments and trusts, a GASB update by Ms. Chambers, and discussion on the agency's budget request.

**FORWARD LOOKING GLOBAL MARKET FORECASTS AND THOUGHTS ON IMPLEMENTATION**

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**(BROAD MANDATES vs. FOCUSED MANDATES): 8:50 a.m. to 9:50 a.m.** Mr. States introduced from GMO. Mr. Edmund Bellord, a member of GMO's Asset Allocation Team and Mr. Peter Nolan, a member of GMO's Client Relationship Team. Their presentation provided a forecast for the next seven years of the global market and thoughts on the use of broad global manager mandates vs. focused mandates as the best portfolio asset allocation to take advantage of investment opportunities. A copy of the presentation was included in the meeting book.

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

**THE CASE OF CREDIT OPPORTUNITIES: 10:10 a.m. to 11:10 a.m.** Mr. States introduced from Marathon Asset Management, Mr. Bruce Richards, Co-Managing Partner & Chief Executive Officer, and Mr. James Atwater, Managing Director. Their presentation which was included in the meeting book discussed the opportunities that exist in credit to achieve better returns than are available from investment grade bonds and public equity markets. The credit opportunities asset class includes securities such as distressed credit, high yield bonds, senior bank loans and mortgage backed securities.

**ALTERNATIVE STRATEGIES FOR PASSIVE (INDEX) STRATEGIES FOR EQUITY AND FIXED INCOME: 11:10 a.m. to 11:45 a.m.** Mr. States introduced from BlackRock, Mr. Trey Heiskell, CFA, Managing Director, and member of BlackRock's Global Client Group and Mr. John Pirone, CFA, Managing Director, and member of BlackRock's Multi-Asset Client Solutions Group. Their presentation discussed alternatives to capitalization weighted passive benchmarks for equity investing and for customized benchmarks in fixed income with less emphasis on government debt. A copy of the presentation was included in the meeting book.

**REAL ASSETS - THE THIRD LEG OF THE STOOL: 11:45 a.m. to 12:15 p.m.** Mr. States introduced from J.P. Morgan, Mr. Michael Hudgins, Global Real Estate Strategist and Mr. Jim Sakelaris, Client Advisor. Their presentation which was included in the meeting book discussed what opportunities are available investing in real assets, which includes real estate and other alternatives such as commodities, timber and infrastructure.

At 12:15 p.m. the Council took a break and reconvened at 12:30 p.m.

**INVESTMENT MANAGER ROUNDTABLE, ACTIVE VS. PASSIVE MANAGEMENT CAN ACTIVE STRATEGIES ADD VALUE?: 12:30 p.m. to 1:15 p.m.** The representatives from GMO, BlackRock, Marathon Asset Management and J. P. Morgan presented their views on how their strategies can fit in a diversified portfolio.

At 1:15 p.m. the Council took a break and reconvened at 1:20 p.m.

**OPTIMAL ASSET ALLOCATION – A CLEAN SLATE APPROACH FOR THE RETIREMENT FUND INVESTMENTS: 1:20 p.m. to 2:35 p.m.** Mr. Kotary gave a presentation discussing the current asset allocation of the Defined Benefit Plans and what if any changes HEK would recommend for a more optimal asset allocation. A copy of the presentation was included in the meeting book.

Mr. Conley left the meeting at 2:35 p.m.

**ADDITIONAL OPPORTUNITIES IN REAL ESTATE AND PRIVATE EQUITY: 2:35 p.m. to 2:50 p.m.** Mr. Kotary and Mr. Parkinson, HEK, discussed what opportunities the Council might consider to improve the investment returns in alternative investments. A copy of their presentation was included in the meeting book.

At 2:50 p.m. the Council took a break and reconvened at 3:10 p.m.

**INCREASING INCOME: 3:10 p.m. to 3:45 p.m.** Ms. Nicholson, Mr. Kotary, and Mr. States discussed what options are available for the endowments and trusts to increase income generation. Options discussed included (1) leave the structure and allocation as is; (2) increasing the yield within the current asset allocation framework; or (3) changing the asset allocation. The Council requested information on what the current yield is and the total earned. A copy of the presentation was included in the meeting book.

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**GASB UPDATE: 3:45 p.m. to 3:50 p.m.** Ms. Chambers provided information on GASB's newly adopted guidelines on the way state and local governments report their pension liabilities and expenses. Ms. Chambers indicated that more information will be coming soon and will be provided to the Council when she receives it.

**STATE BUDGET PROCESS: 3:50 p.m. to 4:00 p.m.** Mr. States discussed the draft of the narrative for the FY2013-2015 State budget request, which was included in the meeting book. The draft is due to the State Budget office by August 3, 2012 and the complete budget request is due by September 15, 2012. Additional information will be provided to the Council at the August 23, 2012, Council meeting.

Mr. Maginn left the meeting at 4:00 p.m.

**END OF DAY REVIEW: 4:00 p.m. to 4:08 p.m.** Mr. States reviewed the day's presentations and discussed possible topics to include in upcoming meetings.

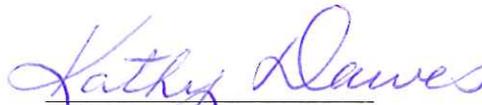
**PUBLIC COMMENT ON THE AGENDA: 4:08 p.m. to 4:09 p.m.** Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 4:10 p.m. Mr. Dinkel moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

  
Kathy Dawes, Secretary