

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
September 24, 2013**

A regular meeting of the Nebraska Investment Council convened at 8:33 a.m. at the Courtyard by Marriott Hotel in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on September 4, 2013, and published in the Lincoln Journal Star on September 16, 2013. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson (departed at 1:36 p.m.)  
Dr. Richard DeFusco  
Mr. John Maginn  
Mr. John Dinkel (arrived at 8:40 a.m.)  
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  
Ms. Karen Rode, Hewitt EnnisKnupp  
Mr. Michael Zaun, Hewitt EnnisKnupp  
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. Christopher Sanders, Nebraska Investment Council  
Ms. Rachel Biar, Nebraska State Treasurer Office  
Mr. Gary Bush, AS Budget  
Ms. Brenna Rothwell, UNMC Nursing

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:34 a.m. to 8:35 a.m.** Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

**APPROVAL OF THE MINUTES OF THE AUGUST 27, 2013 MEETING: 8:35 a.m. to 8:36 a.m.** Mr. Maginn moved that the September 12, 2013, draft of the August 27, 2013 meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

**COUNCIL MEMBER BUSINESS: 8:36 a.m. to 8:41 a.m.** Ms. Werner-Robertson informed the Council that due to traffic being backed up on the interstate, Mr. Dinkel would be arriving shortly. Ms. Werner-Robertson also stated that she would be leaving early due to another commitment and that Dr. DeFusco would serve as chair at that time. Ms. Werner-Robertson stated that today's meeting would include follow-up discussion on the asset allocation and fixed income, and a presentation on a possible new private equity commitment.

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Mr. Dinkel joined the meeting at 8:40 a.m.

**STRATEGIC ASSET ALLOCATION POLICY FOLLOW-UP/PEER UNIVERSE COMPARISON INCLUDING NEIGHBORING STATES: 8:41 a.m. to 9:55 a.m.** At the August 27, 2013 Council meeting's discussion on asset allocation the Council had requested additional information on the retirement plans of neighboring states. The criteria used by Mr. Kotary, Hewitt EnnisKnupp to select the members of the peer group were based on the following:

- Assets between \$5 - \$20 billion
- State-wide funds
- Open DB plans
- Membership that includes teachers
- Additional "Neighbor Funds"

Mr. Kotary also presented several policy scenarios focusing on the expected rate of return and risk characteristics of each and the lack of acceptable options for achieving an 8% return. Following extensive discussion by the Council a decision was made to delay making any changes at this time until additional return and risk information could be considered. The Council did decide to focus more on real estate and requested additional information be provided. A copy of the presentation was included in the meeting book.

**ACTIVE DB/CBB FIXED INCOME MANAGER INVESTMENT GUIDELINE COMPARISON: 9:55 a.m. to 10:18 a.m.** Mr. Kotary's presentation which was included in the meeting book compared possible changes to the fixed income manager's investment guidelines discussed at the August 27, 2013, meeting. Following discussion by the Council Mr. Maginn made the following motion; I move that the following changes be made to the fixed income manager's investment guidelines:

- (1) PIMCO - extend duration band from +/- 1 year to +/- 2 years. Remove the restriction from purchasing below "b-" non-agency bonds, with an allowable limit of 3%.
- (2) Loomis – Add the Loomis Sayles Full Discretion Institutional Securitized Fund as a specific permissible investment (commingled funds up to 20% are an allowable investment). Specify that instruments received as a result of conversion, exchange, restructure, etc. are allowable.
- (3) BlackRock – Allow securities rated below "b-", with a 3% limitation. Allow senior CLO notes, with a 3% limitation. Allow interest only bonds, principal only bonds, and inverse floaters, with a limit of 5%, remove prior written authorization requirement.
- (4) Rogge – With the exception of G4 countries, allow the total of all securities of a single country to be +/- 15% of the benchmark weights, subject to a 40% maximum in a single country. Adjust allowable currency positions as follow:

<u>Country or Region</u>	<u>Permitted Active Exposure</u>
Other dollar bloc countries	change from +/- 5% to 10%
European bloc countries	change from +/- 5% to 10%
Yen bloc countries	change from +/- 5% to 10%
Other investment grade countries	+/- 5%
Sub-investment grade countries	+/- 3%

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

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

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Dr. DeFusco

The motion carried.

The Council took a break and reconvened at 10:30 a.m.

**FIXED INCOME ASSET CLASS RISK/RETURN ANALYSIS AND DISCUSSION: 10:30 a.m. to 11:15 a.m.** At the August 27, 2013, Council meeting the Council had requested Hewitt EnnisKnupp (HEK) provide additional information on adding a bank loan allocation. Mr. Kotary's presentation which was included in the meeting book discussed issues associated with implementing this strategy. Following discussion the Council requested that the State Investment Officer and HEK arrange a presentation by a bank loan manager to learn more about their processes and a recommendation on where the money would come from to fund a bank loan allocation.

**PRIVATE EQUITY PERFORMANCE UPDATE AND PACING: 11:15 a.m. to 11:45 a.m.** A review of the 1<sup>st</sup> quarter private equity performance was given by Ms. Karen Rode and Mr. Michael Zaun, members of HEK's Private Equity Team. Their report included a portfolio overview, fund performance, pacing update, and a tactical allocation plan. A copy of the report was included in the meeting book.

**THE RESOLUTE FUND III, L.P. (RE-UP): 11:45 a.m. to 12:06 p.m.** In accordance with the Council's Private Equity Investment Policy, Mr. Jurich and Ms. Rode presented to the Council for their consideration a recommendation from staff and HEK to commit \$25.0 million to The Resolute Fund III, L.P. (Fund III). Fund III will invest across a wide range of industries. Mr. Jurich gave an overview of the firm, investment strategy and process, performance, terms and conditions. HEK provided a due diligence summary analysis and overall rating. A copy of their presentation was included in the meeting book. Mr. Jurich also distributed additional information on Fund III, which is included in the attachments to the minutes. Following discussion by the Council, Mr. Maginn moved to allocate \$30.0 million to The Resolute Fund III, L.P. from the Defined Benefit and Cash Balance Benefit Plans 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. 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.

**DAILY PRICING AND TRADE EXECUTION FOR THE DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLANS AMENDED AUTHORITY FOR SIO TO EXECUTE AGREEMENTS WITH AMERITAS TO INCLUDE ADDITIONAL SERVICE PROVIDERS SUNGARD INSTITUTIONAL BROKERAGE AND MID-ATLANTIC CAPITAL COPORTATION: 12:06 p.m. to 12:15 p.m.** Mr. States requested a broader authorization from the Council for the State Investment Officer to contract with SunGard Institutional Brokerage and Mid-Atlantic Capital Corporation as part of the outsourcing of the daily pricing and trade execution process that will be managed by Ameritas for the Defined Contribution and the Deferred Compensation Plans. Following discussion by the Council Mr. Conley moved to authorize the State Investment Officer to enter into agreements with SunGard Institutional Brokerage and Mid-Atlantic Capital Corporation relating to the outsourcing of the daily pricing and trade execution process managed by Ameritas for the Defined Contribution and the Deferred Compensation Plans. 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
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The motion carried.

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**COLLEGE SAVINGS PLAN OF NEBRASKA: 12:15 p.m. to 1:05 p.m.** Treasurer Stenberg provided an overview of the Nebraska Educational Savings Trust (NEST), which includes the NEST Direct, NEST Advisor and TD Ameritrade 529 College Savings Plans. As of June 30, 2013, the program has grown to 154,598 accounts, with assets totaling \$2.78 billion. Treasurer Stenberg reported a very successful year for the program. Representatives from First National Bank Omaha (FNBO) and State Farm will be presenting their annual reports at today's meeting.

**STATE FARM College Savings Plan's Annual Report:** Ms. Stephanie Mattson, Relationship Manager, State Farm and Mr. Bill Raynor, Vice-President, Oppenheimer Funds presentation which was included in the meeting book, gave an overview of the program which included portfolio allocations, performance and underlying investment performance for the period ending August 31, 2013. They reported total program assets of \$306,596,750, with 52,417 total accounts for this period.

**FNBO Annual Report:**

Mr. David Cota, Senior Managing Director, FNBO, Ms. Deborah Goodkin, Managing Director College Savings Plans, and Mr. Stacy Auman, Investment Officer provided program statistics, performance by investment option, sales, marketing and promotion and customer servicing information. A copy of the NEST 2013 Annual Report is included in the attachment to the minutes.

**OPERATING INVESTMENT POOL PORTFOLIO REVIEW: 1:05 p.m. to 1:50 p.m.** Mr. Spitznagel and Mr. Garber's presentation which was included in the meeting book discussed the OIP's performance, performance attribution and portfolio characteristics through June 30, 2013. As of June 30, 2013, the Operating Investment Pool's balance totaled over \$3.4 billion. Mr. Spitznagel and Mr. Garber also discussed possible changes to the investment guidelines that would reduce tracking error to the benchmark, expand the corporate names that can be held, and allow the investments to achieve a better income return for the State without greatly changing the portfolio interest rate risk and credit risk or impair liquidity. The Council requested that additional information be provided by staff before making any changes to the guidelines.

Ms. Werner-Robertson left the meeting at 1:36 p.m.

**NPERS' Report: 1:50 p.m. to 2:10 p.m.** Ms. Chambers updated the Council on NPERS' relocation to the 1526 Building. Ms. Chambers stated that she was very proud of her staff's work and cooperation in making the move successful. She reported that work continued during the move with NPERS' call center staff receiving over 600 phones calls during the first week and over 700 calls during the second week of the move. Also, NPERS continued to have several visitors each day at each location during the move. Ms. Chambers reported that at a recent PERB meeting its new actuary Cavanaugh Macdonald Consulting stated that they were satisfied with NPERS' previous actuary's estimates and that they will be reporting at the November 18, 2013, joint meeting between the NIC and PERB.

**STATE INVESTMENT OFFICER'S REPORT: 2:10 p.m. to 2:29 p.m.**

**CAFR Testing:** Mr. States indicated that both Mr. Maginn and Dr. DeFusco attended the September 6, 2013, meeting with the Auditor of Public Accounts (APA) relating to the CAFR testing of the NIC's investment program. Mr. States reported that the APA should be finishing their testing early this week. Mr. States reported that Ms. Jan Westerman, NIC Internal Auditor had submitted her letter of resignation; Jan's last day with the NIC was September 19, 2013.

**Agency Budget Update:** Mr. States reviewed the August 31, 2013 Budget Report included in the meeting book and indicated that the Agency is under-budget for the fiscal year.

**Commission Recapture Report:** Mr. States reviewed with the Council the annual Commission Recapture Report included in the meeting book. Mr. States reported that in accordance with the Commission Recapture Policy revised last year the accumulated balance of the Commission Recapture Account had been distributed back to the plans from which they were earned. Commission Recapture earnings from the current Commission Recapture program are being distributed back to the plans on a regular basis.

**Proxy Voting Report:** Mr. States reviewed with the Council the annual Proxy Voting Report, which was included

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in the meeting book and reported that all manager's proxy voting policies and voting records are on file in the NIC office and available for review.

**IMAs Executed Since Last Regular Meeting:** Mr. States reported that the documents for the Torchlight and Oaktree will be completed next month after receiving the paperwork from these managers.

**Action Plan, Conferences, and Articles:** Mr. States stated that staff will be traveling to the NASIO conference at the end of the month and also attending both private equity and real estate advisory conferences in the upcoming weeks. The November 18, 2013, Joint Meeting with the PERB will be at Lincoln's Cornhusker Hotel, in the Arbor I Conference Room.

**PUBLIC COMMENT ON THE AGENDA: 2:29 p.m. to 2:30 p.m.** Dr. DeFusco asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:30 p.m. Mr. Conley moved to adjourn the meeting. Mr. Maginn 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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Kathy Dawes, Secretary