

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
August 26, 2014**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the Hilton Garden Inn Omaha West in Omaha, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on August 12, 2014, and published in the Lincoln Journal Star on August 17, 2014. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

- Ms. Gail Werner-Robertson
- Dr. Richard DeFusco (departed at 11:15 a.m.)
- 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
- Mr. David Rose, Hewitt EnnisKnupp
- Mr. Joe Jurich, Nebraska Investment Council
- Ms. JoLynn Winkler, Nebraska Investment Council
- Mr. Joseph Spitznagel, Nebraska Investment Council
- Mr. Jeremiah Garber, Nebraska Investment Council

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 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 MAY 20, 2014, AND JULY 15, 2014, MEETINGS: 8:37 a.m. to 8:40 a.m.** Mr. Conley moved that the June 9, 2014, draft of the May 20, 2014, and the July 16, 2014, draft of the July 15, 2014, meetings be approved. 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

The motion carried.

**COUNCIL MEMBER BUSINESS: 8:40 a.m. to 8:43 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson stated that Dr. DeFusco would be leaving early due to the first day of classes at the University and that the UBS presentation would be moved up on the agenda. Ms. Werner-Robertson thanked Ms. Dawes for her work in setting up a SharePoint site and obtaining iPads for use at Council meetings. Implementation of the SharePoint site and use of iPads will reduce paper and be a more efficient and cost effective use of resources. Mr. States stated that today's meeting would include a follow-up discussion regarding items discussed at the July Retreat.

**SIO SEARCH COMMITTEE REPORT: 8:43 a.m. to 8:50 a.m.** Dr. DeFusco updated the Council on the status of the SIO Search.

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**JULY 15, 2014 FOLLOW-UP ITEMS: 8:50 a.m. to 9:15 a.m.** At the July 15, 2014 Retreat the Council had requested that HEK provide information on several matters. Mr. Kotary's presentation which was included in the meeting book provided information on the following: 1) a model asset allocation to achieve the actuarial 8% rate of return. Mr. Kotary discussed the current Defined Benefit Plan's (DB) long term allocation and also provided an optimized portfolio using the NIC's current asset classes; 2) an explanation of the composition of the "Other" category in the Peer Group comparison of asset allocations. The data for the comparison came from Greenwich Associates and included three "outlier" funds, which had significant investments in private vehicles that were placed into the "Other" category. Greenwich Associates indicated that it had no further information on what these assets might be. HEK requested Greenwich Associates remove these three funds from the data sample, which resulted in a decrease in the allocations to "Other" to 5.9%; 3) HEK is still working on providing information that might illustrate what, if any, correlation exists between public fund assumed rates of return, funded ratios, and contribution policies. Mr. Maginn suggested that the Council continue with this discussion at the September 25, 2014, Council meeting. He would also like for the agenda at the November 17, 2014, joint meeting with the Public Employees Retirement Board to include a discussion of the type of asset allocation that could provide a better probability of achieving an 8% return. Mr. Dinkel also suggested providing this information to the newly elected Governor and State Senators after they take office in January 2015.

**REAL ESTATE NEW FUND COMMITMENT**

**USB-Trumbull Property Income Fund (UBS-TPI) Recommendation: 9:15 a.m. to 9:30 a.m.** Mr. Rose's presentation which was included in the meeting discussed a fund being offered by a current NIC manager, UBS. The fund, UBS Trumbull Property Income Fund (UBS-TPI), is an open-end, diversified core income-oriented US real estate debt fund that is primarily invested through participating mortgages. The Fund's strategy is to build an actively managed portfolio of income-oriented real estate investments that have hybrid debt and equity return characteristics. Mr. Rose indicated that as part of the NIC's current pacing model for the DB/CBB Plans, \$40 million is to be committed to a Core Strategy in 2015. The commitment is being sought in 2014 given the current entry queue the UBS-TPI has and the expectation that a commitment made at this time will likely be called by UBS in two to three quarters. Mr. Rose indicated that HEK has conducted a thorough qualitative and quantitative assessment of UBS-TPI. Mr. Rose discussed the investment merits and concerns associated with the Firm and the Fund. Mr. States indicated that staff and HEK recommend that the Council commit \$40 million to UBS Trumbull Property Income Fund.

**UBS-Trumbull Property Income Fund (UBS-TPI): 9:30 a.m. to 10:15 a.m.** Mr. States introduced from UBS, Mr. W. David Lawson, Portfolio and Client Services Officer Executive Director and Mr. Gary W. Gowdy, Senior Portfolio Manager and Managing Director. Their presentation which was included in the meeting book included an overview of the firm and the UBS-Trumbull Property Income Fund.

Following the presentation by UBS and discussion by the Council Mr. Dinkel moved to commit \$60 million from the Defined Benefit and Cash Balance Benefit Plans to UBS-Trumbull Property Income Fund, pending legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. 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.

**REAL ESTATE RE-UPS RECOMMENDATIONS-DB/CBB AND ENDOWMENTS: 10:15 a.m. to 11:00 a.m.**

**Cornerstone Patriot Fund Core Open-End Fund - DB/CBB and Endowments:** Mr. Rose discussed additional Core commitments of \$60 million from the DB/CBB Plans and \$5 million from the General Endowments and the Health Care Endowment to the Cornerstone Patriot Fund. Following discussion by the Council, Mr. Conley moved to commit \$60 million from the Defined Benefit and Cash Balance Benefit Plans to the Cornerstone Patriot Fund, pending legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and the Council's attorney. 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.

**PRISA II Value-Add Open –End Fund - DB/CBB:**

Mr. Rose discussed an additional Non-Core commitment of \$30 million from the DB/CBB Plans to the Prudential PRISA II Fund. Following discussion by the Council, Mr. Maginn moved to commit \$30 million from the Defined Benefit and Cash Balance Benefit Plans to the Prudential PRISA II Fund, pending legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and the Council’s attorney. 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

The motion carried.

**Landmark Real Estate Partners Fund VII - Endowments:**

Mr. Rose discussed an additional Non-Core commitment of \$7.5 million to the Landmark Real Estate Partners Fund VII. Following discussion by the Council, Mr. Maginn moved to commit \$7.5 million from the General Endowments and Health Care Endowment to the Landmark Real Estate Partners Fund, pending legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and the Council’s attorney. 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.

Copies of the presentation were included in the meeting book.

The Council took a break and reconvened at 11:15 a.m.

Dr. DeFusco left the meeting at 11:15 a.m.

**2<sup>ND</sup> QUARTER 2014 PERFORMANCE REPORT AND RISK BUDGET REPORT: 11:15 a.m. to 12:15 p.m.**

Mr. Kotary and Mr. Comstock reviewed with the Council the current market conditions and the 2<sup>nd</sup> Quarter 2014 Performance Report included in the meeting book. Mr. Kotary reported total assets under management of \$21.6 billion. Mr. Kotary’s presentation also included the annual Risk Budget Report, which compared annualized active risk to benchmark misfit risk by asset class. Mr. Kotary reported that all portfolios are in compliance with the active risk range established in the Risk Budget Policy and that no action is needed at this time. Mr. Kotary reviewed HEK’s Watchlist and discussed the processes used in evaluating managers. As requested by the Council, Mr. Comstock discussed PIMCO’s relatively large exposure (one-quarter of the fixed income asset class) in the DB/CBB Plans. Mr. Comstock stated that while PIMCO represents the most sizable portion of the fixed income investments, HEK continues to have a high level of confidence in the firm. The Council requested that HEK provide additional information on alternative fixed income managers at the November 17, 2014, Council meeting. Copies of the presentations were included in the meeting book.

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**OPERATING INVESTMENT POOL (OIP) PORTFOLIO PERFORMANCE: 12:15 p.m. to 1:00 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, 2014. As of June 30, 2014, the Operating Investment Pool's balance totaled over \$3.7 billion. Mr. Spitznagel reviewed the intermediate government/corporate bond portfolio he manages and Mr. Garber discussed the daily liquidity pool which he manages. Discussion continued on the SEC's new regulations which will go into effect next year, that will govern the daily pricing of money market funds and impose restrictions in certain highly volatile markets on the daily liquidity of funds invested by institutional investors such as the NIC. The Council requested that HEK work with the SIO and the OIP Portfolio Managers to determine the appropriate actions, if any, which could be taken to protect and preserve the OIP as a viable and liquid investment pool in all circumstances.

The Council took a break and reconvened at 1:15 p.m.

**NPERS' Report: 1:15 p.m. to 1:22 p.m.** Ms. Chambers discussed the PERB Retreat, in which Mr. Kotary and Mr. Comstock discussed basic investment concepts and reviewed the NIC reports. The County Cash Balance dividend was recently credited to eligible County Cash Balance member's accounts. Ms. Chambers indicated that NPERS has been busy with school retirements and that during the fall State and County activity picks up with December retirements. Ms. Chambers informed the Council that NPERS' IT Manager, Mr. Fred Turner recently retired and that Mr. Jack Hardy, who is transferring from the Department of Revenue, will be his replacement. NPERS will be changing to OnBase as its new imaging software. Ms. Chambers informed the Council that the PERB has approved the Mass Mutual changes as recommended by the NIC.

**STATE TREASURER'S REPORT: 1:22 p.m. to 1:35 p.m.** Treasurer Stenberg updated the Council on the status of the RFP for custody services; the current contract with State Street Bank expires in June 2015. Treasurer Stenberg indicated that three responses have been received. HEK will be providing additional information on the responses and a decision has not been made if onsite visits will be done. Treasurer Stenberg also provided information on the Nebraska Educational Savings Trust (NEST), which includes the NEST Direct, NEST Advisor and TD Ameritrade 529 College Savings Plans. As of June 30, 2014, the program has grown to 218,000 accounts, with assets totaling \$3.6 billion. Treasurer Stenberg discussed the Nebraska NEST Financial Scholars; an online financial literacy education program with over 2,200 Nebraska high school students participants. The program which started about one year ago has been very successful, with 81 schools participating in the program through the NEST sponsorship and another 39 high schools use the program through sponsorships by local banks in the Lincoln and Omaha areas.

**AUDIT COMMITTEE REPORT: 1:35 p.m. to 1:39 p.m.** Mr. States indicated that the NIC Audit Committee will meet with the Internal Auditor before the September 25, 2014, Council meeting and will report back to the Council at that time.

**STATE INVESTMENT OFFICER'S REPORT: 1:39 p.m. to 2:10 p.m.**

**Agency Budget Update:** Mr. States reviewed the July 31, 2014 Budget Report included in the meeting book and indicated that the Agency is under-budget for the month and fiscal YTD.

**FY2016/FY2017 Biennium Budget Request:** Mr. States discussed the request and reviewed the issues that will be submitted with the request. The request which is due by September 15, 2014 includes a small increase in appropriation and an increase in the PSL expenditure limit.

**Securities Lending Report:** Mr. States reviewed with the Council the quarterly and annual Securities Lending Reports included in the meeting book.

**IMAs Executed Since Last Regular Meeting:** Mr. States reported that the commitments to Abbott Capital Private Equity Fund VII, L.P., Energy and Minerals Group Fund III, and Wellington Management Company, LLP have been completed and that the transition of assets from Rogge Global Partners to Wellington Management Company, LLP has been completed.

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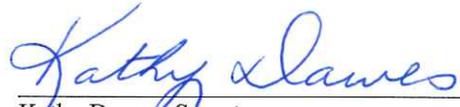
**Action Plan, Conferences, and Articles:** Mr. States indicated that Mr. Conley will be attending the September 3-4, 2014, HEK Client Conference in Chicago, IL. The September 25, 2014, Council meeting will be at Omaha Hilton Garden Inn Omaha West, Salon B Conference Room.

**PUBLIC COMMENT ON THE AGENDA: 2:10 p.m. to 2:12 p.m.** Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:12 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:	Mr. Maginn Mr. Dinkel Mr. Conley Ms. Werner-Robertson
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ABSENT NOT VOTING:	Dr. DeFusco
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Kathy Dawes, Secretary