

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 17, 2014**

A regular meeting of the Nebraska Investment Council convened at 8:40 a.m. at the Cornhusker Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on October 17, 2014, and published in the Lincoln Journal Star on November 9, 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 (departed at 10:28 a.m. to attend PERB meeting and rejoined the meeting at 1:40 p.m.)

NONMEMBERS IN ATTENDANCE:

Mr. Joseph Jurich, Acting State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Chris Sanders, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Mr. Dan Kim, Hewitt EnnisKnupp

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Mr. Richard Wassinger, Public Employees Retirement Board, Vice Chair
Ms. Elaine Stuhr, Public Employees Retirement Board Member
Ms. Janis Elliott, Public Employees Retirement Board Member
Judge Randall Rehmeier, Public Employees Retirement Board Member
Mr. Stuart Simpson, Public Employees Retirement Board Member
Mr. Ron Ecklund, Public Employees Retirement Board Member
Mr. Dennis Leonard, Public Employees Retirement Board Member
Ms. Patrice Beckham, Cavanaugh Macdonald
Mr. Brent Banister, Cavanaugh Macdonald
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Matthew Effken, Nebraska Public Employees Retirement Systems
Ms. Vicki Huber, Nebraska Public Employees Retirement Systems
Mr. Jack Hardy, Nebraska Public Employees Retirement Systems
Mr. Dean Gress, Nebraska Public Employees Retirement Systems
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems
Ms. Miden Ebert, Nebraska Public Employees Retirement Systems
Mr. Bob Wickersham, Public
Ms. Kate Allen, Legislative Retirement Committee
Ms. Cheryl Wolff, Governor's Policy Research Office
Mr. Jason Hayes, Nebraska State Education Association
Mr. William J. Mueller, Mueller Robak LLC
Mr. Matt Schaefer, Mueller Robak LLC
Mr. Neil Bateman, Public
Ms. Nancy Reimer, Ameritas
Mr. Eric Asboe, Nebraska Supreme Court

JOINT MEETING WITH PERB: 8:40 a.m. 10:28 a.m. Ms. Werner-Robertson welcomed everyone to the

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meeting and stated that a copy of the Open Meetings Act is located on the side table. Introductions were made by each member of the NIC and PERB.

Ms. Werner-Robertson thanked members of the Council, PERB, Mr. Jurich and his staff for their work during the past year. Ms. Werner-Robertson stated that the joint meeting provides an opportunity for both boards to discuss their activities of the past year. Ms. Werner-Robertson indicated that it has been a good year with the State ending the fiscal year at June 30, 2014, with an 18% return. But, as is happening throughout the United States the NIC is struggling to get to that 8% rate of return. Ms. Werner-Robertson reported that Mr. Michael W. Walden-Newman, Chief Investment Officer for the Wyoming State Treasury has been hired to fill the vacancy left by the recent retirement of Mr. Jeffrey W. States. Mr. Walden-Newman is very excited about joining the NIC and is scheduled to begin his duties as State Investment Officer on December 8, 2014. Ms. Werner-Robertson thanked Mr. Jurich, Acting State Investment Officer for his work during the transition period.

Mr. Blank welcomed everyone to the meeting. Mr. Blank thanked the PERB, Council, Ms. Chambers and the NPERS' staff for their work during the past year. Mr. Blank distributed copies of the 2014 NPERS Member Services, which provided information on its accomplishments during the past year. A copy of the handout is included in the attachments to the minutes. Mr. Blank stated that he was very proud of the results from the audits conducted during the past year. Mr. Blank indicated that the PERB enjoyed working with Mr. States and that he will be missed.

Quarterly Performance Report for Retirement Plans by Hewitt EnnisKnupp: Mr. Kotary's presentation, which was included in the meeting book gave an update on the third quarter market conditions and reviewed the performance of the Defined Benefit, Cash Balance Benefit, Defined Contribution and Deferred Compensation Plan's managers. Mr. Kotary reported that as September 30, 2014, the total assets under management for all plans and endowments was \$21.595 billion.

July 1, 2014 Actuarial Report on the Defined Benefit Plans by Cavanaugh Macdonald: Ms. Patrice Beckham and Mr. Brent Banister, actuaries with Cavanaugh Macdonald Consulting presented the actuarial valuation results as of July 1, 2014. They reviewed the purposes of an actuarial valuation, historical information and the changes since the last valuations of each of the plans. A copy of the presentation is included in the meeting book.

Capital Market Assumptions by Hewitt EnnisKnupp and Cavanaugh Macdonald: Ms. Beckham and Mr. Banister discussed the methodology used by the actuary in determining the investment return assumption. The actuaries explained that the main difference between the investment assumptions used by HEK and Cavanaugh Macdonald is the rate of inflation. HEK assumes an inflation rate of 2.2% and CMC uses 3.25%. Using a long-term horizon of 30 years, the forecasted real rate of investment return of 4.7%-4.75% is approximately the same for HEK and CMC. A copy of their presentation is included in the meeting book.

Mr. Kotary's presentation, which was included in the meeting book discussed the following: 1) Current Expected Return and Risk Assumptions; 2) Methodology; and 3) NIC Defined Benefit Plan Expectations. For the current asset allocation Mr. Kotary said that HEK's models forecast an annualized return of 6.6% over a 10 year period and 6.9% forecast over 30 years. Mr. Kotary stated that given the existing market conditions, the actuarially assumed rate of return of 8.0% will likely prove challenging. The PERB and the NIC members continued with the discussion following the presentations. A question of how much risk do we have to take to get to the 8% rate of return was asked by Mr. Maginn. Judge Rehmeier indicated that the PERB has established a committee to look at the assumed rate.

Ms. Werner-Robertson and Mr. Blank thanked Hewitt EnnisKnupp and Cavanaugh Macdonald for their presentations.

At 10:28 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:47 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 25, 2014 and OCTOBER 10, 2014 MEETINGS: 10:47 a.m. to 10:48 a.m. Mr. Dinkel moved that the October 6, 2014, draft of the minutes of the September 25,

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2014, meeting and the October 15, 2014, draft of the October 10, 2014, meeting be approved as written. 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.

CHAIRWOMAN'S COMMENTS: 10:48 a.m. to 10:49 a.m. Ms. Werner-Robertson thanked Mr. Jurich and staff for their work during the transition.

THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY HEWITT ENNISKNUPP: 10:49 a.m. to 10:59 a.m. Mr. Kotary reviewed with the Council the Third Quarter Performance Report for the non-retirement plans. The presentation which was included in the meeting book included performance review, fund monitoring, risk profiles, and fees.

PRIVATE EQUITY NEW FUND COMMITTEE 10:59 a.m. to 11:13 a.m. Ms. Karen Rode and Mr. Dan Kim, members of HEK's Private Equity Team reviewed with the Council a new fund being offered by Francisco Partners Management, LP. The Firm makes private equity investments in middle-market technology companies. The Fund, Francisco Partners IV, LP, uses a value-oriented approach using a variety of transaction strategies, including buyouts, divisional divestitures, recapitalizations, restructurings, and growth equity. The Firm is headquartered in San Francisco, CA, with an office in London. Ms. Rode indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Francisco Partners Management, LP. Mr. Kim discussed the investment merits and concerns associated with the Firm. Mr. Jurich indicated that staff and Hewitt EnnisKnupp recommend that the Council commit up to \$30 million to Francisco Partners IV, LP on behalf of the DB/CBB Plans. Mr. Jurich noted that there is a possibility that the request may get trimmed because the Fund is over-subscribed. A copy of the presentation was included in the meeting book.

PRESENTATION BY FRANCISCO PARTNERS MANAGEMENT, LP: 11:13 a.m. to 11:45 a.m. Mr. Jurich introduced Mr. Neil Garfinkel, Founding Partners and Mr. Andrew Brown, Partner and Investor Relations. Their presentation included an overview of the firm, investment team, performance and Fund IV. A copy of the presentation was included in the meeting book.

Following the presentation by Francisco Partners Management, LP and discussion by the Council, Mr. Maginn moved to commit \$30 million from the Defined Benefit and Cash Balance Benefit Plans to Francisco Partners IV, LP, 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. Maginn Mr. Dinkel Mr. Conley Ms. Werner-Robertson Dr. DeFusco
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The motion carried.

PIMCO FIXED INCOME DISCUSSION: 11:45 a.m. to 12:15 p.m. Mr. Kotary's presentation which was included in the meeting book provided an update on PIMCO and HEK's manager research team's views of the firm. Mr. Kotary discussed the Council's relatively large exposure to PIMCO in the DB/CBB Plans and provided

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alternative structures with reduced reliance on PIMCO and possible candidates should the Council desire to reallocate some or all of PIMCO's assets to another active core/core-plus bond manager. Mr. Kotary also reviewed the current structure of the endowments' fixed income allocation and alternative structures with reduced reliance on PIMCO. The Council requested that HEK do more research on possible managers and bring them to the February 2015 meeting for presentations.

The Council took a break and reconvened at 12:35 p.m.

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST: 12:35 p.m. to 1:30 p.m. Treasurer Stenberg provided an overview of the Nebraska Educational Savings Plan Trust, which includes the NEST Direct, NEST Advisor, TD Ameritrade 529, and Start Farm College Savings Plans. The program with assets totaling over \$3.6 billion has grown to over 220,000 accounts with 63,000 of those account owners in Nebraska. 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 from Oppenheimer Funds Mr. Bill Raynor, Vice-President, Client Relationship Manager and Mr. Ken Henry, Vice President, College Savings Investment Specialist. Their 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 September 30, 2014. They reported total program assets of \$377,632,662, with 58,692 total accounts for this period.

FNBO Annual Report:

Mr. Steve Wade, Senior Vice President Investment Services, 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. They reported total program assets for the period ending September 30, 2014, of \$3,239,428,636, with 164,197 total accounts for this period. A copy of the NEST 2014 Annual Report was included in the meeting book.

PIMCO Discussion: A request was made by FNBO to replace the PIMCO Total Return Fund in all three plans, NEST Direct College Savings Plan, NEST Advisor College Savings Plan and the TD Ameritrade 529 College Savings Plan with Metropolitan West Total Return Bond Plan Fund (TCW). FNBO expressed concerns about recent leadership changes at PIMCO and the potential impact of those changes on the plans and plan participants. FNBO indicated that they had done due diligence screening on several potential replacement funds and had reviewed funds submitted by HEK. MetWest Total Return Bond Plan Fund was selected as the best option to replace the PIMCO Total Return Fund in all three plans. Mr. Jurich, Acting State Investment Officer recommends the proposed investment change. Copies of the recommendation were included in the meeting book. Following discussion by the Council, Mr. Conley moved to replace the PIMCO Total Return Fund with the MetWest Total Return Bond Plan Fund in all three 529 Plans, NEST Direct College Savings Plan, NEST Advisor College Savings Plan and the TD Ameritrade 529 College Savings Plan. Mr. Maginn 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

The motion carried

REAL ESTATE PORTFOLIO UPDATE AND PACING/CY14 Q2 FINAL Q3 PRELIMINARY PERFORMANCE REVIEW BY HEWITT ENNISKNUPP: 1:30 p.m. to 1:58 p.m. Mr. Rose's presentation which was included in the meeting book reviewed the 2nd quarter 2014 real estate performance and gave a preliminary review of the 3rd quarter.

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Ms. Chambers rejoined the meeting at 1:40 p.m.

REAL ESTATE NEW FUND COMMITMENT/ALMANAC VII - RECOMMENDATION: 1:58 p.m. to 2:06 p.m. Mr. Rose reviewed with the Council a new fund being offered by Almanac Realty Investors. The Fund, Almanac Realty Securities Fund VII (ARS VII) is a Non-Core, value-add fund, focused on investing in private and public real estate operating companies. Mr. Rose indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Almanac Realty Investors. Mr. Rose discussed the investment merits and concerns associated with the Firm. Mr. Jurich indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$40 million to Almanac Realty Securities Fund VII on behalf of the DB/CBB Plans. A copy of the presentation was included in the meeting book.

PRESENTATION BY ALMANAC REALTY INVESTORS: 2:06 p.m. to 2:48 p.m. Mr. Jurich introduced from Almanac Realty Investors, Mr. Matthew Kaplan, Managing Partner and Mr. Josh Overbay, Director, Investor Relations. Their presentation included an overview of the firm, investment team, performance, program, and ARS VII. A copy of the presentation was included in the meeting book.

Following the presentation by Almanac Realty Investors and discussion by the Council, Mr. Conley moved to commit \$40 million from the Defined Benefit and Cash Balance Benefit Plans to Almanac Realty Securities Fund VII, subject to legal review of the investment documents by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Dinkel 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.

STATE TREASURER'S REPORT: 2:48 p.m. to 2:50 p.m. Treasurer Stenberg indicated that the College Savings Plan's Dear Grandchild Scholarship contest is currently going on and the NEST Financial Scholars for Families Sweepstakes to win an iPad to encourage families to learn more about 529 plans and particularly NEST, ends on Dec. 10, 2014.

AUDIT COMMITTEE REPORT: 2:50 p.m. to 2:51 p.m. Dr. DeFusco indicated that the Audit Committee had nothing to report at this time, but would submit a report at the February 2015 meeting.

ACTING STATE INVESTMENT OFFICER'S REPORT: 2:51 p.m. to 3:11 p.m.

Agency Budget Update: Mr. Jurich reviewed the report included in the meeting book and indicated that the NIC is currently under-budget.

Policy Manual Update: Mr. Jurich indicated that the 2014 updates to the NIC Policy Manual will be uploaded to its SharePoint site next week.

Robb Evans & Assoc. (Receiver for WG Trading vs. NIC): Mr. Heinrich reported that the case has been dismissed.

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

Lloyd's Bank Group PLC (Group Litigation in England): Mr. Jurich updated the Council on the Council's option to participate in a non-U.S. litigation Lloyd's Bank Group PLC, but based upon due diligence conducted to date the Council will not participate at this time.

IMAs Executed Since the Last Meeting: Mr. Jurich reported that documents for Quantum Energy Partners Fund

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VI, L.P. have been completed and discussed the recent Ares' acquisition of EIF.

2015 Meeting Schedule: The Council decided on the following meeting dates for 2015, start time 8:30 a.m.:

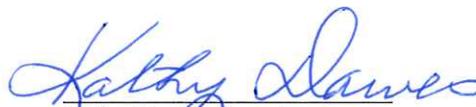
February 26, 2015
March 26, 2015
May 21, 2015
July 14, 2015
August 27, 2015
September 24, 2015
November 16, 2015

PUBLIC COMMENT ON THE AGENDA: 3:11 p.m. to 3:12 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:12 p.m. Mr. Conley moved to adjourn the meeting. 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.


Kathy Dawes, Secretary