

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
November 18, 2013**

A regular meeting of the Nebraska Investment Council convened at 8:32 a.m. at the Cornhusker Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on November 8, 2013, and published in the Lincoln Journal Star on October 30, 2013. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson, Chairwoman (departed at 3:03 p.m.)  
Dr. Richard DeFusco  
Mr. John Maginn  
Mr. John Dinkel  
Mr. John Conley  
Treasurer Don Stenberg  
Ms. Phyllis Chambers (departed at 10:23 a.m. to attend PERB meeting and rejoined the meeting at 1:15 p.m.)

**NONMEMBERS IN ATTENDANCE:**

Mr. Jeff States, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Joe Jurich, Nebraska Investment Council  
Mr. Christopher Heinrich, Harding & Shultz  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Max Kotary, Hewitt EnnisKnupp  
Ms. Nancy Williams, Hewitt EnnisKnupp  
Ms. Catherine Polleys, Hewitt EnnisKnupp  
Ms. Karen Rode, Hewitt EnnisKnupp  
Mr. David Rose, Hewitt EnnisKnupp  
Ms. Lisa Staub, 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. 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. Darrell E. Fisher, 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. Fred Turner, Nebraska Public Employees Retirement Systems  
Mr. Dean Gress, Nebraska Public Employees Retirement Systems  
Ms. Teresa Zulauf, Nebraska Public Employees Retirement Systems  
Mr. Bob Wickersham, Public  
Mr. Gerry Oligmueller, AS State Budget Office  
Ms. Kathy Tenopir, Legislative Fiscal Office  
Ms. Kate Allen, Legislative Retirement Committee  
Ms. Cheryl Wolff, Governor's Policy Research Office  
Mr. Gary Bush, AS State Budget Office  
Mr. Philip Olsen, Auditor of Public Accounts  
Ms. Martha Stoddard, Omaha World Herald

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Mr. Jason Hayes, Nebraska State Education Association  
Mr. Matt Schaefer, Mueller Robak LLC  
Ms. Nancy Reimer, Ameritas  
Mr. Eric Asboe, Nebraska Supreme Court  
Mr. Herb Schimek, Public

**JOINT MEETING WITH PERB: 8:32 a.m. 10:23 a.m.** Ms. Werner-Robertson welcomed everyone to the 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 Council, PERB, Mr. States 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 stated that due to current market conditions and the Council's responsibility of managing risk the 8% assumable rate of return is unachievable. Ms. Werner-Robertson reviewed the past year's accomplishments of the NIC, which included the following: 1) Very good returns over the 1, 3 and 5 year periods as of September 30, 2013; 2) Conducted an asset/liability study for the DB/CBB assets to consider changes to the strategic asset allocation for the asset pools; 3) Improve the diversification of the fixed income asset allocation; 4) Revised the core fixed income investment managers guidelines; 5) Committed funds to two value-add fixed income strategies; 6) Currently discussing the additions of an allocation to senior bank loans to provide hedge against a rise interest rates in the future; 7) Made four commitments to private equity funds totaling \$105 million; 8) Made a first time commitment to a real estate debt fund of \$30 million; 8) Worked with the NPERS staff to successfully execute the transition of assets from the DC to the CBB plan at the beginning of the year; 9) Successfully worked with the AS Budget Office, State Personnel and the Legislature's Retirement Systems' Committee to strengthen the staff for 2013, receiving authority to add a new accountant position and reclassification of the part-time auditor's position to a full-time internal auditor; 10) Relocated the office to 1526 K Street, Suite 420.

Mr. Blank welcomed everyone to the meeting. Mr. Blank thanked the PERB, Council, Ms. Chambers and NPERS staff for their work during the past year. Mr. Blank distributed copies of the 2013 NPERS Member Services & Accomplishments. Mr. Blank reported 118,050 member accounts with assets of \$11.3 billion. Major accomplishments for the year included the following: 1) Contracted with a new actuarial firm and transitioned the actuarial services to Cavanaugh Macdonald; 2) Participated in the CEM Benchmarking Study comparing the pension administration cost of NPERS services with a similar peer group of public retirement plans. NPERS' cost was \$68 per member compared to the peer average of \$121 per member; 3) Developed a PERB website and converted the board from paper documents to electronic files using iPads at the PERB meetings; 4) Revised five Rules and Regulations; 5) received IRS determination letters for the School, Judges, State and County plans; 6) completed the IT server conversion to virtual servers at the oCIO; and 7) Moved the office to 1526 K Street, Suite 400 in September while maintaining services to our members. A copy of the handout is included in the attachments to the minutes.

**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, 2013, the total assets under management for all plans were \$20.450 billion.

**June 30, 2013, Actuarial Report on the Defined Benefit Plans by Cavanaugh Macdonald:** Mr. Blank introduced Ms. Patrice Beckham and Mr. Brent Banister, actuaries with Cavanaugh Macdonald Consulting. Effective July 1, 2013, Cavanaugh Macdonald Consulting was hired to provide actuarial services to the PERB. Ms. Beckham and Mr. Banister presentation which was distributed at the meeting provided background information on the firm, what they do, purposes of an actuarial valuation, and changes since the last valuations of each of the plans. A copy of the presentation is included in the meeting book.

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**Capital Market Assumptions by Hewitt EnnisKnupp and Cavanaugh Macdonald:** Ms. Beckham and Mr. Banister discussed the formula used by the actuary in determining the investment return assumption. 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 6.8% over a 10 year period and 7.3% 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.

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

At 10:23 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:35 a.m.

**APPROVAL OF THE MINUTES OF THE SEPTEMBER 24, 2013, MEETING: 10:35 a.m. to 10:36 a.m.** Mr. Conley moved that the October 1, 2013, draft of the minutes of the September 24, 2013, 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: 10:36 a.m. to 10:38 a.m.** Ms. Werner-Robertson stated that due to a scheduling conflict, she would need to leave today's meeting early and that Dr. DeFusco would serve as chair at that time. Ms. Werner-Robertson thanked Mr. States and Mr. Kotary on the extra work done in preparing for the joint meeting with PERB.

**THIRD QUARTER PERFORMANCE REPORT FOR NON-RETIREMENT PLANS BY HEWITT ENNISKNUPP: 10:38 a.m. to 10:48 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.

**FIXED INCOME ASSET CLASS – BANK LOAN DISCUSSION AND EDUCATION: 10:48 a.m. to 11:45 a.m.** Mr. States introduced from Loomis Sayles, Mr. Gregory Ward, Vice-President and Ms. Cheryl Stober, Product Manager/Specialist Bank Loan Group. As requested by the Council at the September 24, 2013 Council meeting, Loomis Sayles' was invited to provide additional education on bank loans, bank loan funds and discuss their bank loan program. A copy of their presentation is included in the meeting book. Following discussion by the Council, Mr. Maginn moved to allocate 5% of the assets from the core fixed income portfolios of the DB/CBB retirement funds and requested that after due diligence Mr. States and HEK invite their top two picks to make presentations at the February 2014, Council meeting. 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

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**ASSET ALLOCATION POLICY RISK/RETURN CHARACTERISTICS OF SCENARIOS: 11:45 a.m. to 12:15 p.m.** The Council had discussed at the September 24, 2013, meeting two potential changes to its long-term asset allocation, which were to focus more on real estate and adding an allocation to bank loans. The Council requested that Mr. States and HEK estimate the impact on long-term total fund returns and risk of adding a 5% allocation to bank loans and increasing the allocation to real estate by 2.5% utilizing various funding sources for these allocations. Mr. Kotary presented three scenarios using funding sources for the bank loan and increased the real estate allocations. Following discussion by the Council, Mr. Dinkel moved to increase the real estate allocation of the DB/CBB by 2.5%, (from a 5% allocation to a total allocation of 7.5%) with the source of funding to be determined at the time new commitments are made. 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
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The motion carried.

**REAL ESTATE PORTFOLIO UPDATE AND PACING BY HEWITT ENNISKNUPP: 12:15 p.m. to 1:15 p.m.** Ms. Polleys and Mr. Rose presentation which was included in the meeting book reviewed the 2nd quarter 2013 real estate performance and gave a preliminary review of the 3<sup>rd</sup> quarter.

Ms. Chambers rejoined the meeting at 1:15 p.m.

The Council took a break and reconvened at 1:28 p.m.

**PRIVATE EQUITY COMMITMENT RECOMMENDATIONS: 1:28 p.m. to 1:38 p.m.** Mr. Jurich, Deputy State Investment Officer, Ms. Karen Rode and Ms. Lisa Staub, members of HEK's Private Equity Team reviewed with the Council a new fund being offered by Pine Brook Road Partners, LLC. The fund Pinebrook Capital Partners II, L.P. (Fund II) will focus on a growth capital strategy employed in the energy and financial services sectors. Mr. Jurich provided background information on the Firm, which is headquartered in New York, NY, with a new office opening in Houston, TX. Ms. Rode indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Pine Brook Road Partners, LLC. Ms. Staub discussed the investment merits and concerns associated with the Firm. Mr. States indicated that staff and Hewitt EnnisKnupp recommend that the Council commit \$30 million to Pinebrook Capital Partners II, L.P. on behalf of the DB/CBB Plans. A copy of the presentation was included in the meeting book.

**PRESENTATION BY PINE BROOK ROAD PARTNERS, LLC: 1:38 p.m. to 2:20 p.m.** Mr. States introduced members of the Pine Brook Road Partners, LLC, Mr. Howard Newman, Founder and CEO, Mr. Joseph Gantz, Chief Operating Officer and Mr. William Spiegel, Managing Director. Their presentation included an overview of the firm, Fund II, energy and financial services overview. A copy of the presentation was included in the meeting book.

Following the presentation by Pine Brook Road Partners, LLC and discussion by the Council, Mr. Conley moved to commit \$30 million from the Defined Benefit and Cash Balance Benefit Plans to Pinebrook Capital Partners II, L.P., subject to legal review of the Limited Partnership Agreement 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
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The motion carried.

**PRESENTATION ON T. ROWE PRICE STABLE VALUE FUND: 2:20 p.m. to 3:03 p.m.** Mr. States introduced Mr. Robert A. Madore; Portfolio Manager with T. Rowe Price. T. Rowe Price manages the States' Stable Value option within the Defined Contribution and Deferred Compensation Plans. Mr. Madore presentation which was included in the meeting book discussed the investment objectives of the fund, current holdings, and performance. T. Rowe Price has recommended moving the assets from the current separate account structure to the T. Rowe Price Stable Value Common Trust Fund, a commingled structure. T. Rowe Price's rationales for this recommendation is 1) decreasing SIC issuers, 2) credit quality of GIC issuers, and 3) the fact that no new participants are being allowed in the Defined Contribution Plan. Following the presentation and discussion by the Council, the Council requested that the SIO and staff do more research and provide additional information at the February 2014, meeting.

Ms. Werner-Robertson left the meeting at 3:03 p.m.

**STATE FARM/OPPENHEIMER 529 INVESTMENT OPTIONS REQUEST: 3:03 p.m. to 3:06 p.m.** Mr. States and Mr. Kotary discussed the following investment changes requested in the letter included in the meeting book to the SIO dated October 31, 2013, by Oppenheimer for the State Farm College Savings Plan:

1. Reduce the allocations to the State Farm Bond Fund (benchmark: Barclays U.S. Aggregate Bond Index) and increasing the allocations to the Federated U.S. Government Securities Fund: 1-3 Years (benchmark: BofA Merrill Lynch 1-3 Year Treasury Index) and the Oppenheimer Institutional Money Market Fund. The main purpose for the allocation shift is to reduce the duration of the College Now and 1-3 Years to College portfolios.
2. Add an allocation to the Oppenheimer Main Street Fund as a third large cap U.S. Equity fund. The suggested change would increase manager diversification within the large cap U.S. Equity allocation for each portfolio (except the Money Market portfolio). The proposal is to take the existing allocation to large cap U.S. Equities and spread that allocation among three funds versus two.

Mr. States recommends that these changes be made. Following discussion by the Council, Mr. Conley moved to accept the proposed changes as outlined by Oppenheimer in the October 31, 2013, letter to the SIO. Mr. Maginn seconded the motion. Dr. DeFusco called for a roll call vote.

VOTING AYE:                   Dr. DeFusco  
  Mr. Maginn  
  Mr. Dinkel  
  Mr. Conley

ABSENT NOT VOTING:        Ms. Werner-Robertson

**STATE TREASURER'S REPORT: 3:06 p.m. to 3:10 p.m.** Treasurer Stenberg stated that as of October 31, 2013, total assets of the Nebraska Educational Savings Trust (NEST) were \$3.3 billion. Treasurer Stenberg indicated that NEST received a bronze ranking from Morningstar and discussed the new scholarship program "Dear Grandchild".

**AUDIT COMMITTEE REPORT: 3:10 p.m. to 3:20 p.m.** Dr. DeFusco indicated that he and Mr. Maginn recently met with Mr. Jurich via conference call discussing the vacant Internal Auditor position. A copy of the report is included in the attachments to the minutes.

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**STATE INVESTMENT OFFICER'S REPORT: 3:20 p.m. to 3:30 p.m.**

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

**Policy Manual Update:** Mr. States indicated that updates to the NIC Policy Manual will be distributed at the February 2014 Council meeting.

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

**IMAs Executed Since the Last Meeting:** Mr. States reported that documents for Torchlight Debt Opportunity Fund IV, The Resolute Fund III, L.P. and Oaktree Real Estate Debt Fund have been completed. In process are the changes for the fixed income managers, PIMCO, BlackRock, Loomis, and Rogge.

**2014 Meeting Schedule:** The Council decided on the following meeting dates for 2014, start time 8:30 a.m.:

February 25, 2014  
March 25, 2014  
May 20, 2014  
July 15, 2014  
August 26, 2014  
September 25, 2014  
November 17, 2014

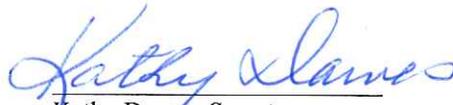
**PUBLIC COMMENT ON THE AGENDA: 3:30 p.m. to 3:31 p.m.** Dr. DeFusco asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:31 p.m. Mr. Dinkel 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

ABSENT NOT VOTING:        Ms. Werner-Robertson

The motion carried.

  
Kathy Dawes, Secretary