

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 25, 2016**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the Cornhusker Hotel, in Lincoln, NE.

The Council members were notified of this meeting by letter dated February 12, 2016. Public notice was posted on the Nebraska Public Meeting Calendar on February 5, 2016, and published in the Lincoln Journal Star on February 14, 2016. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Dinkel
Mr. John Conley
Mr. Keith Olson (departed at 11:10 a.m.)
Treasurer Don Stenberg
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. Michael Walden-Newman, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, O'Neill Heinrich Damkroger Bergmeyer & Shultz
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. Chris Sanders, Nebraska Investment Council
Ms. Joyce Schlautman, Nebraska Investment Council
Ms. Jennifer Hatfield, Nebraska Investment Council
Mr. Max Kotary, Aon Hewitt
Mr. Bruce Ingram, Aon Hewitt
Ms. Heidi Wallace, Nebraska State Treasurer's Office

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:31 a.m. to 8:32 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.

APPROVAL OF THE MINUTES OF THE NOVEMBER 16, 2015 MEETING: 8:32 a.m. to 8:34 a.m. Mr. Conley moved that the November 19, 2015, draft of the minutes of the November 16, 2015, meeting be approved as written. Mr. Dinkel seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Dr. DeFusco Mr. Dinkel Mr. Conley Ms. Werner-Robertson
ABSTAINING:	Mr. Olson

The motion carried.

COUNCIL MEMBER BUSINESS: 8:34 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson introduced Mr. Keith Olson who was recently appointed to the Council by Governor Ricketts to fill the vacancy of Mr. John Maginn. Ms. Werner-Robertson stated that she is excited to have him join the Council and looks forward to him sharing his knowledge and input. Mr. Olson manages the Omaha, NE office of Beirne Wealth Consulting, joining the firm in 2015. Mr. Olson stated that he was born in Sioux City, IA, but moved around living in both Grand Island and Omaha. A Chartered Financial Analyst (CFA), Mr. Olson holds a bachelor's degree in business administration from the University of Nebraska-Kearney and a master's degree in business administration from the University of Nebraska-Omaha. Mr. Olson previously worked

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for Mutual of Omaha, NE Brown Brothers Harriman & Co. NY, NY, Caisse de Depot et Placement du Quebec, Montreal, Canada, Bowen Capital Management and Environmental Investment Services Asia Limited both in Hong Kong, China.

Mr. Walden-Newman stated that Mr. Olson confirmation hearing before the Nebraska Retirement Systems Committee was held this past Monday and that the Committee was intrigued with his background and global experience. Mr. Olson will be able to vote after he is confirmed by the full Legislature.

COUNCIL ADMINISTRATIVE REPORT: 8:40 a.m. to 9:20 a.m.

SIO Report: Mr. Walden-Newman distributed copies of Aon Hewitt's "Making Space for New Ideas", which gives suggestions on ways institutional investment programs can make "space" for new ideas at their meetings. A copy is included in the attachments to the minutes.

Mr. Walden-Newman indicated that Aon Hewitt will be presenting an Asset Liability Study at the July 19-20, 2016, Council Retreat at the Lied Lodge in Nebraska City. The last Asset Liability Study was done in 2013.

Mr. Walden-Newman discussed legislation affecting the Nebraska Investment Council. LB 1069 would have required the State Investment Officer to review investments of state funds in both clean energy and fossil fuels, and to the extent that it is prudent, begin the process of divesting from fossil fuels and invest in clean energy. Mr. Walden-Newman testified in opposition to the bill; the bill has been indefinitely postponed. Floor debate is scheduled for today on LB 447. LB 447 changes provisions relating to the Class V School Employees Retirement Act. Mr. Walden-Newman informed the Council that he has met the new Executive Director of the Omaha School Employees' Retirement System (OSERS), Ms. Cecelia Carter.

Mr. Walden-Newman said that he is conducting a review of the Council's status as a Qualified Institutional Buyer (QIB) when investing various assets of the Council's portfolio. To the extent that any corrections are needed, Mr. Walden-Newman advised that he will develop and implement a prudent corrective plan and update the Council as appropriate.

Mr. Walden-Newman informed the Council that Aon Hewitt has agreed to a one year extension of the investment consultant agreement with the Nebraska Investment Council. The term of the extension will be from October 1, 2016 through September 30, 2017; the extension will be at its' current rate and conditions. Mr. Kotary stated that Aon Hewitt is happy to stay on board an additional year.

Legal Report: Mr. Heinrich reported that the agreement for the ABLE contract has been finalized and thanked the Treasurer's Office for their assistance. Also, finalized were the agreements for Ares ACOF V, L.P.; HarbourVest Dover IX, L.P.; and Metropolitan Real Estate Partners Secondaries and Co-Investments, L.P.

Budget Report: Mr. Walden-Newman informed the Council that effective with this meeting the State's Budget Status Report for the NIC will replace the budget report that was previously included in the Council meeting's materials. We hope you find it more informative and more user-friendly.

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

STATE TREASURER'S REPORT: 9:20 a.m. to 9:30 a.m. Treasurer Stenberg reported that as of December 31, 2015, total assets in the Nebraska Educational Savings Plan Trust (NEST) were \$3.8 billion. There are over 243,000 accounts; more than 70,000 of those are Nebraska accounts. Treasurer Stenberg discussed some of the current contests and promotions for the 529 Plans, "Why I Want to Go to College" and the Personal Finance Challenge. Treasurer Stenberg reported that Savingforcollege.com ranked the NEST Direct Plan as one of the nation's top ten performing 529 college savings plans. Treasurer Stenberg gave an overview of the *Enable* program scheduled to be launched this year. *Enable* is the result of the federal Achieving a Better Life Experience Act. Treasurer Stenberg reported that Congress has changed the law for the ABLE program by eliminating the state residency requirement. Prior to the elimination of the residency requirement, a qualified ABLE beneficiary could only establish an ABLE account in their particular state of residency (provided their state was offering an ABLE program). By allowing ABLE beneficiaries the ability to enroll in programs outside their state, the beneficiary will now be able to have additional choices in choosing which program best meets their individual

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needs and will allow qualified individuals to open their ABLE account much sooner in states with established programs.

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST: 9:30 a.m. to 10:20 a.m. Treasurer Stenberg stated First National Bank of Omaha (FNBO) is recommending several investment changes to the Nebraska Educational Savings Plan Trust for the NEST Direct, NEST Advisor, and TD Ameritrade Plans. The recommendation is to replace certain existing funds with a new fund option, adding a new individual investment option in the Advisor Plan, and changing the asset allocation across the fixed income and real estate portion of many of the portfolios.

FNBO:

Mr. Stacy Auman, Director, FNBO's Investment Management Group and Ms. Deborah Goodkin, Program Director, Nebraska's 529 College Savings Plans discussed the proposed allocation and fund changes to the NEST Direct, NEST Advisor, and the TD Ameritrade Plans. Ms. Winkler commented on the NIC's review of the proposed changes and indicated that NIC staff supports all proposed changes. Mr. Kotary stated that Aon Hewitt is comfortable with all of the changes FNBO is proposing. A copy of their presentation and the proposed changes was included in the meeting materials.

Following discussion by the Council, Dr. DeFusco moved that the Council approve the investment changes proposed by First National Bank of Omaha on pages 3 through 7 of their presentation for the NEST Direct, NEST Advisor, and TD Ameritrade Plans. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco Mr. Dinkel Mr. Conley Ms. Werner-Robertson
ABSTAINING:	Mr. Olson

The motion carried.

State Farm: Mr. Corey, Director, State Farm Mutual Funds, updated the Council on changes State Farm is proposing. State Farm has decided to change the underlying structure for several of its mutual fund offerings, including the State Farm Bond Fund. The State Farm Bond Fund is one of the underlying investments in the State Farm College Savings Plan. State Farm is proposing that the State Farm Bond Fund will move from being actively-managed to investing entirely in three passively managed Vanguard index funds. Prior to the expected implementation date of June 19, 2016, changes to the underlying investment fund will need to be approved by the Council. At this time, staff is not recommending making any changes to any portfolios in the State Farm College Savings Plan.

NPERS REPORT: 10:20 a.m. to 10:30 a.m. Ms. Chambers informed the Council that Ms. Pamela Lancaster, Hall County Supervisor in Grand Island has been appointed as the County plan representative to the PERB replacing Richard Wassinger whose term expired. Also, Judge J. Russell Derr's confirmation hearing was recently held. Ms. Chambers reported that the record keeping services' contract has been awarded to Ameritas. The five year contract is effective October 1, 2016, with three renewal periods. Ms. Chambers reported that the Secretary of State's office will be providing scanning services for the school ledger books and microfilm. The Secretary of State does not have equipment for scanning microfiche, so a RFP for this project will be issued. Ms. Chambers discussed current legislation that could affect NPERS including: 1) LB 447 which changes provisions relating to the Class V School Employees Retirement Act; 2) LB 467 which affects the State Patrol Plan creates a second tier of reduced benefits for officers who became members on and after July 1, 2016; 3) LB 655 which creates a cash balance plan for firefighters from first class cities.

The Council took a break and reconvened at 10:40 a.m.

4th QUARTER PERFORMANCE REPORT BY AON HEWITT: 10:40 a.m. to 11:10 a.m. Mr. Kotary reviewed the 4th Quarter 2015 Performance Review included in the meeting materials, commenting on the economic and market environment. Mr. Kotary noted that at the end of calendar year 2015, the total assets under

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management totaled \$21.9 billion. Mr. Kotary's presentation included performance review, fund monitoring, risk budgeting and fees. Mr. Kotary also reviewed the Alternative Investment Performance Supplement, as of September 30, 2015. A copy of the report was included in the meeting materials.

Mr. Olson left the meeting at 11:10 a.m.

AON HEWITT PRIVATE EQUITY PERFORMANCE: 11:10 a.m. to 11:25 a.m. Mr. Ingram reviewed with the Council the CY15 Q3 Private Equity Performance Report. The report which was included in the meeting materials reviewed the asset allocation by strategy for the Defined Benefit/Cash Balance Benefit (DB/CBB) and the General Endowments (GE) portfolios. Mr. Ingram's report also reviewed the diversification breakdown of the DB/CBB portfolio benchmarking, quarterly drivers of performance and provided a projected tactical plan for 2016 for the DB/CBB portfolios. The plan would increase the investment pace for the DB/CBB to \$175 million in 2016.

PRIVATE EQUITY POTENTIAL INVESTMENTS: 11:25 a.m. to 11:55 a.m. Mr. Jurich and Mr. Ingram reviewed a new fund being offered by Leonard Green & Partners, L.P., a current Council investment manager. The new Fund, Green Equity Investors VII, L.P. will invest in middle-market companies located in North America. The Firm focuses on companies operating in four key areas: Retail/consumer, healthcare/wellness, business/consumer services, and distribution. The Firm is seeking \$8.5 billion (hard cap of \$9.1 billion) in capital commitments and intends to make between 18 and 25 investments. The Firm will invest between \$250.0 million and \$750.0 million in equity per transaction in companies with enterprise values of \$500 million to \$5.0 billion. While the Firm is primarily a control investor, Leonard Green & Partners, L.P. has also invested in shared-control and non-control transactions. The Firm's investments have been in the form of traditional buyouts, going-private transactions, recapitalizations, growth capital investments, corporate carve-outs and selective public equity and debt positions. While the structure and control of investments are variable, investing in market leading companies is the core focus. Mr. Ingram discussed the investment merits and concerns associated with Green Equity Investors VII, L.P. and the Firm. Mr. Ingram indicated that as part of the NIC's 2016 private equity investment pacing of \$175 million for the Defined Benefit/Cash Balance Benefit Plans, Aon Hewitt supports the NIC staff's recommendation to make a \$50 million commitment to Green Equity Investors VII, L.P., subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on Aon Hewitt's due diligence of this fund and is supported by its full due diligence report. A copy of their presentation was included in the meeting materials.

Following discussion by the Council, Dr. DeFusco moved that the Council commit \$50 million of the Defined Benefit Plans and Cash Balance Benefit Plans to Green Equity Investors VII, L.P. subject to completion of legal review and satisfactory agreements of Terms. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Conley Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel
ABSENT:	Mr. Olson

The motion carried.

Mr. Jurich and Mr. Ingram reviewed a new fund being offered by McCarthy Partners Management, LLC, a current Council investment manager. The new Fund, McCarthy Capital Fund VI, L.P. (Fund VI), is a small buyout fund, investing in lower-middle market companies in a variety of industries across the United States. The Fund is targeting between \$250 million and \$350 million of capital commitments and will make equity investment

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between \$10 million and \$30 million. Fund VI will focus on buyouts and recapitalizations of private companies and expansion of private companies through both organic growth and add-on acquisitions. Mr. Jurich provided background information on the Firm. Mr. Ingram indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of Fund VI. Mr. Ingram discussed the investment merits and concerns associated with Fund VI and the Firm. Mr. Ingram indicated that as part of the NIC's 2016 private equity investment pacing of \$175 million for the Defined Benefit/Cash Balance Benefit Plans, Aon Hewitt supports the NIC staff's recommendation to make a \$40 million commitment to McCarthy Capital Fund VI, L.P., subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on Aon Hewitt's due diligence of this fund and is supported by its full due diligence report. A copy of their presentation was included in the meeting materials.

McCARTHY CAPITAL PRESENTATION: 11:55 a.m. to 12:20 p.m.: Mr. Walden-Newman introduced Mr. Michael McCarthy, Chairman and Mr. Patrick Duffy, President and Managing Partner. Their presentation which was included in the meeting materials discussed the Firm, performance, investment strategy, principles, and established industry network.

Following the presentation and discussion by the Council, Dr. DeFusco moved that the Council commit \$40 million of the Defined Benefit Plans and Cash Balance Benefit Plans to McCarthy Capital Fund VI, L.P. subject to completion of a legal review and satisfactory agreement of Terms. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel Mr. Conley
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ABSENT:	Mr. Olson
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The motion carried.

The Council took a break and reconvened at 12:40 p.m.

OPERATING INVESTMENT POOL (OIP) BY JOE SPITZNAGEL AND JEREMIAH GARBER: 12:40 p.m. to 1:25 p.m. Mr. Spitznagel and Mr. Garber's presentation which was included in the meeting materials discussed the following:

- Impact the Securities and Exchange Commission's (SEC) Money Market Reform changes would have on the OIP and what alternative cash management changes would need to be done in order to comply with the SEC rules scheduled to take effect in October 2016
- Security lending/same day settle trade issues
- OIP Net Cash Flow
- OIP General and Reserve Funds
- Internal Watch List
- OIP Returns

AUDIT COMMITTEE REPORT: 1:25 p.m. to 1:30 p.m. Dr. DeFusco, chairman of the Audit Committee reported that he had met with Ms. Joyce Schlautman, Internal Auditor via conference call on February 17, 2016. Dr. DeFusco stated that the Audit Committee will continue to meet quarterly with the Internal Auditor and provide short quarterly updates at the Council meetings. Dr. DeFusco informed the Council that Mr. Conley has agreed to serve on the Audit Committee to fill the vacancy left by Mr. Maginn; and that Ms. Werner-Robertson has confirmed his appointment. A copy of the Audit Committee Report was distributed to the Council and is included in the attachments to the minutes.

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COUNCIL POLICY REVIEW: 1:30 p.m. to 2:18 p.m. Mr. Walden-Newman presented to the Council for their approval several policies that have been cleaned-up or that he is requesting that the policy be deleted.

Risk Budgeting Policy: Following Council discussion, Dr. DeFusco moved that the Nebraska Investment Council delete the Risk Budgeting Policy. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Dr. DeFusco
 Mr. Dinkel
 Mr. Conley
 Ms. Werner-Robertson

ABSENT: Mr. Olson

The motion carried.

Private Equity Investment Policy: Following Council discussion, Dr. DeFusco moved that the Nebraska Investment Council approve the new Private Equity Investment Policy. 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

ABSENT: Mr. Olson

The motion carried.

Real Estate Investment Policy: Following Council discussion, Dr. DeFusco moved that the Nebraska Investment Council approve the new Real Estate Investment Policy. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Dinkel
 Mr. Conley
 Ms. Werner-Robertson
 Dr. DeFusco

ABSENT: Mr. Olson

The motion carried.

Securities Litigation Policy: Following Council discussion, Dr. DeFusco moved that the Nebraska Investment Council approve the new Securities Litigation Policy. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Dinkel
 Mr. Conley
 Ms. Werner-Robertson
 Dr. DeFusco

ABSENT: Mr. Olson

The motion carried.

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PUBLIC COMMENT ON THE AGENDA: 2:18 p.m. to 2:19 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

NEXT MEETING: 2:19 p.m. to 2:20 p.m. Thursday, March 24, 2016 – 1526 K Street Building, Conference Room D, Lincoln, NE

At 2:20 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Ms. Werner-Robertson
Dr. DeFusco
Mr. Dinkel
Mr. Conley

ABSENT: Mr. Olson

The motion carried.



Kathy Dawes, Secretary