

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 25, 2014**

Public notice was posted on the Nebraska Public Meeting Calendar on December 31, 2013, and published in the Lincoln Journal Star on February 16, 2014. Ms. Werner-Robertson chaired the meeting and Ms. Winkler recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Mr. John Maginn
Mr. John Dinkel
Mr. John Conley
Treasurer Don Stenberg
Ms. Phyllis Chambers

MEMBERS ABSENT:

Dr. Richard DeFusco

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & 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
Ms. Angela Dasher, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Mr. Mike Comstock, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. Michael Zaun, Hewitt EnnisKnupp
Ms. Nancy Reimer, Ameritas

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:38 a.m. to 8:38 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 18, 2013 MEETING: 8:38 a.m. to 8:39 a.m. Mr. Maginn moved that the December 4, 2013, draft of the minutes of the November 18, 2013, meeting be approved as written. Mr. Conley seconded the motion. Ms. Werner-Robinson called for a roll call vote.

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

COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:41 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and welcomed Kathy Dawes back after her leave of absence. She informed the Council that the Governor had reappointed her to the Council and as Chair and that the confirmation hearing on the appointment had occurred the prior week. Mr. States indicated that Dr. DeFusco is ill and would not be attending the meeting today.

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4th QUARTER PERFORMANCE REPORT BY MAX KOTARY, HEWITT ENNISKNUPP: 8:41 a.m. to 9:46 a.m. Mr. Kotary reviewed the 4th Quarter 2013 Performance Review included in the meeting book, commenting on the economic and market environment. Mr. Kotary noted that at the end of calendar year 2013, the total assets under management for all plans were \$20.6 billion, up from \$17.8 billion in 2012. Mr. Kotary's presentation included performance review, fund monitoring, risk budgeting and expenses. Mr. Kotary noted that none of the investment managers for the retirement plans were on the Watchlist.

Mr. Kotary reviewed with the Council Hewitt's assessment of Turner Investments. Turner Investments manages Small/Mid-cap Growth Funds for the Defined Benefit Plans, the Cash Balance Plans, the Endowments, the Defined Contribution Plan, and the Deferred Compensation Plan. Mr. Kotary noted that while investment performance has improved recently, they still have concerns about the Turner organization. Hewitt EnnisKnupp and the NIC staff are recommending the termination of the Turner Investment portfolios for all plans. Mr. Kotary reviewed the various options for replacing Turner. The recommendation by the consultant and NIC staff is to transfer all of the assets invested with Turner to the DFA U.S. Small Cap Strategy. Included in this recommendation would be that all of the assets invested currently in the DFA U.S. Small Cap Value strategy also be transferred to the DFA U.S. Small Cap Strategy. Following discussion by the Council, Mr. Maginn moved to terminate all of the Turner Investment portfolios with the assets to be transferred to the DFA U.S. Small Cap strategy, and all of the assets invested in the DFA U.S. Small Cap Value strategy are to be transferred to the DFA U.S. Small Cap strategy. Furthermore, Mr. States shall have the authority to execute any and all agreements and related instruments reasonably necessary to implement the Council's directive. 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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ABSENT NOT VOTING:	Dr. DeFusco
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The motion carried.

The Council took a break and reconvened at 9:57 a.m.

PRIVATE EQUITY PORTFOLIO UPDATE BY HEWITT ENNISKNUPP: 9:57 a.m. to 10:50 a.m. Ms. Rode and Mr. Zaun reviewed the Private Equity Third Quarter 2013 Performance Report included in the meeting book. The report included a market overview, portfolio overview, fund performance, portfolio diversification, pacing update, and the 2014 tactical allocation plan.

OPERATING INVESTMENT POOL (OIP) UPDATE AND PERFORMANCE REVIEW BY JOE SPITZNAGEL AND JEREMIAH GARBER: 10:50 a.m. to 11:30 a.m. Mr. Spitznagel and Mr. Garber's presentation which was included in the meeting book discussed the portfolio's performance through December 31, 2013. As of December 31, 2013, the Operating Investment Pool's balance totaled over \$3.6 billion. Mr. Spitznagel reviewed the proposed investment guideline changes for the portfolios. The Council discussed available benchmarks for the portfolios and asked that additional benchmark options be reviewed. Mr. Maginn moved to accept all of the recommended guideline changes for the Operating Investment Pool except for the benchmark change. The investment policy statement for the Operating Investment Pool will be updated to reflect these changes. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The Council took a break and reconvened at 11:43 a.m.

BANK LOAN FUND FOLLOW-UP AND MANAGER PRESENTATIONS: 11:43 a.m. to 1:32 p.m.

Mr. Kotary stated that the Council made the decision to allocate 5% of the total assets of the DB/CBB retirement plans to bank loans at the November 18, 2013 Council meeting. Following the November Council meeting, Hewitt EnnisKnupp and NIC staff met to discuss potential bank loan manager candidates. Two bank loan managers were invited to present at today's meeting.

FRANKLIN TEMPLETON: Mr. States introduced Mr. Daniel R. Vedern, Vice President U.S. Institutional Sales, Mr. David Ardini, CFA, Vice President, Lead Portfolio Manager, and Ms. Reema Agarwal, CFA, Vice President and Co-Director Investment Research. Their presentation which was included in the meeting book discussed the Firm, the Fund's strategy, and their credit research capabilities.

The Council took a break at 12:26 p.m. and reconvened at 12:37 p.m.

LOOMIS SAYLES: Mr. States introduced Mr. Greg Ward, Vice President Client Portfolio Manager and Mr. Kevin Perry, Vice President, Portfolio Manager. Their presentation which was included in the meeting book discussed the Firm, investment research, credit process, and portfolio construction.

Following the presentations and discussion by the Council, Mr. Conley moved to approve Franklin Templeton Fixed Income Floating Rate Debt Group and Loomis Sayles to each manage an investment of 2.5% of the total assets of the DB/CBB retirement plan assets in floating rate bank loans in a separate account or bank loan fund at the determination of the State Investment Officer. The approval authorizes the State Investment Officer to take all action necessary, including execution of any investment management agreement and/or subscription documents upon the review and approval by the NIC legal counsel of all legal documents. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

STATE TREASURER'S REPORT: 1:32 p.m. to 1:47 p.m. Treasurer Stenberg reported that as of December 31, 2013, total assets in the Nebraska Educational Savings Plan Trust were \$3.4 billion. There are approximately 214,000 accounts of which 61,000 are Nebraskans. The average age of the child is 13 and the average of the account owner is 53. Treasurer Stenberg discussed some of the current contests and promotions for the 529 Plans. He reminded everyone that starting in 2014, 529 account owners are eligible to receive a tax deduction on their Nebraska State Income Taxes of up to a maximum of \$10,000 for a joint filing. Previously, this deduction was a \$5,000 maximum.

NPERS DIRECTOR'S REPORT: 1:47 p.m. to 2:04 p.m. Ms. Chambers informed the Council that Lt. Dennis Leonard has been appointed as the State Patrol representative to the PERB replacing Darrell Fisher who resigned to become the Director of the State Crime Commission. Also, Ms. Janis Elliott has been reappointed to the board to serve as the School plan representative. Ms. Chambers discussed current legislation that could affect NPERS, including LB 1042 which affects the purchase of refunded service for plan members.

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AUDIT COMMITTEE REPORT: 2:04 p.m. to 2:08 p.m. Mr. Maginn announced that the NIC has hired a new Internal Auditor who will start on March 10, 2014. The audit committee did not formally meet this quarter, but communicated with the SIO and the Deputy SIO about the status of the Internal Auditor search and review compliance. A copy of the committee's comments is included in the attachments to the minutes. Mr. Dinkel moved to approve the audit committee report. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

STATE INVESTMENT OFFICER'S REPORT: 2:08 p.m. to 2:19 p.m.

DC/DCP Trade Processing Update: Mr. States gave a brief update on the NIC staff's progress in developing a new process for delivery of the DC/DCP daily trades to our investment managers. Mr. Heinrich updated the Council on contract issues relating to the project.

RECEIPT OF LEGAL ADVICE FROM COUNSEL RELATED TO POTENTIAL SECURITIES FRAUD CLAIM: 2:19 p.m. to 2:43 p.m.

At 2:19 p.m. Mr. Dinkel made the following motion: I move to enter closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to a potential securities fraud claim. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. 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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, Mr. Jurich, and Ms. Winkler be present and all others in attendance were excused.

At 2:43 p.m. Mr. Maginn moved that the Council return to open session. 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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

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ANNUAL PERFORMANCE REVIEW – LEGAL SERVICES: 2:44 p.m. to 2:50 p.m.

At 2:44 p.m. Mr. Conley made the following motion: I move to enter closed session. The subject matter of the closed session is the annual performance review and evaluation of the appointed special assistant attorneys general for the NIC, Harding & Shultz, PC, LLO, including Chris Heinrich. The reason for the closed session is to protect the reputation of the law firm and its attorneys. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Jurich, and Ms. Winkler be present and all others in attendance were excused.

At 2:50 p.m. Mr. Maginn moved that the Council return to open session. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

ANNUAL PERFORMANCE REVIEW – INVESTMENT CONSULTANT: 2:51 p.m. to 3:17 p.m.

At 2:51 p.m. Mr. Dinkel made the following motion: I move to enter closed session. The subject matter is the annual performance review and evaluation of the investment consultant for the NIC, AON Hewitt Ennis Knupp. The reason for the closed session is to protect the reputation of the investment consultant. Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, Mr. Jurich, and Ms. Winkler be present and all others in attendance were excused.

At 3:17 p.m. Mr. Maginn moved that the Council return to open session. 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

The motion carried.

STATE INVESTMENT OFFICER'S REPORT: 3:17 p.m. to 3:29 p.m.

Legislative Update: Mr. States reviewed two bills of interest that are now on General File: LB 713 which affects the TDOA program and LB 918 which affects the State and County Retirement Plans.

Agency Budget Update: Mr. States reviewed the Agency's January 31, 2014 Budget Report, which was handed out at the meeting and reported that the Agency is currently under- budget and likely to have a carry-over for next fiscal year. The budget includes funding for the new accounting position which is currently being created.

Securities Lending Quarterly Report: Mr. States discussed the report, which was included in the meeting book.

IMAs and Partnership Agreements Executed Since Last Meeting: Mr. States reported the amendments to the fixed income investment guidelines for BlackRock, Loomis Sayles, PIMCO and Rogge had been completed. The subscription documents for Pine Brook Partners Fund II had been completed.

WG Trading: Mr. Heinrich informed the Council that the WG Trading case has been assigned to a new judge.

Educational Seminars and Conferences: Notice of an upcoming investment conference was included in the meeting book.

Upcoming Staff Travel: Mr. States reported that it's the beginning of the private equity and real estate annual meeting and investment conference cycle. Staff plans to attend many of the advisory and annual meetings and upcoming conferences. Mr. States mentioned that he will be attending the Mountain States Institutional Investors Forum in March.

Action Plan: The March 25, 2014 Council meeting will be at the 1526 Building, 4th Floor, Conference Room D.

PUBLIC COMMENT ON THE AGENDA: 3:30 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:30 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: Mr. Maginn
 Mr. Dinkel
 Mr. Conley
 Ms. Werner-Robertson

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.



JoLynn Winkler, Secretary