

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
March 26, 2015**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the 1526 Building in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on March 5, 2015, and published in the Lincoln Journal Star on March 15, 2015. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

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

**NONMEMBERS IN ATTENDANCE:**

Mr. Michael Walden-Newman, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
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  
Mr. Christopher Heinrich, O'Neill Heinrich Damkroger Bergmeyer & Shultz, P.C., L.L.O.  
Mr. Max Kotary, Aon Hewitt  
Mr. Mike Comstock, Aon Hewitt  
Mr. David Rose, Aon Hewitt  
Mr. Brian Conry, PineBridge Investments

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 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 FEBRUARY 26, 2015 MEETING: 8:37 a.m. to 8:38 a.m.** Mr. Maginn moved that the March 13, 2015, draft of the minutes of the February 26, 2015, meeting be approved as written. Mr. Conley seconded the motion. Ms. Werner-Robinson 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.

**COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:43 a.m.** Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson stated that today's agenda is a full, but doable one and complimented Mr. Walden-Newman on his work putting it all together.

**NIC ADMINISTRATIVE REPORT: 8:43 a.m. to 9:10 a.m.**

**SIO Update:** Mr. Walden-Newman stated that going forward the Administrative Report will be given at the beginning of each meeting rather than at the end. It may also be necessary to move some agenda items around to accommodate presenter's travel schedule. Mr. Walden-Newman reported that he had recently met with Ms. Werner-Robertson and Mr. Conley and that he plans to meet with the rest of the Council members in the near

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future. He and the investment staff have been meeting with NIC investment managers during the month.

**Annual Report:** Mr. Walden-Newman informed the Council that he presented to the Retirement Systems Committee the NIC's Annual Report for CY14. Also attending from the NIC were Mr. Jurich and Ms. Dawes. Mr. Walden-Newman thanked Mr. Jeremiah Garber, Portfolio Manager, for coordinating efforts in completing the annual report.

**Legislative Report:** Mr. Walden indicated that Ms. Chambers would discuss in her report legislation relating to the possible merger of a portion of the Omaha School Employees Retirement System with the Nebraska School Employees Retirement System.

**Agency Administration:** Mr. Walden-Newman reported that State Street Bank has indicated that no Demand Deposit Account maintenance charge will be assessed and that the approved five year contract effective July 1, 2015, is currently being reviewed by the Council's attorney. Mr. Walden-Newman informed the Council that the Governor has approved the NIC's request to retain Mr. Chris Heinrich and his law firm, O'Neill Heinrich Damkroger Bergmeyer & Shultz, P.C., L.L.O., as legal counsel to the Nebraska Investment Council. The NIC is negotiating a three year contract with the firm. Mr. Heinrich discussed the current organizational structure of the firm. Mr. Walden-Newman reported that plans for the Council Retreat in July are being developed. Mr. Maginn suggested inviting members of the Retirement Systems Committee to participate in a discussion on the Defined Benefits Plans' 8% assumed rate of return.

**Agency Budget Update:** Ms. Dawes reviewed the Agency's February 28, 2015 Budget Report and reported that the Agency is currently under-budget for the fiscal year.

**Action Plan Through December 31, 2015, Including Special Projects:**

**New Accountant Position:** Ms. Dawes reported that Ms. Jennifer Hatfield has been hired to fill the new accountant's position. Ms. Hatfield's first day with the NIC will be April 8, 2015.

**New Accountant Training and Records Retention Project:** Ms. Dawes discussed the duties and responsibilities of the new position and the types of training planned for Ms. Hatfield. Ms. Dawes also stated that one of the big projects she will be working on this year is the updating of the NIC's Records Retention Schedule, which Ms. Hatfield will assist with.

**Review of Defined Contribution/Deferred Compensation Plan (DC/DCP):** Ms. Winkler discussed her 2015 special project which is a review of the Defined Contribution/Deferred Compensation Plans. Ms. Winkler stated that AON Hewitt will provide assistance on what other plans are doing and if any improvements are needed to ensure soundness of the plans.

**Agency Cash Flow Process:** Mr. Jurich indicated that his 2015 special project will be to update the Agency's cash flow process with a more uniform approach and developing an electronic documentation process.

**Asset Allocation:** Mr. Walden-Newman indicated that he will be reviewing in 2015 the asset allocation of portfolio funds and NIC policies.

**Upcoming Staff Travel:** Mr. Walden-Newman reported that Mr. Spitznagel will be attending the annual conference of the National Association of State Investment Professionals in Sioux Falls, SD at the end of April and Mr. Jurich will be attending Ares Capital's annual meeting in Beverly Hills, CA. Mr. Walden-Newman plans to visit several investment managers at their offices. Ms. Winkler just returned from attending the UBS client conference and board meeting in California.

**SECURITIES ANALYST FUNCTION BY CHRIS SANDERS: 9:10 a.m. to 9:45 a.m.** Mr. Sanders, Securities Analyst who is responsible for monitoring the private equity and real estate portfolios, data projects and process improvement projects in regards to compliance and the overall portfolio. Mr. Sanders discussed some of the processes and reports he has created. A copy of the presentation was included in the meeting book.

**REAL ESTATE MARKET UPDATE AND PORTFOLIO REVIEW BY AON HEWITT: 9:45 a.m. to 10:00 a.m.** Mr. Rose's presentation which was included in the meeting book reviewed the 3rd quarter 2014 real

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estate performance and gave a preliminary review of the 4<sup>th</sup> quarter.

**TORCHLIGHT DEBT OPPORTUNITY FUND V RECOMMENDATION: 10:00 a.m. to 10:10 a.m.** Mr. Rose reviewed with the Council a new fund being offered by one of the NIC's current managers Torchlight Investors, LLC. The Fund, Torchlight Debt Opportunity Fund V (Fund V) is a closed-ended Opportunity fund focused on high yield real estate debt investments in both the public and private markets. Mr. Rose indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of Torchlight Investors. Mr. Rose discussed the investment merits and concerns associated with the Firm. Mr. Walden-Newman indicated that staff and Aon Hewitt recommend that the Council commit \$40 million to Torchlight Debt Opportunity Fund V on behalf of the DB/CBB Plans. A copy of the presentation was included in the meeting book. Following discussion by the Council, Mr. Conley moved to commit \$40 million from the Defined Benefit and Cash Balance Benefit Plans to Torchlight Debt Opportunity Fund V, subject to legal review of the investment documents by counsel provided by Aon Hewitt and by the Council's attorney. Dr. DeFusco 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

The motion carried.

The Council took a break and reconvened at 10:35 a.m.

**NEW FIXED INCOME MANAGER FUNDING RECOMMENDATION BY AON HEWITT: 10:35 a.m. to 11:15 a.m.** At the February 26, 2015, Council meeting the Council had requested that the SIO and Aon Hewitt provide additional information on possible managers to manage part of the fixed income portfolio. Mr. Kotary and Mr. Comstock presentation which was included in the meeting book discussed the plan which would restructure the fixed income portfolio by replacing a portion of the PIMCO, BlackRock and Loomis Sayles assets in the Defined Benefit/Cash Balance Benefit Plans (DB/CBB), General Endowment Plans (GE), and the Excess Liability Fund with a core-plus fixed income manager. Aon Hewitt prepared an analysis of the most qualified core-plus fixed income managers based on factors such as conviction, fees, and portfolio fix. The analysis included review of the managers' investment process; historical returns and the volatility of those returns; correlation of excess returns with existing fixed income component managers; and strengths and weaknesses in Aon Hewitt's view. Possible candidates were discussed with the NIC's investment team and from those candidates, two managers Neuberger Berman and TCW/MetWest were invited to make finalist presentations in Lincoln to the NIC investment staff, with Aon Hewitt participating telephonically. Neuberger Berman was determined to be the best fit for this mandate. Mr. Kotary discussed the NIC current fixed income allocation in the DB/CBB, GE, and the Excess Liability Fund and made the following recommendations listed on pages 6 and 10 of the presentation:

Fixed income targets for the DB/CBB is to target a 15% allocation to Neuberger Berman within the DB/CBB fixed income component. Aon Hewitt would further recommend PIMCO's target allocation be reduced from 25.5% to 17.5%, and BlackRock's target allocation be reduced from 20.0% to 13.0%. In dollar terms, Neuberger Berman would receive an initial allocation of ≈\$525 million, with ≈\$300 million coming from PIMCO and ≈\$200 million coming from BlackRock. Loomis Sayles will also be used as a source of funds, but only because the manager's recent outperformance has led its actual allocation to exceed its target allocation.

Fixed income targets for the GE and the Excess Liability Fund (two options):

Alt #1 Loomis Sayles, 12.5%, PIMCO, 20%, BlackRock (Index), 47.5% and Neuberger Berman, 20%. Alt #1 preserves the higher target allocation to Loomis Sayles in an effort to ensure higher portfolio yields going forward. Alternative #1 would result in a ≈\$85 million initial allocation to Neuberger Berman.

Alt #2 Loomis Sayles, 6.0%, PIMCO, 23.5%, BlackRock (Index) 47.5% and Neuberger Berman, 23.0%. Alternative #2 would result in a ≈\$100 million initial allocation to Neuberger Berman.

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Aon Hewitt indicated that if the NIC would prefer a more risk-balanced approach to the GE income component (similar to what has been recommended for the DB/CBB) they would recommend Target Alternative #2. If the NIC would prefer higher portfolio yields to enable increased GE spending in the future, they would recommend Target Alternative #1.

**PRESENTATION BY NEUBERGER BERMAN: 11:15 a.m. to 12:25 p.m.** Mr. Walden-Newman introduced from Neuberger Berman, Mr. Paul Sauer, West Cost Public Institutions Client Coverage and Mr. Andy Johnson, Head of Global Investment Grade Fixed Income. Their presentations included an overview of the firm, investment team, investment philosophy, investment process, portfolio strategy and risk budgeting, risk management, and core plus bond management return. A copy of the presentation was included in the meeting book.

Following the presentation by Neuberger Berman and discussion by the Council, Mr. Maginn made the following motion: I move to adopt the recommendation of the NIC staff and Aon Hewitt to hire Neuberger Berman as a core-plus fixed income manager. Neuberger Berman will replace a portion of PIMCO, BlacRock and Loomis Sayles assets in the Defined Benefit/Cash Balance Benefit Plans and the General Endowment Plans and Excess Liability Fund using the target allocations described in the Aon Hewitt presentation materials pages 6 for the DB/CBB and page 10 Alt #2 for the General Endowment Plans and Excess Liability Fund, pending legal review of the investment documents by the Council's attorney. Dr. DeFusco 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.

**STATE TREASURER'S REPORT: 12:25 p.m. to 12:35 p.m.** Treasurer Stenberg reported total assets in the Nebraska Educational Savings Plan Trust were more than \$3.7 billion. There are over 225,000 accounts; more than 65,000 of those are Nebraska accounts. Assets and accounts continue to grow each month with the majority of investors in the Age-based portfolios. Treasurer Stenberg informed the Council of several current 529 contests and promotions; "Why I Want to Go to College"; NEST on the Farm Photo Drawing; Teach Children to Save; and NESTFest. The Treasurer in April will be traveling to several high schools in Nebraska for NEST Financial Scholars for Students Certification Ceremonies, recognizing students who have completed the financial literacy modules available through NEST Financial Scholars. Treasurer Stenberg discussed the Achieving a Better Life Experience (ABLE) Act, passed in December 2014 by Congress. ABLE amends the federal tax code to allow tax-free savings accounts to help finance disability-related needs. Treasurer Stenberg also discussed LB 591 a priority bill, which would establish the Achieving a Better Life Experience (ABLE) program, requiring the State Treasurer to implement the ABLE program to encourage people to save private funds for the purpose of supporting individuals with disabilities. The Treasurer reported that if passed an RFP would be completed for a program manager.

**NPERS DIRECTOR'S REPORT: 12:35 p.m. to 1:20 p.m.** Ms. Chambers stated that item #4 of the December 15, 2014, Report of the PERB Assumed Rate Committee has been revised at the request of Mr. Maginn to read "The PERB considered the statements of the Investment Council that they believe the assumed rate should be lower than 8% and that investment returns will be lower in the future. The Council does not want to assume more risk than they can measure, monitor, or manage by having an assumed rate that is too high." Revised copies of the report have been sent to Governor Ricketts, the State Budget Administrator, the Retirement Committee Chair, and the Appropriations' Committee Chair. Ms. Chambers reported no board members have been appointed to fill the current vacancies on the PERB. Ms. Chambers reported that she presented to the Retirement Systems Committee NPERS' 2015 Annual Report. Copies of the report were also distributed to the Council. Ms. Chambers discussed two priority bills of the Retirement Systems Committee. LB 468 changes benefit and contribution provisions relating to the Judges' retirement. LB 448 would make current and new members of the Omaha School Employees Retirement System (OSERS) members of the School Employees Retirement System of the State of Nebraska. Mr. Walden-Newman informed the Council that as part of a briefing on this legislation, Senator Nordquist, Chairman of the Retirement Systems Committee requested that the Nebraska Investment Council take

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over the investment of the plan. Mr. Walden-Newman suggested to Senator Nordquist that the NIC submit a proposed transition plan by September 1, 2015, with an effective date of July 1, 2016 with a possible timeline of 10 years for its merger into the School Employees Retirement System. The NIC will need to make sure that it has the authority to handle this. Mr. Walden-Newman indicated that until the NIC receives additional information it is not known if any additional resources would be needed, it may depend on the complexity of the portfolio. The NIC investment team will keep the Council apprised of any events dealing with this.

The Council took a break and reconvened at 1:45 p.m.

**INVESTMENT EDUCATION: "2015 INVESTMENT THEMES" BY TREY HEISKELL: 1:45 p.m. to 2:15 p.m.** Mr. Trey Heiskell, CFA, Managing Director, BlackRock, presentation discussed several big issues investors will face in 2015. A copy of the presentation was included in the meeting book.

**OTHER BUSINESS: 2:15 p.m. to 2:25 p.m.** Mr. Walden-Newman requested that the Council contact him with any suggestions for the July 14, 2015, Retreat topics. Mr. Maginn suggested digging deeper on the assumed rate of return and Mr. Conley suggested continuing the discussion on private equity.

**PUBLIC COMMENT ON THE AGENDA: 2:25 p.m. to 2:26 p.m.** Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:26 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. Conley Ms. Werner-Robertson Dr. DeFusco Mr. Maginn Mr. Dinkel
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The motion carried.

  
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Kathy Dawes, Secretary