

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 14, 2013**

A regular meeting of the Nebraska Investment Council convened at 8:31 a.m. at the Embassy Suites in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on April 9, 2013, and published in the Lincoln Journal Star on April 28, 2013. 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. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Ms. Shari Young, Hewitt EnnisKnupp
Mr. Mike Sheran, Hewitt EnnisKnupp
Mr. Armand Yambao, Hewitt EnnisKnupp

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 MARCH 26, 2013 MEETING: 8:32 a.m. to 8:33 a.m. Mr. Maginn moved that the April 2, 2013, draft of the minutes of the March 26, 2013, 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: 8:33 a.m. to 8:45 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. The Council discussed LB553, which the Governor had recently veto. LB553 addresses projected pension shortfalls for the Defined Benefit Plans, whose assets are managed by the Council. Mr. Maginn requested that the Governor, members of the Retirement Committee, and the PERB be invited to the Council's Board Retreat on July 16, 2013.

1ST QUARTER 2013 PERFORMANCE REPORT: 8:45 a.m. to 9:25 a.m. Mr. Kotary distributed copies of the 1st Quarter 2013 Performance Report, which was previously emailed to the Council and also distributed copies of the 1st Quarter 2013 Market Environment. Mr. Kotary's presentation included a market update and portfolio performance. Mr. Kotary reported that as of March 31, 2013, the NIC's assets under management totaled over \$18.5 billion. Copies of the handouts are included in the attachments to the minutes.

PRIVATE EQUITY PORTFOLIO UPDATE BY HEWITT ENNISKNUPP: 9:25 a.m. to 10:20 a.m. Ms.

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Rode, Ms. Young, and Mr. Sheran members of HEK's Private Equity Team reviewed the Private Equity Fourth Quarter 2012 Performance Report included in the meeting book. Ms. Rode indicated that a final Fourth Quarter 2012 Performance Report will be available soon. Ms. Rode reported good performance during the last quarter. The report included a portfolio overview, pacing update, 2013 tactical allocation plan, and the private equity outlook.

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

RECOMMENDATION FOR PRIVATE EQUITY INVESTMENT COMMITMENT FOR NEW MOUNTAIN PARTNERS, IV, L.P. AND CVC CAPITAL PARTNERS VI, L.P.: 10:35 p.m. to 12:05 p.m. New Mountain Partners, IV, L.P. In accordance with the Council's Private Equity Investment Policy, Mr. Jurich and HEK's Private Equity Team presented to the Council for their consideration a recommendation from staff and HEK to commit \$25.0 million to New Mountain Partners, IV, L.P. (NMP IV). NMP IV will invest across a diversified base of industries to reduce exposure to any one sector of the economy. Mr. Jurich gave an overview of the firm, investment strategy and process, performance, terms and conditions. HEK provided a due diligence summary analysis and overall rating. Following discussion by the Council, Mr. Conley moved to allocate \$25.0 million to New Mountain Partners, IV, L.P. from the Defined Benefit and Cash Balance Benefit Plans. Dr. DeFusco seconded the motion. The Council discussed the possibility of increasing the commitment because of the size of the private equity portfolio, commitment pacing, and questions about the appropriate number of total general partners and funds necessary to maintain diversification. Following the discussion Mr. Conley amended his previous motion from \$25.0 million to \$30.0 million to New Mountain Partners, IV, L.P. from the Defined Benefit and Cash Balance Benefit Plans, subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp 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
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The motion carried.

CVC Capital Partners VI, L.P. In accordance with the Council's Private Equity Investment Policy, Mr. Jurich and HEK's Private Equity Team presented to the Council for their consideration a recommendation from staff and HEK to commit €20.0 million (approximately \$26.0 million) to CVC Capital Partners VI, L.P. (CVC VI). CVC VI will invest in management buyouts, buyins, acquisitions, and recapitalizations, focusing on European and North American deals. Mr. Jurich gave an overview of the firm, investment strategy and process, performance, terms and conditions. HEK provided a due diligence summary analysis and overall rating. Mr. Maginn indicated that because HEK's review of CVC Capital Partners VI was not included in the meeting book he received, he would abstain from voting. Following discussion by the Council, Dr. DeFusco moved to allocate €20.0 million to CVC Capital Partners VI, L.P., subject to legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and the Council's attorney. 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
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ABSTAINING:	Mr. Maginn
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The motion carried.

The Council took a break and reconvened at 12:15 p.m.

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U.S. EQUITY SMALL/MID CAP MANAGER STRUCTURE ALTERNATIVES: 12:15 p.m. to 12:35 p.m. As requested by the Council at the March 26, 2013 Council meeting, Mr. States and Mr. Kotary provided available options for replacing Turner Investments if the portfolio performance does not improve in the next one or two quarters. HEK's analysis which was included in the meeting book assessed the adequacy of the NIC's exposure to the components of the U.S. public equity marketplace. A full review of Turner Investments is being done by HEK. Following the completion of the HEK report; an update and recommendation will be given to the Council at the August 27, 2013 meeting.

FIXED INCOME CYCLICAL/TRANSIENT ALTERNATIVES – FOLLOW-UP RESEARCH ON ADDITIONAL VALUE ADD AND OPPORTUNISTIC PRIVATE DEBT/CREDIT STRATEGIES BY HEK: 12:35 p.m. to 12:55 p.m. At the Council's request at the March 26, 2013 Council meeting, Mr. Kotary provided additional information on what impact the PIMCO Bravo II strategy could potentially have on the DB Plan's fixed income component if the strategy were to perform to expectations or if the strategy were to perform poorly. A copy of the analysis was included in the attachments to the minutes. Following discussion by the Council, Mr. Conley moved to commit \$100.0 million from the Defined Benefit and Cash Balance Benefit Plans to the PIMCO Bravo II Fund. The approval authorizes the State Investment Officer to take all action necessary to complete the subscription; subject to legal review of the investment documents by counsel provided by HEK and the Council's attorney. Dr. DeFusco 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.

2013 ASSET/LIABILITY STUDY INTRODUCTION BY HEK: 12:55 p.m. to 2:00 p.m. Mr. States stated that the Council's governance policy requires that an Asset Liability Study (ALS) for the retirement plans be made every three years. The last study was completed in the summer of 2010. Mr. States indicated that an ALS is being prepared by HEK and that a recommendation will be given at the July 16, 2013 Board Retreat. Mr. Armand Yambao, HEK Actuary, gave an overview of the ALS process. A copy of the presentation was included in the meeting book.

AUDIT COMMITTEE REPORT: 2:00 p.m. to 2:15 p.m. Dr. DeFusco stated that he and Mr. Maginn, Audit Committee members, had met with Ms. Westerman, Internal Auditor, via conference call on May 2, 2013. A copy of the Audit Committee Report was distributed to the Council. Dr. DeFusco indicated that the Audit Committee would be meeting in person with the Internal Auditor after today's meeting. A copy of the Report is included in the attachments to the minutes.

STATE TREASURER'S REPORT: 2:15 p.m. to 2:20 p.m. Treasurer Stenberg discussed current legislation that could affect the Treasurer's Office. LB296, which is on final reading would increase the Nebraska state income tax deduction limitations available for contributions made to the Nebraska College Savings Program from \$2,500.00 to \$5,000.00 for a married person filing separately and to \$10,000.00 for a joint filing. Treasurer Stenberg indicated that LB138, which creates a Group Health Trust Fund, is still in committee. Treasurer Stenberg provided information on the College Savings Plan's promotional events; the Personal Finance Challenge competition and "Why I Want to Go to College" essay contest.

NPERS DIRECTOR'S REPORT: 2:20 p.m. to 2:30 p.m. Ms. Chambers reported that LB263 NPERS' technical bill passed. Ms. Chambers and the Council also continued discussion on LB553. Ms. Chambers distributed copies of the Investment Report and the actuarial valuation results for the State and County Employees' Retirement Systems Cash Balance Benefit Fund and the State and County Equal Retirement Benefit Fund.

STATE INVESTMENT OFFICER'S REPORT: 2:30 p.m. to 2:49 p.m.

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Legislative Update: Mr. States distributed a listing of legislative bills and their status which may affect the NIC. A copy of the list is included in the attachments to the minutes.

Agency Budget Update: Mr. States reviewed the Agency's April 30, 2013 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

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

Health Care Transfer: Mr. States reviewed the Health Care Endowment Fund Report included in the meeting book. The Health Care Endowment Fund (an adjusted market value of \$403.3 million on 3/31/13; this adjusted amount includes a market value of \$347.2 million on 3/31/13 and subsequent Tobacco contributions of \$56.1 million in April 2013), includes two separate accounts within the Fund: the NE Medicaid Intergovernmental Trust Fund (\$86.6 million, 21.5% of the total fund) and the NE Tobacco Settlement Trust Fund (\$316.7 million, or 78.5% of the total fund). Mr. States recommends that 21.5% of the distribution be taken from the NE Medicaid Intergovernmental Trust Fund and that 78.5% of the distribution be taken from the NE Tobacco Settlement Trust Fund.

Currently Nebraska Revised Statute § 71-7611 states "The State Treasurer shall transfer fifty-six million one hundred forty-five thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity." The Council discussed LB199 which is currently before the Legislature that would change the annual amount that the State Treasurer would transfer from \$56.145 million to \$59.1 million. The Council requested that Mr. States send a letter to the Legislature regarding the Council's concern of the sustainability of the Health Care Endowment Fund.

Following discussion by the Council, Mr. Conley made the following motion: I move that in accordance with Nebraska Revised Statute § 71-7611, the State Investment Officer advise the State Treasurer to transfer from the depleting Health Care Endowment Fund, 21.5% of the statutorily authorized annual payment from the Nebraska Medicaid Intergovernmental Trust Fund and 78.5% of the payment from the Nebraska Tobacco Settlement Trust Fund. 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.

Educational Seminars and Conferences: Mr. States indicated that staff has recently been attending private equity and real estate annual meetings.

IMAs Executed Since Last Meeting: Mr. States reported that documents for Wayzata Opportunities Fund III have been completed and that the documents for Oaktree Real Estate Debt Fund are pending.

Action Plan, Articles: The NIC Board Retreat will be held on Tuesday, July 16, 2013 at Quarry Oaks, Ashland, NE. The next regular meeting of the Council will be on Tuesday, August 27, 2013 at the La Vista Embassy Suites.

PUBLIC COMMENT ON THE AGENDA: 2:49 p.m. to 2:50 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:50 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.


Kathy Dawes, Secretary