

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 26, 2016**

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

The Council members were notified of this meeting by letter dated May 16, 2016. Public notice was posted on the Nebraska Public Meeting Calendar on April 18, 2016, and published in the Lincoln Journal Star on May 15, 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
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. Michael Comstock, Aon Hewitt
Mr. David Rose, Aon Hewitt
Ms. Kate Allen, Legislative Retirement Committee
Ms. Kathy Tenopir, Legislative Fiscal Office

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:35 a.m. to 8:36 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 24, 2016 MEETING: 8:36 a.m. to 8:37 a.m. Mr. Conley moved that the March 28, 2016, draft of the minutes of the March 24, 2016, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

COUNCIL MEMBER BUSINESS: 8:37 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson thanked Mr. Walden-Newman and his staff on their work on the Global Equity Review Project and for emailing in advance the global equity information, allowing the Council time to review before the meeting. Ms. Werner-Robertson said she was looking forward to the upcoming Council Retreat. The Retreat gives everyone time for unhurried Council discussion.

GLOBAL EQUITY REVIEW: 8:40 a.m. to 9:40 a.m.

A. Staff Investment Team Report: Mr. Walden-Newman and Mr. Jurich discussed the process used for review of the Nebraska Investment Council's global equity asset class for the State's various defined benefit plans, cash balance benefit plans and endowment programs. The method used focused on creating the ideal structure for the asset class and then implementing the structure with best in class investment managers. The process is to be repeated every five years, so that each asset class is regularly refreshed and each asset class contains the best current ideas available to staff. Involved in the process was the Council's investment staff, its investment consultant Aon Hewitt, and several investment managers. Mr. Jurich indicated that

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 26, 2016**

Council staff is making a recommendation that the following managers make-up the global equity portfolio: Arrowstreet Capital, Wellington Management, BlackRock, MFS and IronBridge. Mr. Walden-Newman stated that staff negotiations with the recommended managers led to fee reductions which resulted in \$1 million in savings to Nebraska over their standard fees for comparable mandates. A copy of the presentation was included in the meeting materials.

B. Aon Hewitt Report: Mr. Kotary and Mr. Riley's presentation gave an overview of the process that was followed by Aon Hewitt and also the recommended global equity component structure outline that Council staff and Aon Hewitt agreed to. Mr. Riley provided information and analyses on the recommended global equity managers and how they fit together and also on the current global equity component. A copy of the presentation was included in the meeting materials.

MANAGER PRESENTATIONS: 9:40 a.m. to 12:00 p.m. Copies of the presentations were included in the meeting materials.

A. BlackRock: Mr. Walden-Newman introduced Ms. Diane Parish, Managing Director, Institutional Client Business. Ms. Parish thanked the Council for its long standing relationship BlackRock has had with the Council. Ms. Parish discussed the firm and gave an overview of its relationship with the Council.

B. IronBridge: Mr. Walden-Newman introduced Mr. Matt Halkyard, Strategy Head, Global Equities, and Mr. Kevin Reher, Portfolio Manager, Global Equities. Mr. Halkyard thanked the Council for its 7 ½ years relationship with Nebraska. They discussed the firm and performance of the portfolio.

C. MFS: Mr. Walden-Newman introduced Mr. Chris A. Sunderland, Investment Officer, Institutional Portfolio Manager and Ms. Kimberly G. Hyland, Director, Relationship Management. They thanked the Council for its 10 plus years relationship with the Council. They discussed the firm and MFS' investment approach.

D. Arrowstreet Capital: Mr. Walden-Newman introduced from Arrowstreet Capital Mr. Peter Rathjens, Partner, Chief Investment Officer and Mr. Michael Stanton, Partner, Business Development and Client Relationship Management. Mr. Rathjens gave an overview of the firm, senior investment resources, and strategy.

E. Wellington Management: Mr. Walden-Newman introduced Mr. Kenneth L. Abrams, Partner, Equity Portfolio Manager, Ms. Julie R. Rancourt, Relationship Manager and Mr. R. Daniel Sharp, Partner, Director of Midwest Region. They discussed the firm, investment philosophy, team and resources, objective and approach, and the investment process.

Following the presentations and discussion by the Council on the due diligence process used, Dr. DeFusco made the following motion: I move we adopt the recommendation of Council staff to hire Arrowstreet and Wellington; dismiss Acadian and Mondrian; and retain BlackRock, IronBridge and MFS as the manager structure for the global equity portfolio of the Defined Benefit / Cash Balance Benefit Plans and the General Endowment / Health Care Endowment.

The recommended targets are:

- 25% BlackRock ACWI IMI
- 30% Arrowstreet
- 20% MFS
- 15% IronBridge
- 10% Wellington.

This action is subject to completion of legal review and satisfactory agreement of terms.

Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

The Council took a break and reconvened at 12:20 p.m.

4th Quarter 2015 REAL ESTATE PERFORMANCE BY AON HEWITT 12:20 p.m. to 12:50 p.m.

Mr. Rose's presentation which was included in the meeting materials reviewed the CY15 Q4 real estate performance. Mr.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 26, 2016**

Rose gave an overview of the portfolio, discussed the DB/CBB and GE performance and pacing.

COUNCIL ADMINISTRATIVE REPORT: 12:50 p.m. to 1:00 p.m.

SIO Report: Mr. Walden-Newman informed the Council that the next asset class to be reviewed will be the U.S. Equity and non-U.S. Equity. Mr. Spitznagel and Mr. Garber will head up this review. Mr. Walden-Newman informed the Council that Mr. Jurich will head up the Omaha School Employees Retirement System, (OSERS) transition. Mr. Walden-Newman and Mr. Jurich recently met with key people at OSERS: Ms. Cecelia M. Carter, Executive Director of OSERS, Ms. Lou Ann Goding, President of the Omaha Board of Education, Mr. Donald Erikson, OSERS President and Mr. Roger Rea, OSERS Vice-President.

Mr. Walden-Newman reminded the Council that the Board Retreat will be held at the Lied Conference Center in Nebraska City on July 19-20, 2016. Mr. Walden-Newman and Mr. Kotary are working on finalizing the agenda, which will include an Asset Liability Study presentation by Aon Hewitt and a panel discussion by current Council fixed income managers.

Mr. Walden-Newman discussed with the Council the Annual Health Care Endowment Payment and noted that he will advise the State Treasurer on the amounts to be transferred from the Nebraska Medicaid Intergovernmental Trust Fund and from the Nebraska Tobacco Settlement Trust Fund.

Budget Report: Mr. Walden-Newman reviewed the Budget Status Report included in the meeting materials and indicated that plans are being made to present to the Council at the July Board Retreat the Council's 2017-2019 Biennial Budget Request. Mr. Conley questioned figures in the salary section of the Budget Report. Staff will investigate and report back to the Council.

Action Plan: A copy was included in the meeting materials.

Securities Lending Quarterly Report: The Council discussed the report included in the meeting materials.

1st QUARTER 2016 PERFORMANCE REVIEW BY AON HEWITT: 1:00 p.m. to 1:20 p.m. Mr. Comstock reviewed the 1st Quarter 2016 Performance Review included in the meeting materials, commenting on the economic and market environment. Mr. Comstock's presentation included performance review, fund monitoring, risk budgeting and fees. Mr. Kotary also reviewed the September 30, 2015, Alternative Investment Performance Supplement, which provides an all-in-one "snapshot" of the Real Estate and Private Equity performance. Copies of the reports were included in the meeting materials.

STATE TREASURER'S REPORT: 1:20 p.m. to 1:25 p.m. Treasurer Stenberg updated the Council on several contests and promotions for the 529 Plans, which included the recently launched statewide Summer Reading Program and NESTFest, which was recently held in Fremont on May 7, 2016. Treasurer Stenberg indicated that Nebraska is the first state to announce its June 30, 2016, nationwide launch of the ABLE Plan, an Enable Savings Plan for individuals with disabilities.

NPERS REPORT: 1:25 p.m. to 1:40 p.m. Ms. Chambers indicated that NPERS has been busy with school retirements. Ms. Chambers reported that staff from the Council, OSERS, State Accounting, and NPERS will be meeting to discuss recently passed legislation dealing with the Class V School Employees Retirement Act. The bill LB 447 transfers investment authority from the OSERS Board of Trustees to the Council and makes NPERS the pass through agency for OSERS' transactions. NPERS' IT department is busy working on the programming needed for the implementation of LB 467, which creates a second tier for officers who become members of the State Patrol on or after July 1, 2016. The second tier contribution rates for the new officers and the state will be 17% versus the current 16%. Ms. Chambers invited the Council to the PERB Retreat being held at the Lied Conference Center in Nebraska City on July 18, 2016. Guest speaker will be Mr. Leigh Snell who is the Federal Relations Director for the National Council on Teacher Retirement. Ms. Chambers distributed copies of the Investment Report for the Defined Contribution, Deferred Compensation Plan and the Deferred Retirement Option Plan for the plan year ending December 31, 2015.

AUDIT COMMITTEE REPORT: 1:40 p.m. to 1:45 p.m. Dr. DeFusco, chairman of the Audit Committee reported that he and Mr. Conley had met with Ms. Joyce Schlautman, Internal Auditor on May 25, 2016. A copy of the Audit Committee Report was distributed to the Council and is included in the attachments to the minutes.

LEGAL REPORT: 1:45 p.m. to 1:50 p.m. Mr. Heinrich reported that the Ironsides Partnership Fund IV, L.P. agreement for a \$20 million commitment to the Endowments closed at the end of April. The Council has been given a seat on Constitution Capital's Advisory Board. Mr. Heinrich stated that he will be more involved with contracts review during the OSERS transition. Additional review of Council policies will be presented at the September 15, 2016, Council meeting. An education session on Fiduciary Responsibility will be presented at the Council Retreat by Ms. Amy McDuffee, Aon Hewitt and Mr. Heinrich.

PUBLIC COMMENT ON THE AGENDA: 1:50 p.m. to 1:52 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 26, 2016

NEXT MEETING: 1:52 p.m. to 1:53 p.m. NIC Education Retreat July 19-20, 2016, Lied Conference Center, Steinhart Room A, B, C, Nebraska City, NE

CLOSED SESSION FOR PURPOSE OF DISCUSSING LEGAL MATTER-RECEIPT OF LEGAL ADVICE: 1:53 p.m. to 2:24 p.m.

Dr. DeFusco made the following motion:

I move to enter closed session.

The subject matter of the closed session is the discussion of confidential legal matters and to receive legal advice from counsel.

The reason for the closed session is to maintain the confidentiality of such communications and advice.

Mr. Conley seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

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

At 2:25 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Olson seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

At 2:27 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Olson seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.


Kathy Dawes, Secretary