

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
July 14-15, 2010**

A Strategic Asset Allocation Retreat of the Nebraska Investment Council convened on July 14, 2010, at 8:33 a.m. at the Quarry Oaks Golf Club, Ashland, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on June 24, 2010, and published in the Lincoln Journal Star on July 4, 2010. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson, Chairwoman  
Dr. Richard DeFusco  
Mr. John Maginn  
Mr. John Dinkel  
Mr. Norm Riffel  
Treasurer Shane Osborn (arrived at 1: 50 p.m. departed at 5:00 p.m.)  
Ms. Phyllis Chambers

**NONMEMBERS IN ATTENDANCE:**

Mr. Jeff States, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Kevin Vandolder, Ennis Knupp + Associates  
Mr. Chris Riley, Ennis Knupp + Associates  
Mr. Joe Jurich, Nebraska Investment Council  
Ms. JoLynn Winkler, Nebraska Investment Council  
Ms. Nancy Williams, Ennis Knupp + Associates  
Mr. Rob Parkinson, Ennis Knupp + Associates  
Mr. Dan Kim, Ennis Knupp + Associates  
Ms. Catherine Polleys, Ennis Knupp + Associates  
Ms. Heather Christopher, Ennis Knupp + Associates  
Mr. Gary Bush, AS State Budget Office

**COUNCIL MEMBER BUSINESS: 8:34 a.m. to 8:39 a.m.** Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table. Ms. Werner-Robertson welcomed everyone to the meeting and indicated that Treasurer Osborn is expected to be late. Ms. Werner-Robertson thanked Mr. States and the team from Ennis Knupp on planning the two day Strategic Asset Allocation Retreat. Ms. Werner-Robertson stated that the objectives for the Retreat are:

- Review and evaluate the current strategic asset allocation for the Defined Benefit Plan (DB) and Cash Balance Benefit (CBB)
- Evaluate investment performance

Ms. Werner-Robertson commented on the IEF Market Makers Conference she and Mr. States had recently attended. Ms. Werner-Robertson indicated that the conference was a good opportunity for Mr. States to connect and interact with other State Investment Officers on the challenges they are dealing with. Ms. Werner-Robertson stated that the conference provided important information the Council can use to assist it with the huge task and responsibility it has overseeing billions of dollars.

**CURRENT OVERVIEW OF PROGRAM, ASSET ALLOCATION, AND INVESTMENT STRUCTURE:**

**8:39 a.m. to 8:55 a.m.** Mr. States stated that the Retreat would focus on the Council's biggest assets the DB and CBB. Mr. States reviewed the Council's Statement of Investment Philosophy included in the meeting book. The purpose of the Statement of Investment Philosophy is to provide clear articulation of the NIC's long-term investment philosophy regarding return and risk objectives for the various investment pools to which the NIC has fiduciary obligations. Mr. States indicated that the Council will be looking at other strategies and the risks associated with them and how they are employed. Mr. States stated that the Asset Liability Study would be given by Mr. Armand Yambao, with Ennis Knupp. Mr. States indicated that a number of our current investment managers would be commenting on the current market conditions and that a presentation would be given on the

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role of alternative investment strategies in the asset allocation.

**ASSET LIABILITY STUDY: 8:55 a.m. to 10:15 a.m.** Mr. States introduced Mr. Armand Yambao of Ennis Knupp who prepared the Asset Liability for the DB Plans and the Cash Balance Benefit. Mr. Yambao report which was included in the meeting book included the following:

- Project overview – objective, scope and process
- Assumptions
- Financial risk analysis – range of results under current policy
- Analysis of alternative equity allocation targets
- Observations and preliminary recommendation

At 10:15 a.m. the Council took a break and reconvened at 10:35 a.m.

**RE-VISITING ASSET ALLOCATION BY MAJOR ASSET CLASS – EFFICIENT FRONTIER, SCENARIO ANALYSIS, MANAGER STRUCTURE: 10:35 a.m. to 12:00 p.m.** Mr. Vandolder and Mr. Riley presentation which was included in the meeting book covered the following:

- Re-strike asset class benchmarks and analyze how potential changes to these benchmarks would affect the current equity portfolio
- Re-visit the active versus passive decision set
- Challenge the Council to continue to grow the non-U.S. equity allocation
- Illustrate our “best thinking” regarding the fixed income portfolio
- Re-examine active risk level
- Discuss potential opportunistic portfolios

At 12:00 p.m. the Council took a break and reconvened at 12:20 p.m.

**PIMCO FILM “ NEW NORMAL”:** 12:20 p.m. to 1:15 p.m. Mr. States introduced Ms. Melody Rollins, Mr. Mike Chandra. and Ms. Julie Meggers. Ms. Rollins and Mr. Chandra presented PIMCO’s film entitled *Investing in the New Normal*, which covered how the financial markets have changed as a result of the recent financial crisis, economic recession and changing investment environment.

**INVESTMENT MANAGER ROUNDTABLE UPDATE ON CURRENT AND LONG-TERM CAPITAL MARKET OPPORTUNITIES: 1:15 p.m. to 2:45 p.m.** Mr. States introduced a panel of NIC’s investment managers, Mr. Matt Halkyard and Mr. Stephen Barrow, IronBridge Capital Management, Mr. Art Barlow, DFA and Ms. Melody Rollins and Mr. Mike Chandra, PIMCO. The panel gave their outlook on the current and future financial markets.

Treasurer Osborn arrived at 1:50 p.m.

At 2:45 p.m. the Council took a break and reconvened at 3:00 p.m.

**RE-VISITING ROLE OF ALTERNATIVES IN ASSET ALLOCATION: 3:00 p.m. to 4:30 p.m.** Mr. States introduced Mr. Rob Parkinson, Ms. Cate Polleys, and Ms. Heather Christopher members of Ennis Knupp’s Private Equity and Private Real Estate Teams and Mr. Michael Litt, with Arrowhawk. Their discussion covered the role of alternative investment strategies in the asset allocation.

**OPERATING INVESTMENT POOL (OIP) INVESTMENT GUIDELINES PROPOSED CHANGES: 4:30 p.m. to 5:20 p.m.** Mr. States reviewed with the Council the proposed investment guidelines changes requested by Galliard Capital Management, Inc., which were included in the meeting book. After discussion by the Council, Mr. Maginn moved to revise the Galliard Capital Management, Inc. Statement of Objectives, Guidelines, and Procedures’ Industry Weight of Technology to 10%. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

At 5:20 p.m. the Council took a break and reconvened at 5:45 p.m.

**END OF DAY CATCH-UP/FOLLOW-UP: 5:45 p.m. to 6:45 p.m.** Mr. States and Mr. Vandolder reviewed the day's presentations and discussed with the Council possible future actions. Mr. Maginn moved to go into recess for the day. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

**WELCOME, INTRODUCTIONS, AND PURPOSE OF MEETING: 8:34 a.m. to 8:45 a.m.** At 8:34 a.m. Ms. Werner-Robertson called the meeting back into session and indicated that a copy of the Open Meetings Act is located on the side table. Present at roll call: Ms. Werner-Robertson, Mr. Maginn, Mr. Dinkel, and Mr. Riffel. Absent: Dr. DeFusco, Treasurer Osborn and Ms. Chambers. Ms. Werner-Robertson welcomed everyone to day two of the Strategic Asset Allocation Retreat, which would include additional follow-up from yesterday's meeting; public fund governance, and the State Investment Officer's review. Ms. Werner-Robertson stated that day one of the Retreat provided good information and presentations, which will assist the Council in determining if any asset allocation changes need to be made. Ms. Werner-Robertson informed the Council that Dr. DeFusco and Treasurer Osborn would be unable to attend today's meeting and that Ms. Chambers would be at the PERB Retreat at Mahoney State Park today. Following the NIC meeting, Mr. States, Mr. Vandolder, and Ms. Williams would also be attending the PERB Retreat.

**WRAP-UP FROM DAY ONE: 8:45 a.m. to 9:45 a.m.** Mr. States welcomed Ms. Nancy Williams with Ennis Knupp who later in the meeting would be providing an educational session on Public Fund Governance and also facilitate the State Investment Officer's performance review. The Council continued their discussion on the DB and CBB's current asset allocation and the probability of meeting the portfolio's long-term goals and objectives and decided that no changes in the asset allocation would be made at this time. The staff was directed to work with Ennis Knupp on adding a global equity index portfolio and to provide further analysis on adding a global fixed income manager. The Council affirmed its commitment to risk mitigation as an objective as manager structure changes are considered.

At 9:45 a.m. the Council took a break and reconvened at 10:00 a.m.

**PUBLIC FUND GOVERNANCE DISCUSSION: 10:00 a.m. to 11:00 a.m.** Ms. Nancy Williams presentation which was included in the meeting book included the following:

- Delegation
- Roles in Manager Monitoring and Selection
- Best Practices in Reporting
- Council Self-Evaluation

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Ms. Williams indicated that the NIC has the foundation of a good governing board, but suggested and encouraged additional orientation for new board members and continued fiduciary training for all of its members.

**EXECUTIVE SESSION: 11:00 a.m. to 12:16 p.m.** Mr. Maginn moved that the Council enter into closed session. The subject matter is the evaluation of the job performance of the State Investment Officer. The reason for the closed session is to protect the reputation of the State Investment Officer. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING:        Dr. DeFusco

The motion carried.

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

At 12:16 p.m. Mr. Maginn moved that the Council return to open session. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING:        Dr. DeFusco

The motion carried.

**END OF DAY CATCH-UP/FOLLOW-UP: 12:16 p.m. to 1:00 p.m.** The Council resumed its discussion on topics to include in upcoming Council meetings and agreed to continue its work in educating the Legislature's Retirement Committee regarding the Plans.

At 1:00 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING:        Dr. DeFusco

The motion carried.

  
Kathy Dawes, Secretary