

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 27, 2015**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the La Vista Embassy Suites in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on August 3, 2015, and published in the Lincoln Journal Star on August 16, 2015. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco (departed at 11:45 a.m.)
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. Christopher Heinrich, O'Neill Heinrich Damkroger Bergmeyer & Shultz
Mr. Max Kotary, Aon Hewitt
Mr. Mike Comstock, Aon Hewitt
Mr. David Rose, Aon Hewitt
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joseph Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Ms. Joyce Schlautman, Nebraska Investment Council

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m. Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE MAY 21, 2015, AND JULY 14, 2015, MEETINGS: 8:37 a.m. to 8:39 a.m. Mr. Conley moved that the August 13, 2015, draft of the May 21, 2015, and the July 23, 2015, draft of the July 14, 2015, meetings be approved. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

The motion carried.

COUNCIL MEMBER BUSINESS: 8:39 a.m. to 8:43 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and stated that the Council appreciates staff attending the Council meetings. Ms. Werner-Robertson informed the Council that Dr. DeFusco would be leaving early due to the first week of classes at the University. Ms. Werner-Robertson thanked Mr. Walden-Newman and staff for their work in putting together a very good Council retreat in July.

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

SIO Report: Mr. Walden-Newman stated that he appreciates the feedback he's received on the Council retreat. In response to the current market conditions, Mr. Walden-Newman distributed a historical chart on the growth of the S&P 500 since 2007. A copy is included in the attachments to the minutes. Mr. Walden-Newman indicated that

NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 27, 2015

Wellington Management will be here to present on Fixed Income Themes and that today's meeting would also include a review of the Operating Investment Pool (OIP). Mr. Walden-Newman reported that he and staff recently participated in a teleconference reviewing the 529 Plan with staff from the Treasurer's office and Morningstar investment research firm.

Investment Team Travel/Conferences: Mr. Walden-Newman discussed his recent meetings with NIC investment managers and the custodian bank in Boston. Additional travel plans in the near future include attendance at the Great Plains Institutional Investor Forum, NASIO conference, and investment manager meetings on the west coast. Mr. Spitznagel will be attending the PIMCO Institute 2015 and Mr. Garber will be attending the 2015 FTN Financial Seminar.

Equity Review: A review of the portfolio's asset classes is underway. The first review will be on global equities and will be headed up by Mr. Jurich. In early 2016 domestic equities may be the next asset class to be reviewed. After meeting with the managers and obtaining input from Aon Hewitt; the outcome of these meetings will be presented at the May 2016 Council meeting. The Council will be updated throughout the process.

Consultant Review: Mr. Walden-Newman reminded the Council that the contract with Aon Hewitt will expire in the fall of 2016. A RFP will be issued during the first part of 2016.

DC Review/Stable Value Conversion: Mr. Walden-Newman reported that a review of the options within the Defined Contribution Plan is being done. Ms. Winkler indicated that due to not enough activity the Stable Value Fund is currently being converted from a T Rowe Price separate account to a commingled fund.

Business Report: Ms. Dawes reported that the NIC is under budget for the fiscal year which began on July 1, 2015.

Legal Update: Mr. Heinrich reported that he is working on the custodian and securities lending contracts with State Street Bank and hopes to have them wrapped up by the end of this month.

Action Plan: Mr. Walden-Newman informed the Council that he and staff are working on a rolling 18 months action plan, currently focusing on staff duties and responsibilities.

Securities Lending Reports: The Council discussed the quarterly and annual Securities Lending Reports included in the meeting book.

Mr. Maginn distributed copies of a Pension and Investments article relating to public funds. A copy is included in the attachments to the minutes.

Mr. Dinkel left the meeting at 9:00 a.m. and returned at 10:45 a.m.

"FIXED INCOME THEMES" BY WELLINGTON MANAGEMENT: 9:10 a.m. to 10:10 a.m. Mr. Walden-Newman introduced from Wellington Management Mr. Michael C. Taylor, Senior Managing Director and Ms. Michelle L. Hunter, Relationship Manager. Their presentation which was included in the meeting materials included an overview of the firm, investment team and discussed current market conditions. Mr. Taylor also discussed the following:

- Euro area recovery – Is it for real?
- China – Do equities matter?
- Abenomics – Will inflation engage in Japan?
- US dollar strength – More to come?
- Negative yields – Here to stay?
- Where are we in the credit cycle?
- Liquidity: Is it good, bad, or ugly?
- What are the issues with indexing?
- What are some high conviction views from our investors?

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 27, 2015**

NIC OPERATING INVESTMENT POOL (OIP) PORTFOLIO REVIEW: 10:10 a.m. to 10:50 a.m. Mr. Walden-Newman stated that Mr. Spitznagel and Mr. Garber, Portfolio Managers for the OIP are here to present to the Council an education session on the OIP. Plans are being made to present this same education session to state agency directors and financial staff in the near future. Mr. Spitznagel and Mr. Garber's presentation gave an overview of the fund, which included portfolio allocations and investment constraints, historical balances, returns, and participating agencies. The OIP balance as of June 30, 2015 was \$3.81 billion. A copy of the presentation was included in the meeting materials.

The Council took a break and reconvened at 11:05 a.m.

REAL ESTATE PORTFOLIO PERFORMANCE BY AON HEWITT: 11:05 a.m. to 11:30 a.m.

NEW FUND COMMITMENT – USB -Trumbull Property Income Fund (UBS-TPI) Recommendation for General Endowments and Health Care Endowment: Mr. Rose's presentation which was included in the meeting materials discussed a fund being offered by a current NIC manager, UBS. The fund, UBS Trumbull Property Income Fund (UBS-TPI), is an open-end, diversified core income-oriented US real estate debt fund that is primarily invested through participating mortgages. The Fund's strategy is to build an actively managed portfolio of income-oriented real estate investments that have hybrid debt and equity return characteristics. It seeks to provide attractive returns while limiting downside risks through a combination of fixed income, participation in cash flow and equity upside. The Funds' investment objective is to provide a 5% real return on a three and five year basis. Mr. Rose indicated that as part of the NIC's current pacing model for the Endowment Plans; \$6 million is to be committed to a Core Strategy in 2015. Mr. Rose indicated that Aon Hewitt has conducted a thorough qualitative and quantitative assessment of UBS-TPI. Mr. Rose discussed the investment merits and concerns associated with the Firm and the Fund. Mr. Walden-Newman indicated that staff and Aon Hewitt recommend that the Council commit \$6 million to UBS Trumbull Property Income Fund from the General Endowments and the Health Care Endowment.

Following discussion by the Council Mr. Conley moved that the Nebraska Investment Council General and Health Care Endowments make a \$6 million commitment to the UBS Trumbull Property Income Fund subject to completion of a legal review and satisfactory agreement of terms. 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 Dr. DeFusco
-------------	---

The motion carried.

REAL ESTATE CY15 PERFORMANCE REVIEW BY AON HEWITT: Mr. Rose's presentation which was included in the meeting book reviewed the CY15 Q1 real estate performance. Mr. Rose discussed the DB/CBB and GE performance, pacing, capital stack exposure, and portfolio diversification.

2ND QUARTER 2015 PERFORMANCE REPORT: 11:30 a.m. to 11:55 a.m.

Mr. Kotary and Mr. Comstock reviewed with the Council the current market conditions and the 2nd Quarter 2015 Performance Report included in the meeting book. Mr. Kotary reported total assets under management of \$22.3 billion. Mr. Kotary also discussed the memo included in the meeting's materials on Aon Hewitt's ratings downgrade of the Mondrian Investment Partners Global Equity strategy from "Buy" to "Qualified".

Dr. DeFusco left the meeting at 11:45 a.m.

STATE TREASURER'S REPORT: 11:55 a.m. to 12:15 p.m. Treasurer Stenberg requested time be given on the September agenda to include a presentation on the Achieving a Better Life Experience (ABLE) program. The ABLE program which was recently passed by the legislature requires 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 reviewed the timeline on the RFP issued in July for selecting an ABLE program manager. The Treasurer

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
August 27, 2015**

plans to have the process completed and ready for the Council's approval of the contract at the November Council meeting. Treasurer Stenberg also informed the Council of the upcoming activities of the College Savings Plan.

NPERS' Report: 12:15 p.m. to 12:20 p.m. Ms. Chambers informed the Council that the audit report of the State and County Retirement Plans for the period January 1, 2014 through December 31, 2014, contained no audit findings by the State Auditor. Ms. Chambers also reported that the Public Employees Retirement Board approved a dividend for eligible members of both the State and County Cash Balance Plans. The dividend will be credited to Cash Balance member's accounts by September 1, 2015. Ms. Chambers reported that the annual statements for the DB Plan members have been sent out. Ms. Chambers informed the Council that a RFP is being issued for the recordkeeping services for the State, County, Deferred Compensation and DROP Plans. The contract for recordkeeping services which is currently with Ameritas will end in September of 2016.

COUNCIL DISCUSSION OF MORNING TOPICS: 12:20 p.m. to 12:50 p.m. Mr. Walden-Newman reviewed the day's presentations and discussed with the Council possible future actions. Mr. Walden-Newman reported topics on the agenda for September 24, 2015 Council meeting will include: an Audit Committee report, Securities Analyst and Internal Auditor reports, NEST annual review, decisions on private equity and real estate commitments. The September 24, 2015 meeting, which will begin at 8:30 a.m., will be held in the Gatsby Conference Room at the La Vista Embassy Suites Conference Center.

PUBLIC COMMENT ON THE AGENDA: 12:50 p.m. to 12:55 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 12:55 p.m. Mr. Maginn moved to adjourn the meeting. 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
--------------------	-------------



Kathy Dawes, Secretary