

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
September 25, 2014**

A regular meeting of the Nebraska Investment Council convened at 8:34 a.m. at the Home2 Suites by Hilton, Omaha, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on September 11, 2014, and published in the Lincoln Journal Star on September 14, 2014. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn (arrived at 11:55 a.m.)
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. Max Kotary, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. Bruce Ingram, Hewitt EnnisKnupp
Mr. Chris Riley, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:34 a.m. to 8:35 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 AUGUST 26, 2014, MEETING: 8:35 a.m. to 8:36 a.m. Mr. Conley moved that the September 2, 2014, draft of the August 26, 2014, meeting be approved. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Maginn

The motion carried.

COUNCIL MEMBER BUSINESS: 8:36 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson stated that due to a scheduling conflict Mr. Maginn would be arriving later this morning. Mr. States stated that today's meeting would include a follow-up presentation by HEK on alternative policy asset allocations with a projected 8% return.

AUGUST 26, 2014 FOLLOW-UP ITEM (Alternative Policy Asset Allocations with a Projected 8% Return): 8:40 a.m. to 8:50 a.m. Mr. Kotary presentation which was included in the meeting book provided two model asset allocations using HEK's most recent capital market assumptions and constraining the models by having the standard deviation of the model about 13%, which is the risk result for the current strategic asset allocation. One of the alternatives uses the NIC's current investment asset classes and the second uses some alternative investments such as hedge funds which is representative of strategies being used by many of the NIC's peers

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PRIVATE EQUITY PERFORMANCE UPDATE AND PACING: 8:50 a.m. to 9:25 a.m. Ms. Karen Rode and Mr. Bruce Ingram reviewed the 2014 1st quarter private equity performance. Ms. Rode provided a review of the portfolio, fund performance, and pacing update and Mr. Ingram discussed tech opportunities. A copy of the report was included in the meeting book.

PRIVATE EQUITY COMMITMENT RECOMMENDATIONS: 9:25 a.m. to 9:55 a.m.

Bridgepoint Europe Fund V, L.P. (Re-Up): Mr. Jurich, Ms. Rode and Mr. Ingram provided information on a new fund offering by one of the NIC's current managers, Bridgepoint Advisers Limited. The Fund, Bridgepoint Europe V, L.P. is a Pan-European diversified small-middle market growth oriented buyout fund. Mr. Jurich provided background information on the Firm, which is headquartered in London, UK. Mr. Jurich indicated that the NIC's staff and HEK are recommending a €20 million (approximately \$26.0 million) commitment to Bridgepoint Europe V, L.P., on behalf of the DB/CBB Plans. Ms. Rode and Mr. Ingram indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Bridgepoint Europe V, L.P. They discussed the investment merits and concerns associated with the Firm. A copy of the presentation was included in the meeting book. Following discussion by the Council, Mr. Conley moved to commit €20 million from the Defined Benefit and Cash Balance Benefit Plans to Bridgepoint Europe V, L.P., pending 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. Dinkel Mr. Conley Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

Quantum Energy Partners Fund VI, L.P. (Re-Up): Mr. Jurich, Ms. Rode and Mr. Ingram provided information on a new fund offering by one of the NIC's current managers, Quantum Energy Partners. The Fund, Quantum Energy Partners Fund VI, L.P. is a fund primarily focused on upstream oil and gas in North America, with additional minor exposure to power generation, midstream energy and energy services. Mr. Jurich provided background information on the Firm, which is headquartered in Houston, TX. Mr. Jurich indicated that the NIC's staff and HEK are recommending a \$30 million commitment to Quantum Energy Partners Fund VI, L.P., on behalf of the DB/CBB Plans. Ms. Rode and Mr. Ingram indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Quantum Energy Partners Fund VI, L.P. They discussed the investment merits and concerns associated with the Firm. A copy of the presentation was included in the meeting book. Following discussion by the Council, Mr. Dinkel moved to commit \$30 million from the Defined Benefit and Cash Balance Benefit Plans to Quantum Energy Partners Fund VI, L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by 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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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

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Wynnchurch Fund IV, L.P. Introduction: Mr. Jurich, Ms. Rode and Mr. Ingram provided information on a new fund offering by Wynnchurch Capital, L.L.C. Wynnchurch Capital head office location is in Rosemont, IL, with offices in Chicago, Detroit, Toronto and affiliate in Montreal. The Fund, Wynnchurch Fund IV, L.P. will primarily make control private equity investments in lower middle-market companies headquartered in the United States and Canada. Mr. Jurich indicated that the NIC's staff and HEK are recommending a \$30 million commitment to Wynnchurch Fund IV, L.P. on behalf of the DB/CBB Plans. Ms. Rode and Mr. Ingram indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Wynnchurch Fund IV, L.P. They discussed the investment merits and concerns associated with the Firm. A copy of the presentation was included in the meeting book.

The Council took a break and reconvened at 10:15 a.m.

WYNNCHURCH FUND IV, L.P. PRESENTATION: 10:15 a.m. to 10:40 a.m. Mr. Ingram introduced Mr. John Hatherly, Founder, Wynnchurch Capital, L.L.C. Mr. Hatherly gave an overview of the Firm, Funds I, II, and III, the team, and performance. A copy of the presentation was included in the meeting book. Following the presentation by Wynnchurch and discussion by the Council Mr. Conley moved to commit \$30 million from the Defined Benefit and Cash Balance Benefit Plans to Wynnchurch Fund IV, L.P. pending 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. Conley Ms. Werner-Robertson Dr. DeFusco Mr. Dinkel
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ABSENT NOT VOTING:	Mr. Maginn
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The motion carried.

HEWITT ENNISKNUPP MANAGER RESEARCH PROCESS: 10:40 a.m. to 11:20 a.m. Mr. States introduced Mr. Chris Riley, who heads HEK's team of research professionals responsible for the ongoing research and due diligence on a global basis for public equity. Mr. Riley's presentation which was included in the meeting book discussed the manager research and due diligence process used by the NIC's general consultants and also used by the SIO and staff in its daily activities related to overseeing each of the investment manager relationships and portfolios.

CUSTODY AND SECURITIES LENDING SERVICE AGREEMENTS: 11:20 a.m. to 11:50 a.m. Treasurer Stenberg stated that the State Treasurer by statute is responsible for the custodian service agreement and that the Nebraska Investment Council is responsible for the securities lending agreement. A RFP for custody services and securities lending services has been done. Treasurer Stenberg reviewed the process used in selecting State Street Bank and Trust as the State's custody bank for a term of five years beginning on July 1, 2015 with an option for two, two year extensions. Treasurer Stenberg discussed the RFP responses received from Bank of New York Mellon, Northern Trust and State Street Bank and Trust. A detailed analysis and comparison of each of the proposals was done by HEK, followed by meetings with the Treasurer, SIO, NIC staff and HEK. Based on the analysis and comparison of each proposal the State Treasurer is recommending along with the SIO that State Street Bank and Trust be selected. A copy of the analysis done by HEK is included in the attachments to the minutes. Mr. States discussed the process used in awarding the securities lending agreement to State Street Bank and Trust for a term of five years, with an option for two, two year extensions. A copy of the analysis done by HEK is included in the attachments to the minutes. Following discussion by the Council, Mr. Conley moved to approve the Custodian Contract and the Securities Lending Authorization Agreement with State Street Bank and Trust, effective July 1, 2015 and authorize the Acting State Investment Officer to negotiate and execute the agreements with State Street Bank and Trust, subject to legal review of the Council's attorney. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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

ABSENT NOT VOTING: Mr. Maginn

The motion carried.

NPERS' Report: 11:50 a.m. to 12:00 p.m. Ms. Chambers stated that Mr. Denis Blank, PERB Chair, has appointed a committee to look at the assumed 8% rate of return in advance of the November Joint meeting with PERB and the NIC. The committee consists of Ms. Janis Elliott, School member, Mr. Dennis Leonard, State Patrol member, Judge Randall Rehmeier, Judges' member and Ms. Elaine Stuhr, Public member. The committee will be reviewing the actuary report, modeling and the history of the assumed rate. Ms. Chambers reported that NPERS is looking at replacing its current imaging system. NPERS has been active with retirements and refunds. The State and County audit was recently completed. Ms. Chambers reported also being busy working on the SIO Search Committee with Dr. DeFusco and Mr. Conley.

Mr. Maginn joined the meeting at 11:55 a.m.

STATE TREASURER'S REPORT: 12:00 p.m. to 12:10 p.m. Treasurer Stenberg informed the Council that in a recent Wall Street Journal article the Nebraska College Savings Plan was listed as one of the top 10 college savings plans sold through brokers/fee-based financial planners in the nation. Treasurer Stenberg provided information on the Nebraska Educational Savings Trust (NEST), which includes the NEST Direct, NEST Advisor and TD Ameritrade 529 College Savings Plans. As of August 31, 2014, assets totaled \$3.7 billion. The program has grown to 220,000 accounts, 63,000 of those are Nebraska accounts. Treasurer Stenberg stated that a new advertising campaign informing advisors and account owners of the increased State income tax deduction available in 2014. Account owners will be able to deduct \$10,000 for a single person or a married couple filing jointly or \$5,000 if married as a single filer. This is an increase of the current amounts of \$5,000 and \$2,500. Treasurer Stenberg indicated that the annual College Savings Plan report will be done at the November 17, 2014, Council meeting.

The Council took a break and reconvened at 12:30 p.m.

AUDIT COMMITTEE REPORT: 12:30 p.m. to 12:35 p.m. Dr. DeFusco indicated that he had met with Ms. Joyce Schlautman, NIC Internal Auditor on September 23, 2014. A copy of the report is included in the attachments to the meeting.

HEALTH CARE FUND SUSTAINABILITY LETTER: 12:35 p.m. to 12:50 p.m. Mr. States reviewed with the Council the Health Care Fund sustainability letter and report included in the meeting book. Mr. States indicated that Neb. Rev. Stat. § 71-7611 requires the State Investment Officer to report to the Legislature on or before October 1 of every even-numbered year on the sustainability of the annual transfer. In the letter, Mr. States stated that at the current pace of spending the projections indicate that there is a high probability that the Fund transfers are not sustainable indefinitely. The Council discussed its concerns too and requested that Mr. States also send copies of the letter and report to the Governor, State Budget Director, and Senator Campbell, current chair of the Health and Human Services Committee.

STATE INVESTMENT OFFICER'S REPORT: 12:50 p.m. to 1:15 p.m.

Agency Budget Update: Mr. States reviewed the August 31, 2014 Budget Report included in the meeting book and indicated that the Agency is under-budget for the month and fiscal YTD.

Commission Recapture Report: Mr. States reviewed with the Council the annual Commission Recapture Report included in the meeting book. Mr. States reported that in accordance with the Commission Recapture Policy the accumulated balance of the Commission Recapture account had been distributed back to the plans from which they were earned. As of June 30, 2014, the program balance at the Custodian was \$37,598.54. The DB/CBB owned \$30,283.37 and the Endowments owned \$7,315.17; the distributions occurred on September 17, 2014. The Council suggested continuing with this discussion at the February 2015 Council meeting and possibly sunseting the

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recapture policy at that time.

Proxy Voting Report: Mr. States reviewed with the Council the annual Proxy Voting Report, which was included in the meeting book and reported that all manager's proxy voting policies and voting records are on file in the NIC office and available for review.

IMAs Executed Since Last Regular Meeting: Mr. States reported nearing completion of the paperwork on the Trumbull Property Income Fund and that the Landmark Real Estate Partners Fund VII will be completed by the end of this week. Mr. States reported that the commitments to Cornerstone Patriot Fund Core Open-end Fund and the PRISA II Value-Add Open End Fund have been completed.

Action Plan, Conferences, and Articles: Ms. Werner-Robertson stated that a special meeting for the SIO interviews is scheduled for Friday, October 10, 2014, at the La Vista Embassy Suites, beginning at 10:30 a.m. The next regular meeting will be the annual joint meeting with the Public Employees Retirement Board. The meeting will be on November 17, 2014, in the Arbor Conference Room at the Cornhusker Hotel in Lincoln, beginning at 8:30 a.m.

Ms. Werner-Robertson presented Mr. States with a service plaque and Admiralship in the Nebraska Navy. Ms. Werner-Robertson thanked Mr. States on behalf of the Council for his dedicated work and stated that he has left the office in such good shape; and that the Council will have some big shoes to fill with Mr. States' retirement.

APPOINTMENT OF ACTING STATE INVESTMENT OFFICER: 1:15 p.m. to 1:20 p.m. Mr. Maginn made the following motion:

I move to appoint Joseph P. Jurich as acting state investment officer ("Acting SIO") effective upon the effective date and time of the resignation of the current state investment officer, Jeffrey W. States.

The Acting SIO shall continue to serve as the Acting SIO until such time the Council hires a permanent state investment officer ("SIO") and such person begins his or her employment as SIO, or upon the voluntary or involuntary termination of employment of the Acting SIO.

The Chairwoman is authorized to execute a Certificate of Incumbency which shall serve as evidence of the authority of the Acting SIO to serve in such capacity.

If necessary, the Chairwoman is authorized on behalf of the Council to enter into any written agreement with the Acting SIO to further memorialize the terms and conditions of the agreement with Mr. Jurich to serve as Acting SIO consistent with this motion.

Dr. DeFusco 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
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The motion carried.

STATE INVESTMENT OFFICER SEARCH COMMITTEE REPORT: 1:20 p.m. to 2:35 p.m.

Dr. DeFusco made the following motion:

I move to enter closed session.

The subject matter of the closed session is to discuss the potential candidates for State Investment Officer to replace

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the retiring SIO.

The reasons for the closed session include the following: (i) to conduct confidential, open and candid discussion about the candidates and their qualifications, (ii) to prevent the needless injury to the reputation of the candidates, (iii) to discuss negotiation strategies, and (iv) the receipt of legal advice from the attorney for the Council.

Mr. Conley 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.

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

At 2:30 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Maginn 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
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The motion carried.

Dr. DeFusco made the following motion:

I move to conduct personal interviews of the SIO finalists at a meeting of the Council scheduled to be held on October 10, 2014, notice of which shall be provided as required by statute.

Mr. Conley 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.

PUBLIC COMMENT ON THE AGENDA: 2:35 p.m. to 2:37 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:37 p.m. Mr. Maginn moved to adjourn the meeting. Mr. Dinkel 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.


Kathy Dawes, Secretary