

The Board of Trustees of the Omaha School Employees' Retirement System held a meeting on Wednesday, April 2, 2014, at 5:30 p.m. in the Board hearing room at the Teacher Administrative Center, 3215 Cuming Street, Omaha, Nebraska.

Pursuant to Section 84-1411 of the Nebraska Statutes, notice of this meeting was given by announcement of the Vice-President of the Board at the Board of Trustees meeting held on Wednesday, March 5, 2014.

Present at roll call: Erikson – Evans – Fey – Goding – Knutson – Purdy – Rea – Ripa – Scanlan – 9. Entered during meeting: Young – 1. Staff Present: Executive Director Smith and Retirement Benefits Manager Ellis. Others Present: Richard Harper of NEPC; David McLeese and Andrew Kemp of First Capital Partners; Patrick Casey of SPC Capital Management and Stonetree Capital Management; and Robert Kuhlman and Randall Stromley of Wells Fargo Bank.

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President Knutson announced that, pursuant to Section 84-1411 of the Nebraska Statutes, the next meeting of the Board of Trustees will be held at 9:00 a.m. on Wednesday, May 7, 2014, in the Board Hearing room of the Teacher Administrative Center, 3215 Cuming Street, Omaha, Nebraska. The agenda will be kept current and available for public inspection in the Retirement Office at the Teacher Administrative Center during regular working hours. He further announced that pursuant to Section 84-1412 of the Nebraska Statutes, the public is hereby informed that a current copy of the Nebraska Open Meetings Act is posted in the Board meeting room on the north wall.

- 4549 -

Mr. Rea moved the minutes of the March 5, 2014 meeting be approved. The motion was seconded by Mr. Erikson and adopted by the following roll call vote: Aye: Erikson – Evans – Fey – Goding – Knutson – Purdy – Rea – Ripa – 8. Nay: 0. Abstain: Scanlan – 1.

- 4550 -

Mr. Rea moved approval of the investments made during the month of March 2014. The motion was seconded by Mr. Erikson and adopted by the following roll call vote: Aye: Erikson – Evans – Fey – Goding – Knutson – Purdy – Rea – Ripa – 8. Nay: 0. Abstain: Scanlan – 1.

- 4551 -

Mr. Smith informed the Trustees that contract review by Baird Holm for both OrbiMed Partners II, L.P. and 1 North Equity Healthcare Long/Short Fund LLC had been completed and revised documents have been prepared. Action on those investments is anticipated to occur at the Board of Education's April 9, 2014 meeting. The Trustees discussed the specific dollar amounts that would be invested in each of the two recommended funds and whether it was appropriate to terminate the investment in Cognios Capital and reallocate those funds to the healthcare funds. Mr. Smith indicated that the proposal at the time of the search recommendation was to continue

the process of implementing the asset allocation plan by moving an additional \$30 million from publicly traded equities into alternative investments by investing in the healthcare fund(s). Rich Harper of NEPC provided the analysis his firm had completed of the Cognios Capital firm and its investment performance. He indicated that during the 3 ¾ years when the firm's investment strategy used publicly traded master limited partnerships, the returns had been greater than benchmark. However, during the most recent 1 ½ years, when the strategy changed to a market neutral S&P 500 fund, the returns have been less than benchmark. He indicated that using only 1 ½ years of returns was too short a period in which to judge whether a strategy would be successful over the long term. He indicated that the decision on whether to retain or release Cognios would need to be based on whether the strategy fit within the overall asset allocation needs of the portfolio, because the return history of the new strategy was not long enough for accurate evaluation. Mr. Smith indicated that a full asset allocation analysis was planned for the June Trustee Retreat meeting. Mr. Rea moved to invest \$30 million (divided equally) into the two healthcare funds previously recommended by the Trustees at the March 5, 2014 meeting. The motion was seconded by Ms. Fey and adopted by the following roll call vote: Aye: Erikson – Fey – Goding – Knutson – Purdy – Rea – Ripa – Young – 8. Nay: – Evans – Scanlan – 2.

- 4552 -

Mr. Young entered the meeting during the previous item.

- 4553 -

Rich Harper of NEPC discussed with the Board the NEPC report his firm had prepared on OSERS' asset allocation, the current investment market conditions and the performance of the OSERS' investment managers through December 31, 2013. He noted that the asset allocation changes the Trustees had approved during June 2008 had produced the desired results. During the 9 years prior to those changes, for 7 of those 9 years the performance of the portfolio was either first quartile or last quartile, very volatile. In the 6 years following those changes, the performance of the portfolio has been above average and significantly more stable. Rich indicated that during the most recent 5 years, OSERS has posted very good 5 year returns (12.79%), low relative volatility and extremely strong risk-adjusted returns. He then referred the Trustees to numerous charts within his presentation and noted that the information was of the type that had been requested in the manager evaluation template, which had been discussed at the March 5, 2014 meeting. He indicated that with custom programming NEPC could produce a single page evaluation of each manager, but cautioned that the more pages added to the quarterly Investment Performance Analysis could diminish its readability and value to the Trustees. He asked the Trustees to consider what information they wanted to receive, whether they wanted it in a one page per manager format, and whether they wanted it included in each quarterly Analysis or possibly just annually.

- 4554 -

Mr. Smith reminded the Trustees that the annual Trustee Retreat was scheduled for June. Current plans are for the retreat agenda to include a new asset allocation and diversification study, provided by Atlantic Asset Management. He indicated that because week day meetings

were difficult for all Trustees to attend, would the Trustees be open to holding the day-long Retreat on Saturday, June 7, 2014? He indicated that Mr. Knutson had volunteered to host the meeting at the Omaha Country Club, if that venue was acceptable. Trustees agreed to consult their calendars and let him know their availability.

- 4555 -

Mr. Smith discussed with the Trustees the letter provided by Wall Street Associates presenting the changes in ownership of the firm that had previously been shared with the Trustees by Kim Taylor of Wall Street Associates during their annual presentation to the Trustees in October 2013. William Jeffery and Kenneth McCain, the founders of the firm have sold their interest in Wall Street Associates to eight existing active employees of the firm. Because these employees are the ones who have been running the firm for a number of years, there will be no changes in process or personnel. Mr. Rea moved to acknowledge and consent to the change in ownership as stated in the March 5, 2014 letter from Wall Street Associates. The motion was seconded by Mr. Young and adopted by the following roll call vote: Aye: Erikson – Evans – Fey – Goding – Knutson – Purdy – Rea – Ripa – Young – 9. Nay: 0. Abstain: Scanlan – 1.

- 4556 -

Mr. Smith noted that Nebraska law (79-9,111) specifies that the trustees are to invest the funds of the Retirement System in investments of the type which individuals of prudence, discretion, and intelligence acquire in handling investments for another person. Legal counsel has provided guidance on multiple occasions that because the Retirement System investments are for the exclusive benefit of all eleven thousand plus members of the System, no screen(s) can be applied that will satisfy all members. Thus, adhering strictly to the prudent person standard set out in statute is necessary. The Trustees engaged in discussion.

- 4557 -

David McLeese and Andy Kemp of First Capital Partners discussed with the Trustees the performance of FCP Fund II, a subordinated (mezzanine) debt and private equity fund their firm manages for the Retirement System.

- 4558 -

Mr. Scanlan and Ms. Fey left the meeting at this time.

- 4559 -

Pat Casey of SPC Capital Management discussed with the Trustees the performance of the private equity fund of funds he manages for the Retirement System.

- 4560 -

Mr. Purdy left the meeting at this time.

- 4561 -

Pat Casey of Stonetree Capital Management discussed with the Trustees the performance of the private equity fund of funds he manages for the Retirement System.

- 4562 -

Robert Kuhlman provided a report to the Trustees on the Securities Lending services provided by Wells Fargo Bank. Since inception the Securities Lending program has earned OSERS over \$2.6 million. However, the problems encountered in 2008 when the credit markets ceased to function normally have left the Securities Lending collateral reinvestment portfolio with realized and unrealized losses of approximately \$2.97 million.

- 4563 -

Mr. Young left the meeting at this time.

- 4564 -

Robert Kuhlman provided a report to the Trustees on the Class Action Claims services provided by Wells Fargo Bank. From September 1, 2006 through March 31, 2014, Wells Fargo Bank has received claim payments on OSERS' behalf of approximately \$2.4 million.

- 4565 -

Mr. Smith reported that LB1042, the legislation including changes to OSERS, had been advanced from general file to select file on March 31, 2014.

- 4566 -

President Knutson adjourned the meeting at 10:05 p.m.