

The Board of Trustees of the Omaha School Employees' Retirement System held a meeting on Saturday, June 7, 2014, at 9:00 a.m. in the Castle Rock Room at the Omaha County Club, 6900 Country Club Road, Omaha, Nebraska.

Pursuant to Section 84-1411 of the Nebraska Statutes, notice of this meeting was given by announcement of the President of the Board at the Board of Trustees meeting held on Wednesday, May 7, 2014.

Present at roll call: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Absent: Fey – Purdy – Scanlan – 3. Staff Present: Executive Director Smith and Retirement Benefits Manager Ellis. Others Present: David Kramer of Baird Holm Law Offices; Rich Harper and Kristin Finney-Cooke of New England Pension Consultants; and Don Trotter of Atlantic Asset Management.

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President Knutson announced that, pursuant to Section 84-1411 of the Nebraska Statutes, the next regular meeting of the Board of Trustees will be held at 8:30 a.m. on Wednesday, July 23, 2013, 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 available for review on the table in front of him.

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Mr. Smith presented his Executive Director's report and discussed the role of OSERS in the lives of the more than 12,000 members. He reminded the Trustees that as a result of the legislative changes made a year ago, OSERS is on track to return to fully funded status over the next two decades. The Trustees discussed the report.

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David Kramer of the Baird Holm Law Offices provided a presentation on the Fiduciary and Statutory Duties of members of the Board of Trustees and the requirements to administer OSERS under the provisions of section 401(a) of the Internal Revenue Service code. The Trustees engaged Mr. Kramer in discussion on these issues.

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Kristin Finney-Cooke of New England Pension Consultants provided a presentation on asset allocation and the trends that have been experienced over the past 7 years. She noted that research has shown that long term strategic asset allocation is responsible for over 95% of the returns made by an investment portfolio.

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The Board recessed for lunch at 12:15 p.m.

The Board reconvened at 1:00 p.m. Present: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7.

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Rich Harper of NEPC discussed with the Trustees the NEPC report on the Cognios Pure Alpha Fund. He noted that from October 2008 through August 2012, Cognios focused on master limited partnerships for use in their hedge fund investments. During that time, the fund significantly outperformed its benchmark and the S&P 500. In September 2012, Cognios moved to a market neutral strategy using the equities in the S&P 500 for use in the hedge fund investments. During the period September 2102 through March 2014, the fund has significantly underperformed both its benchmark and the S&P 500. The Trustees discussed OSERS investment in Cognios and its place within the asset allocation. Mr. Rea moved to liquidate the investment in Cognios Pure Alpha Fund and invest those proceeds equally between 1 North Equity Healthcare Long/Short Fund and OrbiMed Partners II. The motion was seconded by Ms. Goding and adopted by the following roll call vote: Aye: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Nay: 0.

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Don Trotter of Atlantic Asset Management discussed his presentation on OSERS' current asset allocation and the recommended adjustments. He noted that since the allocation was adopted in 2011, rates on almost all of the asset classes have decreased. In order for the portfolio to earn at or above the 8.0% actuarially assumed return, it will be necessary to make changes to the allocation. He reviewed the options and proposed the following allocation: domestic small/mid-cap equities – 12%; global equities – 15%; specialty equity – 15%; alternatives – 25%; bonds – 5%; high yield – 16%; real estate – 12%. The Trustees discussed with Mr. Trotter and staff how they would proceed with implementing the reallocation of assets. Ms. Goding moved the adoption of the revised asset allocation (as printed on page 22 of the Atlantic Asset Management presentation book). The motion was seconded by Mr. Young and adopted by the following roll call vote: Aye: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Nay: 0.

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Rich Harper of NEPC discussed with the Trustees the NEPC report on the performance of OSERS' investment managers through March 31, 2014. He indicated that over the 10 year time period, OSERS investment portfolio return was better than 98% of its peers. Mr. Harper went on to show that OSERS risk adjusted returns were in the top quartile of its peers over the past 3, 5, 7 and 10 year time periods.

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Mr. Smith discussed the background and purpose of the Board of Trustees Practices, Procedures and Positions Manual. The manual was originated approximately 10 years ago, with the assistance of Baird Holm Law Offices, to assist the Trustees in understanding the retirement system and their responsibilities as executive officers to administer the system. Mr. Smith reminded the Trustees that staff had been asked to provide a draft procedure for the establishment of the regular interest rate and the rate of interest on purchase of service credits and delayed payments. He presented the staff recommendation at Section VI. H. (page 21 of the manual) for establishing those interest rates. Staff recommended that the rate of interest on purchase of service credits and delayed payments be set at the actuarially assumed rate of interest. The regular interest rate should be set at a percentage of OSERS' actual investment earnings, with a floor of 0% and a ceiling of 1% below the actuarially assumed rate of interest. The Trustees discussed staff's proposals and the rate that would be appropriate to credit employee accounts. Ms. Goding moved the adoption of the procedure for establishing the Annual Interest Rates, as printed at Section VI. H. (page 21 of the manual), with the regular interest rate to be 35% of OSERS' investment return (with a floor of 0% and a ceiling of 1% below the actuarially assumed rate of interest). The motion was seconded by Mr. Ripa and adopted by the following roll call vote: Aye: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Nay: 0.

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Mr. Smith directed the Trustees to Tab 3, page 40 of the Retreat book. He discussed the dates that had been established for the school year 2014-2015 Trustee meetings and the intended agenda items to be considered at each meeting. He noted that the times for the meetings were not yet established by the Trustees. The Trustees engaged in a discussion about the times for the meetings and agreed to finalize those times at a future meeting.

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Mr. Young moved the minutes of the May 7, 2014 meeting be approved. The motion was seconded by Mr. Evans and adopted by the following roll call vote: Aye: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Nay: 0.

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Mr. Rea moved approval of the investments made during the month of May 2014. The motion was seconded by Mr. Ripa and adopted by the following roll call vote: Aye: Erikson – Evans – Goding – Knutson – Rea – Ripa – Young – 7. Nay: 0.

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Mr. Smith discussed the class action law suit against Wells Fargo Bank concerning securities lending losses in which OSERS has been involved for approximately 2 years. He received a telephone call from Jayson Blake of The Miller Law Firm, the lead law firm in the suit. The law suit was finally settled out of court and each plaintiff would be receiving a letter in the near future disclosing the value of their settlement. As more detailed information is available, Mr. Smith indicated he would continue to provide the Trustees with updates.

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President Knutson adjourned the meeting at 3:34 p.m.