

The Board of Trustees of the Omaha School Employees' Retirement System held a Regular Meeting on Wednesday, September 7, 2016, at 9:00 a.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 by the President of the Board at the Board of Trustees meeting held on August 2, 2016.

Present at roll call: Erikson – Havlovic – Purdy - Rea – Ripa – 5. Absent: Evans – Jones - 2.

Staff Present: Cecelia M. Carter, Executive Director, James Ellis, Retirement Benefits Manager, and Kelly Sheard, Department Secretary. Others Present: Kristin Finney-Cooke, NEPC; Patrice Beckham, Cavanaugh MacDonald; and Jason Benson, Esq., McGrath North Mullin & Kratz.

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President Erikson 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, October 5, 2016, in the School 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 of Education meeting room on the north wall.

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Mr. Rea moved that the OSERS Board of Trustees go into Closed Session. The motion was seconded by Mr. Havlovic and adopted by the following roll call vote: Aye: Erikson – Havlovic – Purdy – Rea – Ripa – 5. President Erikson reminded the public the Board went into Closed Session at 9:03 a.m. for the protection of public interest and for the prevention of needless injury to the reputation of individuals to discuss with Legal Counsel and Cecelia Carter, Executive Director Legal Matters on the Retirement System.

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President Erikson reconvened the meeting at 9:31 a.m.

Present at roll call: Erikson – Havlovic – Purdy – Rea – Ripa – 5.

Mr. Rea moved and Mr. Havlovic seconded, the Board ratify the August and September pension payroll and staff payroll; ratify the August new retirements; approve the September new retirements and ratify the August refunds.

Gross Annuitant Pension & Retirement Staff Payroll

- August Pension Payments (08.03.2016) = \$9,052,260.28
- September Pension Payments (09.02.2016) = \$9,049,756.19
  
- August Staff Payroll (08.05.2016) = \$ 27,688.23
- September Staff Payroll (09.02.2016) = \$ 27,688.23

New Retirements

- August New Retirement Annuitants (first check September 3, 2016) [34 count]

|  | Name      |               | EMP   |  | RET   | RET  |     |          |          | RET  |
|--|-----------|---------------|-------|--|-------|------|-----|----------|----------|------|
|  | First     | Last          | TYPE  |  | MONTH | YRS  | OPT | OMAHA \$ | STATE \$ | TYPE |
|  | Michelle  | Andersen      | OP    |  | 8     | 22.0 |     |          |          | 2    |
|  | Mary      | Bruner        | Nutri |  | 8     | 21.5 |     |          |          | 2    |
|  | Sharon    | Cooper        | Para  |  | 8     | 18.0 |     |          |          | 2    |
|  | Catherine | Crumbley      | T     |  | 8     | 6.0  |     |          |          | 1    |
|  | Lynn      | Curry-Jackson | Para  |  | 8     | 15.5 |     |          |          | 2    |
|  | Kathy     | Curtis        | OP    |  | 8     | 20.5 |     |          |          | 2    |
|  | Richard   | Fair          | CMO   |  | 8     | 10.0 |     |          |          | 1    |
|  | Kallen    | Glidden       | T     |  | 8     | 31.0 |     |          |          | 2    |
|  | Deeann    | Goeser        | Other |  | 8     | 41.0 |     |          |          | 2    |
|  | Glenda    | Green         | Other |  | 8     | 18.0 |     |          |          | 2    |
|  | Shirley   | Hardiman      | T     |  | 8     | 13.0 |     |          |          | 2    |
|  | Rachel    | Herren        | Nutri |  | 8     | 16.0 |     |          |          | 2    |
|  | Sara      | Hutfless      | OP    |  | 8     | 40.5 |     |          |          | 1    |
|  | Rigoberto | Jimenez       | CMO   |  | 8     | 15.5 |     |          |          | 2    |
|  | Kerry     | Krause        | Other |  | 8     | 31.0 |     |          |          | 2    |
|  | Kathleen  | Loyd          | Para  |  | 8     | 10.0 |     |          |          | 1    |
|  | Julie     | Meseck        | Para  |  | 8     | 10.0 |     |          |          | 1    |
|  | Roddie    | Miller        | Other |  | 8     | 29.0 |     |          |          | 1    |
|  | Jennifer  | Mitchell      | Other |  | 8     | 19.0 |     |          |          | 1    |

|  | Name      |           | EMP    |           | RET   | RET          |     |                   |                | RET  |
|--|-----------|-----------|--------|-----------|-------|--------------|-----|-------------------|----------------|------|
|  | First     | Last      | TYPE   | AGE       | MONTH | YRS          | OPT | OMAHA \$          | STATE \$       | TYPE |
|  | Lyris     | Peak      | Headst |           | 8     | 11.0         |     |                   |                | 1    |
|  | Bonnie    | Perry     | Other  |           | 8     | 40.5         |     |                   |                | 1    |
|  | Dianna    | Preister  | T      |           | 8     | 8.0          |     |                   |                | 1    |
|  | Debra     | Price     | Other  |           | 8     | 23.0         |     |                   |                | 2    |
|  | Linda     | Reeh      | OP     |           | 8     | 41.5         |     |                   |                | 1    |
|  | Daniel    | Robeck    | Other  |           | 8     | 15.0         |     |                   |                | 2    |
|  | Mabel     | Simms     | OP     |           | 8     | 33.5         |     |                   |                | 1    |
|  | Linda     | Slizoski  | Nutri  |           | 8     | 6.0          |     |                   |                | 1    |
|  | Jan       | Stanek    | T      |           | 8     | 37.5         |     |                   |                | 2    |
|  | Diane     | Stuecklin | OP     |           | 8     | 21.0         |     |                   |                | 2    |
|  | Franklin  | Thompson  | T      |           | 8     | 13.5         |     |                   |                | 2    |
|  | Amy       | Viola     | T      |           | 8     | 24.0         |     |                   |                | 1    |
|  | Christine | Wagner    | Para   |           | 8     | 39.0         |     |                   |                | 1    |
|  | Carol     | Weidner   | T      |           | 8     | 22.0         |     |                   |                | 2    |
|  | Margaret  | Wilson    | Para   |           | 8     | 24.0         |     |                   |                | 2    |
| <b>Addition to Retiree Payroll - August 2016</b> |           |           |        |           |       |              |     |                   |                |      |
|  |           |           |        |           |       |              |     | \$66,311.00       | \$1,914.00     |      |
| <b>Average</b>                                   |           |           |        | <b>63</b> |       | <b>21.97</b> |     | <b>\$2,009.41</b> | <b>\$65.99</b> |      |
| <b>Median</b>                                    |           |           |        | <b>64</b> |       | <b>20.75</b> |     | <b>\$1,269.54</b> | <b>\$51.33</b> |      |

- September New Retirement Annuitants (first check October 3, 2016) [28 count]

|  | Name    |             | EMP   |     | RET   | RET  |     | CHOSEN BENEFIT |          | RET  |
|--|---------|-------------|-------|-----|-------|------|-----|----------------|----------|------|
|  | First   | Last        | TYPE  | AGE | MONTH | YRS  | OPT | OMAHA \$       | STATE \$ | TYPE |
|  | Stella  | Boyd        | Para  |     | 9     | 12.0 |     |                |          | 1    |
|  | Marion  | Burns       | T     |     | 9     | 7.0  |     |                |          | 1    |
|  | Diane   | Bush        | T     |     | 9     | 24.0 |     |                |          | 2    |
|  | Larry   | Christensen | CMO   |     | 9     | 10.0 |     |                |          | 1    |
|  | Michael | Clark       | CMO   |     | 9     | 17.0 |     |                |          | 2    |
|  | Anthony | Connelly    | Other |     | 9     | 5.0  |     |                |          | 1    |
|  | Antonia | Flair       | Para  |     | 9     | 27.5 |     |                |          | 1    |
|  | Douglas | Fritz       | Other |     | 9     | 29.0 |     |                |          | 2    |

|   | Name     |            | EMP   |           | RET   | RET          |     | CHOSEN BENEFIT     |                   | RET  |
|---|----------|------------|-------|-----------|-------|--------------|-----|--------------------|-------------------|------|
|   | First    | Last       | TYPE  | AGE       | MONTH | YRS          | OPT | OMAHA \$           | STATE \$          | TYPE |
|   | Jean     | Godfrey    | Trans |           | 9     | 7.6          |     |                    |                   | 1    |
|   | Genine   | Hanna      | OP    |           | 9     | 37.0         |     |                    |                   | 2    |
|   | John     | LeMaistre  | T     |           | 9     | 10.0         |     |                    |                   | 2    |
|   | Colleen  | Lenners    | T     |           | 9     | 25.0         |     |                    |                   | 2    |
|   | Cynthia  | Lipprand   | Para  |           | 9     | 14.0         |     |                    |                   | 2    |
|   | Barbara  | Marks      | Trans |           | 9     | 6.8          |     |                    |                   | 1    |
|   | Suzanne  | Melliger   | T     |           | 9     | 20.0         |     |                    |                   | 2    |
|   | Ira      | Miller     | Trans |           | 9     | 38.0         |     |                    |                   | 1    |
|   | Marvin   | Mort       | CMO   |           | 9     | 20.0         |     |                    |                   | 2    |
|   | Patricia | Orstad     | T     |           | 9     | 40.0         |     |                    |                   | 1    |
|   | Curtis   | Parker     | Trans |           | 9     | 15.0         |     |                    |                   | 1    |
|   | Dean     | Paulsen    | MAIN  |           | 9     | 12.0         |     |                    |                   | 2    |
|   | Joseph   | Pedersen   | Trans |           | 9     | 10.0         |     |                    |                   | 1    |
|   | Pamelia  | Prchal     | Café  |           | 9     | 15.5         |     |                    |                   | 1    |
|   | Paulette | Rak        | para  |           | 9     | 14.0         |     |                    |                   | 1    |
|   | Deborah  | Siembieda  | Para  |           | 9     | 14.0         |     |                    |                   | 2    |
|   | David    | Shipley    | T     |           | 9     | 17.0         |     |                    |                   | 2    |
|   | Glenn    | Smith      | Other |           | 9     | 12.5         |     |                    |                   | 2    |
|   | Susan    | Steinacher | T     |           | 9     | 18.5         |     |                    |                   | 2    |
|   | Patsy    | Stewart    | CMO   |           | 9     | 9.0          |     |                    |                   | 1    |
| <b>Addition to Retiree Payroll - September 2016</b> |          |            |       |           |       |              |     | <b>\$34,395.00</b> | <b>\$1,207.00</b> |      |
| <b>Average</b>                                      |          |            |       | <b>63</b> |       | <b>17.40</b> |     | <b>\$1,228.39</b>  | <b>\$52.48</b>    |      |
| <b>Median</b>                                       |          |            |       | <b>63</b> |       | <b>14.50</b> |     | <b>\$829.50</b>    | <b>\$38.00</b>    |      |

Former Employees

- August Refunds [6 count]

| EMPLOYEE | NAME    |         | Payment |        |
|----------|---------|---------|---------|--------|
|          | First   | Last    | Type    | Dollar |
|          | Duane   | Nemec   |         |        |
|          | Nicole  | Chizek  |         |        |
|          | Merelie | Guillen |         |        |
|          | Lacy    | West    |         |        |

| EMPLOYEE                                 | NAME    |          | Payment |                    |
|--|---------|----------|---------|--------------------|
|  | First   | Last     | Type    | Dollar             |
|  | Martine | Quartey  |         |                    |
|  | Theresa | Davidson |         |                    |
| <b>Terminated EE Refunds August 2016</b> |         |          |         | <b>\$96,676.48</b> |
| <b>Average</b>                           |         |          |         | <b>\$16,112.75</b> |
| <b>Median</b>                            |         |          |         | <b>\$10,107.66</b> |
| <b>Count</b>                             |         |          |         | <b>6</b>           |

The motion was adopted by the following roll call vote: Aye: Rea – Ripa – Erikson – Havlovic – Purdy – 5.

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President Erikson continued the meeting with the next agenda item, action on investments. Ms. Kristin Finney-Cooke with New England Pension Consultants (NEPC) began her presentation with a summary of the continued review of the asset-liability asset allocation work as requested by the Retirement Board of Trustees. Ms. Finney-Cooke reminded the Board that until January 1, 2017, NEPC is the fiduciary on the advisement to the Board and will continue to provide the advice that they feel is most prudent for the Fund. However, having an understanding of what the Nebraska Investment Council is doing is helpful given that we know that the investment management oversight will be moving to NIC, effective January 1, 2017. NEPC wants to minimize costs to OSERS' plan and also the plan participants as we look to move towards our asset allocation. Ms. Finney-Cooke and Ms. Carter have been reviewing documents to try and get an understanding of what we can feasibly get out of or start the process in the next several months.

President Erikson inquired about the AON study. Ms. Finney-Cooke stated NIC needs to do an asset liability study. They will have instructed AON Hewitt to come in and do a separate analysis such as what OSERS has done on the asset allocation. Ms. Carter reminded the Board this is by statute in LB447 (2016). There are differences between the NIC' and OSERS' portfolios. They have less of a weighting towards alternatives investments. However, Ms. Finney-Cooke expressed it is NEPC's recommendation that there be more exposure to large cap

equities in the OSERS portfolio. The question NEPC had to analyze was how to implement more large cap equity exposure and still minimize the cost. NEPC's recommendation would be to utilize Blackrock Russell 1000.

President Erikson asked if this is a good time to be going into large cap? Ms. Finney-Cooke stated she doesn't recommend managing toward tactical because what she is doing is putting forward a long term plan for OSERS. Ms. Carter reminded the Board that we do have one management firm with two separate allocations that needs to be addressed. If anything, it is cleaning that up and allocating those funds to what our consultant is expressing should be our new asset allocation on a go forward basis and then all of that will get turned over to NIC January 1, 2017. We still have a fiduciary responsibility through December 31, 2016 to address the managers that OSERS utilizes.

Another manager of concern with NEPC is Vaquero – Emerging Market Debt. Ms. Carter stated in addition to Vaquero's performance over the last 3 yr., 5 yr., 7 yr. period, she is also having reporting challenges with them. They are not reporting to our custodian in a timely manner. The custodian will reach out to get Vaquero to update their reporting as they are behind several months. Mr. Rea asked if it is NEPC's recommendation to leave Vaquero for a while or move it into Fixed Assets. Ms. Finney-Cooke responded to move it into Fixed Income splitting it between Global Multi Sector and Absolute Return. Mr. Rea stated these changes made sense and Mr. Erikson and Mr. Purdy agreed. Ms. Carter said to note that's if we can get out of Vaquero. There are many challenges that have been brought up and Ms. Carter and NEPC are working toward taking care of them. Ms. Finney-Cooke stated the goal is to show that we are moving toward a December 31, 2017 deadline.

NEPC has had several phone calls with the NIC and has provided them a memo stating they have shared information regarding the Target Mix OSERS is trying to move to. NEPC is keeping the NIC apprised of intended recommendations. Ms. Carter explained there are regularly scheduled phone meetings with NEPC, OSERS and the NIC/SIO every other week or so.

Ms. Carter informed the Board the State Investment Officer and staff expressed they will be meeting with the OSERS managers late summer/early fall and some managers have come through Omaha on their way to Lincoln to have these meetings. President Erikson stated they [the managers] have an opportunity to make a pitch and OSERS might be influencing the NIC in a positive fashion.

Upon motion of Mr. Rea and seconded by Mr. Purdy, the Board moved to go through the process of liquidating Wall Street Funds and Vaquero Funds and reallocate them as per the recommendation schedule. The motion was adopted by the following roll call vote: Aye: Ripa – Erikson – Havlovic – Purdy – Rea – 5.

Ms. Finney-Cooke continued her presentation to the board with the presentation(s) on Total Fund Performance for the quarter ending June 30, 2016. The portfolio's investments and managers returned the following performance:

|                                      | Market Value           | 10 YRS       | Rank      | 5 YRS        | Rank      | 3 YRS        | Rank      | 1 YR         | Rank      | Fiscal YTD   | Rank      | YTD          | Rank      | 3 MO         | Rank     |
|--------------------------------------|------------------------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|----------|
| <b>Composite Allocation</b>          | <b>\$1,169,097,675</b> | <b>5.50%</b> | <b>66</b> | <b>5.30%</b> | <b>88</b> | <b>4.10%</b> | <b>96</b> | <b>2.20%</b> | <b>94</b> | <b>0.70%</b> | <b>98</b> | <b>2.20%</b> | <b>84</b> | <b>3.00%</b> | <b>7</b> |
| Index                                |                        | 5.60%        | 54        | 6.50%        | 51        | 5.80%        | 72        | 0.10%        | 71        | 3.30%        | 72        | 4.00%        | 18        | 3.80%        | 1        |
| Policy                               |                        |              |           |              |           |              |           |              |           |              |           |              |           |              |          |
| Index                                |                        | 5.70%        | 54        | 6.60%        | 43        | 5.50%        | 79        | 0.80%        | 80        | 2.50%        | 86        | 3.00%        | 58        | 1.70%        | 67       |
| InvestorForce Public DB Gross Median |                        | 5.70%        |           | 6.50%        |           | 6.50%        |           | 0.90%        |           | 4.20%        |           | 3.20%        |           | 1.90%        |          |

Ms. Finney-Cooke went on to present the Private Markets Private Equity Report for the OSERS' fund. The report provides a variety of performance analysis for the overall portfolio. The report includes trailing performance, performance by lifecycle, vintage year and strategy. OSERS experienced a negative 1<sup>st</sup> quarter, having a nominal IRR of -1.23%. The annualized IRR of the private markets portfolio since inception is 3.91%. This is for all OSERS' private markets excluding real estate, which is separate. She went on to explain that since inception, the private equity program added \$36.38 million in value to OSERS. Buyout funds added \$29.24 million, Mezzanine added \$5.05 million, and Credit Opportunities funds added \$9.33 million. The strategy that lost value was Real Assets with -\$7.24 million.

Ms. Finney-Cooke continued to present Private Markets Real Estate and Timber Report. OSERS experienced a positive quarter with a nominal IRR of 0.72% and 7.42% for the trailing twelve months. Since inception, 8.95% at quarter end. Real estate is a fairly diversified portfolio, which is appropriate. Ms. Carter informed the board there have been quite a few capital calls this quarter.

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The board took a ten minute break. The meeting resumed at 10:50 am.

Mr. Rea moved to approve the Minutes of the August 2, 2016 regular meeting of the board of trustees, Mr. Ripa seconded the motion. There was discussion and an amendment to the minutes calling for a correction on page 3 to correctly spell Mr. Rea's last name. Ms. Carter apologized. The motion was adopted by the following roll call vote: Aye: Erikson – Havlovic – Purdy – Rea – Ripa – 5.

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The Investment Purchases for the month of August were presented. Mr. Rea moved approval and Mr. Ripa seconded approval of Investment Purchases. The motion was adopted by the following roll call: Aye: Ripa – Rea – Purdy – Havlovic – Erikson – 5.

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Ms. Patrice Beckham from Cavanaugh MacDonald was introduced to discuss actuarial funding projections. Cavanaugh MacDonald was asked to create a projection model based on the most recent valuation as of September 1, 2015. Ms. Beckham further explained that when the models are built, the liability's really the hardest part because what is being done is essentially valuations for the next 30 years assuming people are retiring as assumed; passing away, and resigning, salary increases, etc. There are a couple of scenarios where assuming the actuarial assumption of 8% is met each and every year. It's certain it may not be 8% every year. It may be 8% on the long term over the course of the 30 year period.

The funding policy essentially amortizes the unfunded liability over a closed 30 year period. If that money goes in and the assumptions are all met, OSERS will get to 100% funding. Mr. Rea commented he saw an analysis that was done over the last decade that showed the School District was about \$14 million short over the last decade in what they put in compared to what the amount of the actuarial required contribution.

Ms. Beckham went on to discuss the full ARC paid vs. statutory contributions. The new employees under LB447 are reflected in the numbers presented today; however, the effect of the changes to new employees will not be realized for some twenty years from now.

Ms. Beckham was asked to prepare a *user friendly* projection model for OSERS to permit staff the ability to run through various scenarios and review the outcomes.

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Ms. Carter explained the 2016-2017 proposed budget. Some items of note: (1) OSERS will be changing custodial services from Wells Fargo to the State Treasurer [State Street Bank & Trust] at year-end per the transition to the NIC, (2) OSERS now has its own outside legal counsel which is budgeted differently from using OPS in-house legal counsel, and further – all legal expenses from the NIC associated with OSERS will be billed back to OSERS for payment.

There was no action on the budget; the Board requested additional information and it will come back for final approval at next month's meeting.

In beginning the Executive Director report, Ms. Carter explained – as a result of LB447 (2016) the retirement system is now required to have its own bank account (separate from the OPS school district) in order to take receipt of monies sent from the Nebraska Investment Council on a monthly basis to fund retiree pension payments as well as other administrative expenses. Ms. Carter proposed the U.S. Bank signatories be Donald Erikson, OSERS Board President; Cecelia M. Carter, Executive Director; and James Ellis, Retirement Benefits Manager. The order will primarily be Ms. Carter, Mr. Ellis, and President Erikson. Funds will be sent to OSERS on a monthly basis from NPERS and will go into a separate bank account from the Omaha School District and Ms. Carter will authorize the movement of those funds over to the School District to pay our retirees. No authority is needed to open the bank account. This is being handled by the School District, but the Board of Trustees will need designated signatories because of the legislation.

Mr. Purdy made the motion to name Cecelia M. Carter, Executive Director, James Ellis, Benefits Manager, and Donald Erikson, Board President as authorized signatories on the new U.S. Bank account established by the Omaha School District to receive funds from NPERS. The motion was seconded by Mr. Ripa and adopted by the following roll call vote: Aye: Havlovic – Purdy – Rea – Ripa – Erikson – 5.

Ms. Carter indicated the NCTR Annual Meeting calls for the naming of System delegates to participate in the annual business meeting. Mr. Ripa motioned and Mr. Purdy seconded the NCTR Delegates will be Mr. Rea and Mr. Ripa and the Alternative Delegates will be Mr. Purdy and Mr. Havlovic. The Executive Director of the System is an automatic delegate to the meeting. The motion was adopted by the following roll call vote: Aye: Ripa – Rea – Purdy – Havlovic – Erikson – 5.

Ms. Carter reported to the board that LB447 made changes to Section 79-978 subsection 22 of the Revised Statutes with regard to regular credit interest to employee contributions in the pension plan. Historically, the Board selected an amount to contribute or said, given the markets, there was no contribution that year. The law now reads that on total contributions of a member prior to the close of the last preceding year, August 31, compounded annually,

beginning September 1, the rate will be at a rate equal to the daily treasury yield curve for one year treasury securities as published by the Secretary of the Treasury of the United States that applies on September 1 of each year. The September 1, 2016 Daily Treasury Yield Curve Rate was 60 basis points.

McGrath North has advised OSERS of a change in rates effective September 1, the cost of a partner has gone up \$10.00 per hour. On average, the firm has experienced an average of \$10.00 per hour increase firm-wide.

Ms. Carter reminded the Board she will give notice to Wells Fargo at least 60 days prior to the end of the year and to NEPC at least 30 days prior to the end of the year. In October, discussions will be taking place with these 2 entities to transition data to the Nebraska Investment Council for year-end.

Ms. Carter ended her Executive Director report with these last two items: (1) the audit is underway and Ms. Carter stated we are working with Seim Johnson, and (2) One North Equity Healthcare Fund is a UBS asset management fund that is in our hedge fund group and does healthcare related investments announced a change. Matt Konofsky will take over as portfolio management out of the Chicago office and Scott Wilken has been appointed lead portfolio management of Global Equity in London.

Meeting adjourned at 12:26 p.m.