

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
February 18, 2014

[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 9:00 a.m. on Tuesday, February 18, 2014, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on gubernatorial appointments. Senators present: Jeremy Nordquist, Chairperson; Danielle Conrad; Rick Kolowski; and Heath Mello. Senators absent: Al Davis, Vice Chairperson and Russ Karpisek.

SENATOR NORDQUIST: Good morning, everyone. We'll go ahead and get started. Senator Conrad will be joining us in just a minute. I'm State Senator Jeremy Nordquist from District 7, downtown south Omaha, Chair of the Retirement Systems Committee. We have two gubernatorial appointments to hear today. If you will be testifying on the appointments in any capacity, there are sheets to complete in the back. Please state and spell your name for the record. Please turn in the testifier sheets to our committee clerk, Laurie Vollertsen to my far right. To my left is our legal counsel Kate Allen. Our page today is Matt. We have Senator Rick Kolowski from District 31; Senator Health Mello from District 5; Senator Danielle Conrad from District 46. Senator Karpisek may be joining us, and Senator Davis, the Vice Chair of the committee, I believe will not be able to make it before the...for the hearing. So the only other thing is please silence your cell phones so it doesn't disrupt the recording of the hearing. And we will go first with Gail Werner-Robertson. If she can come up and tell us a little bit about yourself. Welcome. [CONFIRMATION]

GAIL WERNER-ROBERTSON: (Exhibit 1) Glad to be here. It's a beautiful day. Perfect day for a drive. My name is Gail Werner-Robertson, and I have been the chair of the Nebraska Investment Council for I think this is my...going on my two-and-a-half appointments. I finished someone else's previous appointment. Been on the council over ten years. I've really enjoyed my time, feel it's a real honor to help the state of Nebraska manage these assets, which currently now are over \$20 billion. It's really amazing the growth that we've had in the assets. Interestingly, at the depth of the recession...of the recession, December 31, 2008, our funds were \$12.1 billion and now \$20.6 billion at the end of 2013. So they really have grown dramatically. My background is in investments. I owned a broker dealer for about 15 years, been in the investment business close to 25. Really love the investment world. It's an interesting time right now with all of the changes the fed have made that causes a lot of concerns. So I would say the Investment Council is really trying to be careful with the assets because of the...what we've seen, all the money being printed that we worry about inflation and interest rates going up. So I think you're very lucky in the state of Nebraska you have a very wise Investment Council, a lot of very, very smart people. And I want to make a plug for our state investment officer because Jeff is just fabulous. He and his team just do an amazing job. We are really, really fortunate with the quality of staff that we have too. [CONFIRMATION]

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SENATOR NORDQUIST: Great. Thank you. Well, just generally the structure of the Investment Council, what are your general thoughts on that? Are we structured in the right way to manage the assets that we have? Are there more efficient ways to do it? I know we've looked at "in-sourcing" more versus outsourcing. Just your thoughts on that. [CONFIRMATION]

GAIL WERNER-ROBERTSON: Sure, and to update you on that we actually have brought all the operating investment pool inhouse over the last couple of years. Jeff has done a great job of building that staff out. I want to thank the Governor who helped us get more appropriations so that we could have more staff brought in to investment analysts. And that saves us about \$800,000 a year in management fees that we were paying to external companies. So that really has helped us. We felt like that was a good place to start to internalize that management. I think now we have...and I think Jeff would agree with this, we have a pretty good I think control over costs. Our total cost, which is interesting, I'm always surprised to see this, but our total cost for management, 28 basis points is really very, very low. I mean, we've done comparisons to other plans and we are really doing a good job of managing those costs. Our returns for the funds for the three, five, and ten year, I'll give you the percentages, 10.3 percent for three years; 13.2 percent for five years; and 7.1 percent for ten years. Last year was 18.3, which makes everybody think, oh, yea, we're back to the glory days. But we really don't think so when you look at that ten-year number, which is 7.1. But each of those, three-, five-year numbers in last year, we were in the top quartile of all funds compared to our size. And so I think it's really being managed well. The other thing that I think is a positive, and I know there's been discussion about this, is the separation of PERB and NIC. And I would say from a NIC person that I appreciate not having to deal with all of the issues that PERB has to deal with. We really just get to concentrate on management and really reviewing all the funds and making sure we're doing a good job to maximize returns, minimize risk. And I think if you had, if you combined those two functions, I think it would be very difficult to do that. Phyllis does a great job of running the administrative side and making sure, you know, everyone is getting their payments on time, they're processing that, handling the litigation that may come up. That would really be a distraction I think if those were combined together. So, Senator, I really think it's being managed well and I think a small NIC is also helpful. You know, it's...we're not so big that it makes it hard to make decisions. We do make decisions. We change allocations around. And if you had 12 people on that board, I don't think you would be able to do that as easily. [CONFIRMATION]

SENATOR NORDQUIST: Great. Any other questions from the committee? Senator Kolowski. [CONFIRMATION]

SENATOR KOLOWSKI: Yeah, Gail... [CONFIRMATION]

GAIL WERNER-ROBERTSON: Yes. [CONFIRMATION]

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SENATOR KOLOWSKI: ...it's good to see you after about 35 years from Millard High and all those days of... [CONFIRMATION]

GAIL WERNER-ROBERTSON: Oh, jeez, make me feel old. (Laughter)
[CONFIRMATION]

SENATOR KOLOWSKI: Well, no, it's wonderful. Thank you for all your dedicated work and the accomplishments that you've been able to do in life, and it's wonderful to see you. [CONFIRMATION]

GAIL WERNER-ROBERTSON: Thank you. [CONFIRMATION]

SENATOR KOLOWSKI: And I wish you the very best on this, and good to see you again. Thank you. [CONFIRMATION]

GAIL WERNER-ROBERTSON: Thank you. Thank you. One other comment I would just make is I was giving you those numbers. I know there's been conversation about this 8 percent assumed rate of return, and we are continually a little concerned about trying to get to that number. We will not stretch further than what we think is prudent for those assets. So we think that 8 percent number is going to be really difficult over a long period of time to get to. Last year makes it seem like it should be easy, but last year was kind of an anomaly. I don't think we will see that every year. So, you know, our consultant thinks, you know, there's a 40 to 50 percent chance we're going to get to that 8 percent number. Some years we will do better, but as you have seen from '08-09, if you go down 30 percent it takes a long time to get back up to even. So I would just, you know, put that out there that you think about that, and I know there's conversations about that. That's, you know, PERB's purview to talk about what the assumed rate of return should be. But I just want you to know we're doing what we can within the risk parameters that we think is prudent. [CONFIRMATION]

SENATOR NORDQUIST: Okay. Great. Any other questions? Senator Mello.
[CONFIRMATION]

SENATOR MELLO: Thank you, Senator Nordquist, and thank you, Gail, for your longtime service on the Nebraska Investment Council. It's maybe just more of a question, an open-ended question on an issue that this committee had evaluated last year or the previous year, I'm sorry, which looked at primarily the operating investment pool and utilizing some of those investments for state economic development purposes. And then in that respect we had I think a very thorough discussion as a committee in the interim and realized that the investment council does already provide some allocations for private equity. Is that a conversation that you and the other commissioners have continued to discuss or is that something that anyone maybe in the business community

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from the Omaha area that I know that you're from has raised with you in the sense of wanting to make sure that we're looking at some potential venture capital funding and/or expanding private equity funding... [CONFIRMATION]

GAIL WERNER-ROBERTSON: Sure, sure. [CONFIRMATION]

SENATOR MELLO: ...for economic development purposes in the state.
[CONFIRMATION]

GAIL WERNER-ROBERTSON: I think it was wise not to use the OIP as the source for that funding. That funding really is more...really needs to be protected as far as the capital. So I think that was wise to say it should be within our other risk assets. So we consider ourselves to have 70 percent risky assets, the equity like in 30 percent bonds. So within that we carve out for private equity. I have people call me occasionally and say they have something that's being done locally, and I always give them Jeff's number and I say call Jeff. Jeff is the first person that you talk to. And a number of them I know have been able to get through, and then they go to our consultant and then, you know, it comes to the full council. So I know we do have a local, a Nebraska manager in private equity. It's...we don't have a lot of private equity managers that have the built out of staff that normally will fit our requirements of what we're looking for, as well as we like to have track records because of course we're worried about investing these assets and having, you know, a failure. We don't want to have a failure. So the experience that the person brings with them is really important. And sometimes these people come from other entities where they can't bring their track record with them, so you're starting with a new entity. But absolutely we talk about it all the time. We should not be anti-Nebraska when it comes to managing money. And so we are always open. So if anybody ever, you know, asks you, you tell them absolutely, they call the State Investment Officer and they will get a meeting. [CONFIRMATION]

SENATOR MELLO: All right. Thank you. [CONFIRMATION]

GAIL WERNER-ROBERTSON: You bet. [CONFIRMATION]

SENATOR NORDQUIST: Okay. Any other questions? Seeing none, thank you.
[CONFIRMATION]

GAIL WERNER-ROBERTSON: You're welcome. [CONFIRMATION]

SENATOR NORDQUIST: Thanks for your service. [CONFIRMATION]

GAIL WERNER-ROBERTSON: Thank you very much. [CONFIRMATION]

SENATOR NORDQUIST: Any other testifiers on this appointment? Seeing none, that

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will conclude the hearing on that appointment. And we will move to the appointment of Dennis Leonard to serve on the Public Employees Retirement Board. Welcome, Dennis. [CONFIRMATION]

DENNIS LEONARD: Thank you. [CONFIRMATION]

SENATOR NORDQUIST: Go ahead whenever you're ready. [CONFIRMATION]

DENNIS LEONARD: (Exhibit 2) Well, this is a first for me, so... [CONFIRMATION]

SENATOR NORDQUIST: Sure. [CONFIRMATION]

DENNIS LEONARD: ...pardon me if I'm a fish out of water. But I guess I put my application in to sit on this board for a couple of reasons. I've been a member of the State Patrol's portion of the retirement fund for 27 years. I'm a command-level officer with the Nebraska State Patrol. I have a degree in business management. As an investor, I also have additional deferred comp funds in both the state and the Hartford, now MassMutual accounts. I have a genuine interest in representing those that I work with and those who work for me to at least be able to provide good information to them. I think that probably the last couple of appointments have been short term because they moved on to bigger and better things. So this is only a ten-month appointment. I hope that I have the opportunity to come back again next year and ask for your confirmation once again. I've talked with Darrell Fisher who's now the executive director at the Crime Commission. I've known Rhonda Lahm for a number of years. I know Glen Elwell. We were camp mates. He's retired now. So I have some resources that I can fall back on here. And I'd been over to the office. I've gone through the orientation. I have a great deal of confidence in the board and in the director. So I thank you for the opportunity to come here and tell you why I would like to be in the position and I hope that you feel the same way. [CONFIRMATION]

SENATOR NORDQUIST: Well, thank you for your willingness to serve. Just generally from people who are nearing retirement in the State Patrol plan and then maybe those new troopers that have come on board, what's the general sense of our retirement plan? I know we've made some contribution rate increases and it's getting to a pretty high level, and just how do new troopers take that and just your general perspectives on it. [CONFIRMATION]

DENNIS LEONARD: It's really the mid-level or mid-service people that have been...who have expressed the most concern about the contribution rate. New troopers, in all honesty, are interested in being troopers. And I can tell you from my own experience, 28 years ago I'd have probably worked the first two years for free. So they don't really think a whole lot about it. Those... [CONFIRMATION]

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SENATOR NORDQUIST: Maybe we need to look at that. (Laughter) [CONFIRMATION]

DENNIS LEONARD: Of course, I was a country kid from southwest Nebraska, so it looked pretty good to me. Those nearing the end of their careers recognized the true value of the retirement plan that we have. The people that are in the middle, those that are probably struggling a little bit, raising kids and buying cars and trying to get into the right house, they've expressed some concerns, particularly when it was up to 19 percent. I'll tell you that I had conversations, one on one, with some of my subordinates, a couple of them who for lack of a more intelligent term were kind of stirring discontent. And I didn't bring them in to scold them, I brought them in to talk to them about what they had. And I asked...first of all, I pointed out to both of them--it was 19 percent at the time--that there were very few places in the world if anywhere you could put a fifth of your income tax free into a retirement fund and your boss would match it. And that if they...and I would like for them to consider going to any one of their neighbors that live within 100 yards of their house, knock on the door and say, hey, this is how much I make in salary. This is what my benefits are. And on top of that I get to put a fifth of my income into a retirement savings account and my boss matches it. Would you like to trade places? And in both those cases the guy said, yeah, they thought their neighbors would probably take that. So, you know, we...I do understand what their concerns were, particularly when it went up and it went up a little more than what their salary had. But I also think that when they look at it a little more deeply that they recognize that it's a benefit that is really, really rare. [CONFIRMATION]

SENATOR NORDQUIST: I appreciate that perspective. Any other questions from the committee? Senator Kolowski. [CONFIRMATION]

SENATOR KOLOWSKI: Lieutenant Leonard, thank you very much for your outstanding career and for all your dedication to the state of Nebraska. Having a brother who put in 20 years as a state trooper in Illinois, I recognize all those stories you were talking about as he raised...he and his wife had four sons and all the challenges that go with that. As we look at the aspect of the crime fighting with something like the swabbing with the DNA that took place this last year, the decision from the courts, we have great interest in my office of the things that we need to do across the board in the counties and cities and with the State Patrol on the changes in the sampling of DNA. And would you comment on that from your years on the road as well as in all your tasks? [CONFIRMATION]

DENNIS LEONARD: Well, actually I hope I don't expose myself to questions I can't answer, but for 24 years I've been in investigative services and I oversee all investigations in the Troop C area, which is 17 counties in central Nebraska. So I have some knowledge about it. I'm not certain exactly what changes you're talking about. There have been several of them. But as far as if you're talking about the blood versus buccal swabbing... [CONFIRMATION]

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SENATOR KOLOWSKI: Just the swabbing. It's a matter of... [CONFIRMATION]

DENNIS LEONARD: The swabbing is... [CONFIRMATION]

SENATOR KOLOWSKI: Handling the volume I guess is more my concern than anything else. [CONFIRMATION]

DENNIS LEONARD: Oh, are you talking about at the crime lab? [CONFIRMATION]

SENATOR KOLOWSKI: Yes, sir. Yes, sir. Yeah. [CONFIRMATION]

DENNIS LEONARD: Okay. Well, it's...the volume is not going to get any less. It's an exact science and it's encouraged by television and by the media. And, you know, we have to be very cautious not to set thresholds that may be reasonable but would be detrimental to us as far as our relationships with our allied agencies, sheriffs, police departments. So it's...the volume is not going to get less. The...of course the buccal swabs are easier to collect, less expensive to collect. I'm not a scientist, so...but it's my understanding that they are certainly no more difficult to analyze. So that makes sense. [CONFIRMATION]

SENATOR KOLOWSKI: I don't mean to put you on the spot on that. But I just know with the volume going up and the amount of traffic that you do handle, we want to make sure that you're funded adequately from my perspective to do the job. I have a son who's a CSI guy as well, so I know it very well. [CONFIRMATION]

DENNIS LEONARD: I appreciate that because, I mean, we know what drives results, and that's funding. But we also recognize that there's a limited amount of it and it has to go around. I know that I personally and the Nebraska State Patrol as an organization greatly appreciate the opportunity that has been given to us in putting a new lab in. And the new lab, I don't want to again speak for the lab director, but the new lab in itself when it's up and running is going to increase efficiency and the ability of those that we have hired now to process all of those evidence items in a much better, quicker, greater number. [CONFIRMATION]

SENATOR KOLOWSKI: Thank you. [CONFIRMATION]

SENATOR NORDQUIST: Great. Any other questions? Seeing none, thank you. Thank you for your time and your willingness to serve. [CONFIRMATION]

DENNIS LEONARD: Thank you. Thank you very much. [CONFIRMATION]

SENATOR NORDQUIST: Thank you. Any other testifiers on this appointment? Seeing

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none, that will conclude our hearings today. Thank you. [CONFIRMATION]