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Nebraska Retirement Systems Committee  
February 15, 2012

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[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 12:10 p.m. on Wednesday, February 15, 2012, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on gubernatorial appointments. Senators present: Jeremy Nordquist, Chairman; LeRoy Louden, Vice Chairman; Lavon Heidemann; Russ Karpisek; and Heath Mello. Senators absent: R. Paul Lambert.

SENATOR NORDQUIST: Good afternoon and welcome to the Retirement Systems Committee. We're going to go ahead and get started here. Okay, I am state Senator Jeremy Nordquist and Chair of the committee from District 7 in downtown and south Omaha. We have two confirmation hearings today. Just real quickly, please silence your cell phones. Please, if you're testifying, submit the testifier's sheet to the clerk. Please state and spell your name when opening. We will take...we will hear from the appointees and then any comments regarding each individual one. I will start with introductions. To my far right is our committee clerk, Laurie Vollertsen. Page is Alex; she can help distribute any handouts or anything if you have. And to my left is our legal counsel, Kate Allen. We'll start here to my right for senator introductions.

SENATOR MELLO: Senator Heath Mello, District 5, south Omaha.

SENATOR KARPISEK: Russ Karpisek, District 32, from Wilber.

SENATOR LOUDEN: LeRoy Louden, District 49.

SENATOR HEIDEMANN: Lavon Heidemann, District 1, Elk Creek, Nebraska.

SENATOR NORDQUIST: And Senator Lambert, I believe, is in a...has an Exec with another committee and won't be joining us this morning (sic). We will go ahead and begin with the two appointments today, in alphabetical order. We'll begin with Richard DeFusco for the Nebraska Investment Council. Welcome. [CONFIRMATION]

RICHARD DeFUSCO: Thank you. I'll state my name, Richard DeFusco. Shall I spell it? [CONFIRMATION]

SENATOR NORDQUIST: Yeah, please. [CONFIRMATION]

RICHARD DeFUSCO: Yeah, R-i-c-h-a-r-d D-e-F-u-s-c-o. And good afternoon, thanks for meeting with me. As I said, my name is Rich DeFusco. I'm a professor of finance at the University of Nebraska. I've been a finance professor there for 27 years now, joined the faculty in January, 1985. I've been on the Investment Council now for a total of eight years. I served a three-year term and then was reappointed and have served a five-year term that's currently expiring. The Governor Heineman has recommended that I be

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reappointed to the committee, which is why I am here this morning--this afternoon--with you. I'll tell you a little bit of something about...in terms of my investment philosophy, in case you're interested in that. I think I fit rather nicely with the other members of the council. We all have a rather conservative philosophy when it comes to investing. We're charged with managing a vast amount of the state's money, the biggest piece being the defined benefit pension plan assets. That's probably the most challenging part since we're sort of charged with making an 8 percent assumed rate of return, and so we do that in the most risk-controlled environment possible. And as you're aware, markets go up and down, and so we certainly have a challenge on that. But it's certainly been a pleasure to work with the other members of the council during these last eight years. I find the staff just a pleasure to work with up at the agency. It's...it certainly would be a pleasure and an honor for me to continue to serve for another five years, try to bring my expertise to the table to help the beneficiaries and the taxpayers of the state of Nebraska manage their money in the best way possible. So if you had any questions of me, I'd be happy to try to address those. [CONFIRMATION]

SENATOR NORDQUIST: All right, thank you. I'll start. Just kind of what...I know the last few years, we've had discussions with the agency and under the previous chief investment officer of just kind of the balance of inside fund managers versus outside and maybe just your thoughts on that and...yeah. [CONFIRMATION]

RICHARD DeFUSCO: Well, I think that's a good question, Senator Nordquist. One of the things we've done with the operating investment pool that we manage is to try to bring much of that back in-house. I think that's sort of a win-win for the state of Nebraska. [CONFIRMATION]

SENATOR NORDQUIST: Um-hum, sure. [CONFIRMATION]

RICHARD DeFUSCO: We do that, we save money rather than paying fees to external managers, and then we get to hire professionals that are going to be located here in the state of Nebraska. And so we bring people back in, and so I think that's certainly been a win-win. And we've had conversations for the defined benefit pension plan also. The state of South Dakota, I think, manages almost all of their defined benefit pension plan assets in-house, so it's not impossible even where we might be a small state, population-wise, to do something like that. [CONFIRMATION]

SENATOR NORDQUIST: Sure, um-hum. [CONFIRMATION]

RICHARD DeFUSCO: So we've had that conversation. We will probably continue to have that. [CONFIRMATION]

SENATOR NORDQUIST: Yeah. [CONFIRMATION]

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RICHARD DeFUSCO: I don't think we're just ready yet to do that. [CONFIRMATION]

SENATOR NORDQUIST: No, that's all right, sure. [CONFIRMATION]

RICHARD DeFUSCO: But certainly, we've demonstrated that we can do that with the operating investment pool, which runs in excess of \$2 billion, and so I do think that's a conversation continuing to have. [CONFIRMATION]

SENATOR NORDQUIST: Um-hum, sure. [CONFIRMATION]

RICHARD DeFUSCO: We'd be happy to have your input on that, too, as you deem it appropriate. [CONFIRMATION]

SENATOR NORDQUIST: Sure, yeah great. Well, thank you for your service and your willingness to continue to serve. [CONFIRMATION]

RICHARD DeFUSCO: You're welcome. [CONFIRMATION]

SENATOR NORDQUIST: Any questions from the committee? Any other ones? Seeing none, thank you. [CONFIRMATION]

RICHARD DeFUSCO: Okay, thank you very much. [CONFIRMATION]

SENATOR NORDQUIST: Okay. Any testifiers to comment on this reappointment? Seeing none, that will conclude the hearing on the appointment of Richard DeFusco and we will open with the appointment of Stuart Simpson to the Public Employees Retirement Board. Welcome. [CONFIRMATION]

STUART SIMPSON: Thank you very much. Stuart Simpson, S-t-u-a-r-t S-i-m-p-s-o-n. I'm currently the business manager for North Platte Public Schools. Maybe some...a little bit of history about myself. I grew up in western Nebraska. Senator Louden was my representative when 49th District was located there. Went to Chadron State, moved down to Scottsbluff, moved back to Alliance to be the business manager there for the school district for about 16 years, then took a leap of faith and moved three hours east to North Platte. And that was a big change for the family, but a good positive one for us as far as growth and what's going on. So, you know, I've been with the district for six years and look forward to a few more. [CONFIRMATION]

SENATOR NORDQUIST: Great. Any questions from the committee on this appointment? Senator Louden. [CONFIRMATION]

SENATOR LOUDEN: Yeah. Well, welcome to Lincoln, Stuart. I can remember Stuart when he was a little baby boy. (Laughter) I know he's...knew his folks quite well, Dean

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and all, so I'm sure they're quite proud of you. So you're still down there with...business manager there for North Platte Public Schools? [CONFIRMATION]

STUART SIMPSON: Yes, I am. [CONFIRMATION]

SENATOR LOUDEN: And before that, you were business manager for Alliance Public Schools and then... [CONFIRMATION]

STUART SIMPSON: Correct, correct. [CONFIRMATION]

SENATOR LOUDEN: Yeah. And now you're going to be on the Employees Retirement Board? [CONFIRMATION]

STUART SIMPSON: Correct. [CONFIRMATION]

SENATOR LOUDEN: Okay, and I'll put you on the spot now. Do you think those teachers ought to have a defined benefit or defined contribution retirement fund? (Laugh) You don't have to answer that if you don't want to. (Laughter) Anyway, thanks for being here. [CONFIRMATION]

STUART SIMPSON: You're welcome. [CONFIRMATION]

SENATOR NORDQUIST: All right, any other questions from the committee? Seeing none, thank you for your willingness to serve. [CONFIRMATION]

STUART SIMPSON: Thank you very much, appreciate it. [CONFIRMATION]

SENATOR NORDQUIST: Yeah, thanks. And we will take testimony now on this appointment. [CONFIRMATION]

MIKE DULANEY: Senator Nordquist, members of the committee, my name is Mike Dulaney, D-u-l-a-n-e-y, and I am the executive director for the Nebraska Council of School Administrators, here to support the confirmation of Stuart Simpson. And I have known Stuart for 20 years and our association would like you to know that he is very well respected among his colleagues across the state of Nebraska. And in fact, they elected him--a number of years ago elected him--to be the president of the business managers organization within our council, so we appreciate his service to the profession and we think he'll do a great job on the PERB. [CONFIRMATION]

SENATOR NORDQUIST: Okay, thank you, Mike. Any questions from the committee? Seeing none, thank you. [CONFIRMATION]

MIKE DULANEY: Thank you. [CONFIRMATION]

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SENATOR NORDQUIST: Any additional testimony? Seeing none, that will conclude the hearing on the appointment of Stuart Simpson. Thank you, that will conclude our hearing for today. Thank you all. [CONFIRMATION]