McDONNELL: [RECORDER MALFUNCTION]-- and welcome to the Nebraska Retirement Systems Committee. My name is Mike McDonnell, representing Legislative District 5 in Omaha, and I also chair this committee. Today's hearing is a bit different from our typical hearings on introducing bills. We're, we're here today for a presentation discussion of the Nebraska Public Employees Retirement System and the Nebraska Investment Council's presentation of their annual reports. These reports are required by statute to be presented to this committee. However, this is a public hearing, and committee hearings are an important part of the legislative process and provide an important opportunity for legislators to receive input from Nebraskans. If you plan to testify today, you will find pink testifier sheets at the table inside the doors. Fill out a pink testifier sheet only if you're actually testifying before the committee. And please print legibly. Hand in, hand in the pink testifier sheet to the page as you come forward to testify. There's also a white sheet on the table if you do not wish to testify but would like to record your position on today's topics. This sheet will be included as an exhibit in the official hearing record. If you are not testifying in-person and would like to submit a position letter for the official record, all committees have a deadline of 12 p.m. Central Daylight Time the last work day before the hearing. Please know that the position letters to be included in the official record must be submitted by the way of the Legislature's website at NebraskaLegislature.gov. And a new feature of the website also testifiers with disabilities to submit testimony for the record on the, the site. The website will, will be the only method for submission of letters for the record other than testifying in-person. Letters and comments submitted by the way of email or hand-delivered will no longer be included as part of the hearing record. Although they are a viable option for communicating your views with the individual senators, keep in mind that you may submit a letter for the record on the website or testify at the hearing, but not both. We ask that you begin your testimony by giving your first name-- first and last name and spell them for the record. If you have copies of the testimony, please bring them up and, and-- 10 copies, and give them to the page. If you are submitting testimony on someone else's behalf, you may submit it for the record but will not be allowed to read it. As a matter of committee policy, I would like to remind everyone to use-- the use of cell phones and other electronic devices is not allowed during a public hearing, although you may see senators use them to take notes to stay in contact with staff. I would ask everyone to look at their cell phones and make sure they're in silent mode. Some senators will be using their laptops to pull up documents and follow along with each bill. You may notice committee members coming and going. That has nothing to do with how they regard the importance of, of this presentation. And with that, I'll have the committee introduce themselves, starting with Senator Ibach.

IBACH: Thank you very much. Senator Teresa Ibach, District 44, southwest Nebraska.

McDONNELL: Assisting the committee today, at my far right: Laurie. Thank you so much for being here taking Tim Pendrell's spot. You've already done better than he did in the first 5 minutes [INAUDIBLE]. We really appreciate you stepping up. And Neal Erickson, committee legal counsel and-- who has been with us. Francine Heeron, who is a UNL student. We appreciate you all being here. With that, Mr. Gerke.

RANDY GERKE: Well, good afternoon, Senator McDonnell and members of the Retirement Committee. My name is Randy Gerke. That's spelled R-a-n-d-y G-e-r-k-e. And I'm the director of the Nebraska Public Employees Retirement System. And I'm here to present the annual report for the agency. As you said, it's statually-- statutorily required. And I know you all are very, very busy right now, but I do have some things that I, I, I-- I would prefer not to read everything to you. However, I do have some things that I want to point out to you in the annual report. And so with that, I think I will just get started. If you have it in front of you at all-- I was going to jump right to the accomplishments on page 5. And it-- this is-- we're a very busy agency right now-- as always, actually. We-- our, our membership has went to 150,000 plus in this last year. Our assets have decreased from $20 billion to $18 billion. That's about a 10 percent drop. This year, we put out $1.1 billion in benefits to-- and then $817 million of that was in annuity payments to about 32,000 members that-- we base our COLAs on the CPI, which this year was very high. It was 9.81 percent. However, the plans have built into their structure that the, the COLAs are capped depending on which tier you are, and so those were capped at 2.5 percent or 1 percent, depending on the tier that you were at. The state and county cash balance plans exceeded 100 percent funding. And so there was money that was available for the PER to vote and grant dividend of 7.5 percent to the state cash balance members and 6.5 percent dividend to the county folks. This amounted to $146 million that was paid out to our members in this last year as a dividend because of the investment return that, that had been experienced as well as the, the smoothing that we do for our actuarial evaluations. As always, the agency exercised-- and we, we are fiduciary of, of our plan assets. We are very-- what I want to say is "fiscally responsible." We don't spend money unless it's needed. And, you know, I think our budget and our budget requests and our spending authority reflects that. And so I, I did want to point that out. We are very proud of that. A couple years ago, LB147 was passed, and this has been a very big project for us. It's a multiyear project that-- we will be assuming the administration of the Omaha Public Schools Retirement System. That will be effective September 1 of 2024. However, we are, we are very busy right now in preparing the computer system, working with the data, et cetera. And I'll be-- I'll talk a little bit more about that in, in just a bit. We had over 2,000 new retirements this year. 180-- or, I'm sorry-- 108 estimates for the purchase of the service. 43 actually purchased. 39 qualified domestic relations orders and 22 disability retirements. One thing that we're very proud of is, of, of all of that, those numbers that I just gave you, we had a 90.56 percent delivery rate and the-- we try to get our payments out the door within three months of the effective date. We have not missed that mark-- or, we have missed that mark-- I'm sorry-- for a couple years. And so this year, we are back, and, and we're very proud that our delivery rates have, have improved this year, and we've worked hard on that. Educationwise, we are adding-- we've added a lot of web-based offerings and a, a YouTube channel. We have a new webpage that we have done this year and implemented. That took quite a little bit of time. We have removed an age requirement for folks who would attend our preretirement events, our, our education, and we're, we're very pleased with that. We found that, at one time-- before we were able to do this, you had to be 55 to even come to the retirement offerings that we had, the education offerings, and we have eliminated that. And now we, we can offer that to the younger folks who, you know, as we all know, we should be re-- planning for retirement at a younger age. And so we think that that was a very good step. Also this year, we completed a technology assessment project to assess, going into the future, our-- how viable our computer system is. And-- anyway, we, we got that and we got the findings on that. The next year for the action, the action plan, we intend to do much more cross-training. There has been some tax withholding procedures that we need to implement. Education wants to expand their web-based offerings into different times of the day: mornings, afternoons, evenings, even some weekends. Lots more videos that they want to add. So those are all things that are on our agenda. However, the big thing on our agenda is still this OSERS management transfer project, and that is going to consume quite a little bit of time. On the-- on page 10, actually, we've added a page to our annual report that talks about the transfer project, and this will probably expand as we go forward. But this year, we have, we, we added a-- or, hired an outside project manager to manage this, this project. We've hired a retirement plan manager. We put out an RFP and awarded the contract, and now we-- work is being done to com-- work on the computers' programing as well as the data migration and digitizing the images and, and so forth at OSERS. That's quite a big project because a lot of it was-- a lot of their things that they have now is just paper. So the-- that's the Omaha Project. It-- like I said, it's going to consume quite a little bit of our time. On page 13 and 14, it talks about the funded status of our plans. And I think this is always good to point out: our judge's plan last year was 101 percent funded; school, 98.4; and the patrol plan was 90.7, which are to be-- other, other plans in the, in the country wish that they were as good as we are, and that's all thanks, thanks to this, this committee, the Legislature, the executive branch, as well as the PERB and the NIC for, for all that they do. It, it takes all-- everybody working together to keep these plans in the shape that they are, and they're very-- and, and they're very good. On 17, it starts out-- just breakdowns of the assets by the plan and, and the membership by plan. Talks a little bit about, about budget on the-- on page 19. I, I would point out that our operating expenses are only three basis points of our full-- of, of our total assets, and I think, I think that's very good. It used to be around five, and then it went down to four, and now we're at three. So we're, we're gaining ground there. On page 20, it starts out-- different sections about our individual departments within our agency education as well as internal auditing, member services and such. One of the things that I would like to just point out-- I always like to point this out-- is on page-- or in, in the appendices, on, on appendix 4. Starts on page 32. This is a snapshot of our payments that go out in December, just one month’s worth, and it lists what-- the economic impact that goes to each one of the counties. And it, it, it does hit every one of the counties in the state and, and the, and the amounts of money. And so, you know, you can see on, on-- the-- there what, what county your constituents are in and see what, what the retirement plan's impact is there. But on page 35-- I think a, a, a piece of that story that's good to know. We also send money to every state in the, in, in the union as well as several other foreign countries. But 88 percent-- or, a little over 88 percent of the money that we send stays right here in the state of Nebraska, and I, I think that that's very important to know about these plans. After, after that, we have some pla-- a little bit more about the plans and a summary of those. We've got some legislative history and then board policies at the end, which we always end up putting on here. I would just give a quick shoutout to our graphic artist. She does such a good job at-- and she drew these foxes on the front, and I'd be remiss if I didn't at least mention Anna Hayden-Roy. She does such a good job. And with that, I'd be happy to answer any questions.

McDONNELL: Mr. Gerke, thank you for being here. And great job, as usual. Questions from the committee? Yes, Senator Conrad.

CONRAD: Thank you so much, Chair. Thank you, Director. Good to see you. Sorry I'm a little froggy today. Feel fine, sound terrible. Just one thing that was striking in addition to the plethora of great information and the beautiful facts-- thank you for drawing our attention to that. But, you know, I was just thinking about what a testament it is to your office, members of this Legislature across years and across the political spectrum to weather such rocky economic conditions over recent years and to be in a place where we're keeping our promise to our retirees and our systems are so stable and solvent. And I'm guessing many of our sister states would be envious of the position that we're in. And I just-- I wanted to note that for the record just because I think sometimes we take for granted some of these issues that maybe don't grab a lot of headlines and we don't see retirement in the headlines unless there's a huge problem. But, obviously, this should be headline-grabbing work because it's really important. And I think it shows what we can do when we come together and focus on the job at hand. So, thank you.

RANDY GERKE: Thank you for that recognition, Senator Conrad.

McDONNELL: Any other questions from the committee? Yes, Senator Clements.

CLEMENTS: Regarding hiring the program managers and retirement plan manager for the OSERS Project, how were those paid?

RANDY GERKE: Omaha is reimbursing us for those.

CLEMENTS: [INAUDIBLE].

RANDY GERKE: OPS is actually on the hook for the expenses until we go live, and then the money will come out of the trust.

CLEMENTS: Out of Omaha Public Schools for now.

RANDY GERKE: Yes. Not even their trust. Correct.

CLEMENTS: That was my understanding. I just wanted to verify that that's still the process.

RANDY GERKE: That's-- yes, it is.

CLEMENTS: Thank you.

RANDY GERKE: Um-hum.

McDONNELL: Any other questions?

RANDY GERKE: Can I say one more thing?

McDONNELL: Yes, please.

RANDY GERKE: I am about to retire. I want to thank this committee for all the, you know, the, the good relationship that we've had in the past, and with not only me but the agency as well. And I have got 35 working days, but nobody's counting. But I just want to thank you. Thank you.

McDONNELL: Thank you for the-- your service. [APPLAUSE].

CLEMENTS: Thank you very much. Why don't you made the rounds here? We'd like to shake your hand.

IBACH: [INAUDIBLE].

CONRAD: Thank you, Randy.

IBACH: In the very, very short time that I've been here, you've testified a few times in front of me and it has been very thorough, so thank you--

RANDY GERKE: Thank you very much. Thank you.

IBACH: --so much. I will miss you even though I haven't gotten an appointment with you yet.

McDONNELL: Great job. Thank you.

_______________: [INAUDIBLE] depend on people.

CLEMENTS: Thank you. You do make our job a lot easier when we have good news.

RANDY GERKE: Thank you.

McDONNELL: Thank you, Director. Thanks for your, your service. And, and good luck and enjoy that retirement life. You-- well-deserved. Welcome.

MICHAEL WALDEN-NEWMAN: Thanks very much, Mr. Chairman, committee members. I'm Michael Walden-Newman. I'm the state investment officer with the Nebraska Investment Council. And my name is spelled M-i-c-h-a-e-l, last name is W-a-l-d-e-n-N-e-w-m-a-n. It's great to be in front of you. And I'm glad-- I know you have a-- it has been a busy session, and, and I appreciate you coming by to visit. What makes it a little easier is that we had an introduction at the start of the session to the program for those of you who, who aren't as familiar, so you'll see a lot of the same information. But let me just repeat some of it because it's important and just to reinforce part-- what you, what you already know. The Investment Council has been around since 1969, and it was created specifically to centralize the investment of all public funds in the state. It happens to, to about half our retirement funds, but there are also state trusts. Some have been around since statehood. We manage the state's checkbook, which includes the state's General Fund but now with federal money flowing in the way it has been, as is, you know, in the billions and billions of dollars. So we have a broad portfolio, and it, it's laid out on page, page 2. You can see the-- on page 3, the number of portfolios. It's-- on page 3, $36 billion spread across 32 investment programs. We work with over 60 investment firms and have 150 individual investments across all of these portfolios. To back up and talk about the structure, the Investment Council means a couple of different things. It's the name of the agency, obviously, but the Council is primarily the, the board of the Council, and there are eight members: five are appointed by the Governor and confirmed by you all, the Legislature, and they serve five-, five-year terms on a staggered rotation. And then we have three statutory members: the State Treasurer, the director of the investment of the Retirement System Agency, and for now, the administrator of the Omaha School Program, and that position will most likely go away with the consolidation of the administration. You have-- we have long-serving board members, which is a, a real advantage. We have board members who have served over 20 years on the Investment Council Board. So the comment made earlier by Senator Conrad, these, these business people have put in the service and also seen this portfolio through various financial, economic times and have remained true to the long-term mission, which is to invest these funds as fiduciaries for the beneficiaries of the plans and also for the benefit of the taxpayers of the state, who, of course, underwrite all of these public funds. You, you interviewed our newest board member, Tom, Thomas Henning. And I wanted to let you know that I know there's a-- there, there may be some impediments to getting all of the confirmations done this legislative session. And on the outside chance that that happens, I want you to know that we have a mechanism in statute for an incoming board member to be a fully participating voting board member. And if it-- I'd rather it go through the normal process and we have legislator affirmation of the appointment and-- but should that not happen, I want you to know that the board will be fully functioning. And we'll see if maybe next year those things can be caught up. Just, just so you know. The structure of the firm on page 2. There are nine of us at the agency. Six of us are investment portfolio managers. The other three are the administrative investment support team that's crucial to run a program like ours. The Council, before my time, established a full-time internal auditor position in the agency, and we're one of the few that have an-- our own internal auditor. And you can appreciate how absolutely crucial that is. We do have, on a five-year-ish rotation, an agency performance audit, if you will, called an attestation by the State Auditor for just the internal functioning of our agency. Otherwise, we participate fully in the financial audits done on the retirement plans and also the state's comprehensive annual financial report. So we're in contact with the State Auditors and the State Auditor's Office throughout the year and several times formally. A little bit about returns-- and we talked about that when I was in front of you before earlier in the session. In 2021-- this, this report, by the way, is through December 31 of each year just because of the legis-- the statutory timing of presenting to you. You all know that some of the retirement plans run on a state fiscal year, July 1 through June calendar year. The state and county retirement program and the Omaha retirement program run on a calendar year. But the-- talking about calendar year returns, in, in 2021, we had some of the highest returns ever in the portfolio's history, followed by then this, this past year. And the way I look at this, because there's always an upside to everything, is that net-net, the returns are positive over the five-year period that the actuaries use to determine the financial health of the retirement systems. And that smoothing, as they call it, is there for a reason, and that is to take the peaks and valleys out of investment returns and measure over the longer term the financial health of a plan to prevent, frankly, you all from having to contribute more to maintain the health of the plans simply because we've had a bad year if it can be recovered over, over a period of time, and that has been the case. And it was mentioned earlier too about these plans, although this isn't-- you know, I'm not the director of the retirement system-- in most states, though, the me is-- reports to the director of the retirement system because Nebraska is one of the few that has a standalone investment program. And those directors are down asking the investment folks to make the returns necessary to meet the obligations of the plan. And in Nebraska, not only are the, the participants in the plan asked to contribute a significant amount, but the state matches that amount and then some and has always made their payments to make sure that the plans stay healthy. And what that results in for me is that Nebraska relies less on investment income to maintain the health of the plans among most of its peers across the country. The-- that's about 30 percent investment income versus 40 percent and 50 percent in other plans. Yes, Senator.

CLEMENTS: Can I interrupt now?

MICHAEL WALDEN-NEWMAN: Yes.

CLEMENTS: The-- especially for our new member-- when we had 20 percent rate of return and we would-- we wanted to really reflect that with the actuaries report, they said, no. We're using a, like, a five-year average. It's 7, 7.5 or 8. But now when we have minus 10 percent, we don't have to eat that 10 percent because we're still 7.5 percent, five-year average. Is that kind of what you were saying?

MICHAEL WALDEN-NEWMAN: That's exactly what I was trying to say. And I'd add one more thing on a personal note as a state employee. One of the beauties of the state retirement plan, which for teachers, judges and highway patrol, they have what most of us think of as a pension plan based on salary and numbers of years of service. And your retirement benefit is a calculation that results in a share of your highest years for the rest of your life. For state and county employees, employees with the-- was-- we call the Cash Balance Retirement Program. It functions more like an accumulation of funds in a-- like a 401(k) that then you have choices to add retirement on what to do. But the beauty of the Cash Balance Program set up by Nebraska is that there's a guaranteed 5 percent floor on the return for the state and county employees. So they don't get the upside of the markets. When the markets return 20 percent, they get 5 percent. And as you heard, then a dividend on top of that. So in the high year of

2021, the highest year ever in the plan, they received 5 percent plus a 7.5 percent dividend on top of that. So state and county employees, state employees received notice in July of last year that they received 12.5 percent on their money and wondered how in the world the Investment Council pulled that off when the markets were down for the year because it was, of course, based on, on December. So it's, it's, it's not me. So they're-- they don't get that full upside, but they're protected on the downside because this year, when it's negative, the return will be 5 percent, and that, little by little over time, results in a nice retirement portfolio for state and county employees at the end of their service. And the state has never had to pay to shore up that state and county pro-- program in the life of, of the program. That's something to admire, I think.

CLEMENTS: So there's not an additional requirement when there's a minus 10 percent and we have to credit 5 percent?

MICHAEL WALDEN-NEWMAN: No, because it's-- Senator, it's smoothed over time. And as long as it remains sound, the state does not have to contribute extra to that.

CLEMENTS: That was, that was new to me. I didn't realize that. Thank you.

MICHAEL WALDEN-NEWMAN: It's, it's nice to be in Nebraska that way. Right. So a couple of things we've done over the, the last year is we talked a little bit, when I was here before, about how we structure the portfolio using a blank sheet approach, where we take the portfolio apart and put it back together once every five years and ask ourselves not "what do we need to tweak to make it better?" We just say, if we were building it today, well, how would we build it? What would we have in it and what kinds of stocks and what kinds of bonds? And where do we want stocks or bonds? Complete blank review. We accomplished both the fixed income and the equity review in the last 18 months. So the portfolios are in great shape. Those reviews take over a year to do. But now, once in place, we leave them alone and let those best-in-class managers we've hired run that portfolio.

McDONNELL: Sorry, I didn't ask you.

MICHAEL WALDEN-NEWMAN: So--

________________: Pretty important [INAUDIBLE] today.

McDONNELL: I'm sorry. Continue. That was between Senator Clements and I. I'm sorry.

CLEMENTS: I failed to get permission from the Chair.

McDONNELL: I'm sorry.

MICHAEL WALDEN-NEWMAN: I know. And I should have gone--

McDONNELL: We've been spending too much time together.

MICHAEL WALDEN-NEWMAN: Yes, but I don't have an excuse for not finding my manners. So those-- so the-- we believe that the portfolios are in great shape for the next several years. Shouldn't need a lot of, of tweaking, because we keep a long-term perspective. I wanted now to talk a little bit about this legislative session and something that, that Senator Conrad, I believe you raised at the very beginning, and that was, what's up with all this ESG stuff? And, selfishly, committee members, it's also the subject of the letter I wrote to you all a couple of weeks ago. I told you that the Investment Council was studying this ESG question, and I told you that there was a bill in the Banking Committee and it was LB743 that would have put some strictures on our management of, of the portfolio. And here's what I have to say about that. The bill was heard in committee. It-- I testified at the end because I testified neutral on the bill because I just believe, as a state agency, my job isn't to be for or against legislation. But if I have a concern, which I did in this, is to come and let you all know, and, and I did. In the end, that committee set as-- chose to set aside the bill for this year. And I told them at the hearing that we wouldn't be done with our work at the Investment Council before you all left town anyway, but that I'd report back. So I can tell you now where we're at. The Investment Council is looking seriously at divesting away from BlackRock as an investment manager. We're also looking at taking back proxy voting, which up to now, we followed industry practice, which is to cede the proxy votes to our investment managers that we hire. But given what's going on now and the degree to which this ESG issue has risen in the public arena and social issues have come into the investment arena, we want to make sure that I can do and we can do what, what I mentioned, and that is meet our fiduciary responsibility and invest these funds purely in terms of financial materiality or as I call it, the “dollar so-what” test and not be caught up in whether or not these investment funds are meeting some social objective. State law in Nebraska bars us from that. There's a law that says we're to not make an investment if it's solely for primary purposes, for social or economic development business. We don't do that and we don't want to do that. And so to accomplish the fiduciary goal and to adhere to that law, the Council and I are now of the opinion that it's best for us to take back proxy voting and set up our proxy rules and make sure that our shares of stocks and, and-- bonds, it's not so much of an issue-- are voted with Nebraska, Nebraska's financial goals in mind. To do that, we would need to hire a, a third-party proxy voting manager. As I said in the letter, we could try to staff up. The proxy votes are taken over a couple of months in a year. We'd need to hire one or two people to manage the 50,000 votes that happen during those two months. And it'd be a little like having full-time temp service. That's just not efficient. And we can buy that for the-- I'm, I'm thinking about $100,000 a year. But to do it, we need an, an increase in our spending authority. And, and if it doesn't happen, then we won't do it until-- we just don't have the money to, to do that in our spending authority. And so that's why I wrote the letter and asked for that this year. The Council meets in June, and we'd be prepared to take action at our June meeting if we had some assurance that that was going to move forward. And as I said, if it, if it doesn't, that's fine. But I explained to the Governor's Office and tried to in my letter. And I knew I was going to be coming here, so it's-- here's my story, that if you'd like to align that goal with ours, then we'd sure appreciate the, the additional funding authority and reminding you that our money comes out of, out of-- our, our plans. It's not-- it won't affect the Governor's initiatives or any other legislator's financial initiatives. The last thing is I'm not leaving as soon as my colleague across the hall, but this is going to be my last year. I'm not go-- but I'm not, I'm not going to treat this as my last meeting. I have a feeling I'll be here. I'm not going till probably December-ish. So-- but it's never-- you can never say thank you too many times. So thanks for all the support. It's-- you're going to have another State Investment Officer. I am going to be the second longest serving one at just nine years, and there's going to be somebody who is more talented than-- certainly younger, but, you know, more talented than I am. But no one is going to have had as much fun as I have and-- appreciated it. I mean, it has just-- it's a terrific job. It's important and it's serious, but it is very rewarding. And, and the Legislature has been very, very supportive. It's, it's, it's fun. I did this in Wyoming, and you knew that. In Wyoming, you think you're contentious. Wyoming can be contentious. And yet the investment program was the one thing that folks agreed on every time. And it was fun to be the one that everybody didn't mind seeing. Even with bad news, it's just how you--

you got to just be honest with it, you know? So again, thanks. It's a long way of saying thank you. You'll see me again.

McDONNELL: We, we appreciate you being here, all your work. And I noticed you just said December. So you're leaving up-- the year up to us. So we'll put December '40. Let's just say 2040.

MICHAEL WALDEN-NEWMAN: So-- OK, yeah.

McDONNELL: All right?

MICHAEL WALDEN-NEWMAN: Yeah.

McDONNELL: But, no. We, we appreciate all your work and--

MICHAEL WALDEN-NEWMAN: Hey, I didn't say it for that, for a thank-you. Just to let you know. The transition is going fine. The board's looking for somebody that has just started, but they'll get somebody driven.

McDONNELL: Questions? Yes, Senator Clements.

CLEMENTS: Thank you, Chair. Thank you, Director Walden-Newman. The appropriation need-- the question would be, would you have cash funds to-- that you could spend if you had an appropriation increase?

MICHAEL WALDEN-NEWMAN: Yeah. Mr. Chairman, Senator, yes.

CLEMENTS: I assume your budget is cash funded.

MICHAEL WALDEN-NEWMAN: It is. And I've tried to draw down our cash fund balance. You know, we raise our cash fund by assessing the plans under management and-- those cash funds, if you don't watch them, those cash funds build up. And-- so I've, I've tried to keep our cash fund low, and the way we do that is, is we assess our, our-- we make our assessment each quarter. And I keep an eye on it. And it hasn't happened often, but there have been some years where we just simply haven't assessed to the fourth quarter. We've got plenty of money and we've got to, you know, go from, from late spring till September when the finances reset. But there have been years where we just haven't assessed the fourth quarter in fees.

CLEMENTS: It's kind of like-- when the valuations go up at the county, they lower their levy. Thank you.

MICHAEL WALDEN-NEWMAN: When-- we had a truth in taxation law in Wyoming that I wrote that made them do it, so.

McDONNELL: Any other questions? Yes, Senator Conrad.

CONRAD: Thank you so much, Chair. And thank you, Director. It's always great to hear from you and learn from you. This may be too simplistic of an assessment, but I want to just make sure that I'm following along. I'm sorry I haven't had a chance to review your most recent correspondence yet, so thank you for drawing that to our attention. But I know that we had discussed at the outset of the session how we were concerned kind of generally about how some of the legislation introduced and pending before Banking may impact our investment strategy or goals. But then, if I understand from the update that you provided today, regardless of whether or not that measure moves forward, you're already making changes basically because of that prompt or because of broader political wins or campaigns or efforts. So I try and get up to speed like everybody else about this emerging issue with BlackRock and ESG, and it sounds like even without legislative mandate, the campaign has had the intended effect and has changed Nebraska's management and investment strategy.

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, I'd characterize it more this way.

CONRAD: OK.

MICHAEL WALDEN-NEWMAN: That what it has done for the Investment Council and I-- and for me. So meaning the board members and for me-- is to make sure that we reaffirm with our managers how we expect Nebraska's funds to be managed. And-- so what that means is that we have, in a concrete way, sent our proxy voting policy out to our managers in the last month-- well, a little longer now-- but-- and, and made that-- have them attest back to us that, yes, they've seen our proxy voting policy and, yes, they're managing to that policy. So there's that reaffirmation that what we think is happening is in fact happening at the manager level. Specific to BlackRock, the concern is is that BlackRock themselves have said that-- the director of BlackRock himself said a couple of years ago that he believed that environmental and, and social issues, particularly environmental, should be a consideration in the management of investment portfolios. And that was of concern to our board before this session. Once the legislation was filed this session, which came out of the Heritage Foundation in, in D.C. and has been filed in several states, and in discussions I've had with my counterparts-- and I'll just say red and blue because isn't that shorthand for what's going-- for our big family? Even in predominantly blue states, they have the same issue and the same pressures, and we know we've had that here in Nebraska. In 2016, the pressure was on divesting from fossil fuels, which is arguably the other side of some of the social issues that are coming up now. And we've been able to steer our center path because of the laws in place in Nebraska that state how the Legislature wants us to manage the portfolios, and that is without-- we, we're not prescripted. We have the prudent investor rule that we implement as fiduciaries, but they make it very clear they do not want us-- you all do not want us making investments purely for social or economic development purposes. So we've reinforced that with our managers. And in the case of BlackRock, where our primary exposure with BlackRock is in index, they're not buying-- they're not stock pickers. They're buying the broad U.S. market for us. They're bruy-- buying the broad non-U.S. market for us, which are the two large exposures we have in index funds, both of which are with BlackRock. We want to-- even within those index funds that BlackRock manages for us, we want to carve out our share. And in the big scheme of things, it's, it's not a lot of money for the index or for BlackRock, but it's all of our money. And with these investment firms when I work with them, I tell them, in my mind, when I'm working with you, you have no other client but, but us, but Nebraska. So that's-- what we're going to change is we're going to try to take back our proxy voting to be able to dictate to the manager exactly how we want it, it voted. And right now, we believe there's too much discretion on their part inside of their voting bloc. They can adhere to our policy but still have just a little more discretion than we feel comfortable with.

CONRAD: So-- OK. I-- that, that's helpful, I think. But help me understand kind of then the next steps in, like, short, mid and long term then as you send out or reaffirm the proxy statement and existing state law and some of those other structures and policies that exist to guide the investment strategy. Then is there an RFP process for another manager at some point in time? Is it continuing to work with the managers that you have in place and this company that has come under fire for political reasons? Can you just help me to get a better sense of, of that, please?

MICHAEL WALDEN-NEWMAN: Yes. Next--

CONRAD: Thank you.

MICHAEL WALDEN-NEWMAN: Yes, Mr. Chairman and Senator. The next steps for the Council in June-- June is our next meeting. At our March meeting, we instructed our investment consultant-- we work with an outfit called Aon, which is an investment consultant. They don't manage our money, but they help us pick managers and help us work on the best structure and do analysis of, of our prog-- our portfolios for us. And they report performance, which we then report to you. So we asked them in March to come back in June with alternatives to index managers should we want to either fire BlackRock outright or diversify at least some or all of the money-- let me put it that way-- from BlackRock to another manager. So that's going to happen. And also, we're going to discuss the mechanics of taking on proxy voting ourselves. So I'm-- I can do all that. The mechanics of taking on proxy voting, I can do that. What I can't do is pay for it. So I can find the, the firm that would take it on. And I've already started. There are really just a couple in the country that are options. We are exempt from procurement rules, so we can outright hire who we like and feel is the best. And I can do all of that and have started on that and am a couple of months into that. So I know what we want to do and basically how they will do it for us. It's just a matter of being able to go to the board in June and say, yeah, the Legislature said they-- we could spend an extra $100,000 to do this. And if it doesn't happen, then that's just something that we won't, won't do now and it'll-- we'll come back--

CONRAD: OK.

MICHAEL WALDEN-NEWMAN: --but with a supplemental budget request.

CONRAD: OK. And last one, I think I’ll wrap it up. But just so that I understand it and-- obviously, things get tangled up in politics and then sometimes we lose sight of the underlying issue, perhaps, at stake. But just trying to get a sense that-- I mean, I don't know what's in the heart or mind of some of these managers in terms of their approach to their job or the political sphere writ large. But the way I understand it is that there's generally an established bus-- business judgment or a prudent investor kind of basis that says, we think that these types of investments are bad for business, whether it's fossil fuels or hot-button social things or whatever, and that's why we're making these investment decisions. Now, perhaps there's a level of social activism engaged there as well, but I-- my understanding is that there's typically also a nexus to a business judgment rule or a prudent investor kind of rule to saying there's a business case to be made why we're moving in this direction. So I just want to make sure that all of those that are part of our plans and benefit from our plans kind of understand how we need to, I think, tread very carefully to not engage in this raucous debate and maintain a really careful, nonpolitical approach to our retirement system. So I'm just a little uneasy about where we are right now, but I, I really appreciate the update and the candor. Thank you.

MICHAEL WALDEN-NEWMAN: Um-hum. I could add some color, but I don't know if-- I don't want to keep you here either.

CONRAD: I'm an enthusiastic student, not an expert.

MICHAEL WALDEN-NEWMAN: Mr. Chairman and, and committee, here's how it works. We've got billions of dollars and we hire managers to manage the money. They own stocks, and those stocks have companies who have boards-- which have boards. And those boards make board decisions, usually during what we call the proxy-- those boards make decisions annually, normally between the months of April and June. Boards meet and make decisions about the company-- a wide range of things: business decisions from executive compensation down to actual day-to-day business decisions, directions of the, of the company and-- by-- in, in the economy and decisions that need to be made by the board to take the company in whatever direction the board feels is best for the welfare of, of the company. The voters' shares-- those shares then are-- shareholders are able to vote on these decisions. They're, they're sent out to shareholders and, and you can vote, whether it be for board members or various other points. And as I say, for our four active stock managers, and maybe the outside bond manager, there are about 55-- 50,000 of those votes during this proxy period. And in ceding our proxy rights to our managers, we assume that the managers-- that the-- that the, the firm, the investment firm will vote in what's in management's interest for the good of, of the company. But there are some public-- and I'll just know the-- my business which-- in the world I live in, in the public institutional investment business-- there are pension plans whose boards want their shares voted in a particular way for particular goals that are deemed by some to be social goals. In the eyes of those people, they're economical.

CONRAD: Right, right.

MICHAEL WALDEN-NEWMAN: Right? They are. And it's no different than religious foundations who vote their shares based on their core beliefs. And it works both, both ways. So what, what-- our proxy voting policy for the managers is to vote in the financial interest of, of the business. Pure, purely financial. So that's what we're reaffirming and making sure that the-- reminding the managers in this environment-- to overuse the word "environment--" but in this climate-- I don't want to overuse the word "climate--"

CONRAD: I know what you mean. Yeah.

MICHAEL WALDEN-NEWMAN: --in what's going on in this world we're living in to make sure that they know that we mean it when we say we're there to look for financial interests, not any of the other filters that are out there, which there are.

CONRAD: Right. Yes. Right. That makes sense.

MICHAEL WALDEN-NEWMAN: Health, health-based filters, climate-based filters, et cetera. And we, we are not that. We don't want to be that. So the movement would be-- and it has been fine since 1969. This year and the last couple of years, as with a lot of things, people are making their views a little more clear, and that's what I-- how I would characterize what the Investment Council Board and what I are trying to do, is make it very clear how we want these managed. And the best way is-- well, first, we can tell the firms and we can write our investment policy and proxy voting policy. But the most straightforward way is just to take that activity back ourselves.

CONRAD: OK. Thank you very much. Thank you, Chair.

MICHAEL WALDEN-NEWMAN: [INAUDIBLE]. Thank you.

McDONNELL: Any other questions? Thank you for being here.

MICHAEL WALDEN-NEWMAN: Thanks. I know. I could go on all day--

McDONNELL: We, we enjoy it. You're, you're always very helpful. Thank you.

MICHAEL WALDEN-NEWMAN: Yeah. OK. Thank you very much, all of you.

McDONNELL: Any other testimony? Joe? Thank you for being here. That concludes our hearing. Thank you.