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Nebraska Retirement Systems Committee
January 29, 2007

[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 12:15 p.m. on Monday, January 29, 2007, in Room 1510 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on gubernatorial appointments. Senators present: John Synowiecki, Chairperson; Tom White, Vice Chairperson; Philip Erdman; Lavon Heidemann; Russ Karpisek; and LeRoy Louden. Senators absent: None. []

SENATOR SYNOWIECKI: Welcome to the Retirement Committee this afternoon. Sorry for my being a little late. We adjourned a little late this afternoon. I'm Senator John Synowiecki, I'm Chairman of the committee. To my right, Senator Louden from Ellsworth. Senator Tom White, who's the Vice Chair of the committee from Omaha. Senator Phil Erdman from Bayard, Nebraska. Senator Lavon Heidemann is from Elk Creek, Nebraska. And Senator Russ Karpisek from Wilber. Today...excuse me, we also have Jeremy Nordquist, who is a research analyst right to my right. And to my left is Laurie Vollertsen, she is the committee clerk. I don't think we'll have a very long hearing at all. We have two confirmation hearings today; one for John Dinkel, another for Richard DeFusco. Both are appointments to the Nebraska Investment Council. According to our agenda this afternoon, the Dinkel appointment hearing will be first. So we'll take testimony relative to the John Dinkel appointment first. Welcome.

[CONFIRMATION]

JOHN DINKEL: Thank you. Do I need to sign in here? [CONFIRMATION]

SENATOR SYNOWIECKI: Yes, I didn't go through the whole entire protocol. I ask that you sign in. Anyone that wants to provide testimony relative to a person that's being confirmed will need to sign in on the sheet, please. [CONFIRMATION]

JOHN DINKEL: But I don't need to? [CONFIRMATION]

SENATOR SYNOWIECKI: Yes, please. [CONFIRMATION]

JOHN DINKEL: I do, too, also. [CONFIRMATION]

SENATOR SYNOWIECKI: And John, if you would just state your name and spell it for the record before you get into your testimony. [CONFIRMATION]

JOHN DINKEL: You bet, okay. John M. Dinkel, D-i-n-k-e-l. Okay, are we ready?
[CONFIRMATION]

SENATOR SYNOWIECKI: We're ready, John. Thank you. [CONFIRMATION]

JOHN DINKEL: Okay. Good afternoon, Mr. Chairman and other distinguished senators

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of the committee. I appreciate taking a few minutes of your noon hour or whatever. I know you have a very busy day and I do appreciate the service...kind of off the record here, but I appreciate the service that you're giving to Nebraska's citizens. I know it's not always real fun serving with all the issues that you have to face. First of all, I want to say that I am indeed deeply honored and, even more so, humbled to have been asked to serve on this committee. This is to fulfill a term of John Maddux. I think my term goes through '09, the partial term. This is of course a very important group that oversees, I think we're somewhere between \$13 billion and \$14 billion now that's under our responsibility. If you choose to confirm me, I pledge to fulfill my duties with integrity and prudence. I appreciate the trust that Governor Heineman has put in me in selecting me to be nominated for this. I have been in on about three meetings already and it interests me a great deal. I've been interested in investments since high school. I assume you have some of my background information there. I'm a native Norfolk...do you want me just to ramble on, Chairman? [CONFIRMATION]

SENATOR SYNOWIECKI: John, it's your hearing. Just inform us of your background and your interest in the Investment Council would be great. [CONFIRMATION]

JOHN DINKEL: Okay. I'm a native of Norfolk, Nebraska, went through the public school system. I went into college for two years there in Norfolk. I worked part-time for UPS, part-time supervisor when I was in college back in the seventies, actually for five years I was there. I've been involved in a family business full-time, since my father passed away in 1978, in the retail sale of farm equipment. We have, I feel, a very successful business there. Our sales are, to give you an idea of, last year, \$15 million, \$16 million. So I'm involved intimately in the financial end of the business. Very active in some other civic things; church foundation, I'm president of the Lutheran Hospital board which oversees the local hospital there, Faith Regional. I've been interested in investments since back in high school. I was involved in, of course, a custodial account when you're under 21, and I'm very active in my own account right now. And it fascinates me to read financial publications such as Wall Street Journal. When I'm home watching TV, I usually watch CNBC, which is very interesting. So I really have interest in finances, investments, and I try my best to keep up on that. I'm, of course, not an investment guru or expert as some of the other people are on this committee. I think we have an excellent committee. The other people are very, very well-versed and their backgrounds serve this committee very, very well. I think I'm maybe a little bit more of a layperson and I think that combination will compliment the other members of this committee and blend out very well. I'm very conservative, as a rule, and yet I understand that you have to have diversity to approach the 8 percent yield we need. You can't just by CDs for 4 or 5 percent. So you have to have a combination of prudence and diversity to obtain the 8 percent goal that we need to fulfill the actuarial projections of where we're at right now. So with that, I'm happy to answer questions. [CONFIRMATION]

SENATOR SYNOWIECKI: Thanks, thanks, Mr. Dinkel. Any questions on behalf of the

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committee for Mr. Dinkel? Senator Louden. [CONFIRMATION]

SENATOR LOUDEN: Thank you, Senator Synowiecki. I guess you mentioned you've always been interested in investments. What's your philosophy? Do you like to go to some of the...oh, I guess the funds, the mutual funds? Or do you like to, as you say, not necessarily go into your CDs and that? What's your strategy? How risky do you like to work the stock and bond market and also the financial portfolio? [CONFIRMATION]

JOHN DINKEL: Well, risk, of course, there's risk in everything we do except for insured government bonds and so forth. But a very large percentage of the overall retirement dollars in the United States as a whole are in mutual funds or similar investments. Diversification, I mentioned that earlier, I think we're roughly 30-some percent in fixed instruments; in other words, CDs, bond-type investments. I think we're another 30, 40 percent in mutual funds, that type of investment that has a little bit more risk but yet the long-term record indicates that you're going to have a lot higher return with those investments, Senator. So we certainly have to have diversification across those. And within those mutual funds, our philosophy--Richard can get into that more yet--are diversified also within those funds. So we certainly don't just buy like all banks or anything like that. It's very broad based so we're deliberately diversified as much as possible and yet still trying to get some type of reasonable return. [CONFIRMATION]

SENATOR LOUDEN: You say 30 percent are in CDs and that type of funding?
[CONFIRMATION]

JOHN DINKEL: Well, I think fixed instruments, they call it, fixed investments, where it's bonds, that type of thing. [CONFIRMATION]

SENATOR LOUDEN: Do you think, for a retirement fund, do you think that's rather low?
[CONFIRMATION]

JOHN DINKEL: I think it's in the peer group right where the national averages are and so forth, and... [CONFIRMATION]

SENATOR LOUDEN: What I'm wondering is, I mean, that's the reason the thing got in trouble, is somebody invested the money in the wrong place or else we wouldn't be talking about trying to take General Fund money to make the thing right. And I'm wondering if the percentage of investments should be reassessed, is all and what your opinion of that was. [CONFIRMATION]

JOHN DINKEL: Well, if you put a higher percentage in fixed investments, you know, you're going to probably have a hard time getting much more than 5 percent right now in today's market. And you know, the projections are based on us attaining an 8 percent return. A 2 or 3 percent difference over a long period of time is a tremendous amount of

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money actuarially. [CONFIRMATION]

SENATOR LOUDEN: See, that's what you have to return now in order to make the retirement fund work, is 8 percent? [CONFIRMATION]

JOHN DINKEL: I think 8 percent is the goal. I think last year, our actual return was 10 percent. But it's a complicated deal. There's what they call an actuarial return, that they plug in averages and so forth. Here again, Richard can talk more about that. But I think they gave us credit for 7.2 or 7.4 percent return last year, something like that. [CONFIRMATION]

SENATOR LOUDEN: Now is that all the retirement accounts; the teacher, the judges, and the State Patrol, all three of them are at the same percentage rate? You got to have 8 percent in order to make them work? [CONFIRMATION]

JOHN DINKEL: Well, I think in order to approach 100 percent. I think we are...funded liability I think is the word. I think long-term funded liability, we're in the 90's, 92 or 93 percent I want to say. A lot of plans nationwide are dramatically lower than that. I think a lot of them are down in the 70 percent area or even less. In those areas, you know, I'd have some deep concern. When we're in the 90's, I think that's pretty darn good. [CONFIRMATION]

SENATOR LOUDEN: Well, I lived through back there, when was it, the eighties or so, when some of these counties were...I think California was one of them that busted the place and I know some of the counties that I'm involved with out west usually stayed into your secured funds and they still had their money when they got done. They might not have made it as big, but they had that plus the interest. And that was the reason I was wondering what your philosophy was along that line. [CONFIRMATION]

JOHN DINKEL: I would probably be to the conservative side of the spectrum, I guess. And yet, I would say we got to put some over here to be diversified enough to get more than 5 percent. But you know, as far as the real liberal-type investments, obviously we're going to use prudence and stay away from (laugh) anything real speculative, you know, and that's not diversified. [CONFIRMATION]

SENATOR LOUDEN: Do you get involved in international funds? [CONFIRMATION]

JOHN DINKEL: Absolutely. [CONFIRMATION]

SENATOR LOUDEN: Some of your Asian markets and that sort of thing?
[CONFIRMATION]

JOHN DINKEL: Um-hum. Yeah, there's some overseas markets that we are involved in,

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yes, sir. And those have had very good returns the last couple of years. Without that, we would not have achieved what we did. Here again, it's diversified very broadly.
[CONFIRMATION]

SENATOR LOUDEN: Well...okay, thanks. [CONFIRMATION]

JOHN DINKEL: No, those are very good questions and I...one of the other members of the committee, there was a couple of new proposals. And I think he used the carpenters rule, mentioned that you always measure twice and cut once. And I think overall we have a pretty conservative makeup of the board, I really do. So I thought that was very fitting comment that, when there was a proposal out there, we did not take action at the time. [CONFIRMATION]

SENATOR LOUDEN: Okay, thank you. [CONFIRMATION]

SENATOR SYNOWIECKI: Senator White. [CONFIRMATION]

SENATOR WHITE: Yes, sir. A number of the funds--state funds, retirement funds--have been leading the way with regard to reigning in excessive corporate executive expenditures, more shareholders' rights, especially the California fund and others. Do you have a position on what, if any, role this fund should play in matters? For example, investing in companies who are rewarding executives at pretty substantial rates.
[CONFIRMATION]

JOHN DINKEL: From the meetings I've been involved in, we really haven't discussed that topic as a committee. With the many funds that we're in, I would assume that we're probably--by default, if nothing else--involved in some of the headline names that maybe you're talking about, just because so many of these funds have such a broad base of companies that are within them. Yes, philosophically I would agree with you, that I would like to say, yeah, let's kind of pull back the throttle on those companies.
[CONFIRMATION]

SENATOR WHITE: From my constituents' point of view, Enron has destroyed lives of thousands of Omahans... [CONFIRMATION]

JOHN DINKEL: Yes. [CONFIRMATION]

SENATOR WHITE: ...either the owner or their families. And then Qwest, we find that Nacchio who's being charged in Qwest is going to have to pay up to \$75 million to defend him from stock moves that, again, horribly damaged many of my constituents. So it's a very real question in terms of what, if any, role you think the investment fund can play to try to control some of that misbehavior because it has injured large, large numbers of Nebraskans. [CONFIRMATION]

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JOHN DINKEL: Yes, I would agree philosophically myself personally. I can't speak for the whole council, of course. But philosophically if the majority of retirement committees or councils across the United States would come out with a policy saying we want to avoid these investments in these type of companies, I think it would send, potentially, a message to some of these companies. [CONFIRMATION]

SENATOR WHITE: Would you investigate--not that you'll commit to it because your first job, obviously, is to protect the retirees--but would you investigate opportunities to try to bring some greater responsibility to the corporate board rooms of America?
[CONFIRMATION]

JOHN DINKEL: Personally, I would and I think it would be appropriate that we would have an agenda to talk about as a council. I think that would be very appropriate to have as an agenda item, to discuss that. [CONFIRMATION]

SENATOR WHITE: Thank you. [CONFIRMATION]

JOHN DINKEL: I think that is a very relevant point, yes. [CONFIRMATION]

SENATOR SYNOWIECKI: Any other questions for Mr. Dinkel? Thank you, Mr. Dinkel, for coming in. Appreciate your presence here today. [CONFIRMATION]

JOHN DINKEL: You bet. [CONFIRMATION]

SENATOR SYNOWIECKI: And I see Speaker Flood is your state senator. We'll try not to hold that against you when we deliberate. (Laughter) [CONFIRMATION]

JOHN DINKEL: Okay, I was hoping not. Hopefully he's doing okay for you guys so far?
[CONFIRMATION]

SENATOR SYNOWIECKI: Yes, he is. Thank you, Mr. Dinkel. [CONFIRMATION]

JOHN DINKEL: Okay, thank you again for your time and your service, gentlemen.
[CONFIRMATION]

SENATOR SYNOWIECKI: Any other testimony relative to the confirmation of John Dinkel, Nebraska Investment Council? Seeing none, the hearing is closed on the Dinkel matter. Now we'll take up the Richard DeFusco appointment to the Nebraska Investment Council. I hope I didn't butcher your name too bad. [CONFIRMATION]

RICHARD DeFUSCO: That's very close, Mr. Chairman. My name is Richard DeFusco. And just spell the last name, Senator? Just the last name? [CONFIRMATION]

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SENATOR SYNOWIECKI: Yes, please. [CONFIRMATION]

RICHARD DeFUSCO: D-e-F-u-s-c-o. And I'll just take a moment to fill...well, good afternoon, Mr. Chairman and other members of the committee. Again, my name is Richard DeFusco. I'm currently a member of the Nebraska Investment Council. I think I was appointed three and a half years ago to fill out the unexpired term of Mr. Don Nelson and I was appointed by Governor Johanns at the time. And I currently work at the University of Nebraska here in Lincoln. I'm a professor of finance. My primary area of interest is investments and so I've been on the faculty here at Lincoln now for 22 years and have taught investments every semester that I've been here. That is my primary area of interest, is the investment management. As it relates to my class, we manage money. One of the things that we do in class is try to bring some realism to the table. And so our class manages money. Currently we manage about \$1.3 million in our investments classes. And so hands-on has been a part of what I do in the classroom. I'm also a chartered financial analyst. I sat and took the exams that practitioners take and I achieved a CFA designation, I think back in '99. One of the things about being a CFA charter holder is that we strive or we're required to actually achieve a level of professional responsibility as it comes to doing our job. And so I do take that rather seriously. Not that having the CFA charter didn't make it serious in my mind prior to that. It's just that we now have sort of a professional responsibility to make sure that we discharge our fiduciary duties correctly. It's something that I try to bring to class frequently. It's really been a privilege over these last three years to serve on the council. As John has mentioned, there's really been some excellent individuals that serve on that council and it's really been a privilege to serve and it's really a privilege to have been nominated again by Governor Heineman to serve for another five full years. I can tell you that I will continue to serve to the best of my ability if you choose to reappoint me to the committee. I've worked pretty tirelessly to make sure that we do the right thing with the investments of state money. one of the things that we decided to do this last couple of years is have an audit committee. So now we're taking sort of internal stock of ourselves as a committee. And I'll continue to discharge my fiduciary duties at the best I can. I'd be more than happy to answer questions if you have any. [CONFIRMATION]

SENATOR SYNOWIECKI: Questions from the committee for Mr. DeFusco? Senator Louden. [CONFIRMATION]

SENATOR LOUDEN: Yeah, well, I'll ask you probably some of the same questions you heard from... [CONFIRMATION]

RICHARD DeFUSCO: Sure, sure. [CONFIRMATION]

SENATOR LOUDEN: ...John Dinkel. What's your take on the percentage, you know, 30 percent of secured investments and wherever, your 30 percent and also international

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investments and that sort of thing? [CONFIRMATION]

RICHARD DeFUSCO: Yeah, I'd be more than happy to answer that, Senator Louden. One of the things that we do as a council is to look at the liability side of the equation, which is the benefits that we're obligated to pay the retirees. And their contributions sort of follow this rather complicated formula that includes an assumed rate of return on the plan assets of 8 percent. So as an investment council, we're sort of required to try to at least hit this target of 8 percent. That's our target that's given to us externally. So we as a council do not establish what the assumed rate of return on plan assets is going to be. The actuaries in concert with the folks that determine the benefits will all together come up with a reasonable assumed rate of return. So 8 percent has been the reasonable assumed rate of return. Now with those marching orders, we then put together a portfolio that's diversified that tries to hit that target. So 30 percent, I think some would argue, might be a little on the high side when it comes to fixed income investments. If we would have moved to a higher rate allocated to fixed income, it would seriously compromise our ability to make an 8 percent rate of return. And every year the actuary will go through and do an actuarial evaluation. If there's a shortfall--for instance, they assume eight, we earn four--by statute the participants and/or the state would likely have to come up with additional contributions. So I do believe that the 30 percent is probably a little bit on the low side. But for diversification purposes, I think prudence somewhat dictates that we have to balance risk and return. And so we've arrived at sort of a policy allocation of around 30 percent as being prudent. [CONFIRMATION]

SENATOR LOUDEN: Why do you have to...why is this target of 8 percent out there? Is that what you intend to pay to the retirees or is this what you intend to generate in order to make up for your losses? [CONFIRMATION]

RICHARD DeFUSCO: No, Senator. We're required to...we leave the benefits side of the picture out of this in terms of how it gets determined. And so the benefits side gets determined and part of that determination, in terms of contributions that are needed to make those benefits, is an assumed rate of return on plan assets. And we have some input onto that. The plan actuary will come to us and ask us, what are forecasted rates of return going to look like so that we can establish a return on plan assets. But it has been 8 percent for the entire tenure that I've been with the council. And any discussion, I think, of changing that ripples through all of the stuff that the actuaries will do in the determination of what people are supposed to contribute to the plan, both from the state and the teachers themselves, the State Patrol. So as an investment council, we certainly don't, we don't set the 8 percent assumed rate of return. We provide input into its determination, that is we will provide the plan actuary with what types of returns are available in the marketplace. And then they negotiate...I'm not exactly sure how the 8 percent, when it was originally determined, came about. But 8 percent is the target that we're shooting for as a council. [CONFIRMATION]

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SENATOR LOUDEN: And you're telling me that you don't have that much control over those that decide what rate that they're going to pay out? You guys just, you're told how much money you got to make so that's what you got to try to... [CONFIRMATION]

RICHARD DeFUSCO: It's in some way. We provide our input. Our consultants and we as the council will provide input into the determination of what the return that the plan assets should be. We'll provide input into that. And if there's ever going to be a discussion of changing that, I think that would involve more than the investment council. It would probably involve the entire Retirement Committee and the plan actuary to make sure that...one little change in the assumed rate of return ripples through everything that goes on in the retirement plan. So we could not unilaterally make that change. We could be involved in the discussion of a potential change if that's something that was of interest to the committee. But I don't think we would want to broach the subject that we would come to you and say you need to change this. I think this needs to be a discussion that involves all of us in unison rather than it just being coming from the council. [CONFIRMATION]

SENATOR LOUDEN: One more question. [CONFIRMATION]

RICHARD DeFUSCO: Certainly. [CONFIRMATION]

SENATOR LOUDEN: I notice you've written quite a few papers and articles and that sort of stuff. And I presume you're somewhat a student of history. So my question is, what the hell went wrong before that put them in the shape they were in?
[CONFIRMATION]

RICHARD DeFUSCO: Well, Senator, you know, when I joined the council, I think it was in 2003, a lot of the damage in the stock market had already been done. And I think that in combination...I think there had been a benefit improvement that had predated the fall in the stock market. I think it was a cost of living adjustment that had been made as the benefit improvement. You combine that at the time when it looked like there was a rather large surplus in the plan and then the stock market going down rather precipitously over the following two or three years that put it in the hole. I think those two factors taken together, the benefit improvement and then the rather poor rates of return that we had in the stock market, put it in the hole. As John has mentioned, we've gotten back up to almost 94, 95 percent funding which, compared to some other state plans, is actually, actually looks pretty darn decent. So that, I think, would explain why we had this rather unfortunate set of circumstances of being rather substantially in the hole.
[CONFIRMATION]

SENATOR LOUDEN: Have you been able to use that information to improve your investment strategy now? [CONFIRMATION]

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RICHARD DeFUSCO: Well, I do think--and this gets to your issue about bonds--I do think that one of the things that saved the plan, to some extent, was the fact that we actually have bonds in the portfolio. I'm a firm believer in that there needs to be diversification. It turns out to be an issue of how, what percent do you want to set in bonds and stock. But I do think that we do need bonds. I think bonds have a role to play. And then basically what it turns out to be is an argument about, well, what's the appropriate amount of bonds. But we have one member of our committee that thinks the 30 percent is too high. He'll argue that rather frequently. I do think that bonds are an appropriate vehicle to have. You don't know when stock market is going to go down. That's the best time that you have bonds in the portfolio. I think 30 is a pretty reasonable number myself, right now. Although some would argue that it's actually too high. I'm not in that camp, I'm not in the high camp. I think 30 looks pretty good. [CONFIRMATION]

SENATOR LOUDEN: Well, I guess...yeah, I got one...what was the silver stallion then that showed up back there when things went junk back there in the eighties and that seemed to stay above the rest of it then? Was it your bonds or was it your fixed investments or where? Because it certainly wasn't your... [CONFIRMATION]

RICHARD DeFUSCO: Senator, in the eighties or... [CONFIRMATION]

SENATOR LOUDEN: Yeah, when they got into this trouble there, late eighties, that's when you... [CONFIRMATION]

RICHARD DeFUSCO: Oh, when you're talking about this trouble, I was thinking about sort of the 2000 episode and the market was down. In terms of the eighties, I'll have to be honest with you, I don't know what the allocation was back in the eighties in the plan. That I'm unaware of. [CONFIRMATION]

SENATOR LOUDEN: That was the beginning of when the thing got in trouble, wasn't it? [CONFIRMATION]

RICHARD DeFUSCO: I just don't know, Senator. That is...I guess I'm just not as good a student in history when it comes to the plan back 20 years ago. I'm familiar what had happened more recently in the late nineties, in the 2000 episode, because that's the one that sort of we inherited when I came on board. What had happened in the eighties, I just can't answer that for you, Senator. [CONFIRMATION]

SENATOR LOUDEN: Okay, thank you. [CONFIRMATION]

RICHARD DeFUSCO: You're welcome. [CONFIRMATION]

SENATOR SYNOWIECKI: Thank you, Senator Louden. Other questions? Senator White. [CONFIRMATION]

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SENATOR WHITE: Same question regarding what, if any, involvement should the council have regarding trying to push for corporate reforms? [CONFIRMATION]

RICHARD DeFUSCO: I think, you know, we have two types of monies that we manage. We have actively managed money where we do it as separate accounts. In those particular types of accounts, we actually get to tell the investment manager, give them certain mandates. And I would hope that one of their mandates would be that they look for companies that have value. And excessive pay and things like that I think would be evidence of possibly deteriorating value. And so I think we could certainly talk to our investment managers directly when it comes to the separately managed accounts. [CONFIRMATION]

SENATOR WHITE: So you would be comfortable being an activist as shareholder? [CONFIRMATION]

RICHARD DeFUSCO: Well, I don't know how activist I want to be. I think in the actively managed money where we have separate accounts, where we get to dictate to the manager that they need to be...we hold their feet to the fire for providing us with value. And I think that would encompass a whole range of things. If excessive corporate pay happened to be within that range of things that they look at, I would say that they should certainly look at those things. But I'm not sure, from an activist point of view, those activities aren't free to be activists. [CONFIRMATION]

SENATOR WHITE: Well, you're familiar with CalPERS? [CONFIRMATION]

RICHARD DeFUSCO: Sure. [CONFIRMATION]

SENATOR WHITE: And you're familiar with their track record in this area? [CONFIRMATION]

RICHARD DeFUSCO: Right, yes, we are. [CONFIRMATION]

SENATOR WHITE: Okay. Do you accept that that's a legitimate role? [CONFIRMATION]

RICHARD DeFUSCO: I think that would be a legitimate role. [CONFIRMATION]

SENATOR WHITE: Do you agree there have been substantial abuses that have hurt Nebraskans in the last ten years? [CONFIRMATION]

RICHARD DeFUSCO: Certainly, Senator, certainly. Myself included, I mean, investments that I've had included. [CONFIRMATION]

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SENATOR WHITE: Okay. Yes, mine too. Thank you. [CONFIRMATION]

SENATOR SYNOWIECKI: Other questions for the nominee? Professor, kind of going along with Senator Louden's questions, as an investment council, you have little or nothing to do with the benefits package offered participants. [CONFIRMATION]

RICHARD DeFUSCO: We have none. [CONFIRMATION]

SENATOR SYNOWIECKI: It's your job to respond in an actuarial way to, you know, to be responsive... [CONFIRMATION]

RICHARD DeFUSCO: Sure, yeah. [CONFIRMATION]

SENATOR SYNOWIECKI: ...to what the needs are in the benefits. But you have nothing at all to do with development of the benefits package. [CONFIRMATION]

RICHARD DeFUSCO: No, but we could provide input as to what we believe rates of return are out in the marketplace so that the 8 percent assumed rate of return is reasonable. So if we were asked about the reasonableness of eight, I think we could provide some input to that. [CONFIRMATION]

SENATOR SYNOWIECKI: But the plans themselves and actuarial studies may find that the 8 percent rate is the most responsive to the benefits package that are put together by act of the Legislature. [CONFIRMATION]

RICHARD DeFUSCO: Sure, exactly. [CONFIRMATION]

SENATOR SYNOWIECKI: And a lot of your funds, as I understand it and correct me if I'm wrong, you do not do specific investment in specific companies. A lot of it is, if you will, farmed out to investment management companies. [CONFIRMATION]

RICHARD DeFUSCO: That's correct. We do not do any investments in-house directly. So we hire investment managers and so we have some money that's managed passively. So those would be in commingled funds and mutual funds or whatever for institutional investors. And then we also hire active managers, where they're the ones that actually go out and pick stocks. So we're not the stock pickers by any stretch of the imagination. We decide what amount goes in stock, what amount goes in bonds, what amount goes in international stock. So we provide sort of the big picture in terms of the allocation to achieve the eight. And then we hire managers to help us achieve that goal. [CONFIRMATION]

SENATOR SYNOWIECKI: And also from what I understand--again, and this may be

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wrong--I've been told, particularly with the stock market dip in 2002, 2003, that our outcomes compared to other state investment councils are quite good and have outpaced other states. [CONFIRMATION]

RICHARD DeFUSCO: Oh, yeah. I think some of that is due to the diversification that we had relative to other plans. So the fact that we had some bonds that actually were stable and rising during that period offset the decline that we had on the stock side of the equation. So yeah, we did quite well, I think, during that period. [CONFIRMATION]

SENATOR SYNOWIECKI: Any other questions? Professor, thanks for your appearance here today, appreciate it. And thank you for your service to the state. [CONFIRMATION]

RICHARD DeFUSCO: Well, thank you very much for taking the time this afternoon to meet with me. It's been a pleasure. [CONFIRMATION]

SENATOR SYNOWIECKI: Thank you. Any other testimony on the nominee? Seeing none, the hearing is closed. [CONFIRMATION]

Chairperson

Committee Clerk