



# **Defined Benefit Plans & Cash Balance Benefit Plans**

## **An Overview of Strategies**

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# Nebraska Defined Benefit Plan & Cash Balance Benefit Plan

## An Overview of Strategies

Nebraska's Defined Benefit and Cash Balance Benefit Plans employ a variety of strategies to meet the state's investment goals. This overview covers the six asset classes utilized within the Plans: U.S. Equity, Non-U.S. Equity, Global Equity, Fixed Income, Real Estate, and Private Equity. It also describes the investment managers engaged by the Nebraska Investment Council (the Council) to implement these asset class exposures.

### U.S. EQUITY

The U.S. equity component provides exposure to all segments of the U.S. equity market, including growth and value stocks of large-, mid- and small-capitalization U.S. companies.

- **BlackRock** The Council is invested in the BlackRock Russell 3000 Index fund, which provides a passive investment in the broad of the U.S. stock market and holds issues in their appropriate weights based on the Index.

### NON-U.S. EQUITY

The non-U.S. equity component provides exposure to developed and emerging economies outside of the United States. The component benchmark, the MSCI All Country World ex-U.S. IMI, includes large-, mid-, and small-capitalization companies across 22 developed and 25 emerging market countries and covers approximately 99% of the international equity investment opportunity set.

- **BlackRock** The Council is invested in the BlackRock All Country World ex-U.S. IMI, a passive fund that is designed to track the returns of the MSCI All Country World ex-U.S. IMI, an index that includes large-, mid-, and small-capitalization companies across 22 developed and 25 emerging market countries. The fund is weighted proportionately to the weights of those companies that constitute the Index.

### GLOBAL EQUITY

The global equity component provides exposure to U.S., non-U.S. developed, and emerging market securities. The component benchmark, the MSCI All Country World IMI, includes large-, mid-, and small-capitalization companies across 23 developed and 25 emerging market countries and covers approximately 99% of the global equity investment opportunity set.

- **Arrowstreet Capital** The Council is invested in the Arrowstreet Global Equity ACWI strategy. Arrowstreet utilizes a quantitative approach that employs an alpha forecasting model which balances "direct" (stock-specific) and "indirect" (peer group based) quantitative investment signals. Arrowstreet's research process has

led to early recognition of investment signals that differentiate its investment process from quantitative peers.

- **Dodge & Cox** The Council is invested in the Dodge & Cox Global Equity strategy. Dodge & Cox employs a fundamental, bottom-up investment approach and seeks to invest in companies with long-term earnings and cash flow growth prospects that are selling at attractive prices. The strategy emphasizes stocks with low valuations of medium to large well-established companies.
- **GQG** The Council is invested in the GQG Global Equity strategy. GQG employs a bottom-up, fundamental approach with a quality bias. The team seeks well-managed businesses with consistent earnings which are selling at reasonable valuations. Typical features of a GQG stock will be strong long term operational track record, with high rates of return on equity and capital, high margins and low leverage.
- **Wellington Management Company** The Council is invested in the Wellington Global Perspectives strategy. The strategy's investment process is opportunistic, focusing on sourcing the best ideas from various parts of Wellington's business – i.e., taking into account Wellington's macroeconomic perspective, input from Wellington's quantitative model, and Wellington's more traditional fundamental research. The portfolio focuses mainly on small- and mid-capitalization companies.

## **FIXED INCOME**

The fixed income component is sub-divided into two separate allocations – risk-reducing fixed income and return-seeking fixed income.

### **Risk-Reducing Fixed Income**

The risk-reducing fixed income allocation is generally conservative; its purpose is to preserve and grow principal and offset some of the volatility of the equity portfolio. The Bloomberg U.S. Aggregate Bond Index is used to benchmark the risk reducing fixed income component. The Index consists of U.S. Treasuries and Government Agency Bonds, Mortgage-Backed Securities, Corporate Bonds, and a small allocation to Asset-Backed Securities. The Index is comprised entirely of investment grade bonds.

### **Risk-Reducing Fixed Income Managers**

- **BlackRock** The Council is invested in the BlackRock Aggregate Bond Index fund, a fund designed to track the return of the Bloomberg U.S. Aggregate Bond Index. BlackRock uses a combination of cellular stratified sampling and a risk factor model to capture the overall risk and return characteristics of its relevant benchmark universe.
- **BlackRock** The Council is invested in the BlackRock Core-Plus Bond strategy. BlackRock employs both fundamental and technical factors, including

macroeconomic trends, supply and demand analysis, yield curve structure, and volatility and convexity analysis when making sector and security decisions.

- **Pacific Investment Management Company (PIMCO)** The Council is invested in PIMCO's Core-Plus Total Return strategy. PIMCO employs a top-down and bottom-up process that implements active management of duration, yield curve exposures, country/sector allocation, security selection, and tactical allocation to non-benchmark sectors. PIMCO uses fixed income derivative instruments both for hedging purposes and as synthetic investments.
- **Baird Advisors** The Council is invested in Baird Advisors' Core Plus Bond strategy. The strategy has a consistent style, overweighting spread assets and underweighting Treasuries, while staying duration neutral. Within structured credit, the focus is away from US Agency RMBS while within corporate credit, financials are preferred. As a mid-size manager, there are smaller secondary opportunities that are meaningful investments.

### **Return-Seeking Fixed Income**

The return-seeking fixed income allocation places a greater emphasis on return-generation than the risk-reducing fixed income allocation, while still providing some level of diversification benefit relative to the endowment's equity portfolio. Multi-sector / multi-asset credit mandates are utilized to implement the return-seeking fixed income allocation. In addition to making some allocation to investment grade bonds, these mandates allocate to higher risk, higher returning areas of the fixed income market such as high yield corporate bonds, bank loans, and emerging market debt. The benchmark for the Return-Seeking Fixed Income allocation is a mix of indices that track the investment grade corporate bond market (25%), the high yield corporate bond market (25%), the bank loan market (25%), and the US dollar-denominated emerging market debt market (25%).

- **Loomis Sayles** The Council is invested in the Loomis Sayles Multi-Sector Full Discretion strategy. Loomis Sayles' investment process emphasizes security selection through bottom-up research while incorporating top-down themes through the process. With fundamental research at its core, this absolute return strategy opportunistically invests across the global fixed income universe.
- **PIMCO Diversified Income** The Council is invested in the PIMCO Diversified Income strategy. PIMCO actively manages all fixed income decisions, exploiting opportunities across a broad opportunity set. The investment process combines macro-economic views with credit research and seeks to add incremental value from positions taken across a wide range of bond markets. Top-down analysis is used to determine general risk themes and secondarily industry exposures for credit portfolios.
- **Barings Global High Yield Credit Strategies** The Council is invested in the Barings Global High Yield Credit Strategies strategy. Barings will invest across various underlying fixed income asset classes. (I.e., "Sleeves.") Barings' Global Strategy

Committee will set appropriate sleeve weightings for the strategy. This is a relative value discussion and has a degree of flexibility to allow for a changing investment environment. Barings' top-down decisions will complement the quality of the bottom-up processes in the various sleeves of the strategy.

## REAL ESTATE

**Core Real Estate** is the most conservative investment strategy in real estate and focuses on owning high quality, stabilized properties in the most liquid and economically diverse markets. Core investment strategies are defined by their low use of leverage and a significant focus on current income yield. Core real estate is often referred to as the Beta of the asset class. The Council has three managers in this space.

- **Clarion Partners** The Council is invested in the Lion Properties Fund ("LPF"), an open-end diversified Core real estate fund with a combination of a strategic industrial sector, office assets in major gateway markets, a growing exposure to lab sciences, and a small exposure to retail excluding regional or super regional malls.
- **Morgan Stanley** The Council is invested in the Prime Property Fund ("PPF"), a diversified open-end Core real estate fund that targets high quality, well-leased, income-producing properties located in the U.S.
- **Prudential Real Estate Investors** The Council is invested in the Prudential Real Estate Insurance Separate Account (PRISA), one of oldest and largest U.S. Core open-end commingled real estate funds available in the marketplace. PRISA invests primarily in Core, well-leased, operating properties with a focus on income.
- **UBS Realty Investors** The Council is invested in the UBS Trumbull Property Fund ("TPF"). TPF is an open-ended, diversified Core fund focusing on the four main property types with a small exposure to hotels and focusing on the top markets for high-quality Core institutional real estate assets.

**Core Real Estate Debt** is comprised of a more indirect method of real estate investing and is accomplished through the issuance or purchase of mortgages that are collateralized by real estate.

- **UBS Realty Investors** The Council is invested in the Trumbull Property Income Fund ("TPI"). The Fund is an open-end, diversified core real estate debt fund that targets participating mortgages. The Fund's strategy is to build an actively managed portfolio of income-oriented real estate investments that have hybrid debt and equity return characteristics. It seeks to provide attractive returns while limiting downside risks through a combination of fixed income, participation in cash flow and equity upside.

**Core Plus Real Estate:** Almost an identical strategy to Core investment strategies, just with a higher degree of leverage and a higher policy limit to Value-Add property exposure.

- **Prudential Real Estate Investors** The Council is invested in the Prudential Real Estate Insurance Separate Account II (PRISA II), a periodically open-ended, broadly diversified U.S.-focused commingled real estate equity fund pursuing an enhanced-Core strategy. Established in 1980, this long-standing Fund offers a diversified real estate portfolio with solid income growth but with stronger appreciation potential compared to a core "beta" portfolio.

**Value-Added Real Estate:** is a style of real estate investing which focuses on a balance of increasing property level income and enhancing underlying asset appreciation to create value through the execution of leasing, repositioning, and redevelopment strategies. Value-Added strategies employ moderate leverage.

- **Almanac** The Council is invested in Almanac Realty Securities Funds V, VII, VIII, and IX which are closed-end commingled funds with a 7-to-10-year lifecycle. Almanac is a real estate manager that provides growth capital and organizational resources to private and public real estate operating companies ("REOC").
- **Rockwood Capital Real Estate Partners** The Council is invested in Rockwood Capital Real Estate Partners Funds IX, X & XI, closed-end commingled funds with a 7-to-10-year lifecycle. The Funds target a combination of current income and value creation by employing active asset and portfolio management to reposition, re-lease, rehabilitate, and/or develop to optimize overall Fund performance. Rockwood Capital is a primarily U.S. focused manager investing in office and other workspace, retail, hotel, and residential assets located in coastal markets with high barriers to entry.

**Opportunistic Real Estate** is the most tactical style of real estate investing and is usually focused on enhancing and creating significant value appreciation through development, capital stack restructuring, change of property use, distressed asset/ownership/market conditions, public-to-private transactions, emerging sectors, and secondaries. Opportunistic strategies employ a significant amount of leverage and have a limited focus on current income. This style of investing is most successful when there is an imbalance in the real estate or capital markets.

*\*Note: Value-Added and Opportunistic strategies often share a significant overlap, thus these segments are commonly combined and called "**non-Core**" real estate investing.*

- **Angelo, Gordon & Co.** The Council is invested in Angelo Gordon Realty Fund VIII, a closed-end commingled fund with a 7-to-10-year lifecycle. The Fund focuses on acquiring interests in sub-performing and distressed real estate assets and debt which often require significant capital restructuring and asset repositioning. Distressed debt situations where market peak investors are overleveraged and require material capital infusions are targeted.
- **CBRE Global Investors** The Council is invested in the CB Richard Ellis Strategic Partners U.S. Opportunity Fund V, a closed-end commingled fund with a 7-to-10-year lifecycle. This Fund focuses on a variety of strategies including repositioning

programs, early-stage development, acquiring portfolios, and investing in operating companies with high quality real estate in major metropolitan markets.

- **Landmark Real Estate Partners** The Council is invested in Landmark Real Estate Partners Funds VI , VII, and in 2022 committed to Landmark Real Estate Partners Fund IX. These are all closed-end commingled funds with a 4-to-8-year lifecycle. Landmark's Opportunistic funds focus on targeting the acquisition of secondary interests in existing real estate partnerships.
- **Rockpoint Group** The Council is invested in Rockpoint Real Estate Fund III, a closed-end commingled fund with a 7-to-10-year lifecycle. The Fund focuses on creating value among distressed assets including both equity and debt opportunities. The manager targets investments primarily within the U.S. and focuses on investing in major metropolitan areas that have both market depth and liquidity.
- **Torchlight Investors** The Council is invested in the Torchlight Debt Opportunity Funds IV, V, VI and VII, closed-end commingled funds with a 5-to-8-year lifecycle. The Funds focus on high yield real estate debt investments in both the private and public markets.
- **Oaktree Capital Managers** The Council is invested in the Real Estate Opportunities Fund VIII and in 2023 committed to Oaktree Real Estate Opportunity Fund IX, both are closed-end commingled funds with a 3-to-5-year lifecycle. The funds are targeting returns through distressed debt acquisitions, equity recapitalizations, rescue financings, and discounted securities purchases. The funds will also pursue corporate and residential real estate investments through strategies including home building, mortgage pools, or debt securities. The funds are focused primarily in the U.S., but include a global component executed by Europe and Asia teams.
- **Kayne Anderson Real Estate Partners** The Council is invested in the Kanye Anderson Real Estate Partners Fund VI, closed-end commingled fund with a 3-to-5-year lifecycle. The fund targets alternative properties across the U.S., with a focus on healthcare related real estate and student housing.

## PRIVATE EQUITY

Private equity is broadly defined as investments in privately negotiated securities that typically do not trade in a capital market. Investments are typically illiquid and long-term in nature, thereby introducing greater risk into a portfolio, but offer the potential for higher returns than traditional asset classes. The Council portfolio includes four categories of private equity investments: Buyouts, Venture Capital, Special Situations, and Fund-of-Funds.

Buyout partnerships provide funding to acquire majority or controlling interests in business or product lines from either public or private companies. These partnerships are

generally diversified by industry and other relevant measure. Buyout partnerships cover company sizes ranging from mega to small market.

- **Accel-KKR** The Council is invested in Accel-KKR Capital Partners (Fund III), buyout fund targeting majority-ownership positions in cash flow positive, mid-market software and technology-enabled services companies. Focus is on sectors in which vertical market domain expertise creates a sustainable competitive advantage, competition is fragmented, and end-market growth is strong.
- **Ares** The Council is invested in Ares Corporate Opportunities Funds III, IV & V, distressed debt, buyout, and growth equity funds that invest in middle-market companies with strong franchises and attractive growth opportunities in a broad range of industries.
- **Beecken Petty O'Keefe** The Council is invested in Beecken Petty O'Keefe IV, a buyout fund investing in U.S.-based middle market companies operating in the healthcare industry, primarily in the services and product sectors.
- **Bridgepoint** The Council is invested in Bridgepoint IV, V, VI, & VII, pan-European buyout funds focusing on the mid-market. The Firm operates out of seven offices and has been investing in Europe since 1991.
- **CVC** The Council is invested in CVC European Equity Partners V & Capital Partners VI. Investment strategy focusses on large buyouts of market leading businesses in Europe, North America and Asia.
- **Francisco Partners** The Council is invested in Francisco Partners IV, V, VI, & VII, middle market technology buyout funds focused on value and growth-oriented transactions located primarily in the United States (approximately 20% outside of the United States).
- **Genstar Capital Partners** The Council is invested in Genstar Capital Partners VIII, IX & X, funds focused on making growth buyout investments primarily in North American middle-market businesses that operate in the financial services, software, industrial technology, and healthcare spaces.
- **Green Equity Investors** The Council is invested in Green Equity Investors VI & VII, middle-market buyout funds investing in companies located in North America. Focus on companies operating in retail/consumer products, distribution, healthcare, aerospace/defense, and consumer/business services.
- **Lightyear Capital** The Council is invested in Lightyear Capital III, a middle market buyout fund focused on making investments in the financial service sector principally based in the United States.
- **Lincolnshire Equity** The Council is invested in Lincolnshire Equity IV, a buyout fund investing in small and middle market companies operating predominantly in the



manufacturing and service sectors. The Fund targets companies in niche sectors with strong potential for operational improvements located in the US.

- **McCarthy Capital** The Council is invested in McCarthy Capital Fulcrum IV & McCarthy Funds V, VI & VII, lower middle market buyout and growth equity funds investing in a broad range of industries across the United States.
- **New Mountain Capital** The Council is invested in New Mountain Capital Partners III, IV, V, VI, & VII, middle to large market buyout funds focusing on control-oriented business building and growth opportunities with a focus on defensive growth industries in the U.S.
- **Pine Brook Capital** The Council is invested in Pine Brook Capital III, a middle market private equity fund focused exclusively on making investments in the financial service and energy sectors (approximately 50% in each sector). Primarily focused on companies in the United States and Canada.
- **The Jordan Company** The Council is invested in The Jordan Company Resolute II, III, IV, V, & VI, middle market generalist buyout funds targeting control private equity investments principally based in North America. Investment approach includes partnering with management and supporting investments with a hands-on operational strategy.
- **TRG** The Council is invested in TRG Growth Partners II, a buyout fund targeting investments in companies with significant operations and businesses based in the developed markets where they outsource services or manufacturing to Asia, emerging Europe, or Latin America.

**Venture Capital** partnerships invest in newer high growth companies typically addressing technology, life sciences, and other specialty growth industries. Venture Capital partnerships can be divided into three categories (Seed, Early-Stage and Later-Stage) which invest in different stages of the lifecycle of a new idea, product or business.

- **CMEA Ventures (Presidio Partners)** The Council is invested in Presidio Partners 2007, an early-stage venture capital fund focused on technology, life sciences, and clean technology companies primarily located in the San Francisco Bay Area.
- **New Enterprise Associates** The Council is invested in New Enterprise Associates (NEA) 13, 14, 17, & 18, broadly diversified venture capital funds focused on technology, life sciences, and clean technology companies. Invests from early stage through venture growth opportunities primarily in the US with opportunistic investments outside the U.S.

**Special Situations** partnerships are private corporate finance investment strategies that either a) do not fall neatly under the Buyout or Venture Capital categories or b) do not

justify a separate long-term strategic allocation. Such partnerships include Distressed Debt/Turnaround, Subordinated Debt (Mezzanine), Energy, and Secondaries.

- **Ares** The Council is invested in Ares Mezzanine Partners, managed by the Private Debt Group of Ares Management LLC, the fund makes mezzanine investments in middle-market companies focusing on investing capital in predominantly non-syndicated first and second lien loans and mezzanine debt, which may include an equity component.

The Council is also invested in Ares EIF US Power Fund IV focused on control-oriented investment opportunities in the US power sector including power generation and transmission assets, gas pipelines, storage facilities and related energy investments, by either acquiring existing operating facilities or by investing in the development and/or construction of new facilities.

- **HarbourVest** The Council is invested in HarbourVest Dover Street VIII, IX, X, & XI, secondaries funds investing in global purchases of venture capital, buyout, and other private equity assets. The Funds invest across a mix of vintage years, industries and geographies.
- **The Energy and Mineral Group** The Council is invested in The Energy and Mineral Group III, focusing on midstream assets, minerals, and oil and gas companies that have unique resources needed by the economy that provide a deep value position making them less sensitive to commodity price volatility.
- **Longroad Asset Management** The Council is invested in Longroad Capital Partners III, specialized in distressed situations where it can achieve effective control over the governance through debt securities, obligations and assets of lower middle-market companies located primarily in the United States and Canada.
- **Merit Capital** The Council is invested in Merit Mezzanine V, a mezzanine fund that provides financing to smaller middle-market companies (\$5 million to \$25 million in annual EBITDA) located primarily in the United States that are not owned by private equity sponsors. Investments typically take the form of subordinated debt with equity participation through warrants or equity.
- **Quantum Energy Partners** The Council is invested in Quantum Energy Partners V, VI, & VII, primarily focused on upstream oil and gas in North America, with additional minor exposure to power generation, midstream energy and energy services. Portfolio to be relatively concentrated and focused on middle market growth-equity transactions in unconventional resources.
- **Sun Capital** The Council is invested in Sun Capital Partners V, which focuses primarily on investments in distressed, operationally challenged, and special situation middle-market companies in North America and Europe that can benefit from its in-house operating professionals and experience.

- **Wayzata** The Council is invested in Wayzata Opportunities Fund III, focused on distressed small and middle market companies, including those in bankruptcy or undergoing financial restructuring or reorganization. The Firm may invest throughout the capital structure in situations that are undervalued, including debt and equity securities of public and private companies.
- **Wynnchurch Capital** The Council is invested in Wynnchurch Capital IV & V, focused on control investments in complex, overlooked and underperforming lower middle-market companies in the U.S. and Canada.

**Fund-of-Funds** partnerships are set up to distribute investments among a selection of direct private equity fund managers, who in turn invest the capital directly. Fund-of-funds may be able to provide investors with a route to investing in particular funds that would otherwise be closed to them or provide a broadly diversified private equity portfolio through the investment of a small amount of capital.

- **Pathway** The Council is invested in Pathway Private Equity XVIII, a fund-of-funds focused on a bottom-up approach to the manager selection process to construct a global diversified high conviction portfolio.