



Endowment Equity Allocation

Nebraska Investment Council
July 2018

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Overview -- Equity Allocations of the Health Care and 50/50 Endowments

- In December of 2017, the equity allocations of the DB Plans were restructured as follows:
 1. U.S. Equity – Current structure and managers retained
 2. Non-U.S. Equity – Moved to an entirely passive structure; Gryphon and Baillie Gifford were dismissed
 3. Global Equity – Moved to an entirely active structure; passive global mandate with BlackRock defunded
 4. Equity Asset Class Weightings – Modest reduction (2%) to both U.S. Equity and Non-U.S. Equity target allocations; increase (4%) to global equity allocation
- These actions were the end result of an in-depth review of the DB Plans' equity allocations that was conducted by the Council investment team and AHIC
- We suggest the Council adopt an equity structure within the Health Care and 50/50 Endowments that aligns with what has been put in place in the DB Plans

Recommended Targets by Equity Sub-Asset Class

	DB Plans – Target Allocation as a % of Total Portfolio	DB Plans – Target Allocation as a % of Total Equity Allocation	Health Care Endowment – Recommended Allocation as a % of Total Portfolio	Health Care Endowment – Recommended Allocation as a % of Total Equity Allocation	50/50 Endowments – Recommended Allocation as a % of Total Portfolio	50/50 Endowments – Recommended Allocation as a % of Total Equity Allocation
U.S. Equity	27.0%	47.0%	30.5%	46.9%	19.0%	47.5%
Non-U.S. Equity	11.5%	20.0%	13.0%	20.0%	8.0%	20.0%
Global Equity	19.0%	33.0%	21.5%	33.1%	13.0%	32.5%
Total	57.5%	100.0%	65.0%	100.0%	40.0%	100.0%

- The DB Plans, the Health Care Endowment, and the 50/50 Endowments have differing target allocations to public equities
 - DB Plans = 57.5%
 - Health Care Endowment = 65.0%
 - 50/50 Endowments = 40.0%
- The target allocations outlined above would give the endowments similar exposures to U.S., Non-U.S., and Global Equities to what is found within the restructured DB Plans
- The slides that follow provide manager level detail on the proposed structure for the endowment equity allocations

Health Care Endowment – Adopting DB Equity Structure

		CURRENT TARGETS			PROPOSED TARGETS			
Asset Class	Manager	Target Allocation % (Asset Class)	Target Allocation % (Total Endowment)	Target Allocation (\$ Millions)*	Target Allocation % (Asset Class)	Target Allocation % (Total Endowment)	Target Allocation (\$ Millions)*	Required Transfer (Estimated)*
U.S. Equity		--	40.0%	\$170.1	--	30.5%	\$129.7	(\$40.4)
	DFA	10.0%	4.0%	\$17.0	10.0%	3.1%	\$13.0	(\$4.0)
	BlackRock Russell 1000	90.0%	36.0%	\$153.1	90.0%	27.5%	\$116.7	(\$36.4)
Non-U.S. Equity		--	15.0%	\$63.8	--	13.0%	\$55.3	(\$8.5)
	Baillie Gifford	10.0%	1.5%	\$6.4	--	--	--	(\$6.4)
	BlackRock ACWXUSIMI	90.0%	13.5%	\$57.4	100.0%	13.0%	\$55.3	(\$2.1)
Global Equity		--	10.0%	\$42.5	--	21.5%	\$91.4	\$48.9
	MFS	37.5%	3.8%	\$15.9	42.5%	9.1%	\$38.8	\$22.9
	Dodge & Cox	27.5%	2.8%	\$11.7	42.5%	9.1%	\$38.8	\$27.1
	Wellington	10.0%	1.0%	\$4.3	15.0%	3.2%	\$13.7	\$9.4
	BlackRock ACWIMI	25.0%	2.5%	\$10.6	--	--	--	(\$10.6)

*Based on Health Care Endowment Market Value at 3-31-2018

50/50 Endowments – Adopting DB Equity Structure

		CURRENT TARGETS			PROPOSED TARGETS			
Asset Class	Manager	Target Allocation % (Asset Class)	Target Allocation % (Total Endowment)	Target Allocation (\$ Millions)*	Target Allocation % (Asset Class)	Target Allocation % (Total Endowment)	Target Allocation (\$ Millions)*	Required Transfer (Estimated)*
U.S. Equity		--	25.0%	\$218.5	--	19.0%	\$166.1	(\$52.4)
	DFA	10.0%	2.5%	\$21.9	10.0%	1.9%	\$16.6	(\$5.3)
	BlackRock Russell 1V	90.0%	22.5%	\$196.7	90.0%	17.1%	\$149.5	(\$47.2)
Non-U.S. Equity		--	10.0%	\$87.4	--	8.0%	\$69.9	(\$17.5)
	Baillie Gifford	10.0%	1.0%	\$8.7	--	--	--	(\$8.7)
	BlackRock ACWXUSIMI	90.0%	9.0%	\$78.7	100.0%	8.0%	\$69.9	(\$8.8)
Global Equity		--	5.0%	\$43.7	--	13.0%	\$113.6	\$69.9
	MFS	37.5%	1.9%	\$16.4	42.5%	5.5%	\$48.3	\$31.9
	Dodge & Cox	27.5%	1.4%	\$12.0	42.5%	5.5%	\$48.3	\$36.3
	Wellington	10.0%	0.5%	\$4.4	15.0%	2.0%	\$17.0	\$12.6
	BlackRock ACWIMI	25.0%	1.3%	\$10.9	--	--	--	(\$10.9)

*Based on 50/50 Endowment Market Value at 3-31-2018

Restructuring the Endowment Equity Allocations -- Considerations

- Considerations to note:
 - 1) The current structure of the endowments' equity portfolios differs from the legacy structure of the DB portfolios
 - More home-country bias
 - Greater use of passive management
 - Overweight EM within Non-U.S. Equity component
 - As such, moving to an approach to equities that aligns with the structure that the DB Plans adopted last year will result in:
 - Modest reduction in home-country bias ($\approx 5\%$)
 - Increased use of active management (from $\approx 20\%$ to $\approx 37\%$ of equity portfolio)
 - Cap-weighted exposure to Developed and EM equities within Non-U.S. Equity component
 - 2) Manager line-up differences relative to DB Plan restructuring:
 - Gryphon (Non-U.S. Equity) and Arrowstreet (Global Equity) were never funded within the endowments as they lacked suitable non-ERISA vehicles
 - ♦ Gryphon was not a part of the recently implemented DB Plan equity structure, but Arrowstreet was
 - For the Endowments' global equity allocation, we are recommending a cap-weighted exposure to Wellington's Global Small-Cap strategy (i.e., 15%), and then splitting the remaining 85% of component assets evenly between MFS (Quality / Growth) and Dodge & Cox (Core / Value)