Nebraska Investment Council Introduction to Hedge Funds

Presented by HBK Capital Management

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Introductions: Your Presenters/HBK Capital Management

Your presenters today	**Jamiel Akhtar – Managing Director, co-Chief Investment Officer** • Joined HBK in 1993 • Co-Chief Investment Officer since 2012 • Managed the firm's structured credit, developed markets fixed income, emerging markets and merger arbitrage strategies; served as chair of the firm's Risk Management Committee • Economics degree from Harvard College **Matt Moss – Investor Relations** • Joined HBK in 2005 • Senior member of Investor Relations team since 2010 • Part of the firm's strategic planning and front office recruiting efforts. Prior to HBK worked as a consultant for BCG • Economics degree from University of Illinois, MBA from University of Chicago
Clear mission	Founded in 1991, HBK is a $6.9B global multi-strategy manager focused on relative-value and arbitrage strategies (including $5.7B in its multi-strategy funds, $1.1B in its merger arbitrage funds and $0.1B in its convertible arbitrage funds) Strive to deliver **attractive absolute returns** with **relatively low volatility and relatively low correlation** to most major market indices
Strong track record(1)	*Since inception*, annualized return of **9.2%** with **4.3%** standard deviation and **10%** beta to the S&P 500 Only two negative years in 31-year history
Disciplined investment process	Aim to dynamically allocate capital to individual trade ideas across six diverse business groups Co-CIOs review and approve trade ideas and manage a portfolio of approximately 225 ideas Generally aim to hedge at the position level and manage risk across the entire portfolio

(1) HBK performance information is as of the end of the prior month and is based on composite performance, on a weighted average basis, of external subclasses of interests in HBK's multi-strategy funds, net of all fees and expenses and assuming reinvestment of distributions, if any. HBK Multi-Strategy Composite performance excludes separately composited subclasses that are denominated in another currency (beginning in January 2017) or that do not participate in profits or losses attributable to certain investments. Performance for the month preceding the date of this report is preliminary, and inception-to-date is from October 1991. Standard deviation is annualized from monthly returns. Beta is a calculation f the expected percentage change in HBK's return for a 1% change in the benchmark, based on a least-squares regression of monthly returns. Past performance is not a reliable indicator of future performance. Our investment program involves substantial risk, and there can be no assurance that our investment or risk management objectives will be achieved.

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HBK's Overview of Hedge Fund Industry

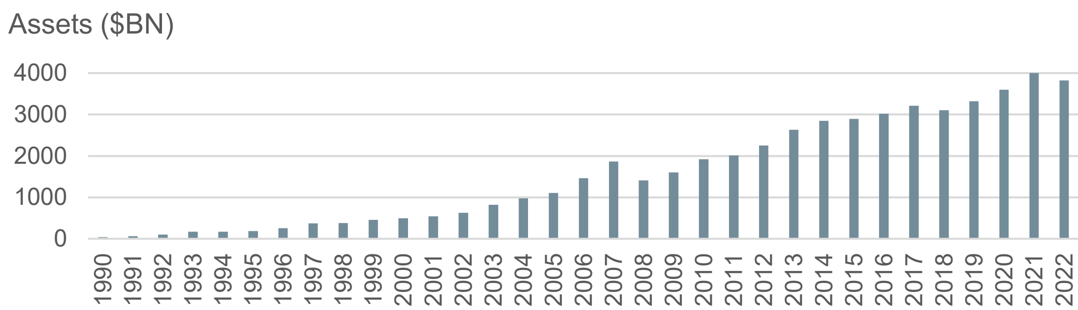
What is a hedge fund?

The term "hedge fund" can be interpreted to include a wide variety of investment products

HBK defines a "hedge fund" to be an alternative investment product focused on novel investment strategies to produce superior risk-adjusted returns

Market size

Roughly 10,000 hedge funds managing ~$4 trillion in AUM as of Q4 2022



Source: Hedge Fund Research ("HFR"), Q4 2022

Typical hedge fund structure

Limited partnership managed by an SEC-regulated investment manager

Offers periodic liquidity for investors

Fee structure – management fee (ex. 1.5-2.0%) with an incentive fee (ex. 20% of gains)

Use of leverage, short-selling, derivatives to structure portfolio

Source: IRS.gov

Typical investor profile

Institutions (public & private pensions, foundations & endowments, and insurance companies) and HNWI (High Net Worth Individuals)

Seeking alternative sources of investment returns to complement traditional stock/bond/real estate portfolios

Generally have longer investment horizons consistent with the duration of their liabilities

Industry Information reflects HBK's beliefs and impressions and is not a definitive representation of the hedge fund industry, an investment recommendation, or investment advice.

How Hedge Funds Express Views

HBK believes trade expression flexibility is a key difference between hedge funds and "real money" asset managers

Ability to buy and sell assets is key to monetizing dislocations in market-neutral way

- **In general, simply buying an asset a manager likes exposes the fund to broad systemic risks the manager may not have opinions on (e.g. the overall level of the stock market)**
- **"Going long" on an asset a manager believes to be undervalued and "short" on an asset a manager believes to be overvalued isolates the dislocation/arbitrage it is seeking to exploit**

Shorting is accomplished by selling a financial asset that has been borrowed, with the commitment to return it (e.g., repurchasing it in the market at a later date)

Derivatives offer the ability to go long or short across variety of asset classes:

- **Futures and Swaps – Linear exposure to almost any financial asset**
- **Options – Non-linear payouts referencing stocks, bonds, or futures**
- **Credit Default Swaps – Insurance on an issuer's bonds, triggered by a "credit event"**
- **Variance/Volatility Swaps – Derivatives referencing an asset's volatility**

May use leverage to amplify returns

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Hedge Funds Are Not Homogenous

HBK has seen a broad range of approaches in the industry; not all hedge funds "hedge"!

More Liquid	⟷	**Less Liquid**
Market Neutral	⟷	**Beta-Driven**
Short Investment Horizon	⟷	**Long Investment Horizon**
Multiple Strategies	⟷	**Single Strategy**
Lower Risk / Lower Return	⟷	**Higher Risk / Higher Return**

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Two Broad Categories of Hedge Fund Strategies

HBK views strategies as falling into two broad categories: directional/long-leaning strategies and those focused on stable value

Strategy type	Risk/return characteristics	Primary sources of "alpha"
Directional Hedge Fund Strategies • Global Macro • Activist Equity • Distressed Debt • Commodity • Asset-Backed Securities	• Higher risk/volatility • Higher return • Higher correlation/beta to markets	• Expertise in niche/less-trafficked strategies • Directly influencing corporate outcomes
Stable Value Hedge Fund Strategies • Merger Arbitrage • Convertible Bond Arbitrage • Sovereign Fixed Income Arbitrage • Capital Structure Arbitrage • Volatility Arbitrage • Relative Value Corporate Credit • Statistical Arbitrage	• Lower risk/volatility • More modest return • Lower/zero correlation/beta to markets	• Capturing "spread" between related securities while hedging market risk • Taking advantage of inefficiencies between asset class and/or investors

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Structural Drivers of Stable Value Hedge Fund Returns

HBK's impressions of sources of "alpha" in select hedge fund strategies

Strategy	Potential Source of "Edge"
Merger Arbitrage / Distressed	"Traditional" holders sell to event-driven specialists due to situational complexity
Relative Value Credit	HFs maintain efficient relationship across various debt categories; many long-only players constrained by mandate to look at only one sector
Volatility Arbitrage	HFs receive a risk premium for providing liquidity to "real money" players
Convertible Bond Arbitrage	Expertise in modeling and hedging of derivative instruments relative to other participants
Statistical Arbitrage	Computers able to recognize dislocations more quickly and less susceptible to behavioral biases

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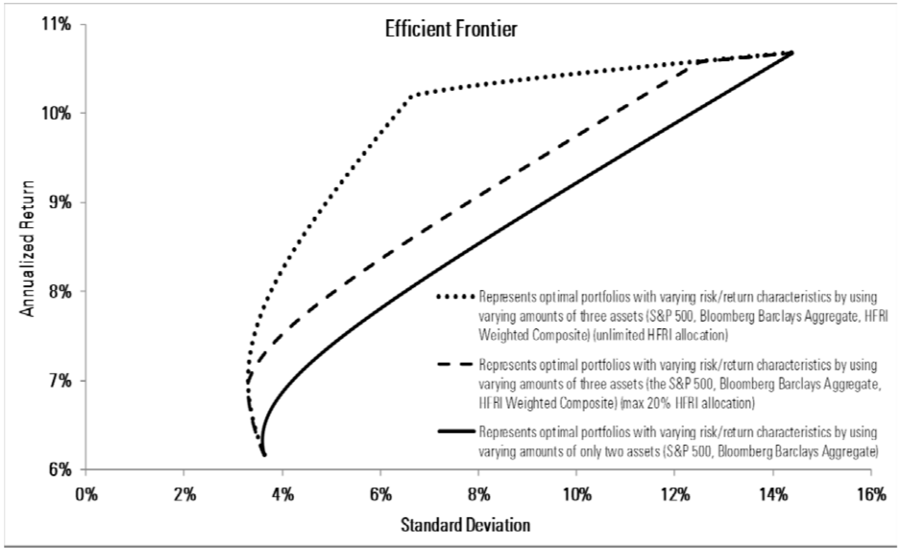
Pros of Investing in Hedge Funds

HBK believes these are potential strengths of investing in a hedge fund

1. **Generally positive, lower volatility, relatively uncorrelated return stream that can expand the efficient frontier of an investment portfolio**



Source: SkyBridge; based on HFR and Bloomberg data from 1/1/1990 to 3/31/2017.

2. **Can be helpful in achieving specific return objectives (e.g., directional hedge funds present opportunity for above-market returns; stable-value funds can reduce risk)**

3. **Access to industry's leading investment professionals, which can benefit investors by providing alpha, market insights, and innovation**

4. **Can take advantage of market inefficiencies, opportunities that passive/real money investors cannot due to flexibility**

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Cons of Investing in Hedge Funds

HBK believes these are potential weaknesses of investing in a hedge fund

1. **Higher fees than traditional investments. Note: returns are generally quoted net of fees**

2. **Can present investors with higher risk (directional funds) or more-muted returns (stable-value funds) than traditional equity investments in certain market environments**

3. **Varying levels of transparency across funds (some offering very little)**

4. **Varying levels of access across funds (some are closed to new investment)**

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Potential Portfolio Allocation Approaches

HBK has seen institutional investors incorporate hedge funds in their portfolios in a variety of ways

Traditional model	Enhanced model	Integrated model
Public Equities (60%) **Fixed Income (40%)**	**Equity** **Fixed Income** **Real Assets** **Alternatives** **Private Equity** **Private Credit** **Hedge Funds**	**Equity** **Public equities** **Directional hedge funds** **Private equity** **Fixed Income** **Interest-rate sensitive** **Credit-sensitive** **Stable value hedge funds** **Real Assets** **Real estate** **Timber** **Commodities**

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What Makes Multi-Strategy Funds Attractive?

HBK believes multi-strats offer several advantages

Ability to quickly allocate capital to the best opportunities across asset classes & geographies

Diversification benefits of having multiple potential returns streams

Eliminate "netting" risk of holding a portfolio of multiple single-strategy manager funds (or multi-manager funds), which reduces fees

Leverage size to improve financing costs, creditor influence, access to portfolio companies

Stable platforms that reduce institutional risks for investors and attract investment professionals

Some multi-strats take advantage of collaboration between strategy teams

Investor flows into multi-strategy funds have exceeded those of the broader industry over the past five years

Sub-Strategy	2018	2019	2020	2021	2022	2018 - 2022
Multi-Strategy	-1.8%	-0.2%	-0.1%	1.4%	2.3%	2.2%
Credit	1.3%	-0.1%	-0.1%	1.3%	-1.3%	0.8%
Event Driven	-0.1%	0.4%	-0.7%	-0.1%	-0.5%	-1.2%
Macro	-3.5%	-5.4%	-0.6%	1.9%	-0.8%	-7.9%
Discretionary Equity	-3.3%	-2.8%	-0.2%	0.9%	-2.4%	-8.2%
FIRV	0.1%	-6.0%	5.4%	-7.8%	-1.0%	-11.2%
CTA / Syst. Macro	-0.8%	-1.8%	-5.0%	-0.5%	-3.7%	-12.0%
Quant Equity / EMN	3.2%	-1.3%	-3.6%	-8.2%	-10.6%	-22.1%

Source: Barclays Capital Solutions

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APPENDIX: HBK

HBK Portfolio Management Organization

Investment Team Covers Six Business Groups from Four HBK Offices

CIO
Jamiel Akhtar

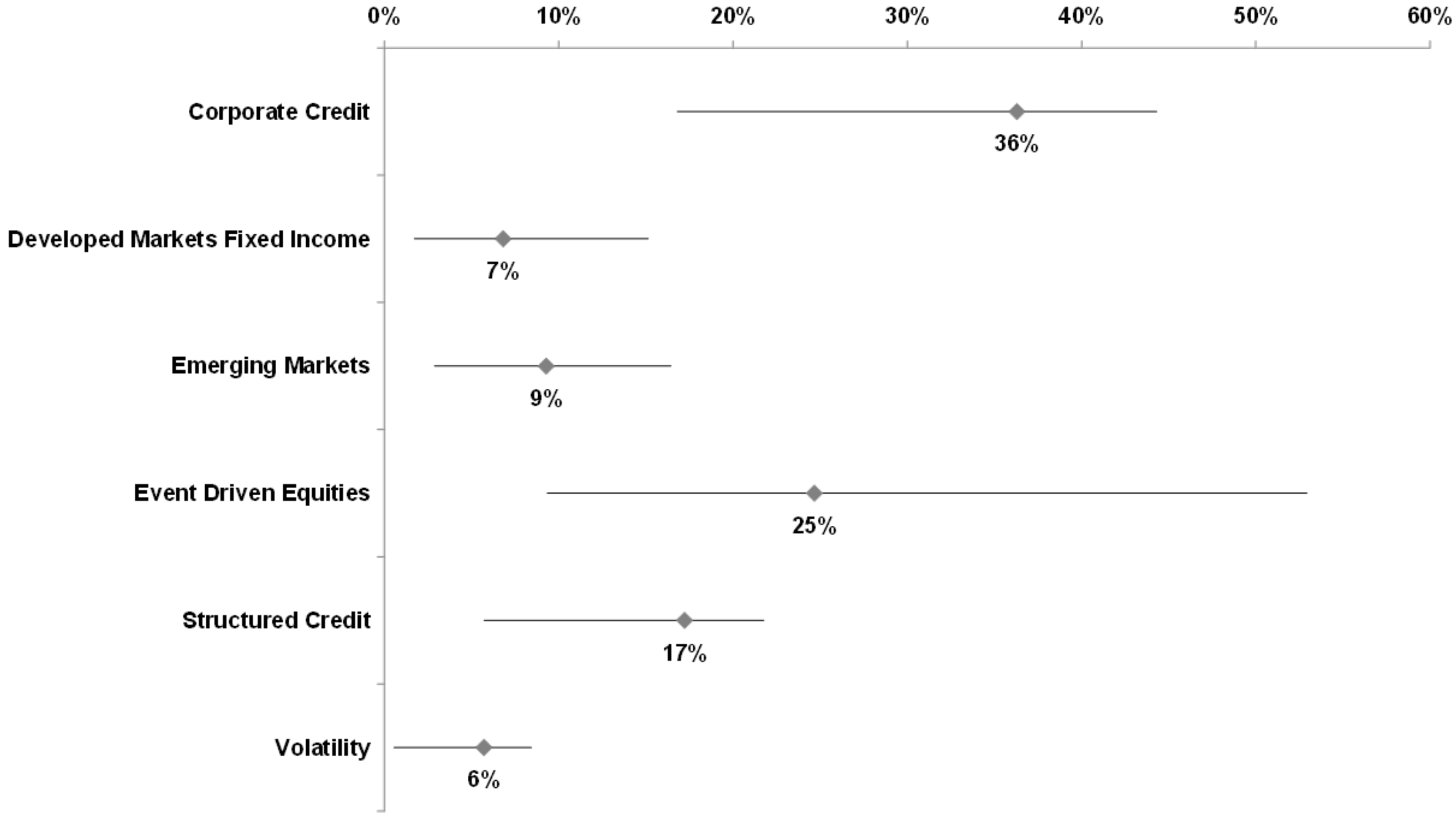
CIO
Matt Luth

Business Group	Portfolio Manager	Description	Team	Location
Corporate Credit (18)	Eli Griffis (Managing Director)	U.S. distressed	3 analysts, 2 traders	NY
	Matt Luth (Managing Director)(1)	Capital structure arb, converts	3 analysts, 3 traders	Dal, NY, Lon
	Amit Pardasani	Distressed, structured credit	1 analyst	NY
	John Power	European corporate credit	1 analyst, 2 traders	London
Event Driven Equities (14)	Collis Boyce	SPACs, new issue equities	1 trader	NY
	Matt Ciccone	Index arbitrage	2 analysts	Dallas
	Joao Freitas	Merger arbitrage/special sit. equities	1 analyst, 1 trader	Europe
	Nikos Panagiotopoulos (Managing Director)	Merger arbitrage	4 analysts, 2 trader	NY
	Gabe Tsuboyama	Special situation equities	1 analyst	NY
Structured Credit (7)	Dmitri Mirovitski (Managing Director)	U.S., European asset-backed securities	4 analysts	Dal, NY
	Connie Kang	U.S. RMBS, CMBS	1 analyst	NY
Emerging Markets (6)	Ben Heller Pijus Virketis	Emerging markets corporate, sovereign credit	3 analysts, 1 trader	Dallas, NY, Lon, VA
Volatility (4)	Josh Newman	Global equity and F/X volatility, correlation	2 analysts, 1 trader	NY
Dev. Mkts. Fixed Income (4)	John Laing James Nacos Matt Parker	G7 sovereign credit	1 analyst	Dallas, NY

HBK Dynamically Allocates Capital

Portfolio mix changes regularly to reflect perceived opportunities

Allocation of Risk Based Capital(1) by Business Group, November 2009 - Present

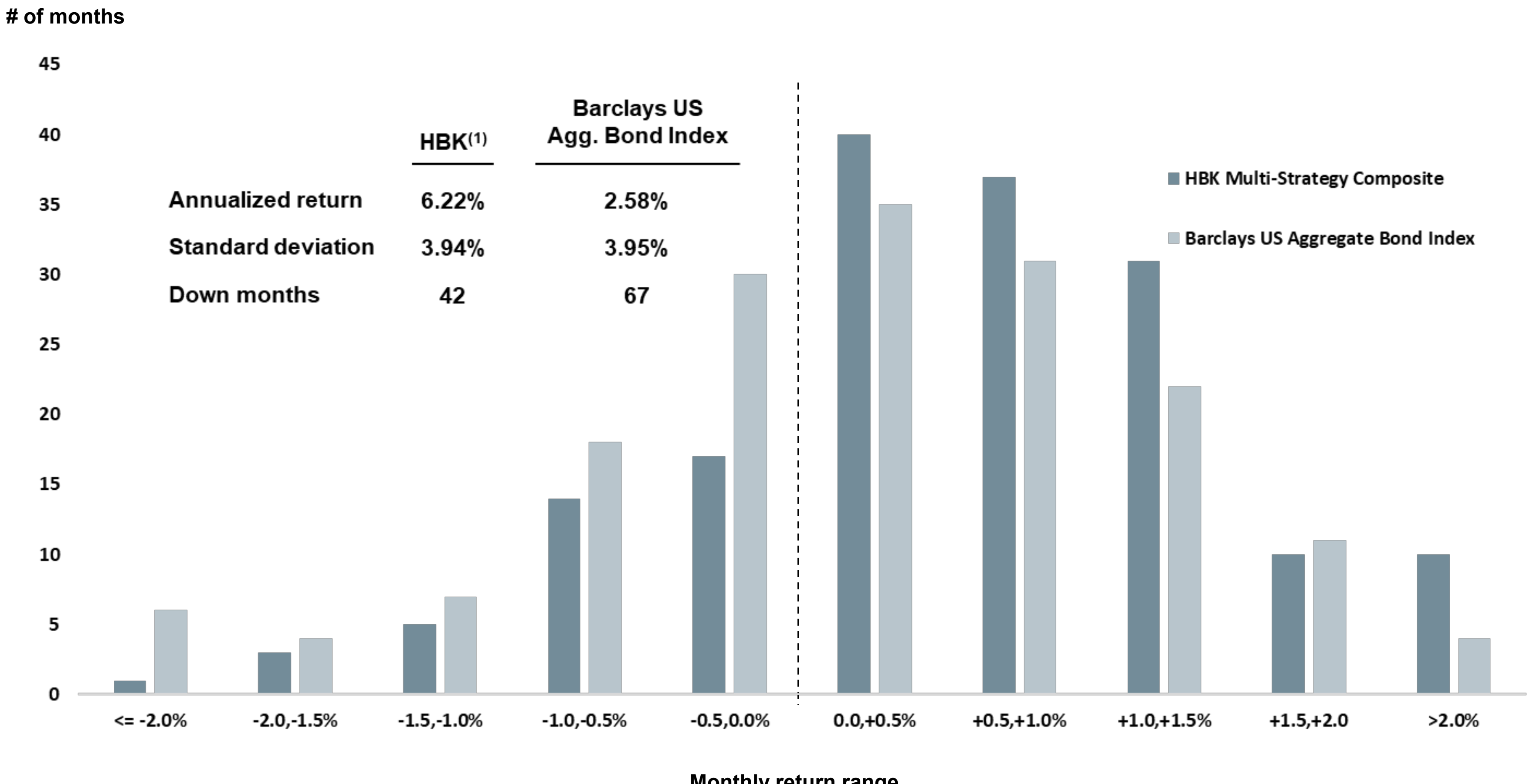


(1) Risk-Based Capital refers to an internally calculated metric that reflects judgment-based haircuts according to broad trade type and asset class designations. This metric is intended generally to approximate the allocation of risk across strategy types. The actual risk in any given trade will depend on market conditions and many other factors and could exceed these estimates by an unlimited amount. Historical ranges of allocations may not be indicative of future allocations of Risk-Based Capital, which may fall outside of such ranges. The multi-strategy funds' portfolio is not bound by any fixed limits and the multi-strategy funds may pursue an unlimited range of investment strategies.

HBK vs. Bonds: Higher Returns, Comparable Volatility

HBK has outperformed a diversified bond portfolio with comparable volatility and fewer down months since 2009

Histogram of monthly returns since 2009



	HBK(1)	Barclays US Agg. Bond Index
Annualized return	6.22%	2.58%
Standard deviation	3.94%	3.95%
Down months	42	67

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HBK Performance During Volatile Periods

In addition to delivering attractive annualized returns, HBK preserved investor capital during many of the most volatile months of the equity markets since 2009

Analysis of months in which S&P 500 lost more than 3% since 2009

	HBK	S&P 500	HFRI FW Composite Index
Average monthly return	0.02%	-6.39%	-1.92%
Down months	11	27	26

	Net Monthly Return		
	HBK[1]	S&P 500	HFRI FW Composite Index
December, 2022	0.85%	-5.77%	-0.29%
September, 2022	-0.09%	-9.22%	-2.41%
August, 2022	0.57%	-4.08%	0.45%
June, 2022	-0.54%	-8.26%	-2.85%
April, 2022	-0.23%	-8.72%	-1.38%
January, 2022	0.53%	-5.17%	-2.05%
September, 2021	0.84%	-4.65%	-0.24%
September, 2020	0.99%	-3.80%	-0.93%
March, 2020	-8.45%	-12.35%	-9.08%
February, 2020	-0.78%	-8.23%	-2.28%
May, 2019	-0.22%	-6.35%	-1.89%
December, 2018	0.63%	-9.03%	-2.54%
October, 2018	0.13%	-6.84%	-3.20%
February, 2018	2.55%	-3.69%	-1.80%
January, 2016	0.17%	-4.96%	-2.60%
August, 2015	-0.64%	-6.02%	-2.39%
January, 2015	-0.30%	-3.00%	-0.04%
January, 2014	0.77%	-3.46%	-0.54%
May, 2012	0.35%	-6.01%	-2.61%
September, 2011	-0.57%	-7.02%	-3.89%
August, 2011	-0.52%	-5.44%	-3.21%
August, 2010	0.47%	-4.51%	-0.13%
June, 2010	0.04%	-5.23%	-0.95%
May, 2010	0.24%	-7.98%	-2.89%
January, 2010	2.50%	-3.59%	-0.76%
February, 2009	-0.17%	-10.61%	-1.21%
January, 2009	1.48%	-8.42%	-0.09%

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Notes

The following notes provide important additional information that should be read in connection with the attached document.

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Q & A

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