

# STATE AND COUNTY RETIREMENT SYSTEM PLANS CASH BALANCE BENEFIT INVESTMENT POLICY STATEMENT

## PURPOSE

The purpose of this Investment Policy Statement (IPS) is to set forth the asset allocations, investment strategy, guidelines, and responsibilities for the Cash Balance Benefit option of the State and County Retirement System Plans. The Cash Balance Benefit is comprised of funds contributed by both State and County Employees. These members contribute a percentage of pretax wages to the Plans and the employers contribute a matching amount. Member accounts earn a statutorily set rate of return. The Nebraska Investment Council (the Council) invests the money in the plans so that the Cash Balance Benefit can pay the promised amounts to plan members when they cease employment or retire.

## ENTITIES

- State and County Retirement System Plans Cash Balance Benefit Option

## STATUTORY REFERENCES

- State Employees Retirement Act                      Neb. Rev. Stat. §§84-1301 - 84-1332
- County Employees Retirement Act                      Neb. Rev. Stat. §§23-2301 - 23-2332

## INVESTMENT OBJECTIVES

Per statute, each Cash Balance Benefit participant account is credited a statutorily guaranteed minimum rate of return equal to the Federal Mid-Term Rate plus 1.5% (subject to a minimum rate of return of 5% annually.) This promised rate of return represents a liability to the Plans.

The risk of poor investment returns fall on the Plans as a whole. If there is not enough money to pay the promised account benefit, the Plans must turn to the State to fund the difference. Conversely, the benefits of extra investment returns also flow to the Plans as a whole. These benefits must be used for the exclusive benefit of the members.

The investment objectives are to maximize the return on the assets, to meet or exceed the expected liability, while minimizing risk.

## ASSET ALLOCATION AND STRATEGY

In accordance with the investment objectives, the asset allocation adopted by the Council is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>	<u>Benchmark</u>
U.S. Equities	24.0%	19.0% - 29.0%	DJ US Total Stock Market Index
International Equities	11.5%	6.5% - 16.5%	MSCI All Country World Index ex-U.S. IMI
Global Equities	22.0%	17.0% - 27.0%	MSCI All Country World IMI

Fixed Income			
Risk-reducing	20.0%	15.0%-25.0%	Bloomberg US Aggregate Bond Index
Return-seeking	10.0%	5.0%-15.0%	Blended benchmark*
Real Estate	7.5%		NFI-ODCE Index
Private Equity	5.0%		DJ US Total Stock Market Index + 3% net

\* 25% Bloomberg US Credit Index, 25% ICE BofA ML HY Master II Index, 25% JP Morgan EMBI Global Diversified Index, 25% Credit Suisse Global Leveraged Loan Index (USD hedged)

The allowable range for individual managers is  $\pm 3\%$  of the target allocation established by the Council.

Any uncalled private equity or real estate capital will be invested in the public U.S. equity markets.

The total portfolio will be benchmarked to a weighted average of the asset class benchmarks outlined above, based on the long-term target allocation. Interim targets may be used for real estate and private equity as long-term target allocations are phased-in. The difference between interim target weightings and long-term target weightings to real estate and private equity will be added to the long-term target weighting to U.S equity for the purpose of calculating total portfolio benchmark returns.

## INVESTMENT MANAGER GUIDELINES

The separate account investment portfolios are managed according to written investment guidelines that are approved by the State Investment Officer (SIO) and reported to the Council. These guidelines are intended to ensure that each manager operates in the manner and style consistent with the approach it represented and for which it was retained, and within acceptable risk parameters. The guidelines for each manager are included in their written, signed Investment Manager Agreement. While it is not expected that commingled fund guidelines will align perfectly with this investment policy, it is expected that commingled funds will be vetted to ensure a reasonably high degree of consistency with this investment policy before an investment is made.

### Private Equity Specifics

#### Sub Sector Allocations and Ranges

Buyouts/Corporate Finance	60 - 80%
Venture Capital	5 - 25%
Special Situations	15 - 35%

#### Investment Type

Allocation required across the spectrum of sub sectors.

#### Geography

Allocation required across the geographic spectrum. No more than 35% outside of the United States.

#### Manager Concentration

Allocation to a single manager is limited to 20% of the private equity portfolio.

#### Industry

No more than 30% of the private equity portfolio may be invested in any single industry.

## **Real Estate Specifics**

### Style Allocations

Core	50% - 80%
Value-Added	10% - 30%
Opportunistic	10% - 30%

### Property Type

Allocation across the spectrum of property types:

Office	10-50%
Industrial	10-40%
Retail	10-40%
Multifamily (apartment)	10-40%
Lodging (hotel)	0-20%
Other	0-15%

### Geography

Allocation across the geographic spectrum. No more than 25% of the real estate portfolio may be invested outside of the United States.

Within the United States:

West	NPI +/- 50%
East	NPI +/- 50%
Midwest	NPI +/- 50%
South	NPI +/- 50%

### Individual Investment

Direct investment into properties is prohibited as are fund investments that have the sole purpose of acquiring or developing one property.

### Manager Concentration

The net asset value exposure to a single real estate manager is limited to 20% of the real estate portfolio. Exposure to a single Core fund manager is limited to 35%. Fund-of-funds manager concentration is limited to 50% of the real estate portfolio.

## **RESPONSIBILITIES FOR THE CASH BALANCE BENEFIT PLANS**

The Council:

- Approves the IPS for the Portfolio. The IPS includes the investment objectives, asset allocation, investment strategy, and manager benchmarks.
- Approves exceptions to the IPS as requested by the SIO.
- Approves investment managers upon recommendation of the SIO.

The State Investment Officer:

- Makes recommendations to the Council regarding components of the IPS, such as asset allocation, investment managers utilized, and manager benchmarks.
- Implements the Council-approved IPS for the Portfolio.

- Rebalances the investments when necessary halfway back to target allocation and looks for efficient and opportunistic ways to get back to target.
- Evaluates and reports investment performance and other investment-related issues of the Portfolio.
- Maintains a current written IPS approved by the Council.
- Establishes written procedures for internal implementation of the IPS as needed.
- Obtains Council-approved IPS exceptions as needed.

## **ADMINISTRATIVE AND GOVERNANCE POLICIES**

Council Administrative and Governance Policies are contained in two additional documents.

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