

# **DEFINED BENEFIT PLANS – STATE PATROL**

## **INVESTMENT POLICY STATEMENT**

### **PURPOSE**

The purpose of this Investment Policy Statement (IPS) is to set forth the investment objectives, asset allocations, investment strategy, investment managers, and responsibilities for the assets in the Nebraska State Patrol Defined Benefit Plan (the Portfolio).

### **ENTITIES**

- Nebraska State Patrol Retirement System

### **STATUTORY REFERENCES**

- |                               |   |
|-------------------------------|---|
| • State Funds Investment Act  | Neb. Rev. Stat. §§72-1237 - 72-1260       |
| • State Patrol Retirement Act | Neb. Rev. Stat. §§81-2014 through 81-2036 |

### **INVESTMENT OBJECTIVES**

The fundamental objective for the Portfolio is to be able to pay the promised retirement benefits to the state patrol plan. These promised retirement benefits create a liability for the plan, and a corresponding risk of being unable to pay the promised benefits. Funds available for retirement benefits consist of external contributions and their investment returns.

The time horizon of the liabilities is long-term, and thus the asset allocation and implementation strategy for the investment of the assets on behalf of the plan is long-term. The objective for the rate of return from the investment of the assets is to maximize the investment return on the assets within acceptable levels of risk.

The performance objective is to earn a net-of-fees rate of return in excess of the policy portfolio, over measurable periods of time. The policy portfolio, which is the passive representation of the Portfolio's asset allocation, provides a critical performance evaluation tool for the investment process.

## ASSET ALLOCATION AND STRATEGY

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>	<u>Benchmark</u>
<b>Total Equity</b>	<b>57.5%</b>	<b>54.5% - 60.5%</b>	
U.S. Equity	24.0%	21.0% - 27.0%	DJ US Total Stock Market Index
Global Equity	22.0%	19.0% - 25.0%	MSCI All Country World IMI
Non-U.S. Equity	11.5%	8.5% - 14.5%	MSCI All Country World Index ex-U.S. IMI
<b>Total Fixed Income</b>	<b>30.0%</b>	<b>27.0% - 33.0%</b>	
Core Bonds	20.0%	17.0% - 23.0%	Bloomberg US Aggregate Bond Index
Return-Seeking	10.0%	7.0% - 13.0%	Blended benchmark*
<b>Total Real Assets</b>	<b>7.5%</b>		
Real Estate	5.5%		NFI-ODCE Index
Infrastructure	2.0%		TBD
<b>Private Equity</b>	<b>5.0%</b>		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)

Any uncalled private equity or real assets 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 assets and private equity as long-term target allocations are phased in. The difference between interim target weightings and long-term target weightings to real assets 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

As a percentage of total private equity

#### Sub Sector Allocations and Ranges

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

### 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 Assets Specifics**

As a percentage of total real assets

### Style Allocations

Core	25% - 30%
Non-Core	35% - 45%
Other	0% - 5%

### Property Type

Office, Industrial, Multifamily, and Other	0% - 30% (each)
Retail and hospitality	0% - 15% (each)

### 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 private markets 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 DEFINED BENEFIT PLANS**

The Council:

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

The State Investment Officer:

- Makes recommendations to the Council regarding components of the IPS, such as asset allocation 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.
- Has discretion to implement newly adopted asset allocations in a cost-efficient and effective way.
- 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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