

# NEBRASKA INVESTMENT COUNCIL GOVERNANCE POLICIES

## Statement of Investment Philosophy Relationships and Responsibilities Code of Ethics, Policy on Conflicts of Interest Council Procedures Fiduciary Management of Risk Advocacy Committees of the Council

### STATEMENT OF INVESTMENT PHILOSOPHY

The Nebraska Investment Council (the Council) has been empowered by Neb Rev. Stat. § 72-1239.01 to act as fiduciary on behalf of the State's Retirement Plans, Operating Investment Pool, College Savings Plan, Achieving a Better Life Experience Plan, and other Trusts and Endowments.

The mission of the Council is as follows:

***It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.***

The Council has developed this Statement of Investment Philosophy to provide clear articulation of the Council's long-term investment philosophy regarding return and risk objectives for the various investment pools to which the Council has fiduciary obligations.

The guiding philosophy is to allow sufficient flexibility in the management process while maintaining reasonable parameters to ensure prudence and care in the execution of the investment program. The Council will comply with all existing and future applicable state and federal regulations and will administer its duties solely for the benefit of the plan participants and state agencies with the care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character, and with like aims by diversifying the investments of the assets so as to minimize the risk of large losses, unless in light of such circumstances it is clearly prudent not to do so.

The Council believes that its long-term investment objectives will be achieved through prudent management of those risks which provide sufficient long-term rewards. Thus, investment strategies will be developed to provide consistent value-added relative to appropriate market-based benchmarks. The Council's investment philosophy is based upon a set of factors that have widely accepted theoretical and empirical bases.

- Asset allocation has the most significant impact on investment results. The Council will focus significant efforts on the development and maintenance of asset allocation strategies that will

optimally fulfill investment objectives.

- Some markets are efficient while others are less so or inefficient. Investment strategies will reflect a mix of active and passive investments, with passive investments being emphasized in the more efficient markets.
- Capital markets revert to the mean over long-time periods. Investment strategies will generally be long-term in nature and will avoid ad hoc decision-making based upon short-term factors.
- Costs have a meaningful impact on returns. Investment strategies will utilize cost effective approaches.
- Valuation and analysis based upon fundamentals generally produce superior return/risk results. Investment strategies will focus on fundamentally-based processes.
- Performance measurement and monitoring activities provide assessment of success of the Council's investment strategies and implementation of those strategies. Clear, unambiguous market-based benchmarks will be selected for each investment strategy. Performance reviews of all investment strategies will be conducted at least annually.
- When hiring investment managers, the Council prefers to utilize Nebraska-based investment advisers licensed by the State of Nebraska as long as the manager satisfies the criteria, State statutes, etc., established for the selection process.
- In order to achieve prudent diversification in the Defined Benefit Plans, the Cash Balance Benefit Plans, the General Endowment Funds and the Health Care Endowment, the maximum target allocation that will be allowed to any one active equity investment manager is 10% of the total portfolio of each plan/endowment, except in unusual, and most likely temporary circumstances.
- No contributions of any kind will be made to the portfolios of investment managers in the Defined Benefit Plans, the Cash Balance Benefit, the General Endowment Funds and the Health Care Endowment which are on the Council's watch list. An index fund corresponding to the specific mandate of the manager on watch will be used for the contributions instead.

The assets to which this Statement of Investment Philosophy applies are defined as follows:

#### Defined Benefit Plans

- The School Retirement System
- The State Patrol Retirement System
- The Judges' Retirement System
- The Omaha School Employees' Retirement System

#### The State Employees Retirement System

- Defined Contribution
- Cash Balance Benefit

#### The Retirement System for Nebraska Counties

- Defined Contribution
- Cash Balance Benefit

#### The State of Nebraska Deferred Compensation Plan

#### Nebraska Educational Savings Plan Trust

- NEST Direct College Savings Plan
- NEST Advisor College Savings Plan
- TD Ameritrade 529 College Savings Plan
- State Farm College Savings Plan

## Achieving a Better Life Experience (ABLE) Plan

### Operating Investment Pool

#### Trusts and Endowments

- Health Care Endowment Fund
- Permanent School Fund
- Early Childhood Education Endowment Fund
- Cultural Preservation Endowment Fund
- Nebraska Veterans' Aid Fund
- Agricultural College Endowment Fund
- Nebraska Environmental Endowment Fund
- State College Endowment Fund
- Bessey Memorial Fund
- Agricultural Development Fund
- Aeronautics Fund
- Excess Liability Fund
- Meadowlark Endowment Fund

## **RELATIONSHIPS AND RESPONSIBILITIES**

### **Relationships**

The Council has been statutorily given fiduciary responsibility for certain Retirement Plans, the State's Operating Investment Pool, the College Savings Plan, and other trusts and endowments.

The State Investment Officer (the SIO) reports directly to the Council and has responsibility for the overall administration and day-to-day operations of the Council.

The Council shall hire an investment consultant (the Consultant) as it authorizes who shall coordinate with the SIO on all investment matters. The Council shall also hire various investment managers and other consultants as the Council shall from time to time approve, all of whom shall report to the SIO. The Council shall conduct a review of its investment consultant and legal counsel before the renewal or termination of the contract for such services. The Council may perform such a review more often.

Any Council member who has individual interactions with current or prospective investment service providers shall disclose that interaction at the next Council meeting at which consideration of the provider is addressed.

The Council staff shall report to the SIO and interactions with staff shall be directed through the SIO unless direct contact is authorized by the SIO. The internal auditor, however, reports directly to the SIO and directly to the Council or the Council Audit Committee

### **The Council shall have the following responsibilities:**

- Articulate fund objectives.
- Approve and oversee investment philosophy and policies.
- Approve and oversee asset allocation and/or investment structure.
- Approve and oversee asset class strategy and investment guidelines.
- Assess and oversee investment performance for the total portfolio and each asset class.

- Approve and oversee the investment program operating policies (proxy voting, manager monitoring, securities lending, commission recapture, etc.).
- Act on recommendations of the SIO and Consultant for selection, retention and termination of investment managers, consultants and custodians (to the extent statutorily required, jointly with an elected official).
- Assure that the investment program is in compliance with laws, rules, regulations, Council policies, Plan documents, and the custodian agreement.
- Assure cost effective management of the investment program.
- Assure the effective administration/management of the investment program by the SIO.
- For the relevant plans, conduct an asset/liability study every three years and reevaluate the asset allocation annually (after the updated expected rates of return are available from the Consultant), or as more frequently required by the Council.

### **The SIO shall have the following responsibilities:**

#### Investment policy development and implementation

- Provide oversight to, and coordinate the development of, investment policies for the approval of the Council. Investment policies shall include asset allocation, risk measurement, and return objectives for each investment fund.
- Investment policy development shall entail a review and selection of acceptable vehicles and structures for the State's investments.
- Investment policy shall articulate the respective roles in investment decision-making of the Council, staff, the Consultant, and investment managers.
- Coordinate the presentation of proposed policies to the Council and the communication of approved policies to interested parties.
- Determine implementation priorities and time schedules.
- Orchestrate and participate in the recruitment, selection, and contract negotiation process on behalf of the Council with investment service providers.
- Provide oversight to all implementation activities, including portfolio accounting, cash allocation, and the compliance of the investment funds with applicable state and federal laws and regulations.
- Execute legal documents on behalf of the Council, including investment advisory and consulting contracts, partnership agreements and commingled fund subscription agreements.

#### Liaison activities

- Coordinate the Council meetings and activities including development of meeting agendas and the provision of all internal and external reports and presentations on each meeting agenda.
- Inform the Council members in a timely manner of all significant developments related to State investment programs.
- Communicate regularly, and work cooperatively, with the Executive Directors and trustees of NPERS and OSERS.
- Communicate regularly, and work cooperatively, with the State Treasurer.
- Conduct orientation sessions for the new Council members.
- Represent State investment programs to other State agencies, the Governor's office, Nebraska legislature, federal government agencies and members of the press.

#### Maintain knowledge of current industry trends

- Attend relevant industry conferences, regularly meet with industry representatives, and regularly review industry publications.
- Provide the Council with periodic educational sessions on investment topics of current relevance.

- Inform the Council of educational opportunities for fiduciaries.
- Keep current on federal laws, regulations, standards and policies governing the various funds for which the Council has responsibility.
- Keep current on investment principles, practices, and procedures for all public markets asset classes.
- Be acquainted with the role of actuarial concepts in funding defined benefit retirement plans and providing for payment of promised benefits.

#### In-state investment opportunities

- Regularly meet, and communicate with, State agencies, investment officers, investment managers, and private investors.
- Monitor and ensure that in-state investment opportunities are objectively and thoroughly evaluated under the State investment programs' investment criteria.

#### Supervise State investment staff

- Develop strategic plan for investment staff.
- Make recommendations regarding staffing requirements and appropriate salary levels to ensure optimal fulfillment of investment staff responsibilities.
- Oversee and participate in the recruitment, selection, and retention of investment staff.
- Administer personnel policies within the State investment office, evaluate staff performance, determine merit increases, oversee staff development and training, and determine appropriate disciplinary actions.
- Other duties, projects and responsibilities as the Council may from time to time assign.

#### **The Council Agency staff shall have the following responsibilities:**

Perform those duties and responsibilities as are assigned to them by the SIO.

### **CODE OF ETHICS AND CONFLICTS OF INTEREST**

#### **Code of Ethics**

Members of the Nebraska Investment Council and Council employees shall:

- Act with integrity, competence, dignity, and in an ethical manner when dealing with the participants, public, consultants, managers and fellow Council members and Council employees.
- Strive to maintain and improve their competence.
- Use reasonable care and exercise independent professional judgment.
- Act in accordance with the Nebraska Political Accountability and Disclosure Act (NPADA).

#### **Conflicts of Interest**

Any Council member or Council employee has a potential conflict of interest when the member or employee, in the discharge of his or her official duties, would be required to take an action or make any decision, or participate in a discussion of either, that may cause financial benefit or detriment to him or her, a member of his or her immediate family, or a business with which he or she is associated, or a campaign for an elective office he or she seeks, which is distinguishable from the effects of such action on the public generally, or a broad segment of the public.

Council members and Council employees are required to file a Potential Conflict of Interest Statement

(NADC Form C-2) with the Nebraska Accountability and Disclosure Commission (NADC) whenever a potential conflict of interest arises. The Statement should be filed with NADC prior to any Council meeting at which the Council is expected to deliberate or vote on the subject matter of interest. Any Council member or Council employee who declares or has been found to have an actual conflict of interest shall not participate in or vote on such matter.

All Council members shall file a Statement of Financial Interest (NADC Form C-1) with the NADC as required by the NPADA.

Council members and Council employees should limit the acceptance of gratuities and/or gifts from persons and entities doing business with the Council. Council members and Council employees may not solicit or accept anything of value based on the understanding or agreement that his or her official action would be influenced thereby. Council members and Council employees shall not accept anything of value of US \$100 or more from any person or entity with whom the Council does business, and shall not accept anything of value from a registered lobbyist that would violate the NPADA. This monetary limit does not preclude customary, ordinary, business-related entertainment so long as it does not influence action related to official business and it does not violate the NPADA with respect to gifts from registered lobbyists.

Each year each Council member and Council employee shall sign and submit to the SIO a statement acknowledging that he or she has read this Code of Ethics and Policy on Conflicts of Interest.

## **COUNCIL PROCEDURES**

The manner in which meetings are to be conducted shall be at the discretion of the Council.

The Council Chair works with the SIO to plan the meeting agenda and conducts the meeting in the manner agreed to by the Council. The Chair may appoint Council members and others to committees or task forces with Council consent.

Individual Council members have no legal authority to act for the Council. Individual Council members can exercise authority only by making decisions together.

The Council meeting will run according to an agenda plan prepared by the Council Chair and the SIO. All Council members can request that issues be placed on the agenda by bringing those issues to the attention of the SIO or Council chair in writing no later than 14 days prior to the date the meeting is scheduled. The agenda and related materials for Council meetings will generally be distributed to Council members at least seven calendar days in advance of the meeting. The Council may modify the agenda to include items of an emergency nature only at its scheduled meeting.

The Council may designate specific person(s) to speak on its behalf on a particular issue. When this designation is made, Council members shall refer the media and other parties to the Council's designee(s).

Council meetings will be conducted in accordance with the Nebraska Open Meetings Act, Neb. Rev. Stat. §§ 84-1407 to 84-1414. Public notice and other information required under the Act will appear on the Council's website.

The Council may hold an executive (closed) session as provided by state law. Deliberations during executive session shall be confidential and any person attending an executive session shall refrain from disclosing outside of executive session any information discussed therein, except information that was already in the public domain or required to be disclosed by law or by order of a court of competent jurisdiction. The Council shall be empowered to review any alleged disclosure of confidential

information, and any person deemed by the Council to have violated this confidentiality requirement shall be subject to such censure as may be imposed by the Council, including but not limited to public censure.

### **FIDUCIARY MANAGEMENT OF RISK**

Section 72-1239.01 of the State Funds Investment Act states "The appointed members of the Council shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets ... so as to minimize the risk of large losses."

Therefore, risk will be at the forefront of Council asset management.

### **ADVOCACY**

The Act further states, "No assets of the retirement systems or the Nebraska educational savings plan trust shall be invested or reinvested if the sole or primary investment objective is for economic development or social purposes or objectives."

Therefore, the Council's activity as advocates for economic or social issues will be minimal, and always in accordance with the above statute.

### **COMMITTEES OF THE COUNCIL**

#### **Ad Hoc Committees**

The Council board may establish ad hoc committees of the Council to address specific matters and issues as needed. The Chair of the Council shall appoint the members of any ad hoc committee and the committee chair. Each committee member shall serve until his or her resignation, his or her Council term expires, or the Chair of the Council removes him or her from the Committee. An ad hoc committee shall be dissolved when its mandate is finished.

#### **Audit Committee**

The Nebraska Investment Council (Council) has established a standing audit Committee (the "Committee"). The Committee plays an important role in providing a structured, systematic oversight of Council's compliance, internal control practices and internal audit function. The Committee assists the Council by providing any necessary recommendations in the following areas:

- Compliance
- Fraud
- Internal control framework
- Internal audit
- External audits

#### **General Guidelines**

The Chair of the Council shall appoint the members of the Committee and the Committee chair. Each Committee member shall serve until his or her resignation, his or her Council term expires, or the Chair of the Council removes him or her from the Committee.

The Committee shall meet as a Committee at least quarterly. The internal auditor shall attend the Committee meetings. Such meetings may be held in-person, by teleconference or by videoconference.

The Committee chair shall report, at least annually, to the Council on matters which the Committee has responsibility and oversight.

The Committee shall recommend to the Council an internal audit charter and make recommend changes to the Council as needed. The Council shall have sole authority to adopt the audit charter and make amendments thereto.

The Committee shall approve an annual risk-based audit plan and provide such plan to the Council as part of the Committee's annual report.

New Committee members shall attend orientation before the first audit Committee meeting.

#### Duties and Responsibilities

The Committee shall review and make any necessary recommendations with respect to the following:

- Compliance – Systems and practices to monitor operational compliance with State statutes, regulations, policies, and standards of ethical conduct.
- Fraud – Appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Internal Control Framework – Systems, processes, and procedures to ensure program and contract compliance.

The Committee shall have the following oversight responsibility of the internal auditor and audit processes:

- Oversee the selection process of the internal auditor, provide input on annual performance reviews and salary adjustments, and approve any recommendation by the SIO to replace or dismiss the internal auditor.
- Review resources available to the internal audit function and recommend changes to the Council to ensure successful implementation of the audit plan.
- Ensure internal audit function has organizational independence and unrestricted access to all necessary data. The internal auditor shall have the right to report any concern directly to the Committee.

Review internal audit reports.

- The following shall apply to all external audits of the Council and the funds it manages.
- The Committee shall review potential concerns and findings raised by the external auditor.
- The Committee shall have direct access to the external auditor and all reports, information and documents created by or relied upon by the external auditor.
- The external auditor shall have direct access to the Committee.

In addition to the responsibilities listed, the Committee will carry out any other functions or duties as assigned by the Council.



Governance Policy History

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Revised February 8, 2018 (combined stand-alone policies into Governance Policies)

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