



# **Endowments Portfolio**

## **An Overview of Strategies**

**February 2022**

**1526 K Street, Suite 420 • Lincoln, NE 68508**  
**Phone: 402-471-2043 • E-mail: [nic.info@nebraska.gov](mailto:nic.info@nebraska.gov)**  
**Website: <https://nic.nebraska.gov>**

# Nebraska Endowments

## An Overview of Strategies

Nebraska's Endowments employ a variety of strategies to meet the state's investment goals. This overview covers the six asset classes utilized within the Endowments: U.S. Equity, Non-U.S. Equity, Global Equity, Fixed Income, Real Estate, and Private Equity. It also describes the investment managers engaged by the Nebraska Investment Council (the Council) to implement these asset class exposures.

### U.S. EQUITY

The U.S. equity component provides exposure to all segments of the U.S. equity market, including growth and value stocks of large-, mid- and small-capitalization U.S. companies.

- **BlackRock** The Council is invested in the BlackRock Russell 1000 Index fund, which provides a passive investment in the large cap segment of the U.S. stock market and holds issues in their appropriate weights based on the Index.
- **BlackRock** The Council is invested in the BlackRock Russell 1000 Value Index fund, a passive fund that is designed to track the performance of the large cap value segment of the U.S. stock market.
- **Dimensional Fund Advisors L.P.** The Council is invested in the DFA U.S. Small Company strategy, which seeks to capture the returns and diversification benefits of the U.S. small cap asset class while maintaining low transaction costs. DFA invests in "smaller" small cap companies and attractively valued companies relative to the Russell 2000 Index.

### NON-U.S. EQUITY

The non-U.S. equity component provides exposure to developed and emerging economies outside of the United States. The component benchmark, the MSCI All Country World ex-U.S. IMI, includes large-, mid-, and small-capitalization companies across 22 developed and 25 emerging market countries and covers approximately 99% of the international equity investment opportunity set.

- **BlackRock** The Council is invested in the BlackRock All Country World ex-U.S. IMI, a passive fund that is designed to track the returns of the MSCI All Country World ex-U.S. IMI, an index that includes large-, mid-, and small-capitalization companies across 22 developed and 25 emerging market countries. The fund is weighted proportionately to the weights of those companies that constitute the Index.

## GLOBAL EQUITY

The global equity component provides exposure to U.S., non-U.S. developed, and emerging market securities. The component benchmark, the MSCI All Country World IMI, includes large-, mid-, and small-capitalization companies across 23 developed and 25 emerging market countries and covers approximately 99% of the global public equity investment opportunity set.

- **BlackRock** The Council is invested in the BlackRock All Country World IMI Fund. The BlackRock All Country World IMI fund is designed to track the return of the MSCI All Country World IMI. The fund is comprised proportionately to the weights of those companies that constitute the Index.
- **MFS Investment Management** The Council is invested in the MFS Global Equity strategy. MFS focuses on fundamental bottom-up company analysis conducted by research analysts that are organized along global sector lines. The portfolio holds stocks of quality businesses with sustainable above average growth potential and return prospects but at reasonable prices.
- **Dodge & Cox** The Council is invested in the Dodge & Cox Global Equity strategy. Dodge & Cox employs a fundamental, bottom-up investment approach and seeks to invest in companies with long-term earnings and cash flow growth prospects that are selling at attractive prices. The strategy emphasizes stocks with low valuations of medium to large well-established companies.
- **Wellington Management Company** The Council is invested in the Wellington Global Perspectives strategy. The strategy's investment process is opportunistic, focusing on sourcing the best ideas from various parts of Wellington's business – i.e., taking into account Wellington's macroeconomic perspective, input from Wellington's quantitative model, and Wellington's more traditional fundamental research. The portfolio focuses mainly on small- and mid-capitalization companies.

## FIXED INCOME

The fixed income component is sub-divided into two separate allocations – risk-reducing fixed income and return-seeking fixed income.

### **Risk-Reducing Fixed Income**

The risk-reducing fixed income allocation is generally conservative; its purpose is to preserve and grow principal and offset some of the volatility of the equity portfolio. The Bloomberg U.S. Aggregate Bond Index is used to benchmark the risk reducing fixed income component. The Index consists of U.S. Treasuries and Government Agency Bonds, Mortgage-Backed Securities, Corporate Bonds, and a small allocation to Asset-Backed Securities. The Index is comprised entirely of investment grade bonds.

## Risk-Reducing Fixed Income Managers

- **BlackRock** The Council is invested in the BlackRock Aggregate Bond Index fund, a fund designed to track the return of the Bloomberg U.S. Aggregate Bond Index. BlackRock uses a combination of cellular stratified sampling and a risk factor model to capture the overall risk and return characteristics of its relevant benchmark universe.
- **Pacific Investment Management Company (PIMCO)** The Council is invested in PIMCO's Core-Plus Total Return strategy. PIMCO employs a top-down and bottom-up process that implements active management of duration, yield curve exposures, country/sector allocation, security selection, and tactical allocation to non-benchmark sectors. PIMCO uses fixed income derivative instruments both for hedging purposes and as synthetic investments.
- **Baird Advisors** The Council is invested in Baird Advisors' Core Plus Bond strategy. The strategy has a consistent style, overweighting spread assets and underweighting Treasuries, while staying duration neutral. Within structured credit, the focus is away from US Agency RMBS while within corporate credit, financials are preferred. As a mid-size manager, there are smaller secondary opportunities that are meaningful investments.

## Return-Seeking Fixed Income

The return-seeking fixed income allocation places a greater emphasis on return-generation than the risk-reducing fixed income allocation, while still providing some level of diversification benefit relative to the endowment's equity portfolio. Multi-sector / multi-asset credit mandates are utilized to implement the return-seeking fixed income allocation. In addition to making some allocation to investment grade bonds, these mandates allocate to higher risk, higher returning areas of the fixed income market such as high yield corporate bonds, bank loans, and emerging market debt. The benchmark for the Return-Seeking Fixed Income allocation is a mix of indices that track the investment grade corporate bond market (50%), the high yield corporate bond market (30%), and the US dollar-denominated emerging market debt market (20%).

## Return-Seeking Fixed Income Managers

- **Loomis Sayles** The Council is invested in the Loomis Sayles Multi-Sector Full Discretion strategy. Loomis Sayles' investment process emphasizes security selection through bottom-up research while incorporating top-down themes through the process. With fundamental research at its core, this absolute return strategy opportunistically invests across the global fixed income universe.
- **PIMCO Diversified Income** The Council is invested in the PIMCO Diversified Income strategy. PIMCO actively manages all fixed income decisions, exploiting opportunities across a broad opportunity set. The investment process combines macro-economic views with credit research and seeks to add incremental value

from positions taken across a wide range of bond markets. Top-down analysis is used to determine general risk themes and secondarily industry exposures for credit portfolios.

## **REAL ESTATE**

**Core Real Estate:** is the most conservative investment strategy in real estate and focuses on owning high quality, stabilized properties in the most liquid and economically diverse markets. Core investment strategies are defined by their low use of leverage and a significant focus on current income yield. Core real estate is often referred to as the Beta of the asset class. The Council has three managers in this space.

- **Prudential Real Estate Investors** The Council is invested in the Prudential Real Estate Insurance Separate Account (PRISA), one of oldest and largest U.S. Core open-end commingled real estate funds available in the marketplace. PRISA invests primarily in Core, well-leased, operating properties with a focus on income.
- **UBS Realty Investors** The Council is invested in the UBS Trumbull Property Fund ("TPF"). TPF is an open-ended, diversified Core fund focusing on the four main property types with a small exposure to hotels and focusing on the top markets for high-quality Core institutional real estate assets.
- **Clarion Partners** The Council is invested in the Lion Properties Fund ("LPF"), an open-end diversified Core real estate fund with a combination of a strategic industrial sector, office assets in major gateway markets, a growing exposure to lab sciences, and a small exposure to retail excluding regional or super regional malls.
- **Morgan Stanley** The Council is invested in the Prime Property Fund ("PPF"), a diversified open-end Core real estate fund that targets high quality, well-leased, income-producing properties located in the U.S.

**Core Real Estate Debt:** comprised of a more indirect method of real estate investing and is accomplished through the issuance or purchase of mortgages that are collateralized by real estate.

- **UBS Realty Investors** The Council is invested in the Trumbull Property Income Fund ("TPI"). The Fund is an open-end, diversified core real estate debt fund that targets participating mortgages. The Fund's strategy is to build an actively managed portfolio of income-oriented real estate investments that have hybrid debt and equity return characteristics. It seeks to provide attractive returns while limiting downside risks through a combination of fixed income, participation in cash flow and equity upside.

**Opportunistic Real Estate:** is the most tactical style of real estate investing and is usually focused on enhancing and creating significant value appreciation through development, capital stack restructuring, change of property use, distressed

asset/ownership/market conditions, public-to-private transactions, emerging sectors, and secondaries. Opportunistic strategies employ a significant amount of leverage and have a limited focus on current income. This style of investing is most successful when there is an imbalance in the real estate or capital markets.

- **Metropolitan** The Council is invested in Metropolitan Real Estate Partners International Fund III and Metropolitan Real Estate Partners VI, both of which are closed-end commingled funds with a 7-to-10-year lifecycle. Metropolitan focuses on creating diversified fund-of-funds products that invest in a series of underlying non-Core funds. Metropolitan targets primarily smaller managers with specialized investment strategies that focus on one particular region or property type. In 2015, The Council also invested \$10 million in the Metropolitan Real Estate Secondaries and Co-Investments Fund. The Fund seeks to capitalize on current market imbalances and provide investors with access to both secondaries and co-investments which provides the benefit of J-curve reduction in the non-core space as well as participation in the ongoing recovery of property fundamentals across the globe.
- **Landmark** The Council is invested in Landmark Real Estate Partners VII, a closed-end commingled fund with a 5-to-8-year lifecycle. Landmark's Opportunistic funds focus on targeting the acquisition of secondary interests in existing real estate partnerships.
- **Oaktree Capital Managers** The Council is invested in the Real Estate Opportunities Fund VIII, a closed-end commingled fund with a 3-to-5-year lifecycle. The fund is targeting returns through distressed debt acquisitions, equity recapitalizations, rescue financings, and discounted securities purchases. The fund will also pursue corporate and residential real estate investments through strategies including home building, mortgage pools, or debt securities. The fund is focused primarily in the U.S., but includes a global component executed by Europe and Asia teams.
- **Torchlight Investors** The Council is invested in the Torchlight Debt Opportunity Fund VII, closed-end commingled fund with a 5-to-8-year lifecycle. The Fund focuses on high yield real estate debt investments in both the private and public markets.

## **PRIVATE EQUITY**

Private equity is broadly defined as investments in privately negotiated securities that typically do not trade in a capital market. Investments are typically illiquid and long-term in nature, thereby introducing greater risk into a portfolio, but offer the potential for higher returns than traditional asset classes. The Council portfolio includes two categories of private equity investments: Special Situations and Fund-of-Funds.

**Special Situations** partnerships are private corporate finance investment strategies that either a) do not fall neatly under the Buyout or Venture Capital categories or b) do not

justify a separate long-term strategic allocation. Such partnerships include Distressed Debt/Turnaround, Subordinated Debt (Mezzanine), Energy, and Secondaries.

- **HarbourVest** The Council is invested in HarbourVest Dover Street VIII & X. The secondaries funds invest in global purchases of venture capital, buyout, and other private equity assets. The Funds invest across a mix of vintage years, industries and geographies.

**Fund-of-Funds** partnerships are set up to invest among a selection of private equity funds. Fund-of-funds may be able to provide investors with a route to investing in particular funds that would otherwise be closed to them or provide a broadly diversified private equity portfolio through the investment of a small amount of capital.

- **Abbott Capital** The Council is invested in Abbott Capital Private Equity Funds VI & VII, private equity fund of funds vehicles providing institutional investors access to diversified private equity investments in venture capital, buyout and special situation partnerships.
- **RCP Advisors** The Council is invested in RCP Advisors Funds VII & VIII, diversified private equity fund of funds vehicles focused exclusively on the lower middle market North America buyout segment. Underlying partnerships will invest in the acquisition of existing businesses located principally in North America across various industries.
- **Constitutional Capital** The Council is invested in Constitutional Capital's Ironsides Partnership Fund IV & Ironsides Co-Investment VI. Ironsides funds are private equity fund of funds and co-investment strategies managed by Constitution Capital Partners. The Funds focus on small to mid-cap North American buyout funds and direct (co-invest) investments.