

# **DEFINED BENEFIT PLANS 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 Defined Benefit Plans (the Portfolio). The assets in the Portfolio support three distinct Retirement Plans, as listed below in the section titled Entities. Because of the similar objective and in order to optimize investment rates of return, reduce investment expense and expedite operational efficiencies, the assets for the three entities are combined for investment purposes but accounted for individually using plan accounting.

## **ENTITIES**

- School Retirement System of the State of Nebraska
- Nebraska State Patrol Retirement System
- Nebraska Judges' Retirement System

## **STATUTORY REFERENCES**

- |                                   |  |
|-----------------------------------|--|
| • State Funds Investment Act      | Neb. Rev. Stat. §§72-1237 - 72-1260        |
| • School Employees Retirement Act | Neb. Rev. Stat. §§79-901 through 79-977.01 |
| • State Patrol Retirement Act     | Neb. Rev. Stat. §§81-2014 through 81-2036  |
| • Judges Retirement Act           | Neb. Rev. Stat. §§24-701 through 24-714    |

## **INVESTMENT OBJECTIVES**

The fundamental objective for the Portfolio is to be able to pay the promised retirement benefits to the school employees, state patrol and judges covered by the three Plans. These promised retirement benefits create a liability for each 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 these Plans 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**

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>                         |
|------------------------|--------------------------|-------------------------|--|
| U.S. Equities          | 27.0%                    | 22.0% - 32.0%           | 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        | 19.0%                    | 14.0% - 24.0%           | 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 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.
- 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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