

NEBRASKA INVESTMENT COUNCIL

ENDOWMENTS PORTFOLIO

AN OVERVIEW OF STRATEGIES



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Nebraska's Endowment Plans employ a variety of strategies to meet the state's investment goals. This overview covers the six asset classes utilized within the Endowment Plans: 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 (NIC) 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:** NIC 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:** NIC 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:** NIC 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-US 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 23 emerging market countries and covers approximately 99% of the international equity investment opportunity set.

- **BlackRock:** NIC 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. The fund is weighted proportionately to the weights of those companies that constitute the Index.
- **Baillie Gifford:** NIC is invested in the Baillie Gifford Emerging Markets Leading Companies strategy. Baillie Gifford utilizes a bottom-up approach for stock selection with an emphasis on earnings growth, cash flow growth, profitability, balance sheet strength, valuation, and sound qualitative judgment of a company's management. The manager has a consistent growth bias in its investment process, as it seeks to identify companies that can grow their earnings at a more accelerated rate in favorable industries relative to the market average.

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 23 emerging market countries and covers approximately 99% of the global equity investment opportunity set.

- **BlackRock:** NIC 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.
- **Acadian Asset Management LLC:** NIC is invested in the Acadian Global Equity strategy, which implements a disciplined, quantitative investment process. Through its proprietary database, Acadian employs a diversified set of factors for stock selection.
- **MFS Investment Management:** NIC 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. Portfolio construction is driven by high conviction stock selection and pays little attention to indices, true to the unconstrained investment approach.
- **Mondrian Investment Partners:** NIC is invested in the Mondrian Global Equity strategy. This strategy applies a disciplined bottom-up, value-driven investment approach with a focus on dividends. This process is then complemented by a top-down analysis for final portfolio construction.
- **IronBridge Capital Management, L.P.:** NIC is invested in the IronBridge Global Focus strategy. IronBridge's investment process revolves around its Cash Flow Return on Investment analysis that is designed to remove accounting inconsistencies across country borders. IronBridge employs two key elements in its investment process: the categorization of companies by their stage in the corporate life cycle and the isolation of the terms of wealth creation within each life cycle category.

FIXED INCOME

Fixed income generally serves as a risk-reducing asset class. The purpose of the fixed income portfolio is to preserve and grow principal and offset some of the volatility of the equity portfolio. The Barclays Universal Bond Index is used to benchmark the fixed income component. The Index consists of the following sectors:

- **Treasuries:** Bonds supported by the full faith and credit of the United States government, and therefore essentially free of default risk. Treasuries have a fixed coupon rate and repay principal at final maturity.
- **Agencies:** Bonds issued by U.S. government agencies such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and Farm Credit System.
- **Mortgage-Backed Securities (MBS):** Securities that are bundled mortgages, guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, or the Government National Mortgage Association, or privately issued. Investors receive a proportional share of all principal and interest payments.
- **Asset-Backed Securities (ABS):** Securities that consist of bundled credit card receivables, auto and home-equity loans, student loans, small business loans, or other securitized cash flows.

- **Corporates:** Investment grade, fixed-rate, and taxable bonds publicly issued by corporations within the industrial, utility, and financial sectors. Investment grade corporates carry a rating of BBB or higher.
- **High Yield:** Bonds with a credit rating below investment grade. High yield bonds carry a rating below BBB and typically offer a higher coupon than do investment grade bonds.
- **Global Debt:** Bonds issued by developed and emerging markets around the world. Global debt includes fixed-rate treasury, government-related, corporate and securitized bonds.
- **Emerging Market Debt:** Consists of liquid, fixed-rate, debt instruments issued by emerging market sovereign, quasi-sovereign or corporate entities, including Brady bonds, loans, and Eurobonds. Emerging Market Debt may be denominated in local currency or in U.S. dollars.

Fixed Income Managers

- **BlackRock:** NIC is invested in the BlackRock Aggregate Bond Index fund, a fund designed to track the return of the Barclays 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):** NIC 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.
- **Loomis Sayles:** NIC 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.

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. NIC has three managers in this space.

- **Cornerstone Real Estate Advisors** – NIC is invested in the Cornerstone Patriot Fund. The Cornerstone Patriot Fund is a U.S. open-end, diversified Core fund that is managed with an emphasis on research, targeting “barrier” markets, which are perceived to reduce the risk of oversupply and offer potential for outsized rent growth and appreciation.
- **Prudential Real Estate Investors** – NIC 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** – NIC is invested in the UBS Trumbull Property Fund (“TPF”) and recently approved a commitment to the Trumbull Property Income Fund (“TPI”). 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. While similar to TPF in structure, TPI, however, is a debt fund that is primarily invested through participating mortgages.

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** – NIC 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.

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 NIC portfolio includes two categories of private equity investments: Special Situations and Fund-of-Funds.

Special Situation partnerships are private corporate finance investment strategies that either a) do not fall 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 (Dover Street)** – A secondary manager investing in global purchases of venture capital, buyout, and other private equity assets. The Fund invests across all vintage years, industries and geographies.

Fund-of-Funds partnerships are set up to distribute investments among a selection of direct private equity fund managers, who in turn invest the capital directly. 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 Private Equity** – A private equity Fund of Funds vehicle providing institutional investors access to diversified private equity investments in venture capital, buyout and special situation partnerships.
- **RCP Advisors (VII & VIII)** – A diversified private equity fund of funds vehicle 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.