# PRIVATE EQUITY INVESTMENT POLICY STATEMENT

## I. PURPOSE AND OBJECTIVES

The purpose of this Private Equity Policy is to formalize the Nebraska Investment Council's ("Council") investment objectives and policy with respect to the Private Equity asset class and to define the duties and responsibilities of the various entities involved in the Private Equity investment process. This policy is to be considered an extension of the Council's various Investment Policy Statements. Every provision of this Private Equity Policy is intended to be in accordance with Nebraska state law.

## II. INVESTMENT PHILOSOPHY

The Council allocates a portion of its total assets to the Private Equity asset class. The Council defines its Private Equity asset class by investments made in the equity or debt securities of privately owned operating companies and allocates assets to Private Equity with the following goals:

### *Diversification with Other Asset Classes*
Private Equity returns have historically performed differently than the returns of other asset classes in which the Council invests. The Council believes that Private Equity returns will continue to behave differently from other asset class returns, allowing the Council to lower the risk of its overall portfolio through diversification by allocating to the Private Equity asset class.

### *Return Enhancement*
Private Equity partnership total rates of return are expected to be greater than those that are expected from traditional equity investments. To help the Council portfolio's ability to outperform and produce excess returns, an allocation is made to the Private Equity asset class.

## III ALLOCATION

The Council controls allocation risk at the plan level as shown below. The allocation establishes a 5.0% target for Private Equity.

### *Private Equity Target Allocations*

| | |
|---|---|
| Defined Benefit | 5.0% |
| Cash Balance Benefit | 5.0% |
| General Endowment | 5.0% |
| Health Care Endowment | 5.0% |

Asset allocation is a critical driver for the long-term success of the Private Equity program. Modern portfolio theory suggests that asset allocation risk is managed by establishing target portfolio exposure parameters and optimizing the portfolio along risk and return expectations. Private Equity is not conducive to a rigorous quantitative approach and asset allocation risk is controlled through long-term, subjective market value approach.

Long-term market value targets are established below. The Private Equity portfolio will achieve diversification beyond geographic focus by investing in partnerships that are complementary in nature regarding fund size, sector and strategic focus.

### *Private Equity Sub Sector Allocations and Ranges*

| | |
|---|---|
| Buyouts/Corporate Finance | 40.0-50.0% |
| Venture Capital | up to 25.0% |
| Special Situations | 25.0-40.0% |

## IV. PERFORMANCE OBJECTIVES & BENCHMARKING

At the total Private Equity portfolio level, performance is benchmarked against the DJ US Total Stock Market Index plus 300 basis points per annum, net of fees. At the individual fund level, performance is benchmarked against the pooled average return of Burgiss Private iQ, net of fees.

## V. RISK MANAGEMENT

For Private Equity investments, the following sections identify the most significant risks and the method of control. Compliance with the following risk parameters shall be based on percent (%) of the Private Equity portfolio's Net Asset Value or Fair Value as of each quarter end.

### *Investment Type*

The Council seeks to minimize the risk of its Private Equity portfolio by allocating its assets across the spectrum of sub sectors.

### *Geography*

The Council seeks to minimize the risks of its Private Equity portfolio by allocating its investments across the geographic spectrum. No more than 35% of the Private Equity portfolio may be invested outside of the United States.

### *Manager Concentration*

Manager risk consists of two elements: the exposure to a manager and the number of managers in the Private Equity portfolio. To control manager exposure, the allocation to a single Private Equity manager is limited to 20% of the Private Equity allocation.

### *Industry*

Industry exposure will be controlled through appropriate diversification across a broad cross-section of funds which focus on specific industries and through commitments to funds whose objectives include industry diversification objectives. No more than 30% of the Private Equity portfolio may be invested in any single industry.

## VI. APPENDIX

The Nebraska Investment Council has granted the State Investment Officer the authority to make commitments and fund follow-on private equity partnerships (partnerships) and private closed-end real estate funds (funds) on behalf of the Council if, and only if time is of the essence, and there is a risk that the most favorable terms for the investment will not be obtained if the SIO waits until the next regularly scheduled Council meeting to make a commitment on behalf of the Council. In addition, the following conditions also apply to this delegation of authority:

1. The amount of the commitment is in line with the respective target asset allocation for private equity or real estate funds, the sub-asset class limitations, and the respective pacing schedules set by the Council;

2. The investment is with the same partnership or fund that the Council currently has a private equity or private real estate investment with;

3. The investment is in a partnership or fund that has a similar focus, risk profile, and strategy as that of the Council's prior investments in the respective partnership or fund;

4. A majority of the general partners or the leadership teams has remained the same;

5. The standard approach to investment and legal due diligence has been completed and documented and no material adverse findings exist beyond those that were in existence when the Council made prior investments with the same general partnership or fund;

6. The amount to be committed to a follow-on partnership or fund shall not be larger than any prior single commitment the Council has made to any partnership or fund, as the case may be (excluding fund-of-fund investments);

7. The commitments shall not result in the Council owning more than 10% of the follow-on partnership or fund; and

8. The investment decision is communicated to all members of the Council in writing, along with supporting documentation, before a commitment is made.

The Council reserves the right to change this delegation of authority at any time.

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