

Transcript Prepared by Clerk of the Legislature Transcribers Office
Nebraska Retirement Systems Committee March 31, 2025

BALLARD: Welcome to the Nebraska Retirement Systems Committee. My name is Beau Ballard, representing District 21 in northwest Lincoln, northern Lancaster County, and I serve as chair of the Retirement Committee. We'll start off by introducing our committee members, starting with Senator Juarez.

JUAREZ: Good afternoon. I am from District 5 representing south Omaha.

SORRENTINO: Tony Sorrentino, Legislative District 39, Elkhorn and Waterloo.

TREVOR FITZGERALD: Trevor Fitzgerald, committee legal counsel.

BALLARD: Also assisting our committee is Connie Thomas and our committee pages, Jacob and Sam, studying at the University of Nebraska-Lincoln. This afternoon, we'll be receiving our annual report from the Nebraska Investment Council. On the tables near the en-- this is just, OK. No green sheets, because we will only be hearing invited testifiers today. Any handouts submitted by testifiers, we'll include as part of the records to exhibits. We'll remind everyone, including senators, please turn off your phone, your cell-- please turn off or put your cell phones on vibrate. We'll begin today's hearing, hearing with the Nebraska Investment Council Annual Report and welcome State Investment Officer Ellen Hung.

ELLEN HUNG: Good afternoon. My name is Ellen Hung, spelled E-l-l e-n, H-u-n-g. I'm the State Investment Officer. I am pleased to present the 2024 Annual Report for the Nebraska Investment Council. I'm just going to point out a few things in our report and you should have copies in front of you. As you can see on page 2, our Council consists of 5 appointed members with our newest member being Brian Christensen. There are now 2 ex officio members as there is no longer an administrator for OSERS. Our closing balance across 32 investment programs as of December 31, 2024, is \$42.7 billion. This is an increase from \$40.8 billion at the end of 2023. The pie chart on page 6 shows assets under management by major programs. As you can see, the largest is the defined benefit plan at 42.7% of the \$43 billion dollars. The next largest is the state's operating investment pool at 21.5%, which is managed internally by staff. Page 8 lists out some of our accomplishments for 2024. And just a few highlights. We completed the custodial bank transition to Northern Trust resulting in improved internal controls and efficiencies. We switched to Mitsubishi for securities lending resulting in, in an increase in expected revenue of \$2.6 million per year. We also made some staffing changes in 2024 as a

result of the realized efficiencies. We converted an office manager to an investment analyst. We filled a vacant portfolio manager position with an investment analyst. So our staff remains fairly small with a total of 9 people and the staff realignment allows us to focus more on the important work of investments. Pages 10 and 11 includes information on our defined benefit plans, which total \$18.2 billion. As you can see on page 11, the defined benefit plans had a return of 11.2% for 2024, which is slightly below its benchmark, but it performed in the top quartile compared to our peers. It outperformed its benchmark in the 3, 5, and 10-year periods. The Omaha Retirement System is listed on page 12. It had a return of 9.4% in 2024. We're still working through some of the OSERS holdings we inherited in 2017, and that explains the lower return when you compare it to the other defined benefit plans. The other state and county retirement plans that are not defined benefit plans are shown on pages 13 through 16. As a reminder, the state's cash balance plan essentially mirrors the defined benefit plan. The asset allocation for defying contribution, defer comp, and the State Patrol drop plans are determined by the individual participants. Information for the operating investment pool starts on page 17. We have a short-term liquidity portfolio and an intermediate government portfolio. The asset allocations and investment guidelines for both are determined by the Council and the assets are invested internally by staff. The OIP earned 3.8% in 2024, slightly above its index. Over the longer term, the performance has been in line with this benchmark. Information on the general endowment starts on page 20. The largest endowment in the general endowment is the permanent school fund at a billion dollars. Page 22 shows the performance of the general endowment for 2024 and had a return of 6.2%. It did under performance benchmark because the general endowment has a value tilt so it can generate more current income for the endowments. Since, since its inception in 1996, the general endowment had a return of 7%. I know there has been some confusion about our return compared for-- sorry-- I know there has been some confusion about our return for the permanent school fund. I'm confirming that our total return since inception is 7%. This and all our other return numbers are calculated by Northern Trust, our custodian. It is also recalculated and confirmed by general consultant Aon. The health care endowment is on page 23 and it's a smaller endowment that holds tobacco and settlement assets. Pages 26 and 27 shows the Nebraska Education Savings Plans. The Nebraska ENABLE Savings Plan is on page 28. The last 2 pages of the report list out items of interest since inception of the NIC in 1969. And then just to go over some of the projects that we have planned for 2025. The board selected and approved the hire of a specialty consultant for private markets

subject to budget approval. We are currently working with our general consultant on an asset liability study to ensure our assets continue to be appropriately invested in the various asset classes based on the status of the funds and the expected market returns over the longer term. This is an important study as asset allocation is, is responsible for about 90% of total returns. I will continue to focus on staff development and retention and the tools that we use to increase-- and tools that we use-- that we can use to increase productivity. And, of course, we will continue to look for ways to reduce fees and expenses where we can. As in years past, we will be having our annual educational retreat. We are lining up topics and speakers now, and more information will be forthcoming, and you are all invited to attend. Similar to last year, we will have a macroeconomic overview, especially given the effects on the tariffs that we keep hearing about. The equity markets, especially the U.S. equity markets, increased significantly in 2024. The equity markets have had a bit of a pullback starting at the end of 2024 and into the first quarter of 2025. While the recent focus has been on tariffs, interest rates are still a concern with uncertainty surrounding the Fed funds rate as, as inflation continues to be high. So, hopefully, the educational session will bring some information on what we can do differently. That concludes my report.

BALLARD: OK. Thank you so much for your testimony. Are there any questions? Senator Sorrentino.

SORRENTINO: Thank you, Chairman. Just on page 24, we're talking about the relatively small state trust excess liability for medical malpractice, aeronautics, agriculture. Is the reason that these-- even they're targeted very, very small returns is because they are basically money in, money out and you're not investing them long term. Is that why they have-- compared to the others that are getting 9 and 11%?

ELLEN HUNG: Yes, these are-- all the state trusts are invested all in fixed income.

SORRENTINO: All in fixed income?

ELLEN HUNG: Yes.

SORRENTINO: OK. And that would be because, well, for instance, the excess liability fund, money could go in but literally comes out 2 weeks later.

ELLEN HUNG: Yes, it's for liquidity reasons.

SORRENTINO: Thank you.

BALLARD: Additional questions?

JUAREZ: Yes.

BALLARD: Senator Juarez.

JUAREZ: I just wanted to know what month do you think you're going to have that retreat or those that you just mentioned? Do you have any idea what month?

ELLEN HUNG: So it will either be in August or October.

JUAREZ: OK.

BALLARD: Thank you, Senator Juarez. Senator Sorrentino.

SORRENTINO: Thank you. Chairman. One more question. If we go back to page 12, and Senator Juarez, of course, is much more familiar with this than I am, but many, many years ago we did work on the Omaha Employees Retirement System, I know it was transferred over in 2017. If this is not an investment question, I apologize. Do you know where we're at, as far as funding percentage for this plan? For a long time it was way, way low. Do you know where it's worked up to yet?

ELLEN HUNG: I think OSERS is still in their-- that's a good question. I don't-- I think it's, like, in the 50s.

SORRENTINO: OK. If you could just let me know some other time.

ELLEN HUNG: Yes.

SORRENTINO: I appreciate it. Thank you.

ELLEN HUNG: You're welcome.

TREVOR FITZGERALD: Senator Sorrentino, if I could, I suspect we'll have the answer to that question on Thursday.

SORRENTINO: Thank you.

BALLARD: Additional questions? The asset classification study, did I understand that? You're, you're having another asset classification study?

ELLEN HUNG: Asset liability.

BALLARD: Asset liability study.

ELLEN HUNG: Yes.

BALLARD: Do you know when you'll have the results from that?

ELLEN HUNG: It will be presented to the board at our June meeting.

BALLARD: At June meeting. OK, great. And then can you briefly just talk about just the, the equity markets from a global perspective? I know there's some geopolitical uncertainty, and just talking about the asset classifications and the, the solvency of the, of the fund? I guess, just kind of the, the uncertainty that's involved in our international markets right now?

ELLEN HUNG: Sure. You just have to remember we are long-term investors--

BALLARD: Yes.

ELLEN HUNG: --so the, the changes in the markets, while very troubling, we don't knee jerk reaction to what happens on a daily basis. So we take all of that stuff into account, but we are-- we did really well in 2024 because we have a higher equity allocation than most of our peers. So going forward that, that might be a concern. So we are potentially, as part of the asset liability study, we will take all of that into account and potentially de-risk the portfolio a little bit more and maybe have a little bit less in equities. But it, it's all baked into the expected returns for the various asset classes and what our funding status is and what our liabilities are. So there's a lot that goes into the asset liability study.

BALLARD: OK, wonderful. And if I understand right, you're about 22% from global equity in your asset portfolio. Does that sound right?

ELLEN HUNG: So if you--

BALLARD: Asset allocation.

ELLEN HUNG: No, so turning to page--

JUAREZ: Like, is that, like, on page 12? Is that what you're looking at,--

ELLEN HUNG: Yes.

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JUAREZ: --Senator Ballard?

BALLARD: Yeah, I believe so. Yes. Or is that, is that a little high for global?

ELLEN HUNG: So page, page 11. Actually, I'm not sure why-- so I apologize. So page 12 and 11 seems to be flip-flopped.

BALLARD: OK, I see.

ELLEN HUNG: So this is what happens when you try to save money and you, you do this stuff in-house. So our asset allocation for the defined benefit plan is shown on page 11, and it shows 24% in U.S. equity, 22% in global, and 11.5 in non-U.S. So if you add all of that together, that would be the asset allocation for all of public equities.

BALLARD: OK, wonderful. Thank you. Additional questions? Seeing none, that will-- we have no-- we're done? All right, that will end our hearing on the, the NIC Annual Report and we'd like to thank State Investment Director [SIC] Ellen Hung. Thank you so much.

SORRENTINO: Thank you, Ms. Hung.

JUAREZ: Thank you.

ELLEN HUNG: Thank you.