# Omaha Public Power District Retirement Plan

## Asset/Liability Summary & Recommended Investment Policy Changes

January 18, 2022

Jeffrey C. Boucek, CFA
Senior Vice President

J. Keith Reynolds
Vice President

Segal Marco Advisors

# Introduction

The primary investment objectives of the Plan are to ensure, over the long-term life of the Plan, the following:

- To provide an adequate pool of assets to support the benefit obligations to Plan participants, retirees and beneficiaries
- To improve the Plan's funded status, therefore providing the opportunity to reduce employer contributions and ultimately to improve benefit levels (if desired)
- Seeks to achieve a prudent level of investment return and portfolio risk, consistent with the Plan's projected cash flow needs and the Board's risk tolerance and preferences

As part of a formal governance program, OPPD engages Segal Marco Advisors to conduct a formal Asset/Liability Study every 4-5 years.

This asset/liability study seeks to provide the following:

- A distribution of outcomes for key asset-liability variables, so that expected and possible worst-case case outcomes can be highlighted and quantified
- A summary of how those distributions may change if the asset allocation is altered
- Alternative asset allocations were chosen that either (a) improve median results, (b) mitigate worst-case results, or both

# Much Happened in 2021

| | Policy | Recommended |
|---|---|---|
| Large Cap | 18.0% | 18.0% |
| Mid Cap | 5.0% | 5.0% |
| Small Cap | 5.0% | 5.0% |
| International | 10.0% | 10.0% |
| International Small Cap | 4.0% | 4.0% |
| Emerging Market Equity | 10.0% | 10.0% |
| **Total Equity** | **52.0%** | **52.0%** |
| | | |
| TIPS | 2.0% | 2.0% |
| Core Fixed Income | 23.0% | 23.0% |
| High Yield | 3.0% | 3.0% |
| Emerging Market Debt | 5.0% | 5.0% |
| Global Fixed Income | 7.5% | 0.0% |
| **Total Fixed Income** | **40.5%** | **33.0%** |
| | | |
| Multi-Asset Class Solutions (MACS) | 0.0% | 0.0% |
| Private Equity | 0.0% | 0.0% |
| Private Credit | 0.0% | 7.5% |
| Real Estate - Core | 7.5% | 7.5% |
| Infrastructure | 0.0% | 0.0% |
| **Total Alternative** | **7.5%** | **15.0%** |
| | | |
| 10 Year Expected Return (Arithmetic) | 5.7% | 6.1% |
| 10 Year Expected Return (Geometric) | 5.1% | 5.5% |
| Standard Deviation | 10.7% | 10.9% |
| Sharpe Ratio | 0.44 | 0.47 |
| | | |
| 20 Year Expected Return (Arithmetic) | 6.6% | 7.0% |
| 20 Year Expected Return (Geometric) | 6.0% | 6.4% |

- Segal Marco performed a detailed Asset/Liability Study.
- As Plan Sponsors consider diversification options, the private markets are becoming more utilized in portfolios for their diversification and return enhancement benefits.
- It should be noted that Private markets are illiquid and the illiquid nature should be factored in to any decision to include them in a portfolio.
- In May 2021 a comprehensive educational session was held during which Infrastructure, Multi Asset Class Solutions, Private Equity and Private Credit were discussed with the Committee
- Prior to the evaluation of alternative portfolio mixes, a Liquidity Study was completed to provide input into how much the Plan could potentially invest in illiquid investments.
  - It was determined the Plan had more than adequate room to invest in illiquid investments should this be desired.
- Nearly 10 different portfolio alternatives were considered by the Investment Committee.
- At the completion of this review, the Committee selected the alternative that exchanges Global Fixed Income for Private Credit.
- This mix provides several benefits over the current Policy Target including improved diversification via lower correlations with public markets and improved upside potential when compared with global bonds.

# Private / Opportunistic Credit Overview

- Private / Opportunistic Credit offers distinct advantages and appeal in a low return environment, but the proliferation of sub-asset classes and strategies has resulted in a broad asset class with different strategies and risk/return profiles that can be utilized in various manners in a broader portfolio construction context.
- This expansive asset class includes many different sub-strategies, each with its own unique set of characteristics, including risk/return profiles, position in the capital structure, prepayment terms, quality of borrowers, and levels of liquidity. The breadth and depth of this asset class segment includes investing in quasi-liquid to illiquid and nonmarketable debt-related securities.
- Similar to traditional FI securities, private / opportunistic credit investments typically have: Seniority over preferred and common equity, offer contractual interest payments – either fixed or variable, governed by a loan agreement or indenture, backed by collateral.
- Unlike traditional FI securities, private / opportunistic credit investments are generally illiquid and nonmarketable and engage with borrowers that are generally smaller in size with financing structures that are more tailored to meet issuers' needs.
- The wide range in prospective private / opportunistic credit opportunities means these strategies can invest across the capital structure and liquidity spectrum.

# Private/Opportunistic Credit Versus Public Credit

**Private credit offers a yield advantage and potentially higher recoveries (through the use of greater influence) to the public credit markets**

| | Public Markets | | | Private Markets |
|---|---|---|---|---|
| | **Investment Grade Credit** | **High Yield Credit** | **Bank Loans** | **Private / Opportunistic Credit (Senior Secured)** |
| **Income** | Fixed | Fixed | Floating | Floating |
| **Security** | Unsecured | Unsecured | Secured | Secured |
| **Priority** | Junior/Subordinated | Junior/Subordinated | Senior | Senior |
| **Covenant Control** | None | None | None | Full financial and negative covenants |
| **Coupon** | 3% - 5% | 5% - 10% | 4% - 8% | 1% - 2% over public Bank Loans |
| **Target Return** | 3% - 4% | 6% - 8% | 4% - 6% | 10% - 14% |
| **Leverage** | No | No | No | Yes |
| **Company Size** | Large ($100M + EBITDA) | Large ($100M + EBITDA) | Large ($100M + EBITDA) | Small/Middle Market ($3M - $100M EBITDA) |
| **Liquidity** | Daily traded public market | Daily traded public market | Daily traded public market | 5-8 year lock-up |
| **Expected Recovery Rate** | 40% - 50% | 40% - 50% | 70% - 80% | 75% - 85% |

# Next Steps

- Following Board approval, we will profile and review several Private Credit products with the Investment Committee. At this time, one (or possibly two) fund(s) will be selected and the Board will be notified of the preferred investments. (Expected completion date 1st quarter 2022)
- Documentation completed (Expected completion date 2nd quarter 2022)