



Nebraska
Investment
Council



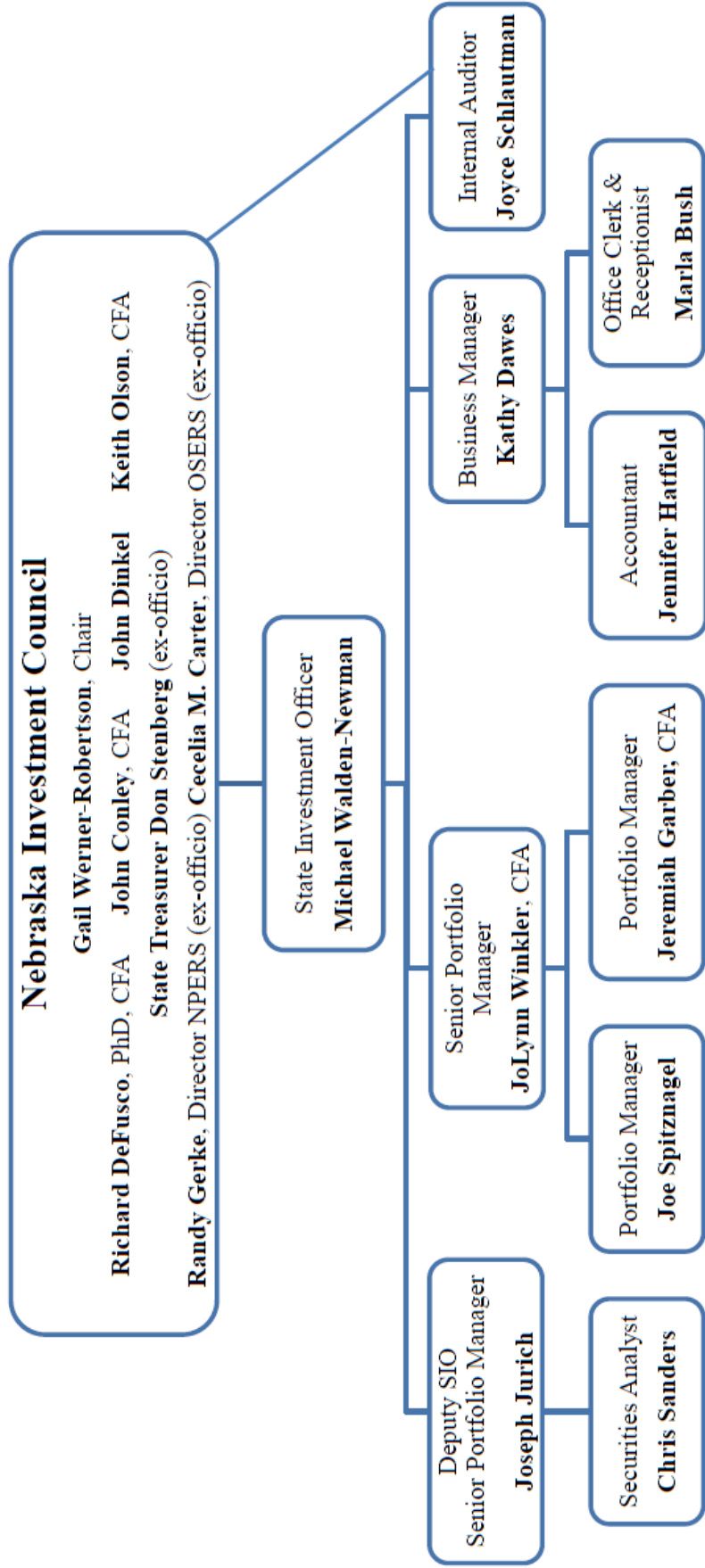
2017 Annual Report

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It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.



NEBRASKA INVESTMENT COUNCIL



Back Row (left to right): Michael Walden-Newman, Dr. Richard DeFusco, John Dinkel, Randy Gerke, John Conley, and Keith Olson.
Front Row (left to right): Gail Werner-Robertson, Don Stenberg (State Treasurer), and Cecelia M. Carter.

Council Chairwoman

Gail Werner-Robertson

President
GWR Wealth Management, LLC
Omaha, NE
Term 2014-2018

Council

Dr. Richard A. DeFusco, Ph.D., CFA
University of Nebraska-Lincoln
Lincoln, NE
Term 2017-2021

Keith A. Olson, CFA
Creighton University
Omaha, NE
Term 2016-2020

Don Stenberg
Nebraska State Treasurer
Lincoln, NE
Ex Officio (non-voting)

John M. Dinkel
Dinkel Implement Co.
Norfolk, NE
Term 2015-2019

John H. Conley, CFA
D.A. Davidson.
Omaha, NE
Term 2018-2022

Randy Gerke
NPERS Director
Lincoln, NE
Ex Officio (non-voting)

Cecelia M. Carter
OSERS Director
Omaha, NE
Ex-Officio (Non-voting)

State Investment Officer

Michael Walden-Newman
State Investment Officer
Lincoln, NE

NEBRASKA INVESTMENT COUNCIL STAFF



Back Row (left to right): Joseph Jurich, Jennifer Hatfield, Marla Bush, Jeremiah Garber, Chris Sanders, and JoLynn Winkler.

Front Row (left to right): Kathy Dawes, Joe Spitznagel, Joyce Schlautman, and Michael Walden-Newman

Staff

<i>Chris Sanders</i> Securities Analyst 2010	<i>Joseph Jurich</i> Deputy SIO Senior Portfolio Manager 2000	<i>Joe Spitznagel</i> Portfolio Manager 2010	<i>JoLynn Winkler, CFA</i> Senior Portfolio Manager 1998	<i>Jennifer Hatfield</i> Accountant 2015
<i>Joyce Schlautman</i> Internal Auditor 2014	<i>Marla Bush</i> Officer Clerk & Receptionist 2011	<i>Jeremiah Garber, CFA</i> Portfolio Manager 2011	<i>Kathy Dawes</i> Business Manager 1999	<i>Michael Walden-Newman</i> State Investment Officer 2014

Investment Consultant

Aon Hewitt Investment Consulting, Inc
Chicago, Illinois

Custodian

State Street Bank & Trust, Co.
Boston, Massachusetts

NEBRASKA INVESTMENT COUNCIL

ANNUAL REPORT

I am pleased to present the Annual Report for the Nebraska Investment Council for the year ending December 31, 2017. The Council oversees \$27 billion across 34 investment programs:

- \$13.5 billion in 5 defined benefit pension plans.
- \$3.3 billion in 7 other retirement plans.
- \$1.3 billion in 11 public endowments.
- \$3.6 billion in the Operating Investment Pool, the State's checkbook, managed internally.
- \$330.1 million in State funds managed by the University of Nebraska Foundation.
- \$76.6 million in 3 State trusts.
- \$4.9 billion in 4 college savings plans.
- \$4.1 million in the Nebraska Enable plan.

The funds are spread among over 70 investment firms and over 150 investments.

The term Council is used in several ways:

- The Council is the eight-member governing body including five private citizens appointed by the Governor and confirmed by the State Legislature, and three ex-officio members: the State Treasurer, the Director of the Public Employees' Retirement Systems, and the Director of the Omaha School Employees Retirement System.
- The Council is an independent state agency with a ten-member Investment Team.
- Most importantly, the Investment Council is the eighteen of us working together for the citizens of Nebraska.

The Council is grateful for the support we receive from the Governor and other statewide elected officials. We appreciate the interest and encouragement of state legislators, particularly the Nebraska Retirement Systems Committee, Appropriations Committee and their staff. We value our close working relationship with other state agencies, the Nebraska Public Employees Retirement Systems and Omaha School Employees Retirement Systems staffs and boards.

Our mission statement reflects our shared goals:

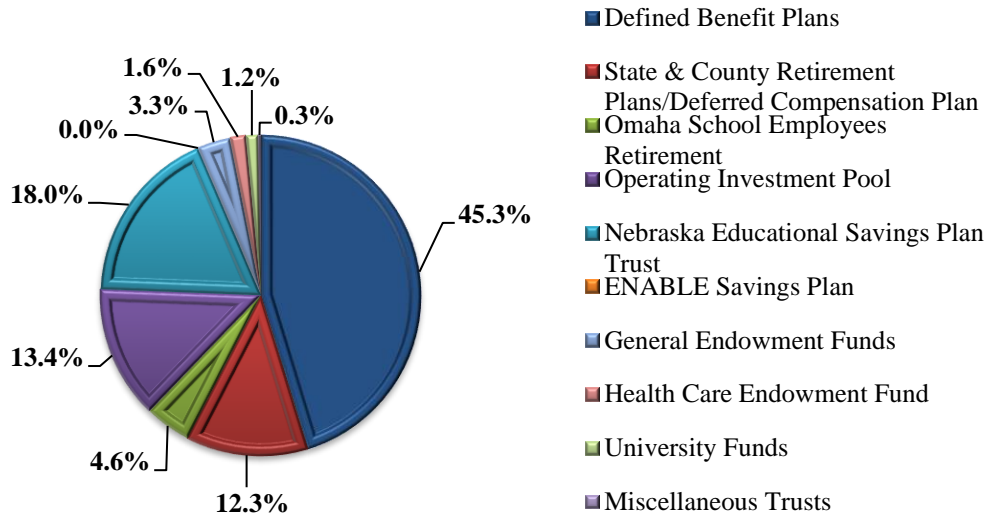
It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.

This Annual Report is designed to give Nebraska citizens a summary as outlined in Neb. Rev. Stat. §72-1243 of Council activity, and an overview of portfolio structure and performance for the assets entrusted to the Council. This report and a wealth of other information about the Nebraska investment program—including specific manager detail in quarterly performance reports—can be found on the Nebraska Investment Council website at <http://www.nic.nebraska.gov>. Please contact me with any questions you have. I can be reached directly at 402-471-2001 or michael.walden-newman@nebraska.gov.



Michael W. Walden-Newman
State Investment Officer

NEBRASKA INVESTMENT COUNCIL PORTFOLIO



Transaction Summary

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Benefit Plans	\$ 10,621	- \$ 174	\$ 1,782	\$ 12,229
State & County Retirement Plans/Deferred Compensation Plan	2,918	- 54	456	3,320
Omaha School Retirement	1,191	- 31	89	1,249
Operating Investment Pool	3,772	- 223	71	3,620
NE Educational Savings Plan Trust	4,194	70	589	4,853
Nebraska ENABLE Savings Plan	1	3	0	4
General Endowment Funds	826	- 19	90	896
Health Care Endowment Fund	386	- 20	64	430
University Funds	294	- 8	45	331
Miscellaneous Trusts	76	- 2	3	77
2017 Totals	\$ 24,279¹	- \$ 459	\$ 3,189	\$ 27,009
2016 Totals	\$ 21,922	- \$ 372	\$ 1,538	\$ 23,088
2015 Totals	21,962	- 227	187	21,922
2014 Totals	20,595	159	1,208	21,962
2013 Totals	17,769	372	2,454	20,595
2012 Totals	15,831	241	1,697	17,769
2011 Totals	15,578	112	141	15,831

1. Omaha School Employees Retirement was added on January 1, 2017.

Council Initiatives

The Council investment program remains solid and 2017 work produced results.

In November the Council approved a new, improved equity portfolio for the retirement plans. This was the culmination of work began in 2015 to exam the entire Council portfolio, asset class by asset class, using a

"blank sheet" approach. The process does not simply target underperforming managers. We ask instead: "Does the asset class have a place in the portfolio? If so, what style? What weight? And finally, which managers?"

The equity review was Council directed. The Council began in 2015 with our \$2 billion global equity portfolio, approving a new manager line up in May 2016. We turned our attention then to the rest of the public equity portfolio—the \$6 billion invested in domestic and international equities. Throughout 2017 the Council conducted an in-depth exploration of options for portfolio improvement. In November the Council approved an integrated equity structure. We believe this methodical investment management process keeps the portfolio fresh and fine-tuned. Without it, portfolios run the risk of being based on yesterday's best practices and ideas, not tomorrow's.

On January 1, 2017, the Council assumed investment management of the Omaha School Employees' Retirement System (OSERS) assets. Collaboration with OSERS begun in 2016 ensured a smooth transition. The OSERS director became a welcomed ex-officio member of the Council.

The Council's 2017 summer retreat—an annual policy-focused Council meeting—covered three critical areas:

- *Trends in DC Plans* - The investment options for state and county employee participants in the now-closed Defined Contribution Plan and active Deferred Compensation Plan are the same. The Council has begun a review of those options to make sure that we are meeting our fiduciary responsibility to provide best-in-class investment possibilities for plan participants.
- *Managing Long-term Investments* - The Council invests a portion of its portfolio in illiquid investments. Private equity fall into this category, as well as some real estate and debt investments. With our alternative portfolios maturing, it was a good time to understand exit options.
- *Asset Allocation* - The primary determinant of investment returns is asset allocation. In conjunction with our holistic equity review, the Council took a broader look including fixed income and alternatives to chart the course for the coming years.

The Council wrapped up a 2 year study of investment policies to improve the clarity of the Council's investment philosophy and to conform to changes in state law. The Council approved changes in 2016 and 2017, with the majority approved by the Council in February 2018.

Finally, the Council launched a new website in January 2017. The new site, which won an international award for website design, has improved transparency and public access. It includes descriptions of the various investment pools under Council management, investment policies, and investment performance. To increase transparency, the Council now posts all meeting materials ahead of Council meetings with each meeting agenda.

Capital Markets Overview

Global equities ended 2017 as they started the year -- strongly. A strong earnings season for corporations combined with continued supportive monetary policy and a synchronized pick-up in global growth buoyed global equities. The Dow Jones U.S. Total Stock Market Index, a broad measure of the performance of U.S. equities, returned 21.2% for the year. The impressive run for U.S. equities was

sustained in the latter stages of 2017 as it became increasingly clear that the tax reform plan would be signed into law. Developed non-U.S. equities, as represented by the MSCI EAFE Index, returned 25.0% in 2017. A weakening of the US dollar led to higher returns for international equities in U.S. dollar terms during the year. The MSCI Emerging Markets Index, a measure of emerging market equities, gained 37.3% during the year.

Bond markets post positive returns; Federal Reserve maintained course as the Fed hikes benchmark rate three times in 2017. Domestic fixed income markets, as measured by the Bloomberg Barclays U.S. Universal Index, returned 4.1% during 2017, mainly driven by the fall of long-term interest rates and spread tightening in corporate bonds.

In line with the market's expectations, the Federal rate target was increased to 1.25-1.50% in the last Fed meeting of 2017 despite inflation remaining stubbornly muted. December's hike represented the third 25 bps increase to the Fed Funds rate during the year. In the fourth quarter, Jerome Powell was nominated as the next Fed Chairman – this nomination represents a continuation of the steady-as-she-goes approach that broadly characterized Janet Yellen's term at the Fed. Indeed, expectations of three rate hikes in 2018 changed little on the announcement. More importantly, Fed "business-as-usual" is also likely to include increasingly large reductions of the Fed's balance sheet and a tightening of monetary policy.

Weaker equity market performance belies robust economic fundamentals in the Eurozone; historic divorce bill signals progress in Brexit discussions. The European economy continued to gather momentum during 2017. Eurozone GDP grew consistently throughout 2017, and there was a notable pick-up in growth in the manufacturing sector. Meanwhile, Eurozone unemployment continued on a downward trend.

For much of 2017, attention on the Eurozone centered on the progress and outlook of Brexit negotiations. A change in stance away from a harder-style Brexit was reinforced as a historic divorce agreement was reached late in 2017 between UK and European leaders. The exit terms covered in the agreement included many of the more contentious elements of the UK's break from the European Union, including the status of European citizens, the settlement of liabilities (between €40-60 billion) and the eleventh-hour sticking-point relating to the status of the Irish border. Despite December's breakthrough, time is ticking as the March 2019 Brexit deadline approaches with much left to resolve, including notoriously difficult trade agreements.

A continuation of Abenomics following Shinzo Abe's election win will help support Japanese markets as well as provide an anchor for the yen. The Japanese economy has now been growing for seven quarters in a row – the longest spell in over a decade. Inflation is still a fair distance from the Bank of Japan's 2.0% target, however, with annualized consumer price inflation in Japan currently running at 0.7%. Unlike other major Central Banks, the Bank of Japan seems entrenched in its dovish stance, a position that was reinforced with the re-election of Shinzo Abe. The yield differential between Japanese bonds and other developed country sovereign debt could well lead to further depreciation of the yen.

Emerging markets outperformed developed markets in 2017. Emerging markets benefitted from a strong global economy, accelerating corporate earnings within emerging market regions, and the depreciation of the U.S. dollar in 2017. Higher oil prices should prove supportive to emerging markets, but the U.S. Tax Cuts and Jobs Act raises the risk that the U.S. Dollar will strengthen and the yields on U.S. debt will rise, threatening recent strength in emerging market countries.

DEFINED BENEFIT PLANS

The Defined Benefit Plans are comprised of the School Retirement System of the State of Nebraska, the Nebraska State Patrol Retirement System, the Nebraska Judges' Retirement System, and the Omaha Schools Service Annuity Fund. For these plans, the benefit is determined by formula and does not depend on investment results.

School

- School Plan members contribute 9.78% of gross compensation to the retirement plan. This is matched by the employer at 101%.

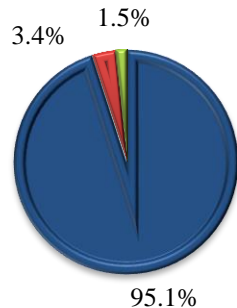
State Patrol

- Members hired on or after July 1, 2016 fall under "Tier Two" benefits. Benefits are capped at 75% of final average compensation for all members. Tier Two members contribute 17% of gross compensation to the retirement plan. This is matched by the employer at 100%.
- Tier One members (hired before July 1, 2016) contribute 16% of gross compensation to the retirement plan. This is matched by the employer at 100%. Tier One members do have the option to invest in the DROP (Deferred Retirement Option).

Judges

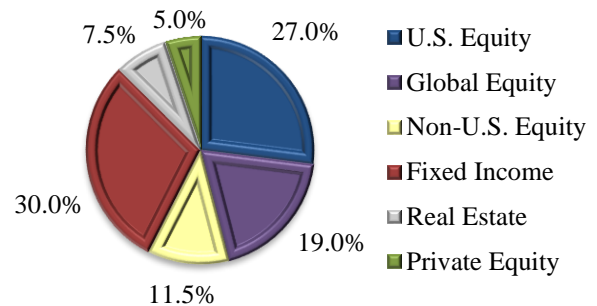
- Judges hired on or after July 1, 2015 (Tier 2) contribute 10% of compensation. A \$6 retirement plan fee, as prescribed by law, is remitted by district and county courts to assist in the funding of retirement benefits.
- Judges hired on or after July 1, 2004 or Judges who elected to participate in the provisions created by LB1097 contribute 9% of compensation. Upon reaching 20 years of service credit, this rate decreases to 5%.
- Judges hired before July 1, 2004 who elected not to participate in the provisions created by LB1097 contribute 7% of compensation. Upon reaching 20 years of service credit, this rate decreases to 1%.

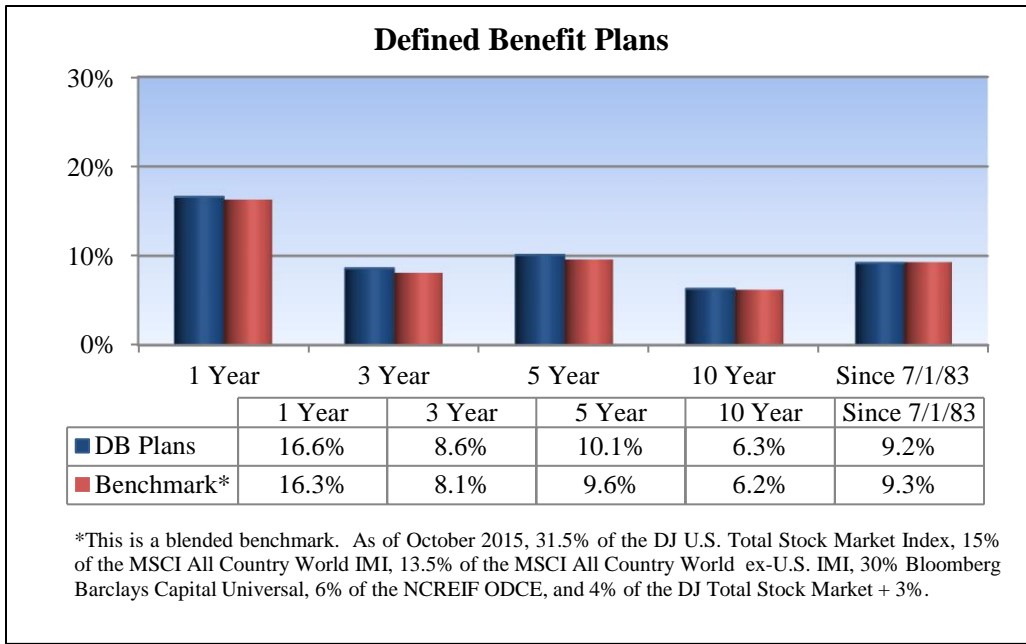
Plans as a Percentage of Total



■ Schools, 95.1% ■ State Patrol, 3.4% ■ Judges, 1.5%

Policy Asset Allocation





The School Plan is the largest of the three plans totaling \$11.6 billion of the \$12.2 billion (95%) in the Defined Benefit Plan. The Policy Asset Allocation of the plan currently is listed above and it maintains a 57.5% to public equity, 30% fixed income, 5.0% to private equity, and 7.5% to private real estate.

During 2017 the Defined Benefit Plans experienced a 16.6% return compared to its benchmark of 16.3%.

The following table outlines the Actuarial Report completed as of June 30, 2017. The School Plan has a funded ratio of 86.7% compared to 85.0% for the Patrol and 86.8% for the Judges plan.

		<u>School</u>	<u>Patrol</u>	<u>Judges</u>	<u>Total</u>
		(millions of dollars)			
June 30, 2017	Assets (actuarial value)	\$10,810	\$ 395	\$ 175	\$11,380
	Liabilities (AAL)	<u>12,466</u>	<u>465</u>	<u>187</u>	<u>13,118</u>
	Surplus	- \$ 1,656	- \$ 70	- \$ 12	- \$ 1,738
	Funded Ratio	86.7%	85.0%	93.6%	86.8%

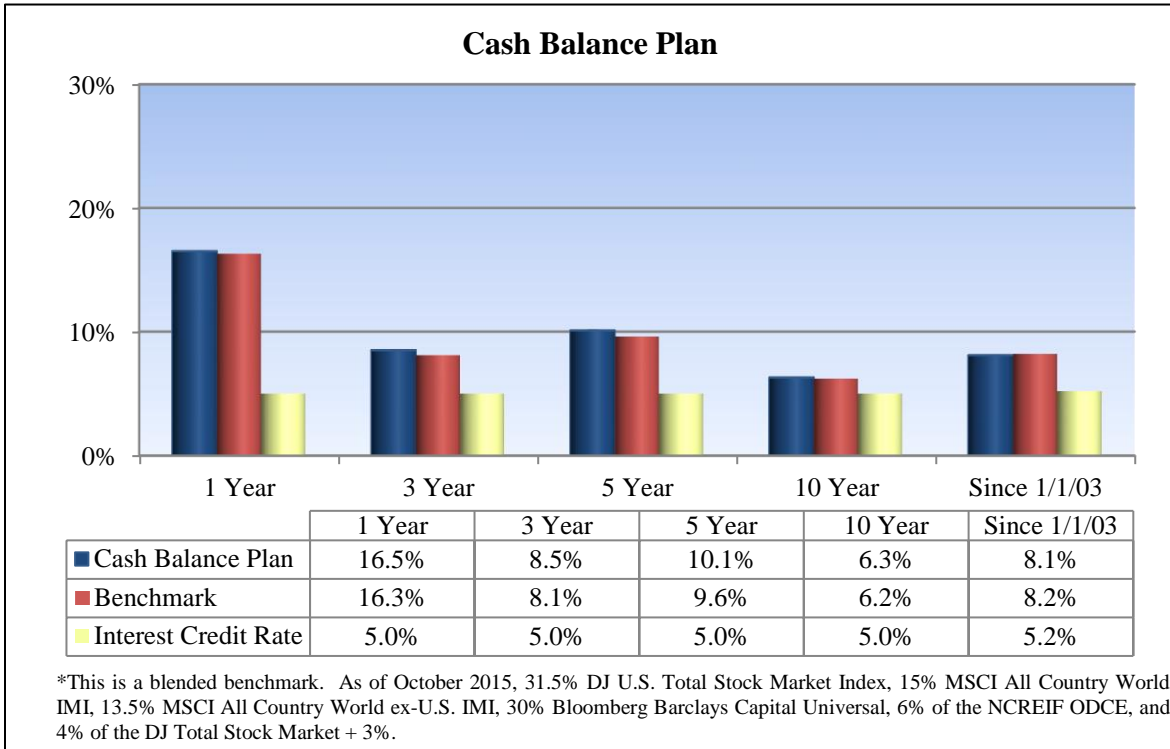
The Defined Benefit Plans operate on a July 1 – June 30 fiscal year. The State and County Plans (see following) operate on a calendar year.

CASH BALANCE PLAN

Since January 2003, the accounts for all new employees who participate in the State and County Retirement System Plans are automatically invested in the Cash Balance Plan. Members who participate in the Cash Balance Plan do not make their own investment choices. Contributions to these accounts come from both the employee and the employer, and the rates are identical to those in the Defined Contribution Plan. The assets are held in a trust fund which is managed by the Council. Cash Balance participants are guaranteed an annual interest credit rate which is defined in statute as the greater of 5% or the federal mid-term rate plus 1.5%. The interest credit rate is reset each calendar quarter. During 2017 calendar year, the plan issued a 3.07% dividend to state participants, while the county participants received a 0.51% dividend.

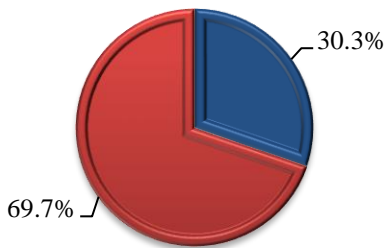
The Cash Balance Plan has a strategy that is designed to mirror the investment strategy of the Defined Benefit Plans, so the asset allocation is the same as the Defined Benefit Plans.

Although the asset allocation is the same as the Defined Benefit Plans, the annual investment return does vary just slightly. During 2017, the Cash Balance Plan experienced a return of 16.5% compared to 16.3% for the benchmark. This return is above the crediting rate earned by the participants during the year.



STATE & COUNTY RETIREMENT PLANS/ DEFERRED COMPENSATION PLAN

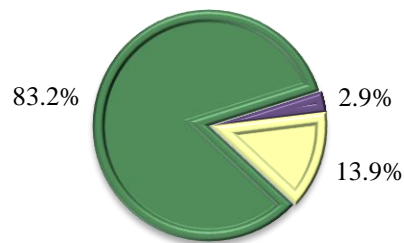
State & County Retirement Systems



■ Defined Contribution, \$930.9 million

■ Cash Balance, \$2,143.8 million

State Deferred Compensation Plan & State Patrol DROP Plan



■ Deferred Compensation Plan, \$204.2 million

■ State Patrol Drop Plan, \$7.2 million

■ Mass Mutual, \$34.1 million

Defined Contribution Plan

Prior to 2002, employees in the State and County Retirement System Plans only received the Defined Contribution benefit. In December 2002 participants were given the option to remain in the Defined Contribution Plan or transfer to the Cash Balance Plan implemented in January 2003. LB 328 and LB 916 passed in 2007 and 2012 respectively, which allowed Defined Contribution members another opportunity to transfer to the Cash Balance Plan.

Members who remain in the Defined Contribution Plan make their own investment choices based on the funds offered. Contributions to these accounts come from both the employee and the employer. State employees are required to contribute 4.8% of their salary. The State matches the employee contribution at the rate of 156%. County employees are required to contribute 4.5% of their salary. The county matches the employee contribution at the rate of 150%. The account balance for both state and county employees consists of accumulated contributions plus investment gains or losses.

State Deferred Compensation Plan, Mass Mutual DCP and State Patrol Drop

Deferred Compensation Plan (current version)

The voluntary Deferred Compensation Plan for State Employees offers the same investments as those offered in the State and County Retirement Systems' Defined Contribution Plan. Combining the investment options of the State Deferred Compensation Plan and the State and County Defined Contribution Plan provides a reduction in costs for participants making voluntary contributions.

Mass Mutual Deferred Compensation Plan (Previously Hartford)

In January 1, 1997, the investment management of the State Deferred Compensation Plan assets was changed from Hartford Life Insurance Company to the Nebraska Investment Council, with different investment options. Contributions in the Hartford investment options were not allowed after the transition. As of January 2, 2013, Massachusetts Mutual Life Insurance Company has acquired the Hartford Retirement Plans Group.

Investment options with Mass Mutual consist of interest bearing deposits in the General Account plus a large number of mutual funds. Some of the mutual funds are managed by Hartford, frequently using a sub advisor. Some are managed by other mutual fund companies.

Participants remaining in the Mass Mutual Deferred Compensation Plan cannot make new contributions into the plan, but may transfer their balances at any time to the current State Deferred Compensation Plan. Given the absence of new cash flows, the Council expects the Mass Mutual investment options to lose assets over time. As of December 31, 2017, Mass Mutual's balance was \$34.1 million or 13.9% of State Deferred Compensation Plan & State Patrol DROP, compared to \$33.4 million or 14.8% as of December 31, 2016.

State Patrol DROP

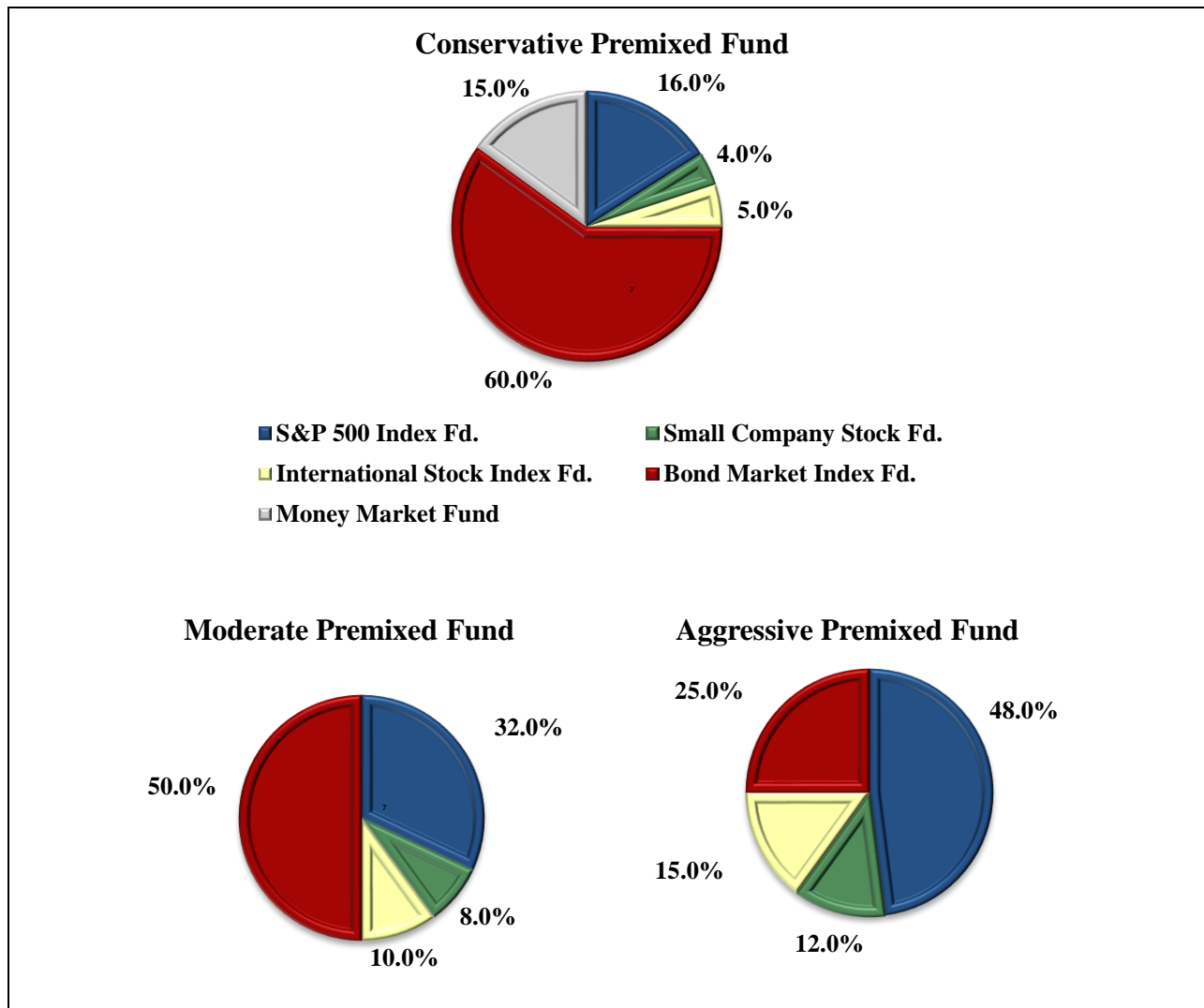
A retirement payment option called "DROP" is available in the State Patrol Retirement Plan. DROP stands for Deferred Retirement Option Plan. The feature is voluntary and provides a way for a Patrol Plan member to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit, in exchange for working up to five more years (but not beyond age 60). The account will be invested by the member using the 13 investment funds offered in the voluntary Deferred Compensation Plan (DCP). The member assumes full responsibility for how the DROP account is invested and for any market gains or losses.

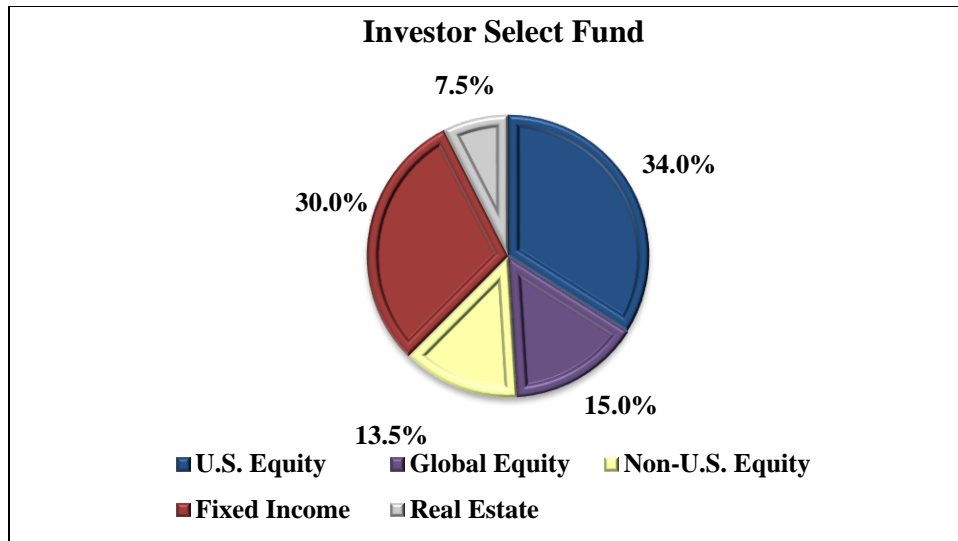
Asset Allocation

For both employee and employer contributions, a participant selects among thirteen investment funds offered by the Plans. The Council selects, monitors, and terminates, when necessary, these funds. Because participants direct the investment of these contributions, the participant determines the allocation to each of these funds.

The State Deferred Compensation Plan is voluntary and participants may choose to invest their assets in any of the available Defined Contribution investment funds. By offering the same investment funds for both the Defined Contribution Plan (mandatory contributions) and the State Deferred Compensation Plan (voluntary contributions), plan participants may find it easier to implement an integrated investment strategy. Combining the investment options also provides a reduction in costs for participants.

Participants may choose to invest in eight individual investment funds, four premixed funds, or the Age-based option. Assets in the premixed funds are invested in several of the other fund offerings according to target allocations. The Age-based option utilizes these existing premixed funds to function together as a “life cycle” fund. This means that asset allocations will automatically become more conservative as the member gets closer to retirement age. The target allocations are displayed for the premixed funds.



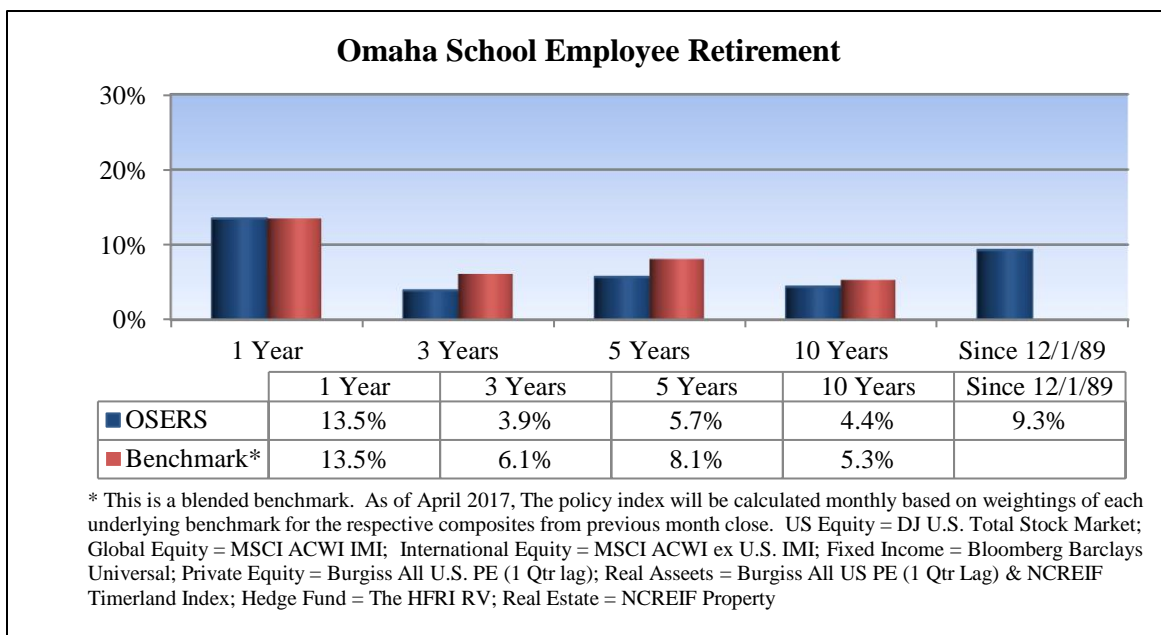


OMAHA SCHOOL EMPLOYEES RETIREMENT SYSTEM (OSERS)

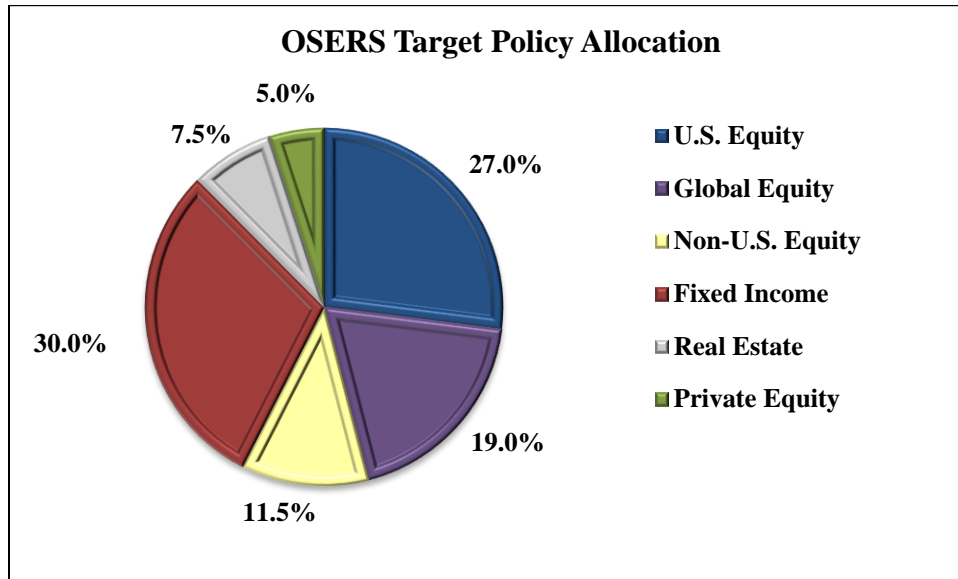
The Omaha Scholl Employee's Retirement System (OSERS) is the second oldest teacher retirement system in the United States, created in 1909. Since 1951, OSERS has served as the consolidated retirement system for all eligible district employees.

It is a defined benefit plan. Funding is split among three sources: 9.78% of gross compensation from plan members; a 101% match, or 9.88% from the employer; and 2.0% from the State of Nebraska.

The Nebraska Investment Council assumed management of OSERS pension assets on January 1, 2017, as a result of legislation approved in 2016. The Council established a long-term asset allocation for the OSERS assets in November 2016 to mirror the allocation for the other retirement plans under Council management. In February 2017, the Council approved transition of 2/3 of OSERS assets to that long-term allocation. The remainder of the OSERS portfolio will true up to the other retirement plans as legacy illiquid investments mature.



OSERS experienced a 13.5% return in 2017, matching its policy benchmark. In 2016, OSERS assets returned 1.6%.

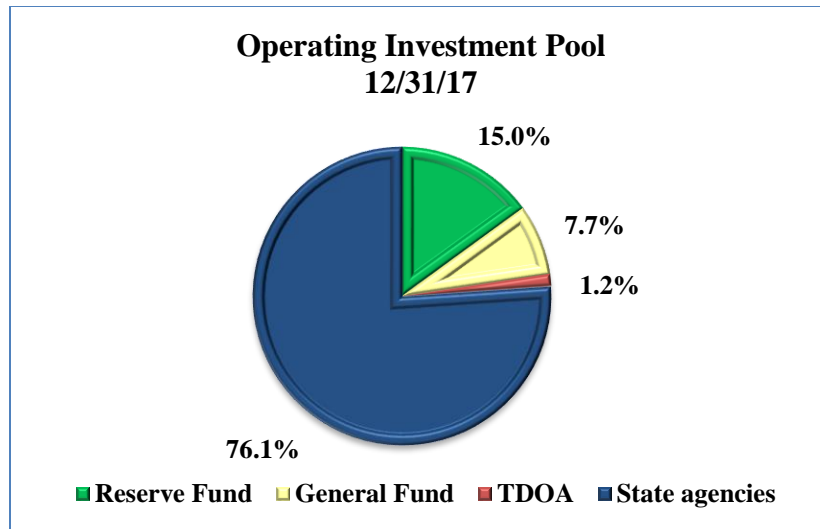


OPERATING INVESTMENT POOL (OIP)

The Council invests the available money from the State's general fund and State boards, commissions, departments or agencies, and any other state funds not currently needed, into the Operating Investment Pool (OIP). The Department of Administrative Services calculates the average daily balance for each participant and distributes the earned income monthly on a pro-rata share basis.

From the funds available for investment in the OIP, the Council is required, pursuant to the Nebraska Capital Expansion Act, to offer each qualifying bank and capital stock financial institution in the State a time deposit open account (TDOA) of one million dollars. To the extent that the total amount of funds initially offered to each bank or capital stock financial institution is not accepted by such institutions, the balance of the funds shall be reoffered to such banks and capital stock financial institutions that are willing to meet the rate and other requirements set forth for participation in the program. No one bank or capital stock financial institution may receive for deposit a sum of more than sixteen million dollars.

The first \$250,000 of the deposit is insured by the FDIC. The statute requires the pledging of collateral for deposits greater than \$250,000 with a minimum pledge of 102% of the amount deposited. However, when publicly traded securities are used for collateral, the Council requires 110% for adequate coverage due to fluctuating market values throughout the month. The Nebraska statute also allows institutions to pledge letters of credit. This type of collateral does not have a fluctuating value so when letters of credit are used, 102% is the coverage required by the Council.



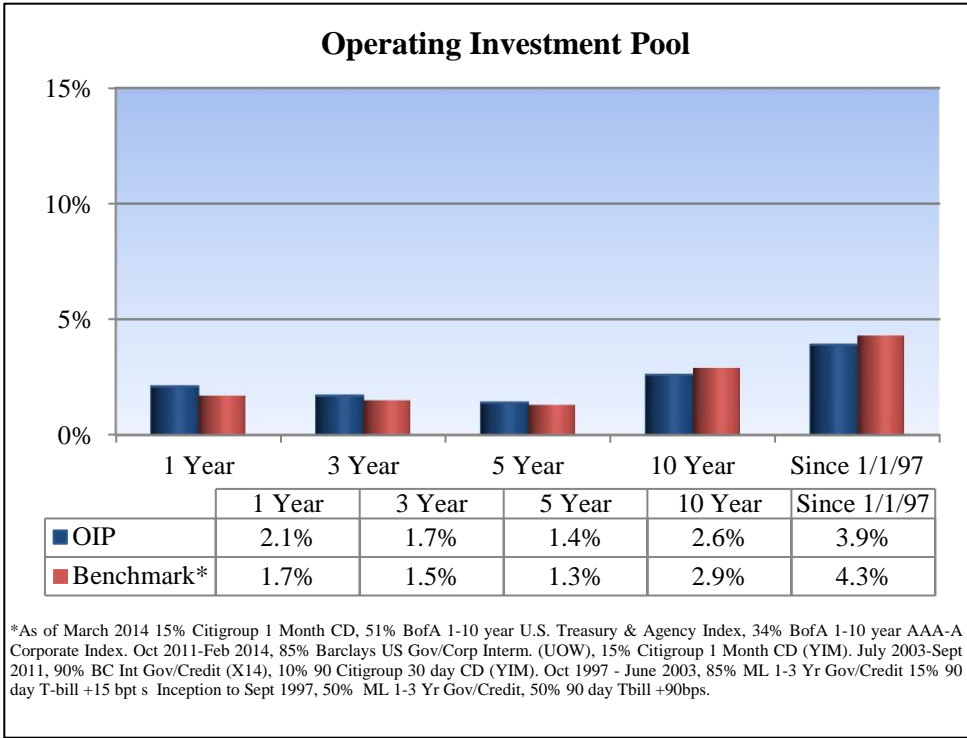
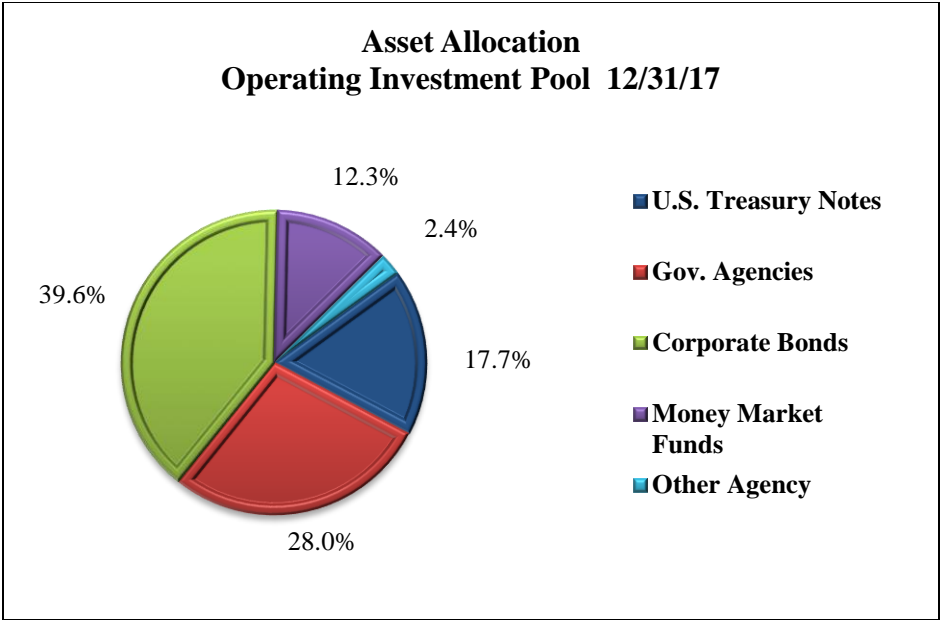
The OIP is managed internally, and is made up of high quality U.S. Treasuries, government agencies, and investment grade corporate bonds with laddered maturities extending ten years. The Short-term Liquidity portion of the OIP is invested in money markets, and 1 year or shorter treasuries, government agencies, and commercial paper whereas the Intermediate Government / Corporate portion is invested in 10 year or shorter treasuries, government agencies, and domestic corporate bonds. Money market funds are used to provide liquidity for the daily cash needs of the participants. The Council established an Investment Policy Statement for the OIP that includes credit quality and diversification constraints to provide safety of principal, liquidity for the daily cash flow needs of the entities within the OIP, and return on investment. Below are the Short-term Liquidity portfolio constraints.

- Money Market Funds – 100% maximum, 50% to any single Money Market Fund
- Commercial Paper – 5% maximum per issue

The following are the constraints for the Intermediate Government / Corporate portfolio.

- U.S. Treasuries – 15% minimum
- U.S. Agency Notes & Debentures – 50% maximum in total, 20% maximum per agency issuer
- Money Market Funds – 5% maximum
- Corporate Bonds – 50% maximum for the total corporate sector
- AAA and AA rated corporate – 3% maximum per issuer
- A rated corporate – 30% maximum in total, 2% maximum per issuer
- Industry – 5% maximum per industry

Below is a pie chart reflecting the asset allocation of the OIP.



NEBRASKA EDUCATIONAL SAVINGS PLAN (NEST)

The Nebraska Educational Savings Plan Trust was established by the Nebraska State Legislature with a January 1, 2001, effective date. The Plan is an Internal Revenue Code Section 529 Plan providing tax-deferred growth of funds for higher education costs. There are four plans within the Nebraska Educational Savings Plan Trust – NEST Direct College Savings Plan, NEST Advisor College Savings Plan, the TD Ameritrade 529 College Savings Plan, and the State Farm College Savings Plan. The Nebraska State Treasurer serves as the Program Trustee, First National Bank of Omaha serves as the Program Manager, and all investments are approved by the Nebraska Investment Council.

NEST Direct College Savings Plan

The NEST Direct Plan puts the account owner in charge of managing the account without guidance from a financial advisor. The account can be invested in the following investment options.

- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

NEST Advisor College Savings Plan

The NEST Advisor Plan is offered to individuals who are using the expertise and guidance of a financial advisor. The financial advisor will work with the Program Manager to open and transfer money to the participant account. The account can be invested in the following investment options.

- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

TD Ameritrade 529 College Savings Plan

Participant accounts can be set up directly with TD Ameritrade and participants are offered similar investment options as those offered to participants with the NEST direct and advisor accounts. The account can be invested in the following investment options.

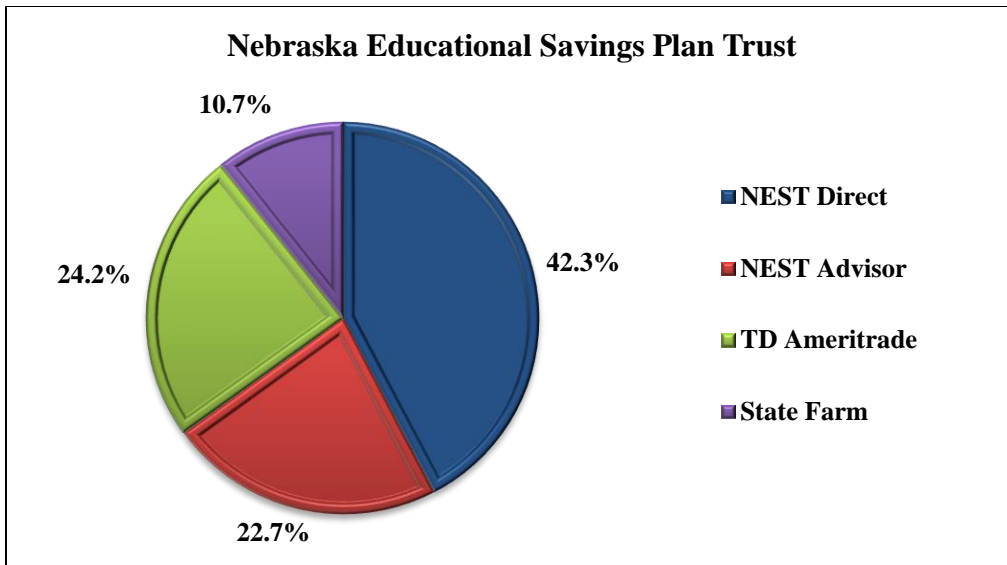
- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

State Farm College Savings Plan

State Farm agents market a series of the Nebraska Educational Savings Plan Trust under the State Farm name. Participants may choose from the following investment options, of which the majority are Oppenheimer mutual funds managed by OFI Private Investments Inc.

- Static Portfolios
- Enrollment-based Portfolios

The following pie chart provides a breakdown of the 4 plans within the NEST Trust.

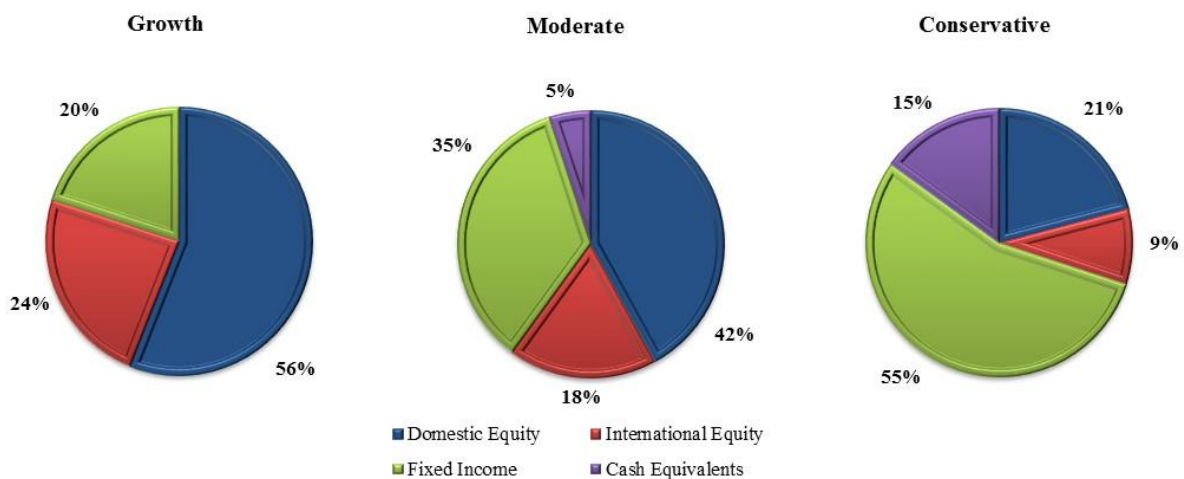


NEBRASKA ENABLE SAVINGS PLAN

The Nebraska Enable Savings Plan (Enable) is issued by The Nebraska Achieving a Better Life Experience Program Trust. The Plan is intended to operate as a qualified ABLÉ program to be used only to save for Qualified Disability Expenses, pursuant to the Achieving a Better Life Experience Act of 2014 and Section 529A of the U.S. Internal Revenue Code. The Nebraska State Treasurer serves as the Program Trustee, First National Bank of Omaha serves as the Program Manager, and all investments are approved by the Nebraska Investment Council.

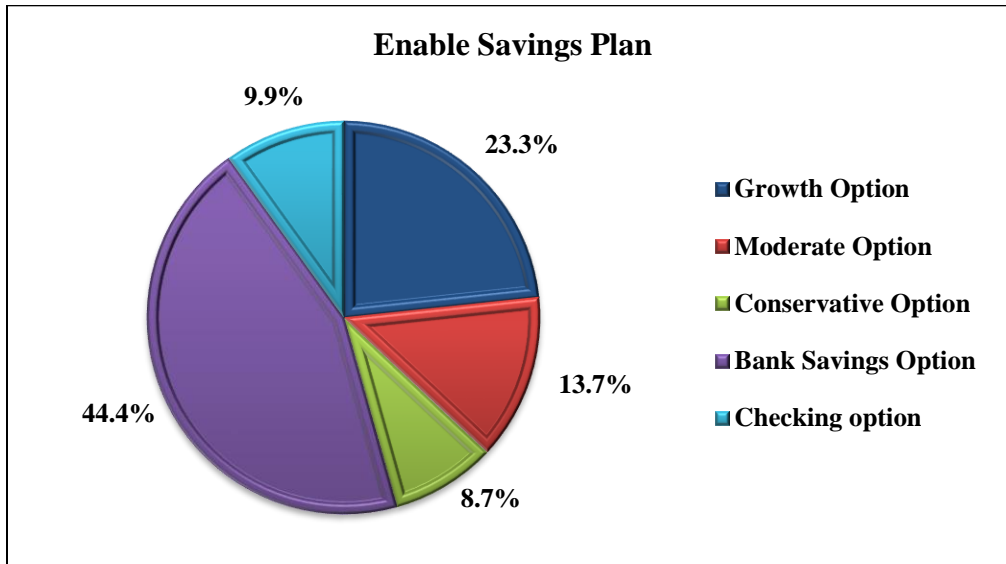
The Enable Plan offers participants five investment options.

Target-Risk Options: The Growth Option, Moderate Option, and Conservative Option. Each option is invested in Vanguard index funds across various asset classes – equity, fixed income or cash equivalents.



Bank Savings Option: Investment in the Bank Savings Option will earn varying rates of interest and provides FDIC insurance on a per participant, pass-through basis to each account owner up to the maximum amount set by federal law, currently \$250,000.

Checking Option: The Checking Investment Option provides FDIC insurance for the investment and allows the account owner to write a check or use a debit card to withdraw funds. This option is available to participants as of January 26, 2017.



GENERAL ENDOWMENTS

Endowment funds are used to provide a perpetual source of funding for the activities of the entities they support. Generally there are two investment objectives – providing some funds for the current year’s operations and increasing the portfolio to support future needs. The financial management of an endowment fund consists of a contribution strategy, a distribution strategy, and an investment strategy. Although these strategies are interrelated, the Nebraska Investment Council determines only the investment strategy for these endowments. The assets of the endowments described in this section are commingled to achieve administrative efficiencies and cost savings from economies of scale.

The basic purpose of each endowment is described below.

The Permanent School Fund

The endowment receives proceeds from the sales of school land held in trust for public education, payments for easements and right-of-way over the lands, and royalties and severance taxes paid on oil, gas, and minerals produced from these lands. The net income earned on this fund is distributed annually to the K-12 public schools.

The Nebraska Early Childhood Education Endowment Fund

The endowment provides funding for grants to schools and community partners to provide programs serving at-risk children birth to age three.

The Nebraska Veterans' Aid Fund

The endowment provides emergency financial assistance to eligible veterans and dependents.

The Cultural Preservation Endowment Fund

The endowment supports the activities of the Nebraska Arts Council and the Nebraska Humanities Council. Distributions from this fund are conditioned on matching contributions from other sources.

The Agricultural Endowment Fund

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed to the Institute of Agriculture and Natural Resources.

The Permanent Endowment Fund

The endowment receives proceeds from the sales of land granted by the federal government. Investment income is distributed to the University of Nebraska. This fund is also called the Permanent University Endowment Fund.

The Normal School Endowment

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed for the benefit of the state colleges. This fund is also called the State College Endowment Fund.

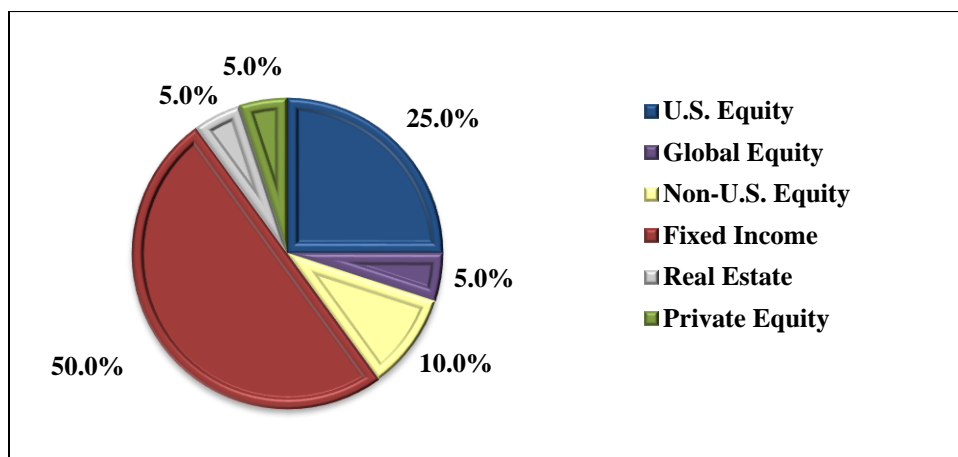
The Nebraska Environmental Endowment Fund

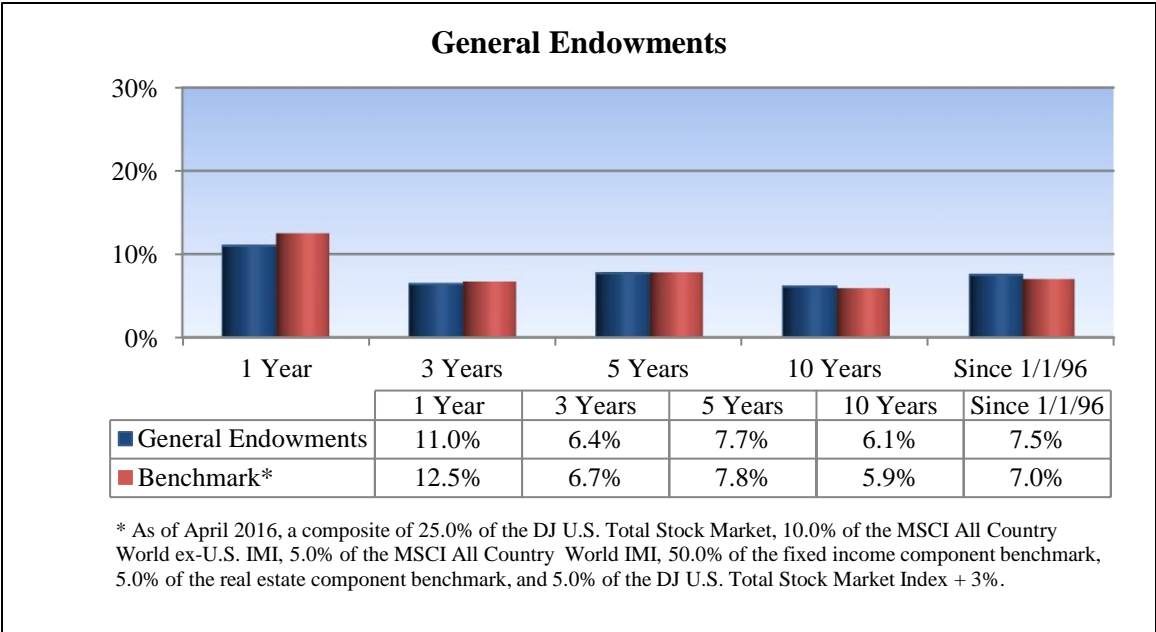
The endowment is funded by the state lottery program and is part of the Nebraska Environmental Trust. The Trust provides grants for the purposes of environmental conservation in Nebraska.

The Bessey Memorial Fund

The endowment provides aid to widows of University of Nebraska professors

Asset Allocation

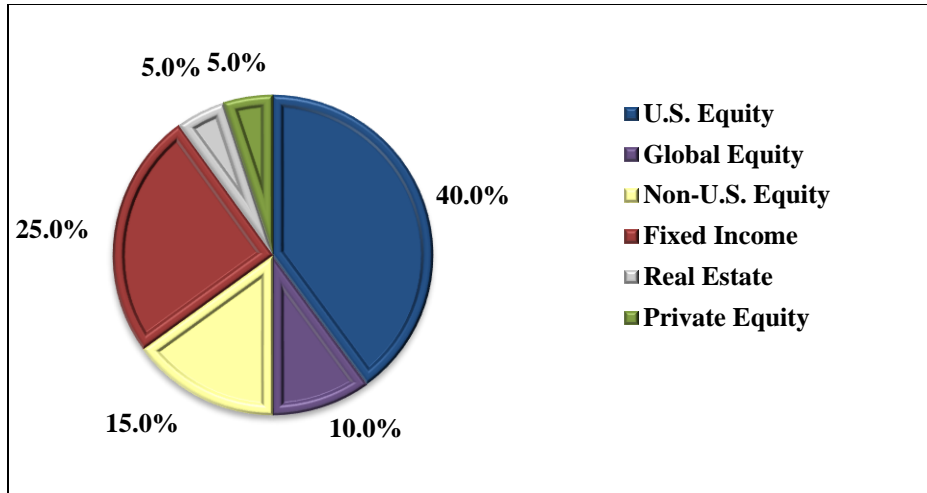


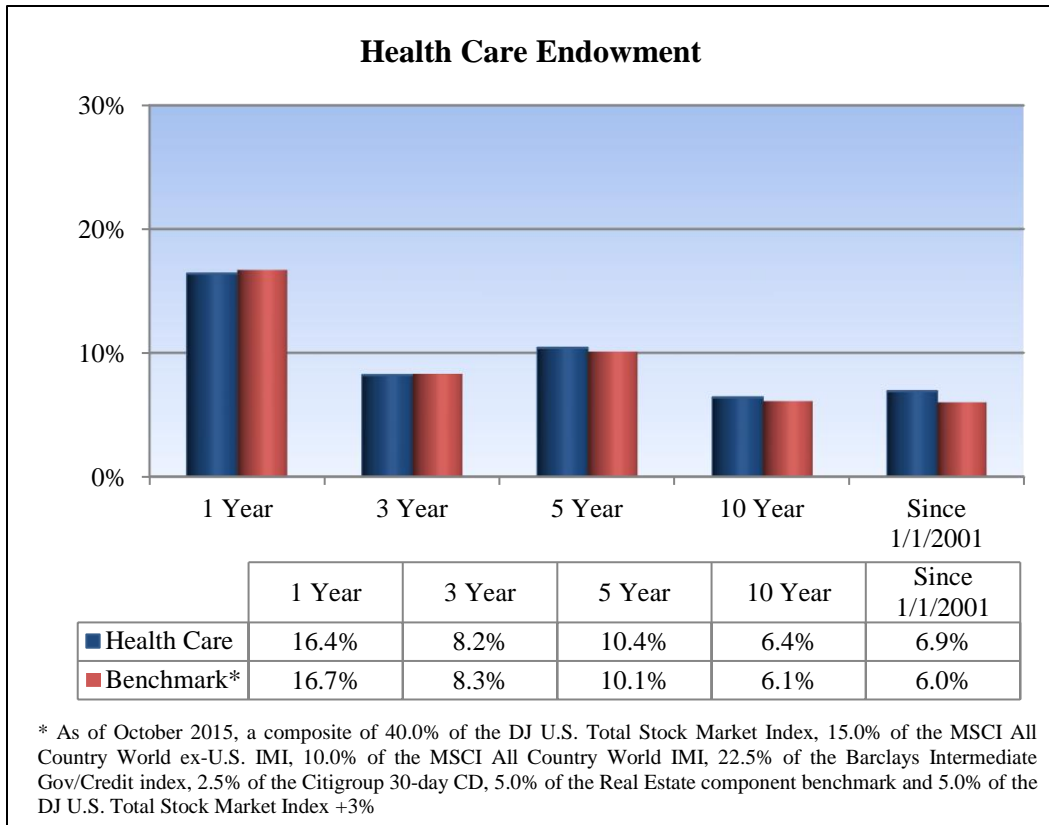


HEALTH CARE ENDOWMENT

The Health Care Endowment Fund is comprised of two distinct state trust funds. These two are the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Trust Fund. Although their external contributions are different, the investments are the same and the spending policy is similar. The Nebraska Investment Council’s responsibility is managing the investments only.

Asset Allocation





UNIVERSITY FUNDS

The University Funds are comprised of the University of Nebraska Fund N and the Restricted Fund. The investment manager for Fund N and the Restricted Fund is the University of Nebraska Foundation.

Fund N

Fund N was established from the Othmer-Topp Endowment Fund received from the estates of Mildred Topp Othmer and Donald F. Othmer, and approximately 225 permanent and quasi endowments. The Othmer-Topp bequests are to be held in perpetuity and used in accordance with the last will and testament of Mildred Topp Othmer for University purposes as directed by the Board of Regents.

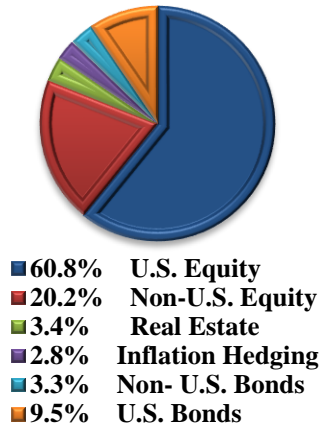
Permanent and Quasi Endowments

The Permanent and Quasi Endowments represent the commingled investments of approximately 80 individual permanent endowments and 145 quasi endowments. The Permanent Endowments includes funds for which the benefactors and donors have directed the corpus be held in perpetuity, invested, and the income spent for the purposes designated by them. The Quasi Endowments contain funds that the Board of Regents has designated to function as endowments, with the income to be spent for the purposes designated by the Board.

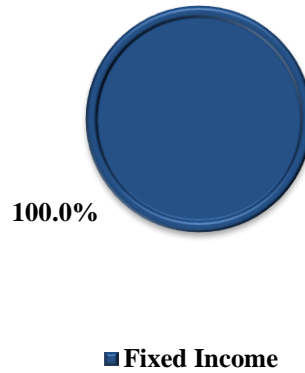
Restricted Fund

The Restricted Fund is comprised of several funds that are restricted by the benefactors to be invested in U.S. Government and U.S Agency fixed income securities only. This is a permanent endowment fund.

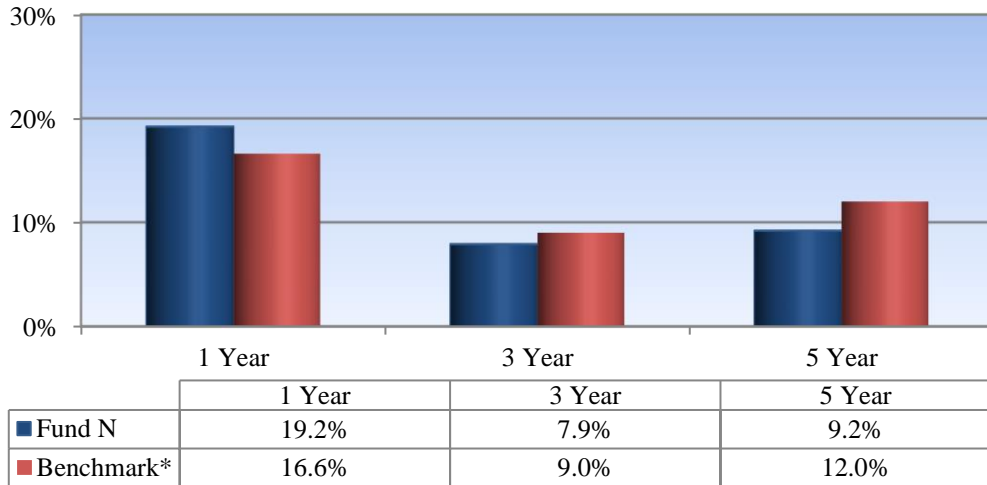
**Fund N
Policy Asset Allocation
12/31/17**



**Restricted Fund
Policy Asset Allocation
12/31/17**



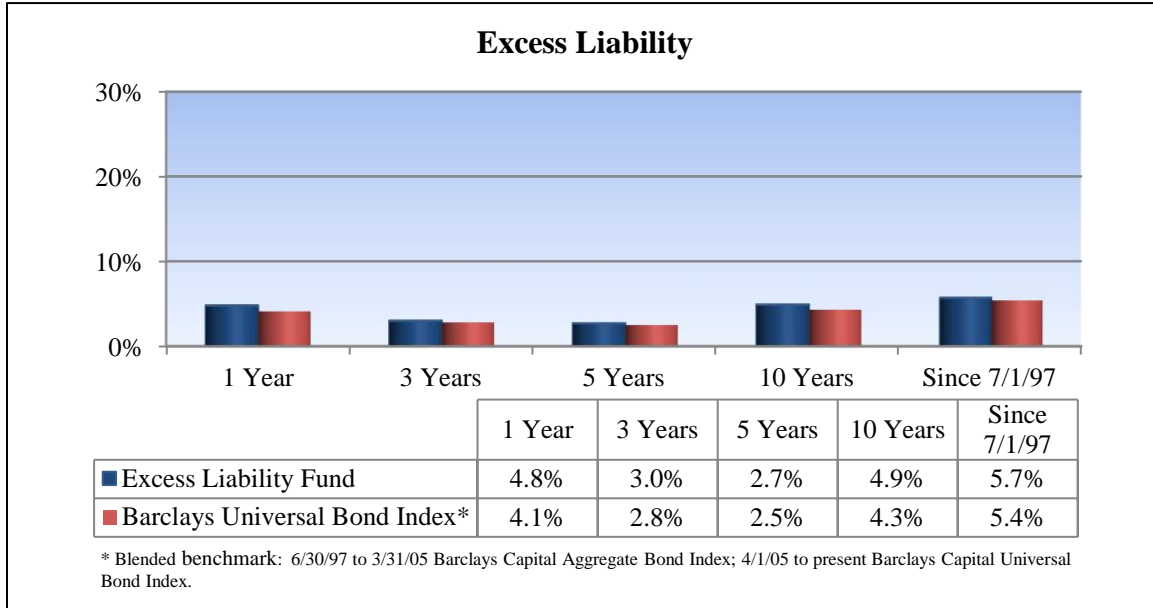
**University Funds
Fund N**



*The benchmark is a weighted average comprised of 73% S&P 500 and 27% Barclays Capital Aggregate Bond Index.

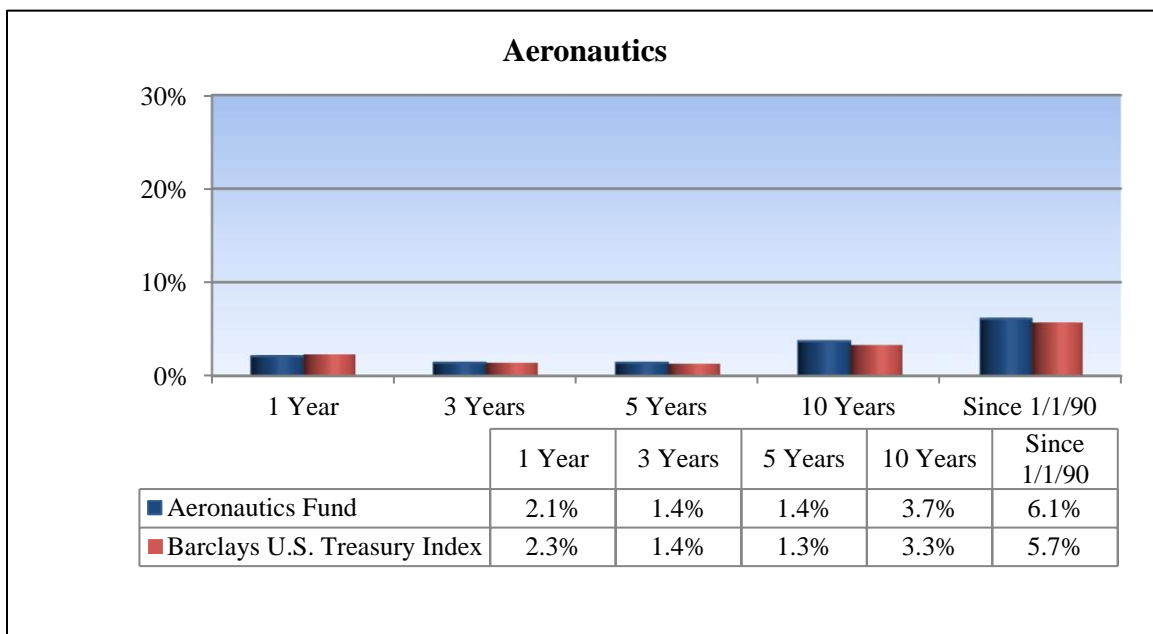
MISCELLANEOUS TRUSTS EXCESS LIABILITY

This Fund was created by the Nebraska Hospital-Medical Liability Act. Contributions consist of insurance premiums from certain health care providers and a surcharge levied on all healthcare providers in the State. The funds are used to pay judgments against the insured health care providers. The Nebraska Investment Council does not determine the distribution policy.



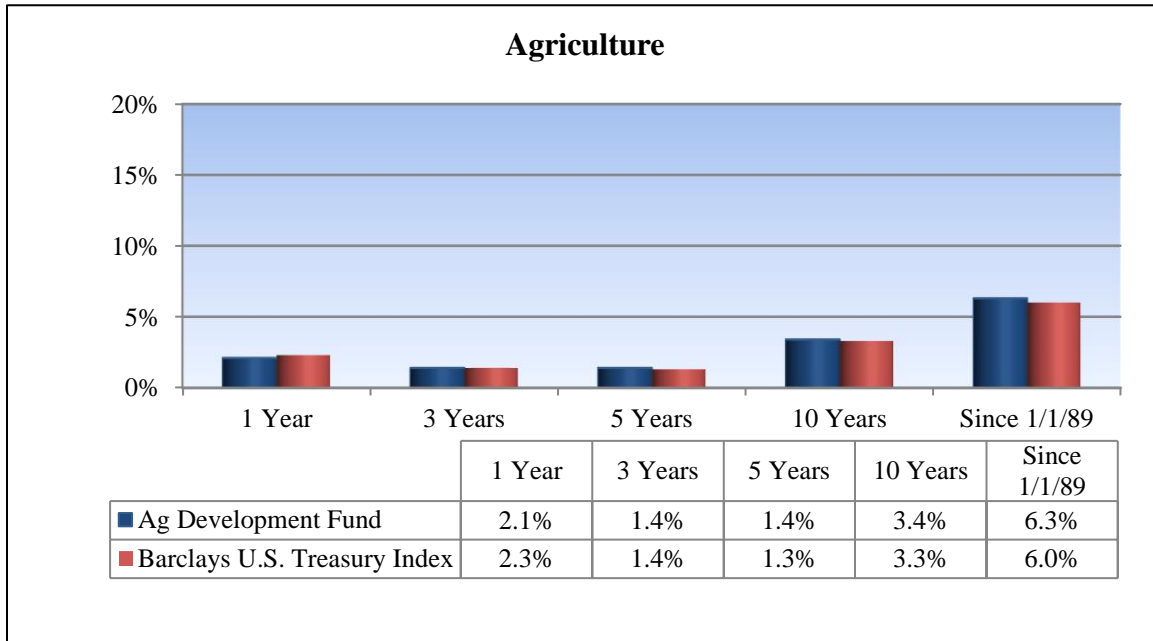
MISCELLANEOUS TRUSTS AERONAUTICS TRUST FUND

This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Department of Aeronautics. Uses of the funds include, in order of priority, operations of the State-owned Airfields, the Navigational Aids Division, and grants to eligible Nebraska airports.



MISCELLANEOUS TRUSTS AGRICULTURE TRUST FUND

This Fund consists of money received from the U.S. Department of Agriculture. Income from the Fund is used to pay expenses of the Nebraska Department of Agriculture. The Nebraska Investment Council does not determine the distribution policy.



INVESTMENT AND CUSTODIAN 2017 EXPENSES¹

	Total Costs	% of Assets ²
	(thousands of dollars)	
Internal Costs		
Salaries and benefits	\$ 1,362	
Operating expenses	434	
Other expenses	30	
Total Internal Costs	\$ 1,826	
Asset Management		
25 Capital Partners, LLC	994	
AAVIN Equity Advisors, LLC	655	
Abbott Capital Management, LLC	793	
Accel-KKR Capital Partners, LP	359	
Almanac Realty Investors	931	
Angelo, Gordon & Co.	164	
Ares Management LLC	954	
Arrowstreet Capital	3,060	
Baillie Gifford Overseas Ltd.	1,416	
Barings Asset Management (Cornerstone)	1,221	
Beacon Capital Partners	4	
Becken Petty O'Keefe	271	
BlackRock Financial Management	2,619	
Bridgepoint Capital Limited	806	
BTG Timberland Investment Group, LLC	116	
CB Richard Ellis Investors	134	
Constitution Capital Partners	198	
CVC Capital Partners	467	
Dimensional Fund Advisors, Inc.	2,645	
Dodge & Cox	941	
Earnest Partners, LLC	31	
Fidelity Institutional Asset Management	32	
First Capital Partners, LLC	309	
Francisco Partners Management, LP	740	
Franklin Templeton Institutional	1,347	
Fremont Realty Capital	7	
Genstar Capital	538	
Goldman Sachs Asset Management	13	
Gryphon International Investment Corporation	2,146	
Harbourvest Partners, LLC	962	
Heitman Real Estate Securities LLC	-1	
Ironbridge Capital Management, L.P.	1,119	
JP Morgan Investment Management Inc.	670	
Landmark Real Estate Partners L.P.	1,393	
Leonard Green & Partners, L.P.	57	
Lightyear Capital, LLC	134	
Lincolnshire Equity Partners IV, L.P.	105	

1. The above expenses exclude all Nebraska Educational Savings Plan Trust fees allocated to participants; please refer to Section VI for more detail on fee information. The above expenses also exclude all fees for the University Funds.

2. Calculation excludes the Nebraska Educational Savings Plan Trust assets, the University Funds, and Mass Mutual.

	Total Costs	% of Assets²
	<u>(thousands of dollars)</u>	
Longroad Capital Partners III, L.P.	8	
Loomis Sayles & Company L.P.	1,643	
Mariner Real Estate Management, LLC	1,021	
McCarthy Capital	938	
Merit Capital Partners	97	
Metropolitan Real Estate Equity Management, LLC	275	
MFS Institutional Advisors, Inc.	1,956	
Mondrian Investment Group	81	
Nueberger Berman Investment Management	749	
New Enterprise Associates L.P.	350	
New Mountain Capital, LLC	315	
NewSouth Capital Management, LLC	104	
Oaktree Capital Management, LP	1,459	
OrbiMed Advisors, LLC	257	
Palmer Square Capital Advisors, LLC	0	
Pathway Capital Management, LLC	662	
PIMCO	4,946	
Pine Brook Partners	585	
Presidio Partners Ventures	186	
Prudential Investment Management, Inc.	2,433	
Quantum Energy Partners V, L.P.	650	
RCP Advisors, LLP	263	
Rockpoint Group, LLC	60	
Rockwood Capital, LLC	622	
SPC Capital Management	378	
State Street Global Advisors	0	
Stonetree Capital Management, LLC	250	
Sun Capital Partners, Inc.	7	
The Energy & Minerals Group	443	
The Jordan Company	518	
The Rohatyn Group	101	
Torchlight Investors	840	
Tortoise Capital Advisors, LLC	156	
T. Rowe Price Associates, Inc.	245	
UBS Global Asset Management, Inc.	2,312	
Vaquero Global Investment, LLC	681	
Wall Street Associates	40	
Walter Scott & Partners Limited	228	
Wayzata Investment Partners, LP	501	
Wellington Management Company, LLC	2,739	
Wynnchurch Capital Partners	318	
Total Asset Management	\$ 57,767	

1. The above expenses exclude all Nebraska Educational Savings Plan Trust fees allocated to participants; please refer to Section VI for more detail on fee information. The above expenses also exclude all fees for the University Funds.

2. Calculation excludes the Nebraska Educational Savings Plan Trust assets, the University Funds, and Mass Mutual.

	Total Costs		% of Assets²
	(thousands of dollars)		
Other Services			
State Street Bank - custodian	\$ 910		
State Street Bank - cash management	225		
State Street Bank - securities lending	596		
Aon Hewitt Investment Consulting Inc. - consulting	786		
Total Other Services		\$ 2,517	
CY 2017 Total Expenses		\$ 62,110	0.28%
CY 2016 Total Expenses		\$ 48,184	0.26%
CY 2015 Total Expenses		44,230	0.25%
CY 2014 Total Expenses		41,950	0.23%
CY 2013 Total Expenses		35,977	0.21%
CY 2012 Total Expenses		36,074	0.25%
CY 2011 Total Expenses		36,703	0.28%