



2018 Annual Report

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NEBRASKA INVESTMENT COUNCIL



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

Council Chairwoman

Gail Werner-Robertson

President
GWR Wealth Management, LLC
Omaha, NE
Term 2019-2023

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

John Murante
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)

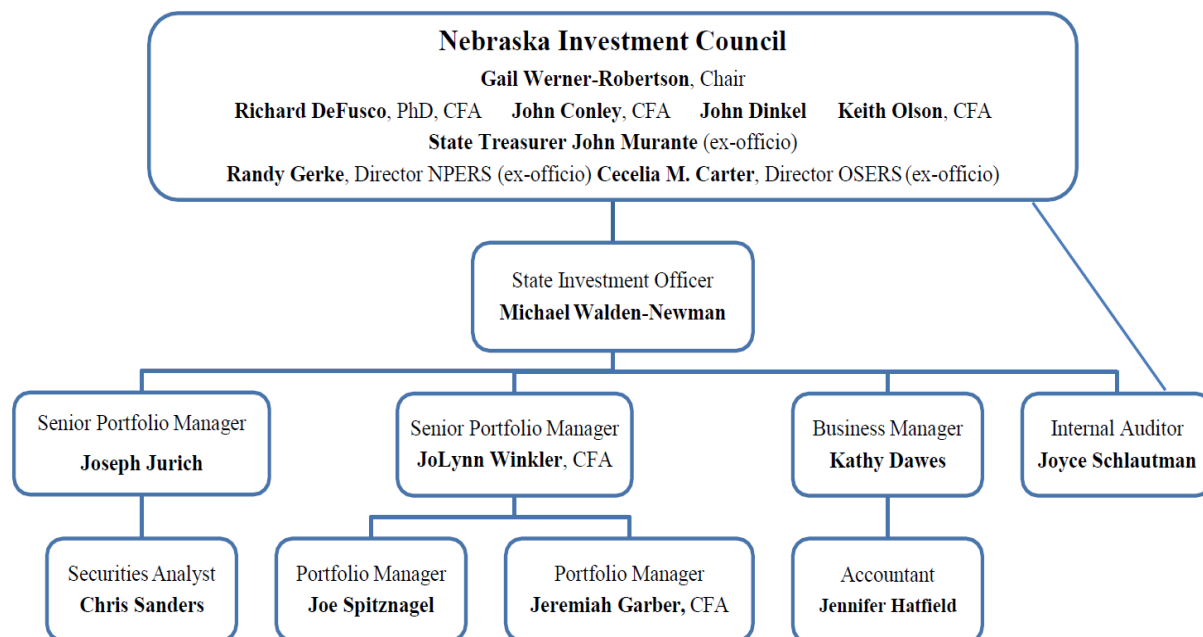
Cecelia M. Carter
OSERS Director
Omaha, NE
Ex-Officio (Non-voting)

State Investment Officer

Michael Walden-Newman
State Investment Officer
Lincoln, NE

Organizational Chart

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.



Transaction Summary

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Benefit Plans	\$ 12,229	- \$ 193	- \$ 481	\$ 11,555
State & County Retirement Plans/ Deferred Compensation Plan	3,320	-86	-129	3,105
Omaha School Retirement	1,249	-32	-25	1,192
Operating Investment Pool	3,620	69	44	3,733
NE Educational Savings Plan Trust	4,853	86	-174	4,765
Nebraska ENABLE Savings Plan	4	3	0	7
General Endowment Funds	896	-5	-23	868
Health Care Endowment Fund	430	-20	-15	395
University Funds	331	-331	0	0
Miscellaneous Trusts	77	-2	0	75
2018 Totals	\$ 27,009¹	- \$ 511	- \$ 803	\$ 25,695
2017 Totals	\$ 24,279	- \$ 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. University Funds was removed July 2018.

NEBRASKA INVESTMENT COUNCIL

ANNUAL REPORT

I am pleased to present the Annual Report for the Nebraska Investment Council (the Council) for the year ending December 31, 2018. The Council oversees \$26 billion across 32 investment programs:

- \$12.7 billion in 5 defined benefit pension plans.
- \$3.1 billion in 7 other retirement plans.
- \$1.2 billion in 11 public endowments.
- \$3.7 billion in the Operating Investment Pool, the State's checkbook, managed internally.
- \$74.7 million in 3 State trusts.
- \$4.8 billion in 4 college savings plans.
- \$7.3 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 nine-member Investment Team.
- Most importantly, the Investment Council is the seventeen 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 System staffs and boards.

Our mission statement reflects our shared goals:

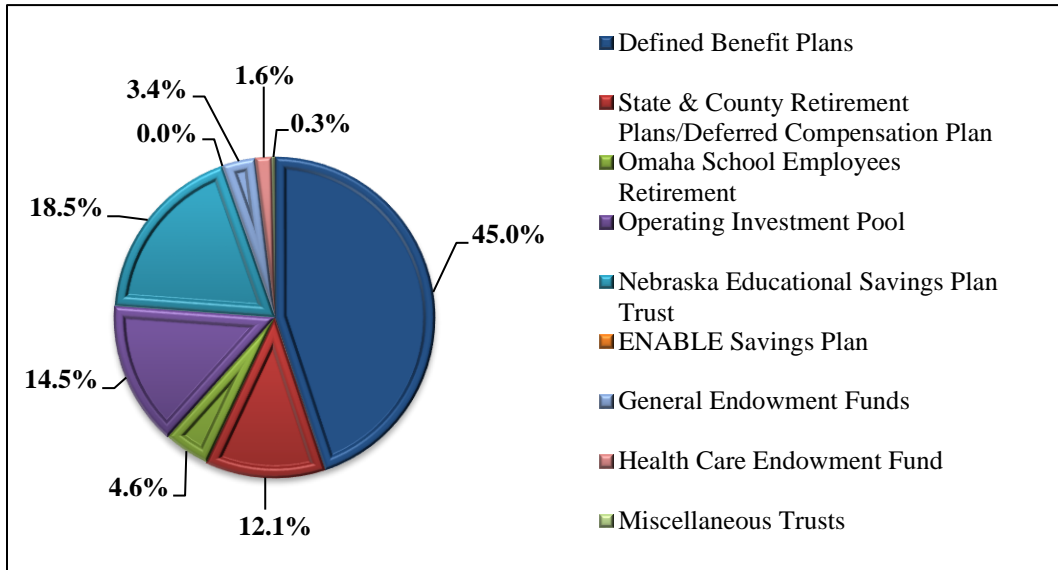
It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed 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



2018 Administrative Review

2018 markets ended with volatility roaring back, but the Council continued to keep its eyes on the far horizon, managing the funds in its care with steady hands. The portfolios remain at their target asset allocations, which are built to meet the Council's statutory charges to diversify the assets "so as to minimize the risk of large losses."

One of the first actions in 2018 was to adopt updated investment policies after a complete year-long review. Investment policies are specific to each investment pool and are coupled with governance and administrative policies that apply across the board. The public can easily access Council policies and all other investment material on the Council's updated website.

The Council's commitment to "thorough, sound, and informed analysis" is part of daily portfolio management. Continuing education is also a critical component of Council meetings. 2018 meetings opened with interactive sessions covering such topics as the use of derivatives in portfolio management, currency risk, and legal and fiduciary responsibility. External investment teams who manage various asset classes provided not only specific mandate reviews, but the Council also tapped into their expertise across all aspects of market analysis and portfolio management.

The Council employs a "blank sheet" approach to portfolio analysis. 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?" 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.

The Council explored giving private credit a permanent place in retirement and endowment portfolio line ups. Initial staff research expanded with consultant input into a series of presentations to the full Council throughout 2018. The Council ultimately decided to conduct its next "blank sheet review" of broad fixed

income portfolio during 2019. This will allow any eventual place for private credit to meld into a revised fixed income structure resulting from holistic study.

The Council has undertaken a "blank sheet" review of the investment options offered within the State Defined Contribution Plan closed to new employees in 2002, and the Deferred Compensation Plan currently available to state and specified county employees. The investment options are the same for both plans but have not been reviewed holistically in a number of years. Moreover, investment options are specified in state statute for the closed DC Plan. The Council has sought legislation during the 2019 Session to modify the statutory list to be able to update the underlying investment options.

The Council continues to transition OSERS assets toward a long-term target allocation identical to that for the rest of Nebraska's education employees, as shown below. The Council assumed investment management of the Omaha School Employees' Retirement System (OSERS) assets on January 1, 2017, as a result of legislation approved in 2016.

OSERS Asset Allocation Compared to Long-Term Target

<u>Asset Class</u>	<u>12.31.16</u>	<u>12.31.17</u>	<u>12.31.18</u>	<u>Target</u>
US Equity	13.4%	20.0%	18.7%	27.0%
Non-US Equity	0.0	9.6	8.6	11.5
Global Equity	18.5	13.4	13.1	19.0
Fixed Income	11.5	24.0	27.0	30.0
Real Estate	21.1	15.8	15.5	7.5
Private Equity	10.3	11.2	12.5	5.0
Hedge Funds	9.1	2.4	1.0	0.0
Real Assets	14.9	3.4	3.6	0.0
Cash	1.4	0.0	0.0	0.0

* Table may not add up to 100 percent due to rounding.

The Council's summer retreat—an annual policy-focused meeting—always generates considerable outside interest. The 2018 retreat covered three critical areas:

- *The Global Investment Landscape* - The Council approved a new equity allocation for the retirement plans after a 2-year blank sheet review of those portfolios. The new plan reset the entire public equity portfolio to the latest best thinking that active bets are best placed with global equity experts. After the new structure had been in place for a year, the Council invited the four global equity firms to the Retreat to report on where they were finding the best worldwide opportunities today.
- *Equities in the Endowments* -The Council discussed aligning the endowment public equity portfolios with those of the retirement plans. Focus was on the Health Care Endowment, which is actually made up of two funds commingled for investment: the Nebraska Tobacco Settlement Trust and the Nebraska Medicaid Intergovernmental Trust. The state investment officer by law is asked to report on the sustainability of legislative spending. The Council heard the latest Legislative Fiscal Office research report on the funds to better craft the proper asset allocation for the funds given current spending practices.
- *Good Governance* - The Council takes its fiduciary responsibility very seriously. Good governance is critical and includes effective independent management, good organizational structure and best practices in policies and procedures. Governance policy review is a perennial topic for Council meetings to ensure best practices are in place.

The Council thanks outgoing State Treasurer Don Stenberg for his dedication to the Council during his terms in office. His ex-officio status did not keep him from being an active, insightful supporter of the Council. His dedication to the College Savings and Enable plans was known across Nebraska and nationwide. We welcome State Treasurer John Murante to the Council in 2019.

We are also pleased that Gail Werner-Robertson has agreed to continue as Council chair for another five-year term. Her long history with the Council and long-term forward thinking are a perfect combination at the helm.

Capital Markets Overview

Trade war and economic momentum concerns saw developed market equities end the year on a low
Global equities were rocked by rising concerns of slowing global growth and trade wars in Q4 2018. In US dollar terms, the MSCI AC World Investable Market Index returned -13.3%. Negative returns were widespread, with all major regions producing meaningfully negative returns during the quarter, most of which were in the double-digits. Over the full year, global equities were down approximately 10% in U.S. dollar terms.

U.S. stocks failed to build on their impressive streak as a 'perfect storm' undermined confidence

Up until November 2018, U.S. equities had generated high-single digit returns. Fast forward one month, and those gains had evaporated into large losses. The Dow Jones Total Stock Market Index dropped by 14.4%, translating into an overall decline of 5.3% for the year. Most notably, the technology stocks which had been such a strong driver for the U.S. market moved sharply lower over last few months of 2018. Earnings growth expectations, particularly in the tech sector where optimism was perhaps excessive, were revised down.

Although it is difficult to discern a single trigger point for the market sell-off that closed 2018, it can be said that a confluence of factors – the view that the Fed had made a policy error by hiking rates, worries over the health of the Chinese economy, falling commodity prices, the U.S. government shutdown or the ongoing trade tensions – created an environment that shifted investor sentiment.

Worries over economic slowdown and global trade cast a long shadow over globally-exposed stocks

Equity market returns were similarly poor outside of North America. The global deterioration in economic momentum and the return of risk aversion coincided with a strengthening of the Japanese yen, resulting in a large sell off in the Japanese equity market. European and UK equities only fared slightly better in comparison. Alongside slowing momentum, Europe also had to contend with rising political uncertainty which undermined sentiment. Over all of 2018, the developed equity market, ex-North America (as measured by the MSCI EAFE Index) returned -13.8%.

Emerging market stocks held up slightly better than their developed market counterparts during 4Q's equity market selloff, but over the full year 2018 emerging markets lagged. The MSCI Emerging Markets Index was down nearly 15% during 2018.

How far from neutral? Will the Fed dare to invert the yield curve?

As widely expected, the Federal Open Market Committee decided to raise the federal funds rate target to 2.25%-2.50% at its December meeting. The Fed started the quarter with a more hawkish stance and indicated that several more hikes would be needed in the future. The Fed later back-tracked with comments

intimating U.S. rates were not far from reaching the Fed's neutral rate estimate. The U.S. yield curve, specifically the shape of it, had garnered significant attention as it appeared to be on a trajectory to invert, which has typically been a precursor to recessions. In the absence of inflationary pressures, would the Fed dare to unnerve financial markets and persist on its hiking path?

Against the backdrop of rising interest rates, it was unsurprising that bond markets struggled in 2018. The Bloomberg Barclays U.S. Aggregate Bond Index, which is the mostly commonly used measure of domestic bond market performance, ended the year flat. In addition to rising U.S. Treasury rates, spread widening served as an additional headwind for fixed income investors in 2018. In general, riskier bonds (e.g., high yield corporate – down 2.1% during 2018 as measured by the Bloomberg Barclays U.S. High Yield Corporate Index) and longer duration bonds (e.g., long credit – down 6.8% during 2018 as measured by the Bloomberg Barclays U.S. Long Credit Index) fared the worst over the trailing year.

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 School 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%.

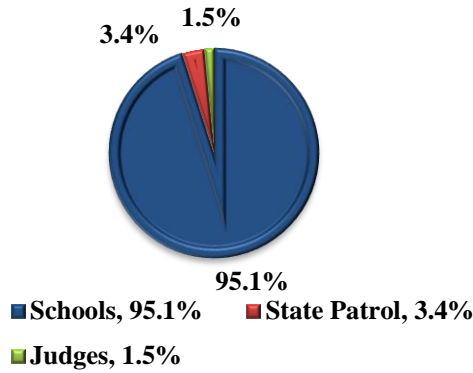
State Patrol

- 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).

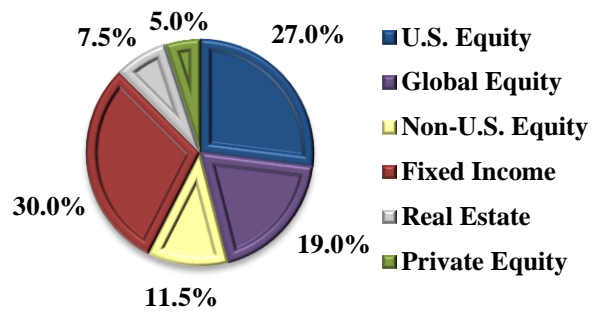
Judges

- 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%.

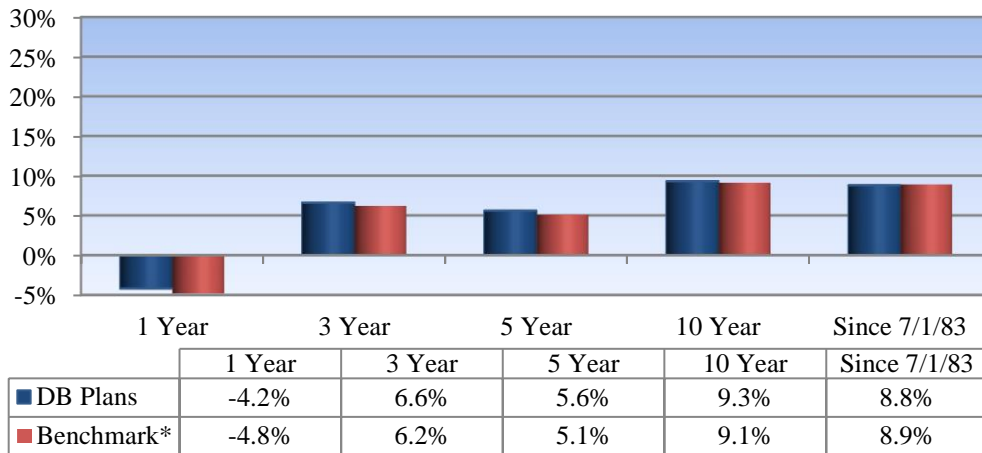
Plans as a Percentage of Total



Policy Asset Allocation



Defined Benefit Plans



*This is a blended benchmark. As of October 2018, 28.5% of the DJ U.S. Total Stock Market Index, 19% of the MSCI All Country World IMI, 11.5% of the MSCI All Country World ex-U.S. IMI, 30% Bloomberg Barclays Universal Index, 6% of the NCREIF ODCE, and 5% of the DJ Total Stock Market + 3%.

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. The School Plan is the largest of the three plans totaling \$11.0 billion of the \$11.5 billion (95%). The Policy Asset Allocation is 57.5% to public equity, 30% fixed income, 5.0% to private equity, and 7.5% to private real estate.

During 2018 the Defined Benefit Plans had a negative 4.2% return compared to its benchmark of negative 4.8%.

The following table outlines the Actuarial Report completed as of June 30, 2018. The School Plan has a funded ratio of 88.8% compared to 87.0% for the Patrol and 96.1% for the Judges plan.

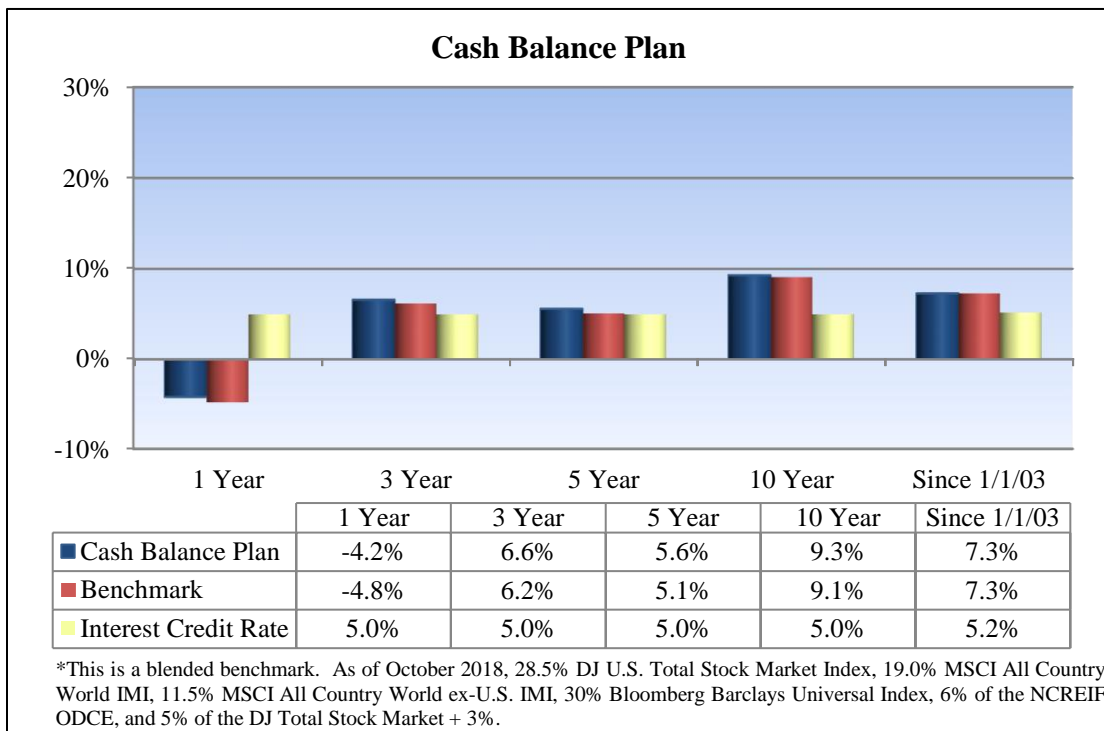
		School	Patrol	Judges	Total
		(millions of dollars)			
June 30, 2018	Assets (actuarial value)	\$ 11,545.0	\$ 417.6	\$ 186.6	\$ 12,149.2
	Liabilities (AAL)	<u>13,001.0</u>	<u>480.1</u>	<u>194.0</u>	<u>13,675.1</u>
	Surplus	- \$ 1,456.0	- \$ 62.5	- \$ 7.4	- \$ 1,525.9
	Funded Ratio	88.8%	87.0%	96.1%	88.8%

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 2018 calendar year, the plan issued a 5.46% dividend to state participants, while the county participants received an 8.42% 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.

During 2018, the Cash Balance Plan experienced a negative return of 4.2% compared to a negative 4.8% for the benchmark.

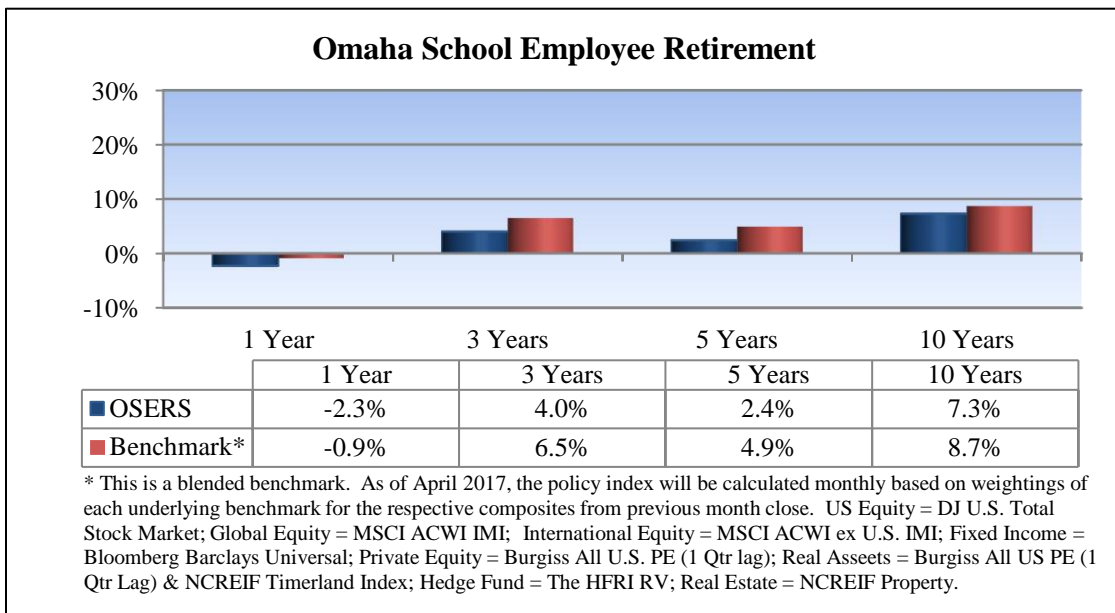
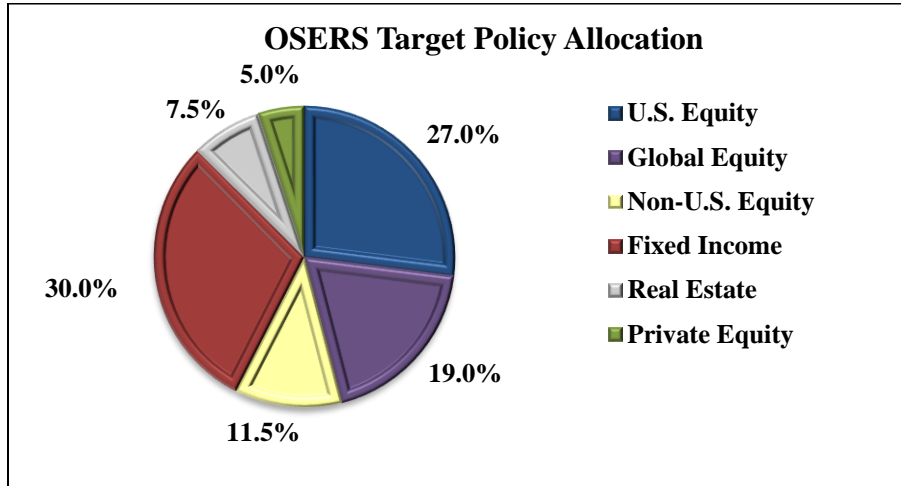


OMAHA SCHOOL EMPLOYEES RETIREMENT SYSTEM (OSERS)

The Omaha School 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.

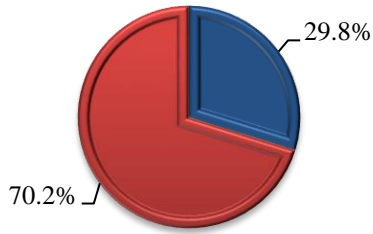
The Council assumed management of OSERS assets in 2017 and is transitioning the portfolio to its new long-term target as discussed earlier in this report.



OSERS experienced a negative 2.3% return in 2018, compared to the benchmark return of negative 0.9%.

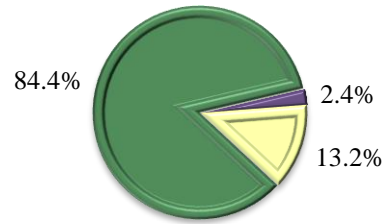
STATE & COUNTY RETIREMENT PLANS/ DEFERRED COMPENSATION PLAN

State & County Retirement Systems



- Defined Contribution, \$857.0 million
- Cash Balance, \$2,020.6 million

State Deferred Compensation Plan & State Patrol DROP Plan



- Deferred Compensation Plan, \$191.6 million
- State Patrol Drop Plan, \$5.5 million
- Mass Mutual, \$29.9 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, 2018, Mass Mutual's balance was \$29.9 million or 13.2% of State Deferred Compensation Plan & State Patrol DROP, compared to \$34.1 million or 13.9% as of December 31, 2017.

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.

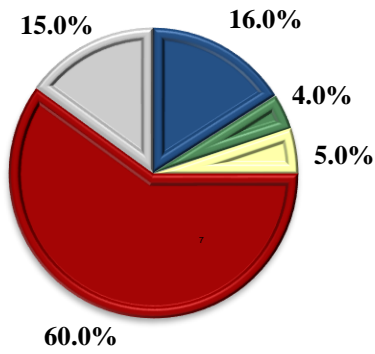
Asset Allocation

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.

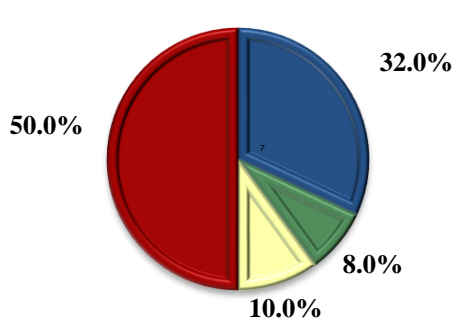
Participants may choose to invest in eight individual investment funds, four premixed funds, or the Age-based option. Assets in the premixed funds are invested in several of the other fund offerings according to target allocations. The Age-based option utilizes these existing premixed funds to function 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.

Conservative Premixed Fund

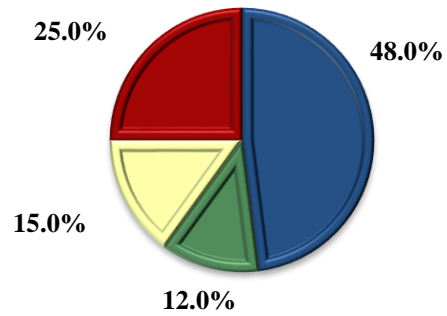


- S&P 500 Index Fd.
- Small Company Stock Fd.
- International Stock Index Fd.
- Bond Market Index Fd.
- Money Market Fund

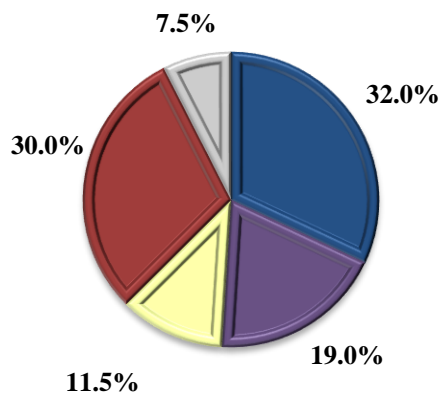
Moderate Premixed Fund



Aggressive Premixed Fund



Investor Select Fund



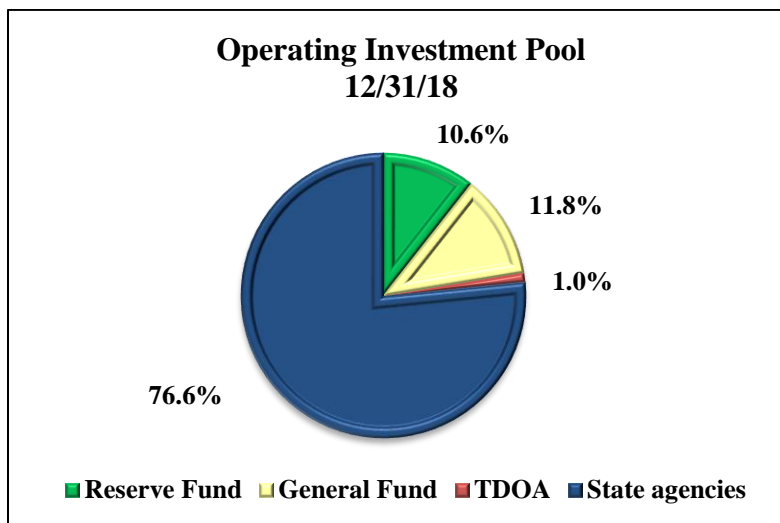
- U.S. Equity
- Global Equity
- Non-U.S. Equity
- Fixed Income
- Real Estate

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 fixed income 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.



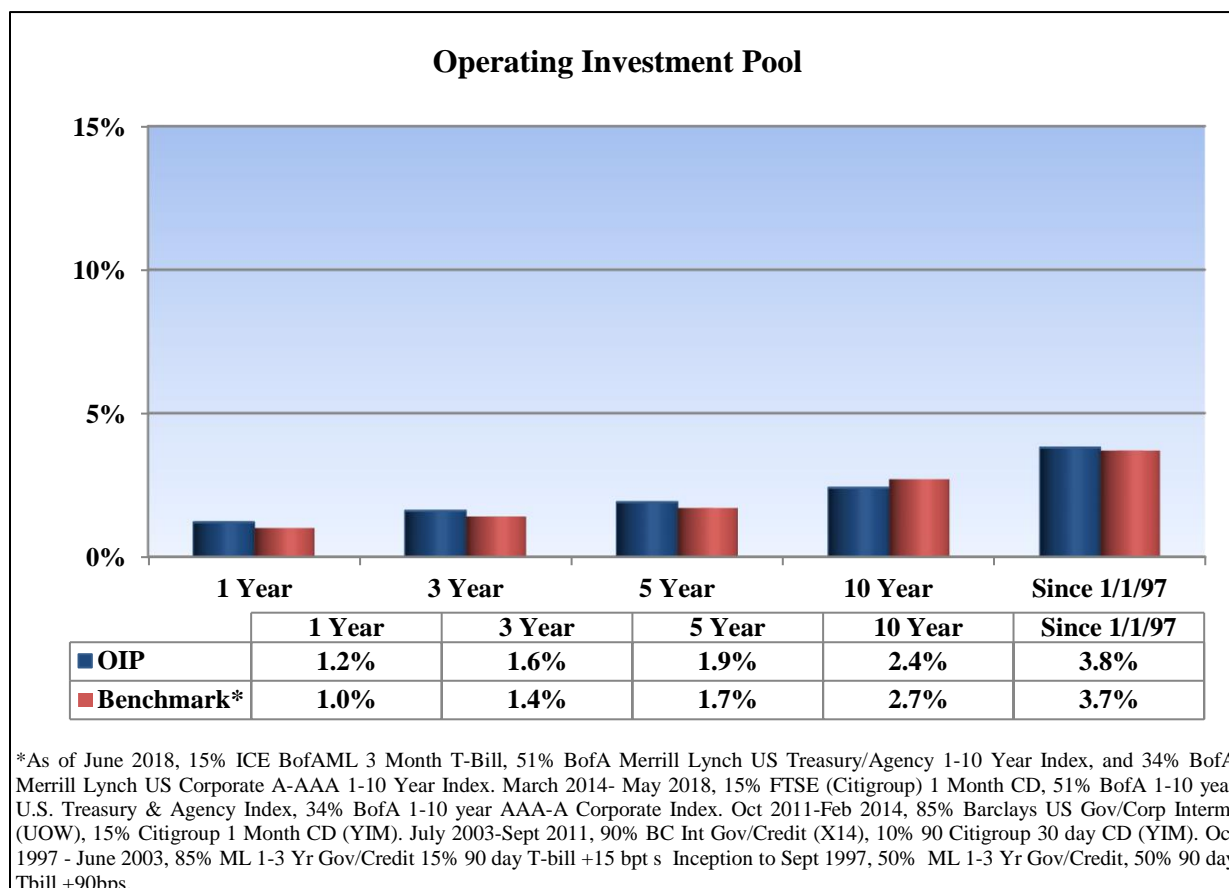
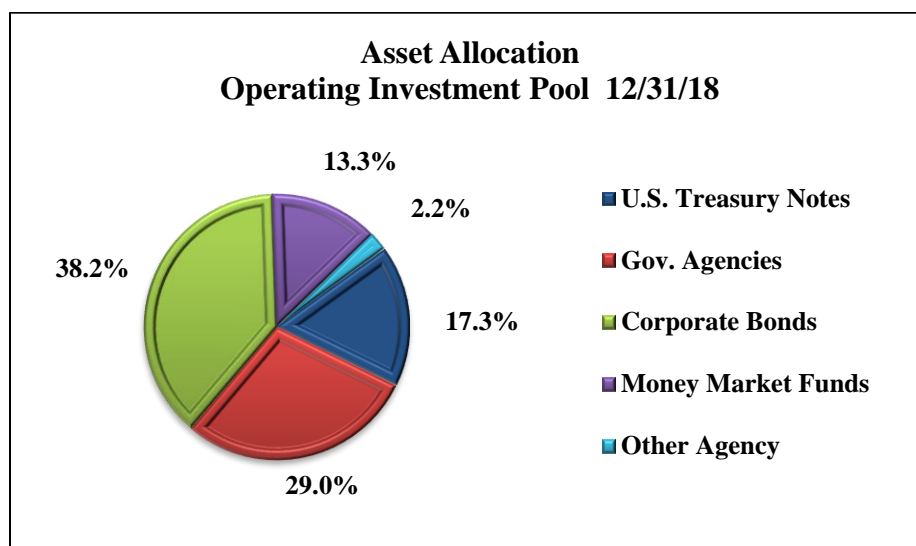
The OIP is managed internally, and is made up of high quality U.S. Treasuries, government agencies, and investment grade corporate bonds with laddered maturities extending ten years. The Short-term Liquidity portion of the OIP is invested in money markets, and 1 year or shorter treasuries, government 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.



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.

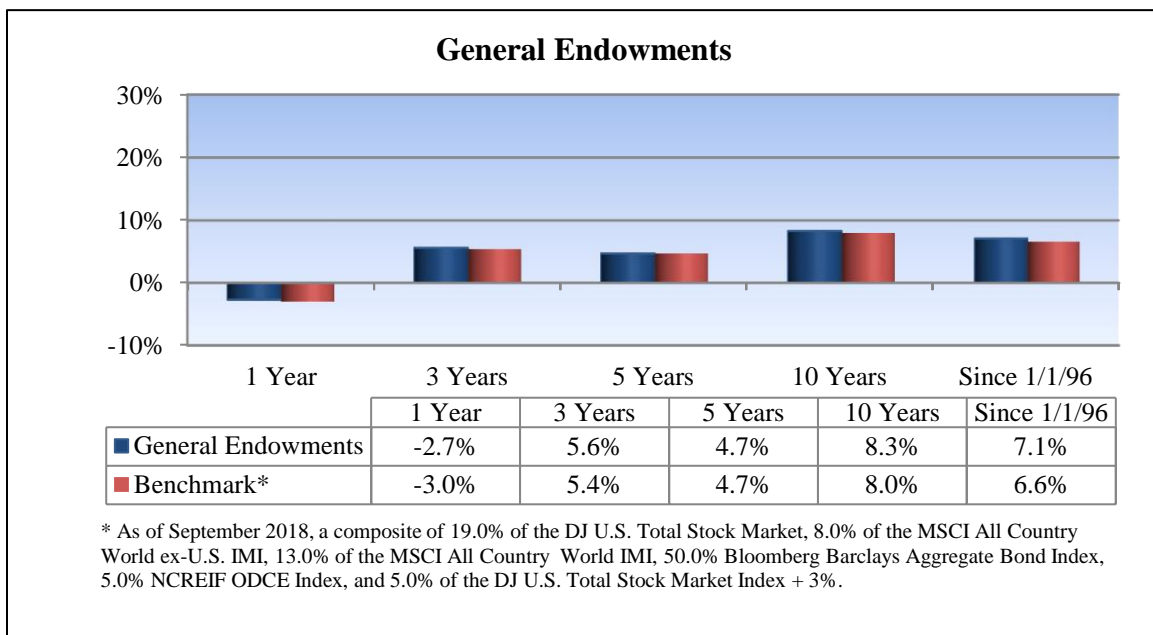
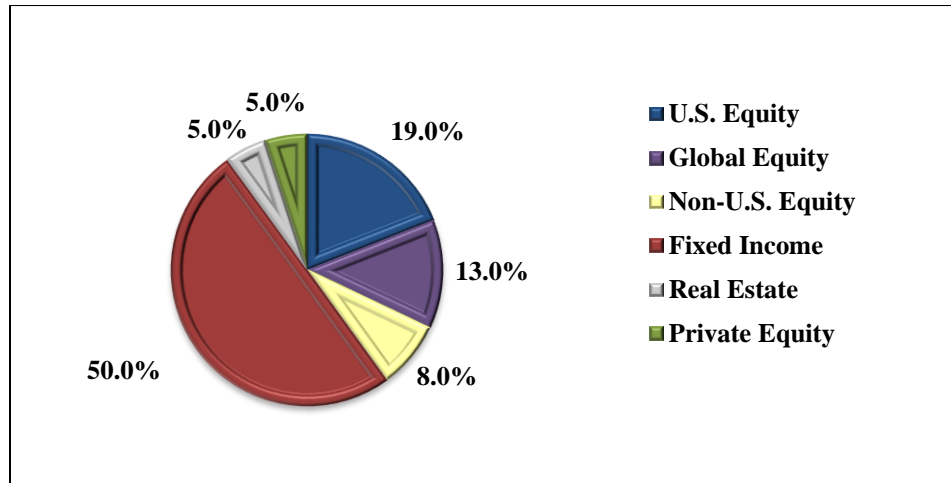
The Nebraska Environmental Endowment Fund

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

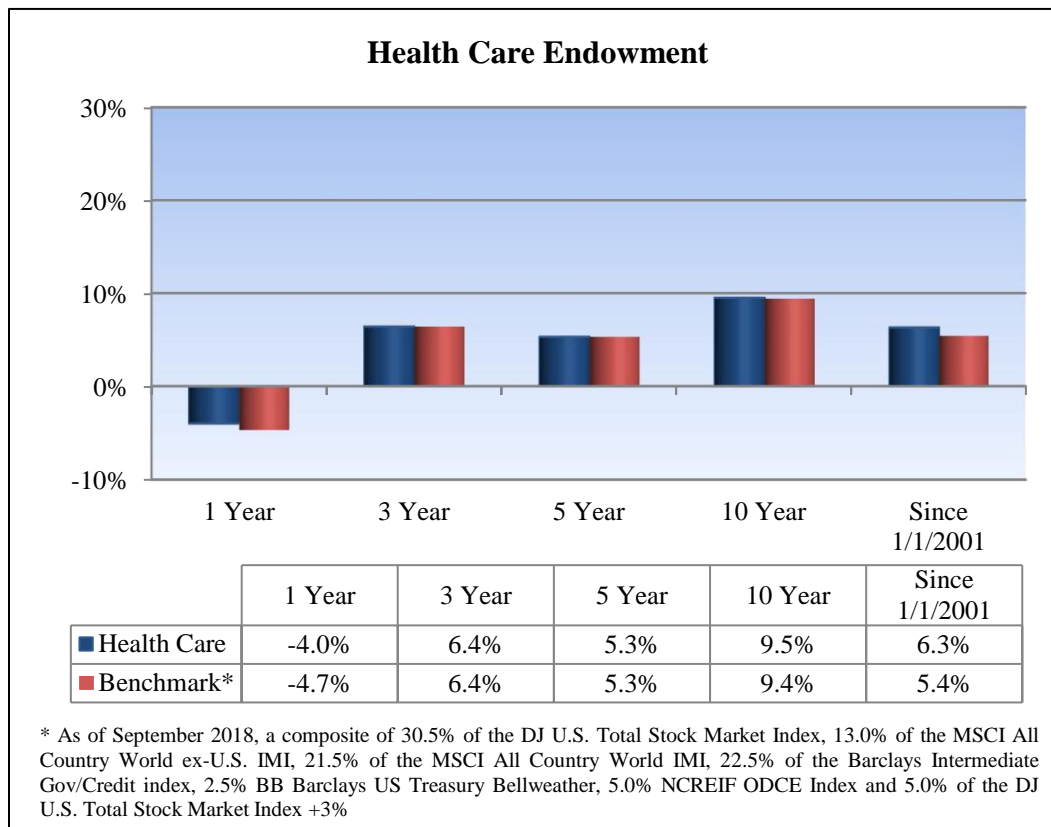
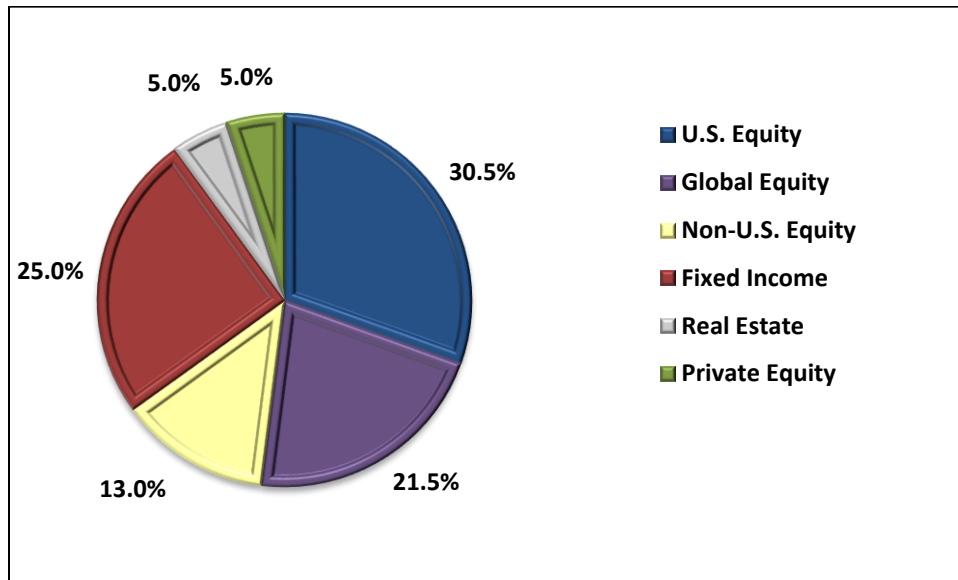
Asset Allocation



HEALTH CARE ENDOWMENT

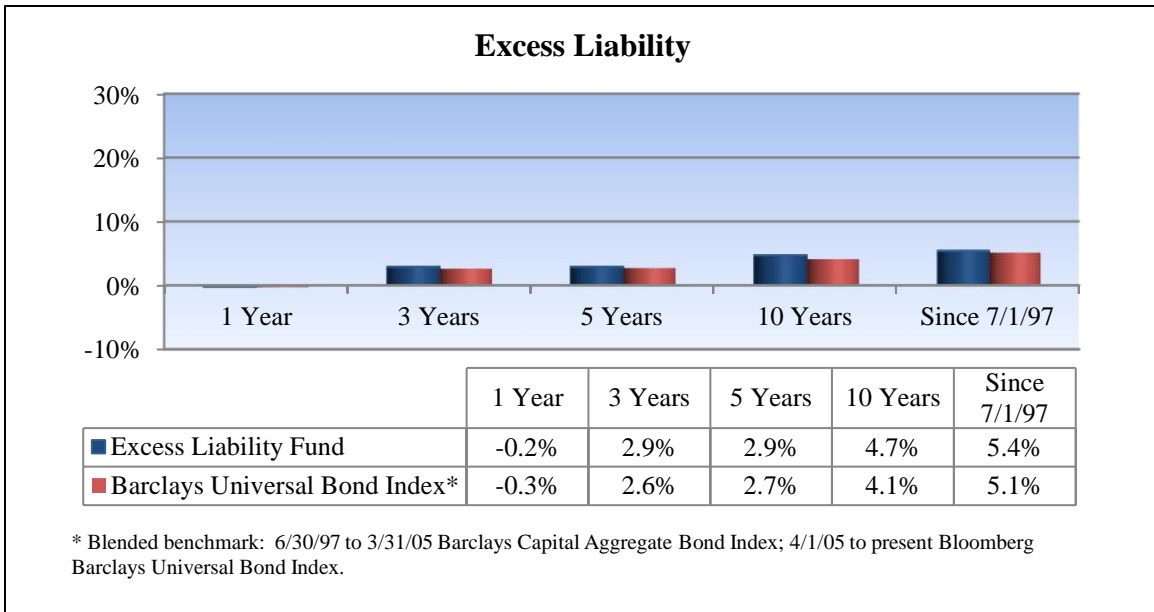
The Health Care Endowment Fund is comprised of two distinct state trust funds. These two are the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Trust Fund. Although their external contributions are different, the investments are the same and the spending policy is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

Asset Allocation



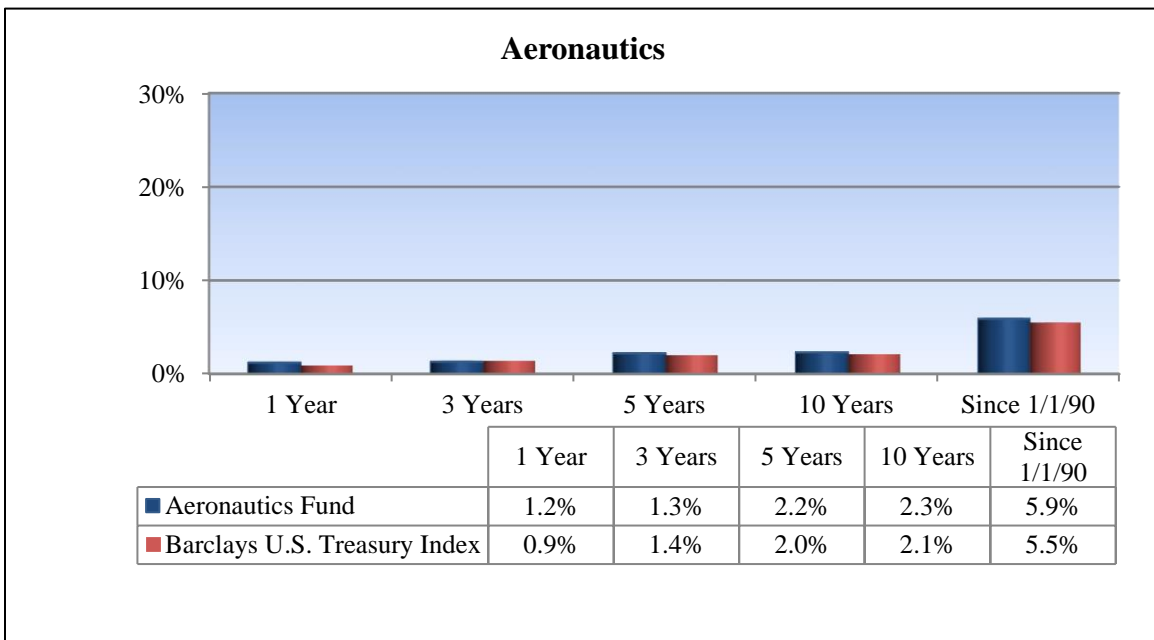
MISCELLANEOUS TRUSTS EXCESS LIABILITY

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.



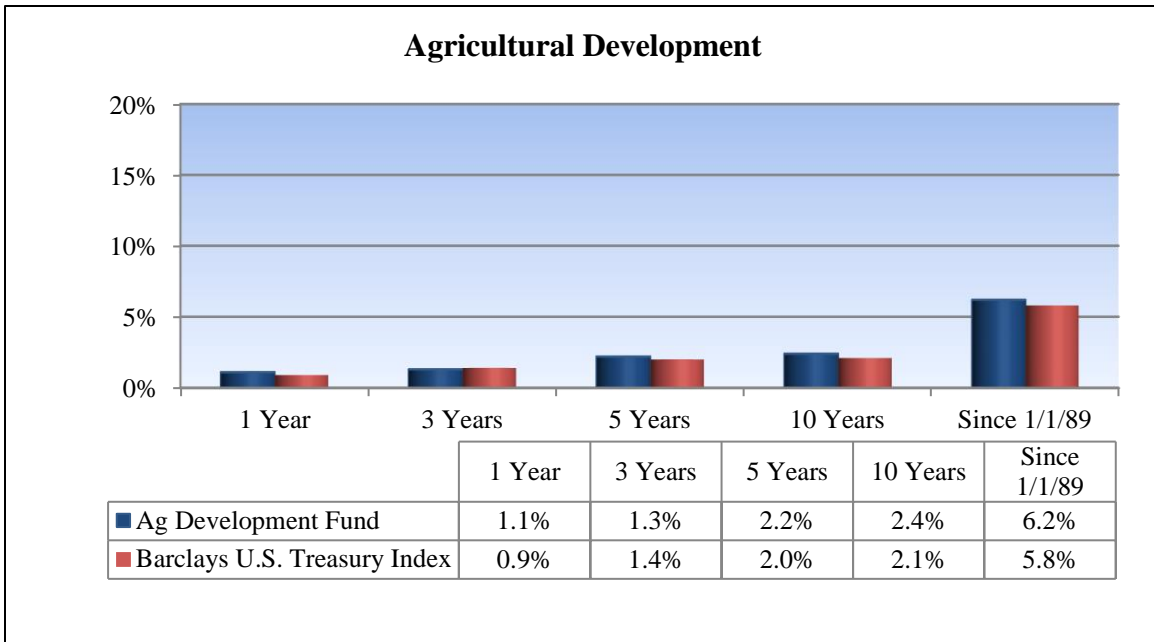
MISCELLANEOUS TRUSTS AERONAUTICS TRUST FUND

This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Aeronautic Trust Fund. 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 AGRICULTURAL DEVELOPMENT 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.



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.

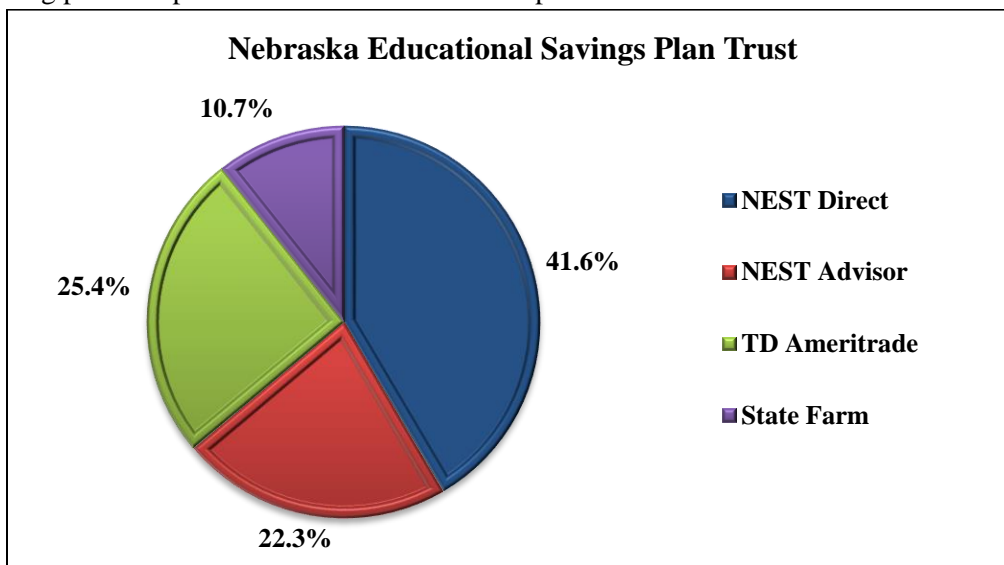
- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

State Farm 529 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.

- Static Portfolios
- Age Based portfolio

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

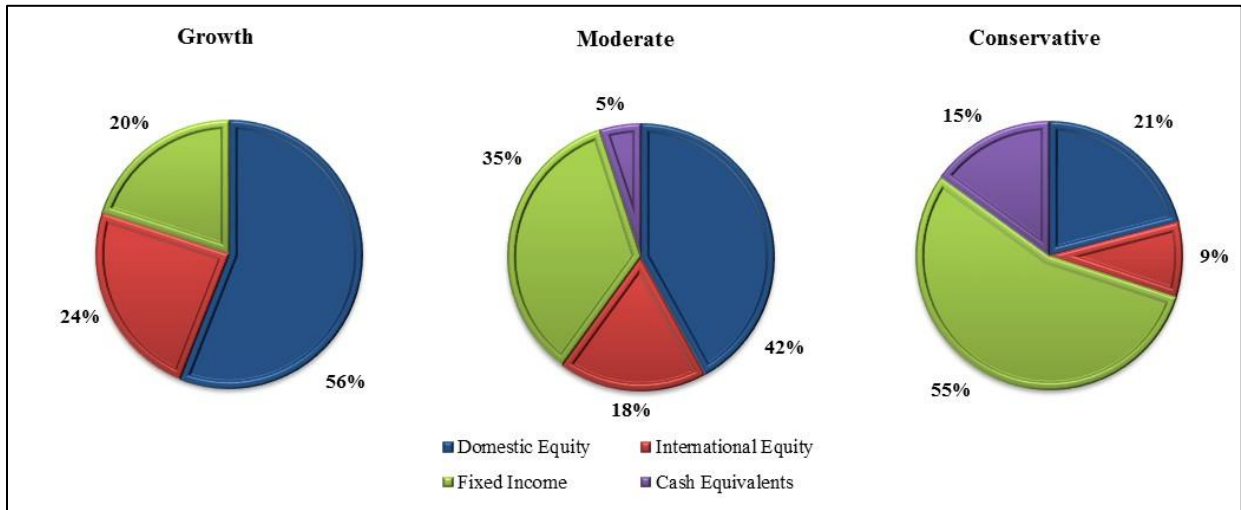


NEBRASKA ENABLE SAVINGS PLAN

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.

