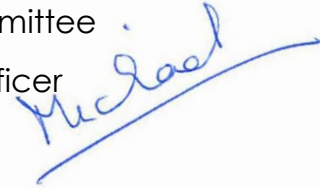


TO: Clerk of the Legislature
Chairman and Members, Retirement Systems Committee

FROM: Michael W. Walden-Newman, State Investment Officer

DATE: March 26, 2020

**SUBJ: NEB. REV. STAT. § 72-1243
NEBRASKA INVESTMENT COUNCIL ANNUAL REPORT ANNUAL REPORT**



Please find attached the Nebraska Investment Council Annual Report as required under Neb. Rev. Stat. § 72-1243.

I enjoy each year presenting the report in person to the Retirement Committee, but the statutory submission date will come and go with the Legislature recessed out of caution during the coronavirus pandemic.

What is first and foremost a health crisis has become a financial crisis because of the extreme volatility in global markets. This report covers 2019 investment activity, a year that capped a decade-long bull market. No one could have predicted it would end this way.

Just as all of us know we are better off going into a health crisis from a position of strength, the same is true for an investment portfolio. Our pension and endowment portfolios are structurally strong, built to withstand the tests of times like these. Our time horizon extends to future generations of Nebraskans.

At the same time, we do manage the State operating funds and have positioned the portfolio to meet State liquidity needs through the coming months.

State lawmakers have mandated that the Investment Council diversify the investments of the assets in our charge "so as to minimize risk of large losses." Risk parameters are the foundation of our portfolio construction. We then set an asset allocation designed to stay within that risk. Our conservative, deliberate approach is designed to provide a relatively steady outcome compared to our peers - and it does.

We have not deviated from our practices and procedures during the past weeks of market turmoil. We have increased our capacity to work remotely, adding to digital workplace processes we put in place years ago.

We understand that investment income is only one of three legs to the stool supporting our public employees' retirement plans, along with employer and employee contributions. We assure you that the Nebraska Investment Council is well-positioned to shoulder our share of the burden.



2019 Annual Report

1526 K Street, Suite 420 • Lincoln, NE 68508

Phone: 402-471-2043 • Fax: 402-471-2498 • <https://nic.nebraska.gov/>

Email: NIC.Info@nebraska.gov

NEBRASKA INVESTMENT COUNCIL



Back Row (left to right): Michael Walden-Newman, John Conley, Randy Gerke, John Dinkel
Front Row (left to right): 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

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

Dr. Keith A. Olson, Ph.D., 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 2020-2024

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

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

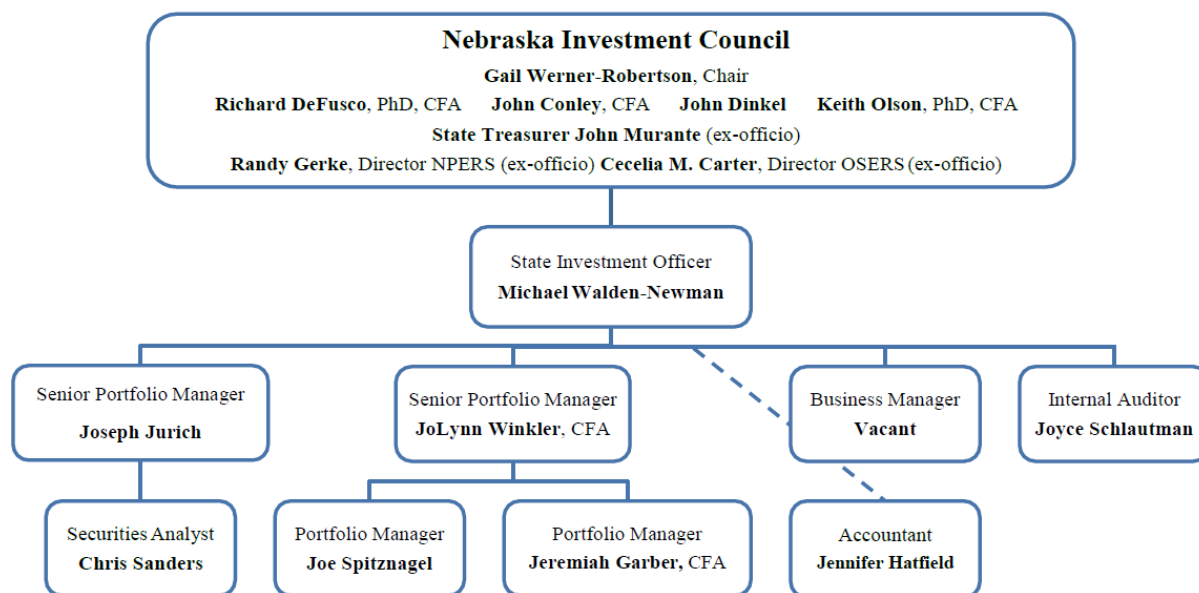
Cecelia M. Carter
OSERS Director
Omaha, NE
Ex-Officio (Non-voting)

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	\$ 11,555	- \$ 219	\$ 2,171	\$ 13,507
State & County Retirement Plans/ Deferred Compensation Plan	3,105	- 101	590	3,594
Omaha School Retirement	1,192	- 33	164	1,323
Operating Investment Pool	3,733	439	212	4,384
NE Educational Savings Plan Trust	4,765	24	864	5,653
Nebraska ENABLE Savings Plan	7	3	1	11
General Endowment Funds	868	- 13	135	990
Health Care Endowment Fund	395	- 23	77	449
Miscellaneous Trusts	75	- 2	6	79
2019 Totals	\$ 25,695	\$ 75	\$ 4,220	\$ 29,990
2018 Totals	\$ 27,009 ¹	- \$ 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 were removed in 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, 2019. The Council oversees \$30 billion across 32 investment programs:

- \$14.8 billion in 5 defined benefit pension plans.
- 3.6 billion in 7 other retirement plans.
- 1.4 billion in 11 public endowments.
- 4.4 billion in the Operating Investment Pool, the State's checkbook, managed internally.
- 79.0 million in 3 State trusts.
- 5.7 billion in 4 college savings plans.
- 11.5 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 an eight-member Investment Team.
- Most importantly, the Investment Council is the sixteen 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 staffs. 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:

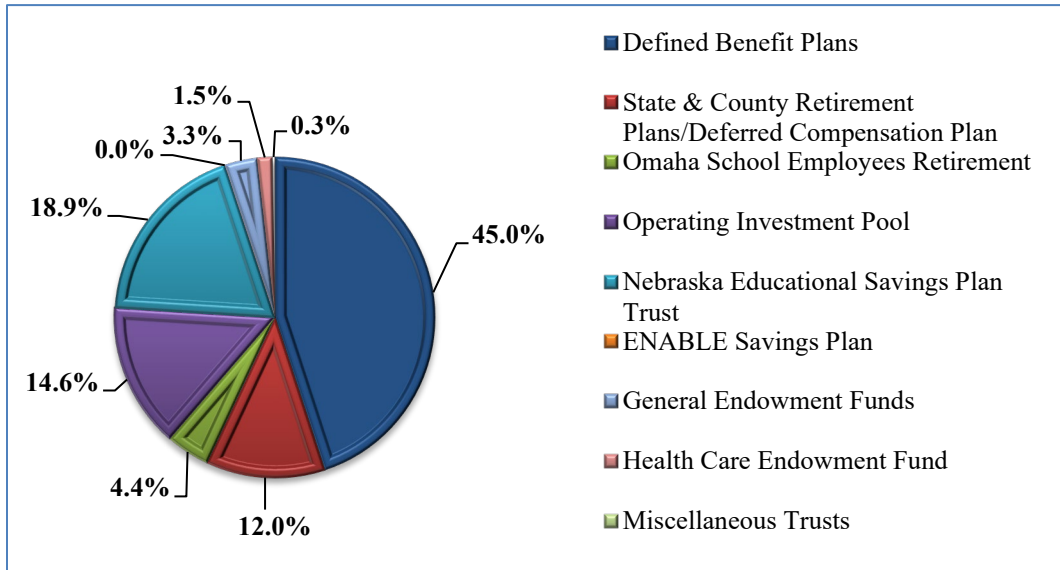
It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed 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 at 402-471-2001 or michael.walden-newman@nebraska.gov.



Michael W. Walden-Newman
State Investment Officer

NEBRASKA INVESTMENT COUNCIL PORTFOLIO



2019 Administrative Review

Markets took a tumble in December 2018, but climbed throughout 2019. The S&P 500 delivered almost 32 percent for the year. The State's pension plans with their mix of stock, bonds and alternatives returned almost 20 percent for the 2019 calendar year compared with a 4 percent loss for 2018.

Volatility is a fact of life in today's markets. But, State law mandates that the Council diversify the investments of the assets in their charge "so as to minimize risk of large losses." With that in mind, the Council begins portfolio construction by setting risk parameters and then an asset allocation designed to stay within that risk. It is a conservative, deliberate approach designed to provide a relatively steady outcome compared to our peers - and it does.

The Council has continued its "blank sheet review" of its portfolios. The past four years have focused on the equity side of the equation. In 2019, we launched a holistic review of the fixed income side – particularly timely given recent Fed interest rate action. 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 also wrapped up a similar study of the investment options offered within the 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 had not been reviewed holistically in a number of years. Council investment staff worked with the Legislature's Retirement Systems Committee to update state law to accommodate current best practices investment options for participants. The Council is coordinating with the Nebraska Public Employees' Retirement Systems to implement a new investment line-up in January 2021.

Progress continues to align the Omaha School Employees Retirement System investment portfolio with the asset allocation established for the rest of Nebraska teachers. The Legislature in 2016 gave the Council

management of OSERS pension assets effective January 2017. The Council then moved quickly to reposition the liquid portion of the OSERS portfolio. Some illiquid private investments necessarily have and will take longer. Within the next five years, however, all teachers statewide should have their pension assets invested in the same way.

OSERS Asset Allocation Compared to Long-Term Target

Asset Class	12-31-2016	12-31-2019	Target
US Equity	13.4%	22.4%	27.0%
Non-US Equity	0.0%	9.6%	11.5%
Global Equity	18.5%	15.5%	19.0%
Fixed Income	11.5%	26.7%	30.0%
Real Estate	21.1%	12.2%	7.5%
Private Equity	10.3%	11.6%	5.0%
Hedge Funds	9.1%	0.6%	0.0%
Real Assets	14.9%	1.4%	0.0%
Cash	1.4%		0.0%

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

The Council's summer retreat is an annual policy-focused meeting that always generates considerable outside interest and attendance. The 2019 retreat featured four topics:

- *Infrastructure Investing Opportunities Today* - Infrastructure investing offers an attractive risk-return profile, lower correlation with other asset classes, steady income and inflation linkages that make it an asset class worth investigating as an addition to pension and endowment portfolios. The Macquarie Group has a 25-year track record in worldwide infrastructure and real asset investment and management. They will lead the discussion. And, no, it is not just about buying toll roads and bridges.
- *Modernizing DC Plans Investment Line-up* - The Council is updating the investment options offered to current participants in the now-closed State and County Defined Contribution Plan. These same investments are the options for the Deferred Compensation Plan. The Council, with the support of the Nebraska Public Employees Retirement Systems, successfully sought legislative authorization for the change. We will present our proposed new line-up at the Retreat.
- *Pension Portfolio Allocation and Cash Flows* - Pensions invest for the long term while paying out benefits in real time. The Council balances this need for "liquidity" to pay benefits with the premium that can be obtained from investing in illiquid assets. The level of illiquid assets that a public pension plan can comfortably hold is dependent upon its specific circumstances, including its asset allocation policy, its contribution policy, and the level of benefit payments. To explore this issue further, the Council's consultant, Aon, will present a liquidity analysis of the State and Omaha teacher plans.
- *Operating Investment Pool Review*- The Council manages the State's checkbook in-house. The Operating Investment Pool is a \$3.5 billion portfolio of 820 accounts across 74 state agencies. The Council team that manages these funds efficiently and effectively has been recognized nationally, and explained their process to attendees.

Capital Markets Overview

The year that was 2019... the Midas Touch in action.

Take the calendar year just completed and marvel at just how well markets did. The S&P 500 returned 31.5%, but other equity markets were not outdone by much. Only against the US market's runaway performance yardstick does the 19% return in emerging markets and Europe's 26% appear anything other than very strong. Yes, the US technology sector's 50% return and Apple's doubling in 2019 does seem to put much else in the shade, but the relatives here must not obscure the absolute. What is more, other asset classes beyond equities delivered strongly too. Virtually everything made money during 2019....and lots of it.

Demonstrating that this was no ordinary market rally was what happened at the other end of the risk spectrum to equities. Government bonds defied conventional wisdom and produced strong returns, too. In fact, some of the best risk-adjusted returns in the markets were found in long duration bonds; the US long government index delivered almost 15%. And how about gold, a 'traditional safe-haven' which returned about 18% on the year?

Of course, a moment spent looking behind the numbers shows that taking an arbitrary window like a calendar year can hide some sins. 2018 had been a turbulent year and finished with a big sell-off, so some part of 2019's strength was a relief rebound. This is why taking 2018-19 together shows a rather different picture to just looking at last year in isolation – global equity indices doing about 5% per annum over the two-year period instead of the gain five times larger that appears from looking at last year alone. Even so, credit should be given where it is due, and we cannot take much away from markets pulling off such a dramatic turnaround from what looked a very difficult backdrop at the start of last year.

You do not have to look far to find the reasons for the spirited market comeback. Spooked by the widening trade conflict between the US and China, a rapid freeze of global trade, and a deepening global economic slowdown (which could have led to an even deeper market meltdown than what occurred in late 2018), central banks turned remarkably easy with monetary policy last year. Pre-eminent though the US Federal Reserve's three rate cuts last year were in market impact terms, the easing trend went far wider. In 2018, 43 central banks had raised rates against 32 that had cut them. Last year, 60 central banks cut rates and only 15 raised them. After such a difficult 2018, this was healing balm to all asset classes, a central bank 'Midas Touch' in action not seen on this scale since the aggressive monetary response to the 2008 financial crisis. It revived spirits in very risky and troubled asset markets like equities and high yield, easing fears of global recession. But it energized bond bulls too, who anchored low yield expectations to lower central bank rates and a view that lower rates were more likely to persist.

That equity and bond markets were implicitly taking rather different views on the likely path of economic activity looking ahead, one betting on a rebound the other on continued weakness, did not seem to trouble anyone. The polarization of views came through in market behavior, however. Within asset classes and between them, right across the spectrum, trends were simultaneously risk-loving and risk-averse. Rising markets made this confusion seem benign. Quite a year, in other words.

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%.

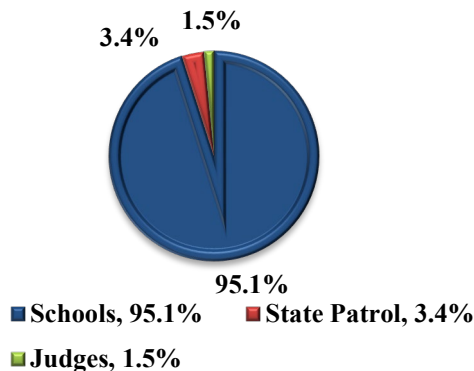
State Patrol

- 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).

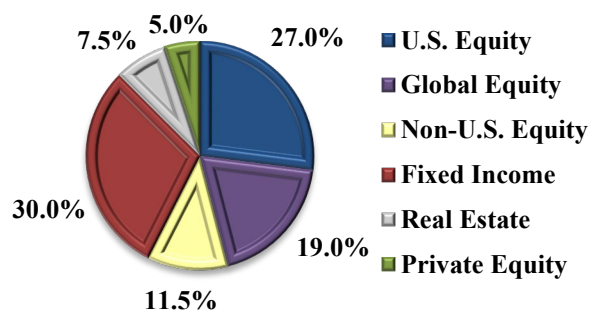
Judges

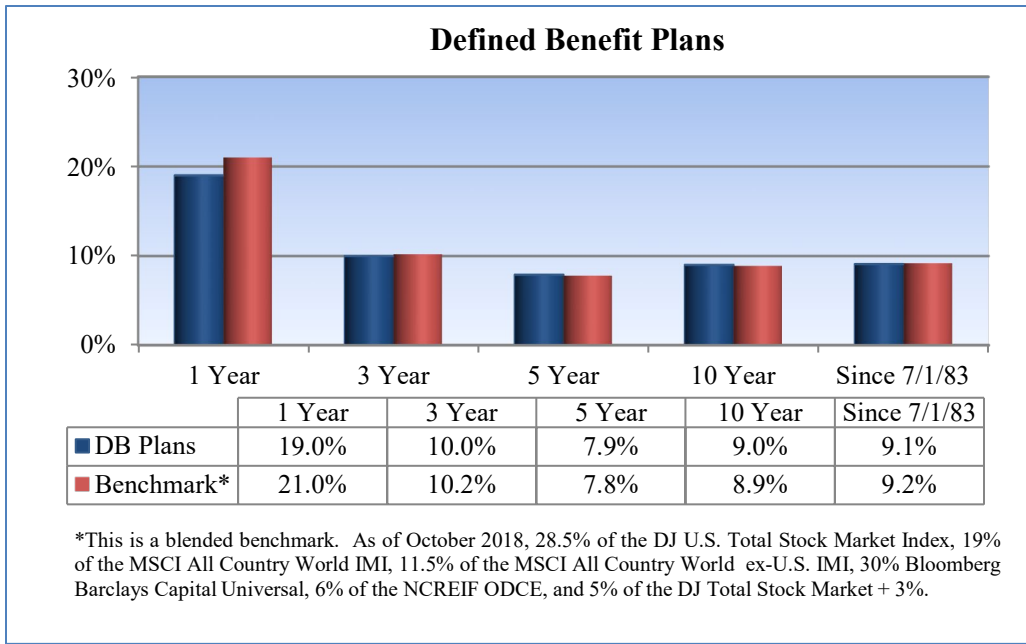
- Judges hired on or after July 1, 2015 (Tier 2) contribute 10% of compensation. A \$6 retirement plan fee, as prescribed by law, is remitted by district and county courts to assist in the funding of retirement benefits.
- Judges hired on or after July 1, 2004 or Judges who elected to participate in 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





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 \$12.8 billion of the \$13.5 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 2019, the Defined Benefit Plans had a 19.0% return compared to its benchmark of 21.0%.

The following table outlines the Actuarial Report completed as of June 30, 2019. The School Plan has a funded ratio of 90.3% compared to 87.3% for the Patrol and 98.1% for the Judges plan.

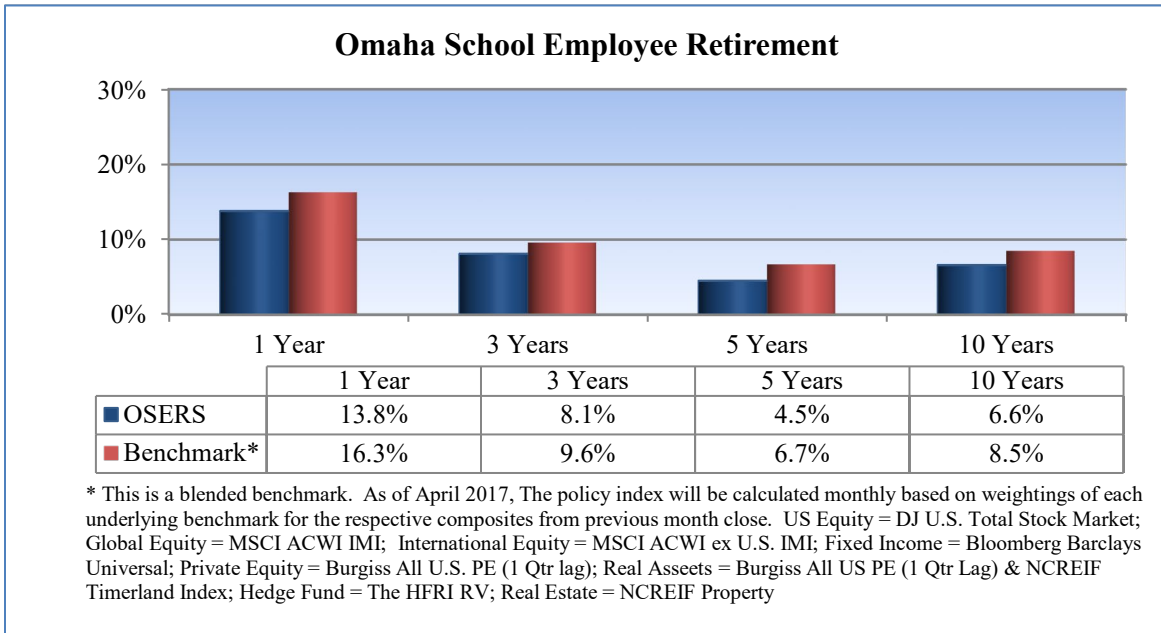
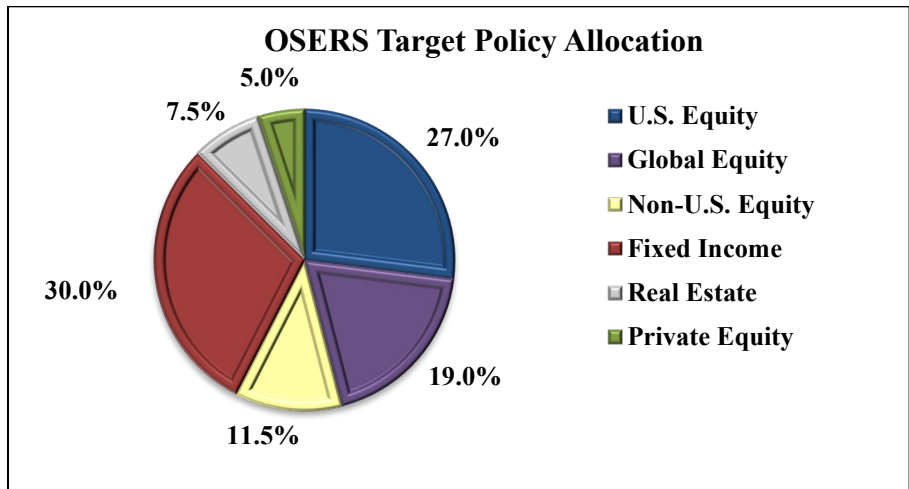
		<u>School</u>	<u>Patrol</u>	<u>Judges</u>	<u>Total</u>
		(millions of dollars)			
June 30, 2019	Assets (actuarial value)	\$ 12,130.0	\$ 433.60	\$ 194.30	\$ 12,757.90
	Liabilities (AAL)	<u>13,435.0</u>	<u>496.50</u>	<u>198.10</u>	<u>14,129.60</u>
	Surplus	- \$ 1,305.0	- \$ 62.90	- \$ 3.80	- \$ 1,371.70
	Funded Ratio	90.3%	87.3%	98.1%	90.3%

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.



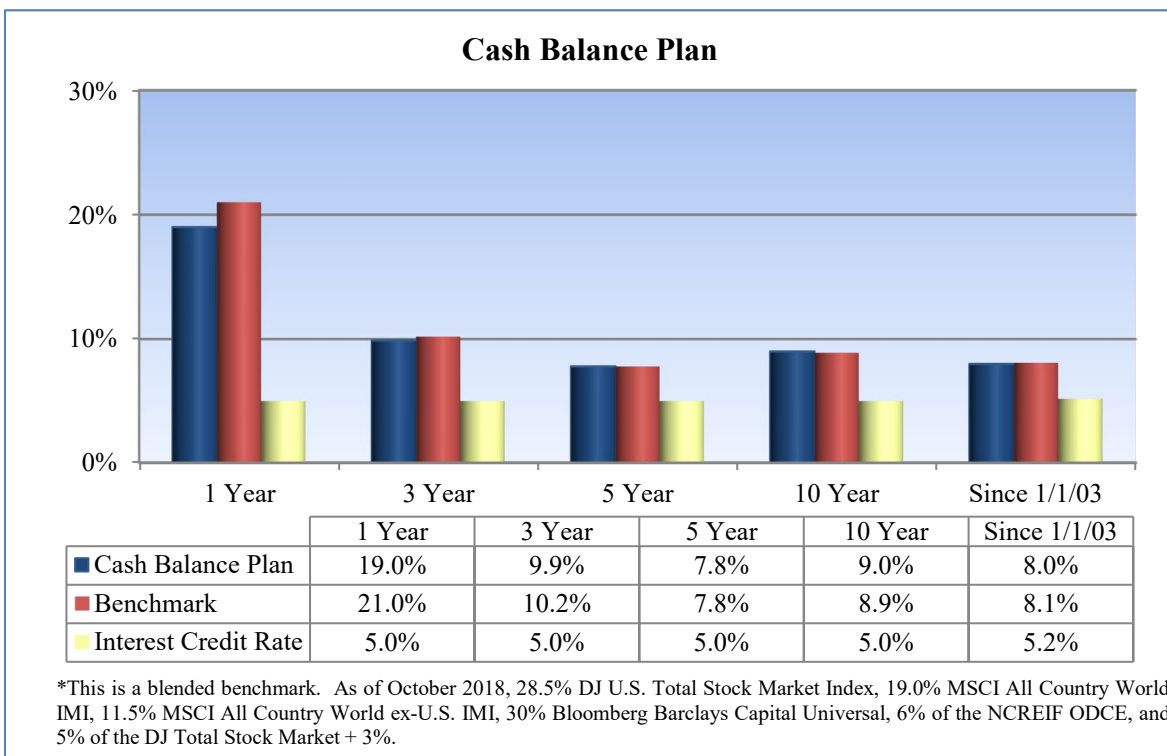
OSERS experienced a 13.8% return in 2019, compared to the benchmark 16.3% return.

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.

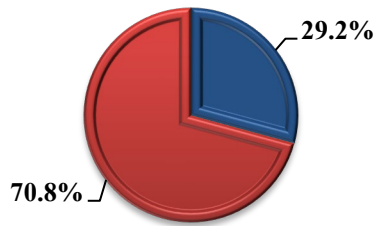
The Cash Balance Plan has a strategy that is designed to mirror the investment strategy of the Defined Benefit Plans, so the asset allocation is the same as the Defined Benefit Plans.

During 2019, the Cash Balance Plan had a positive return of 19.0% compared to 21.0% for the benchmark.



STATE & COUNTY RETIREMENT PLANS/ DEFERRED COMPENSATION PLAN

State & County Retirement Systems



- Defined Contribution, \$975.2 million
- Cash Balance, \$2,364.0 million

State Deferred Compensation Plan & State Patrol DROP Plan



- Deferred Compensation Plan, \$218.7 million
- State Patrol Drop Plan, \$4.5 million
- Mass Mutual, \$31.5 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, 2019, Mass Mutual's balance was \$31.5 million or 12.4% of State Deferred Compensation Plan & State Patrol DROP, compared to \$29.9 million or 13.2% as of December 31, 2018.

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.

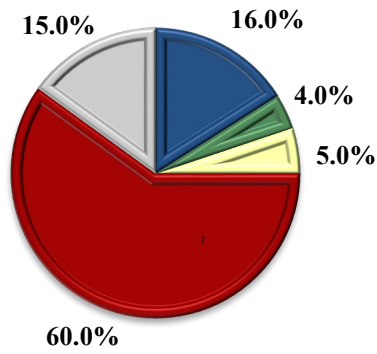
Asset Allocation

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.

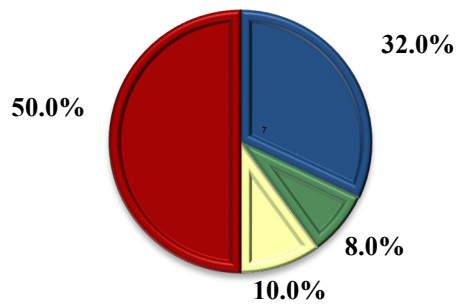
Participants may choose to invest in eight individual investment funds, four premixed funds, or the Age-based option. Assets in the premixed funds are invested in several of the other fund offerings according to target allocations. The Age-based option utilizes these existing premixed funds to function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

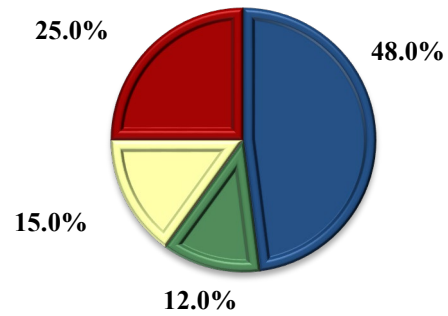


- S&P 500 Index Fd.
- Small Company Stock Fd.
- International Stock Index Fd.
- Bond Market Index Fd.
- Money Market Fund

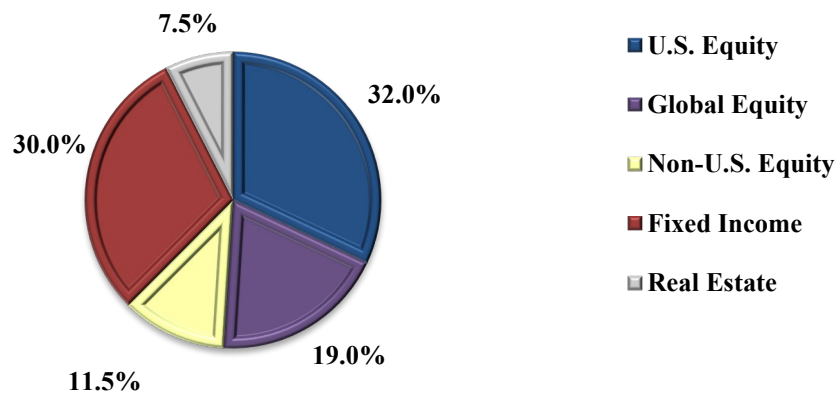
Moderate Premixed Fund



Aggressive Premixed Fund



Investor Select Fund



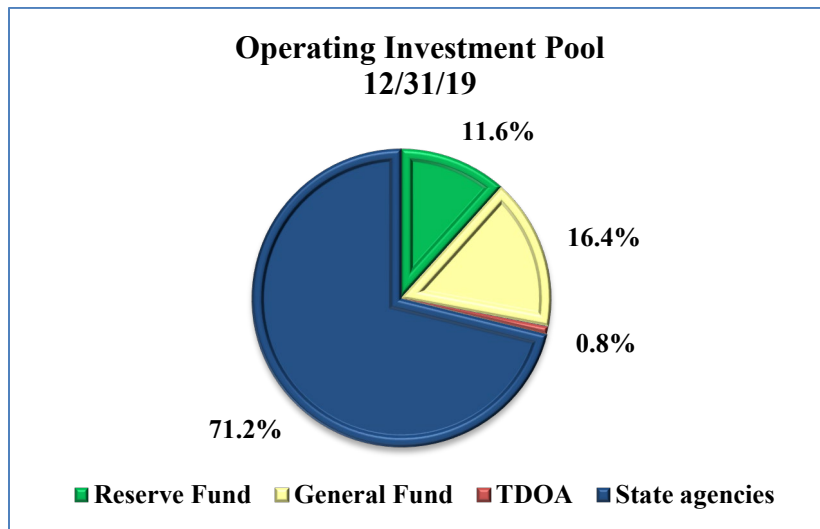
- U.S. Equity
- Global Equity
- Non-U.S. Equity
- Fixed Income
- Real Estate

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.



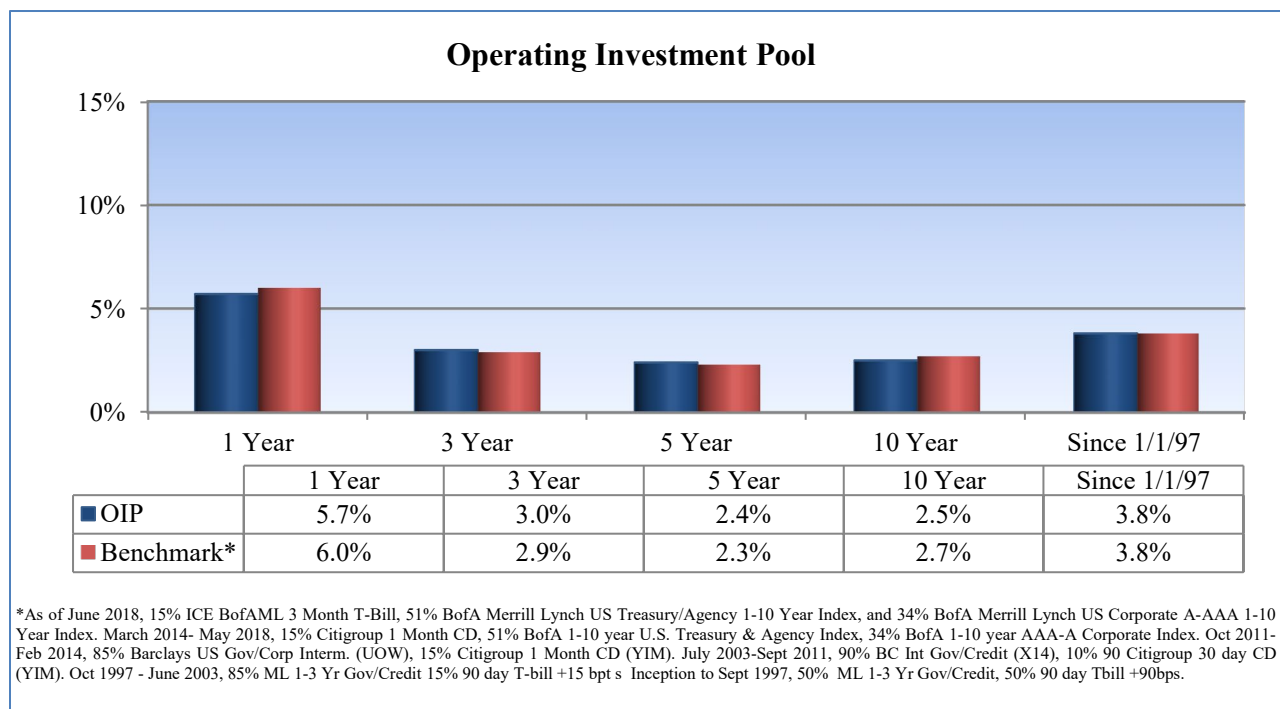
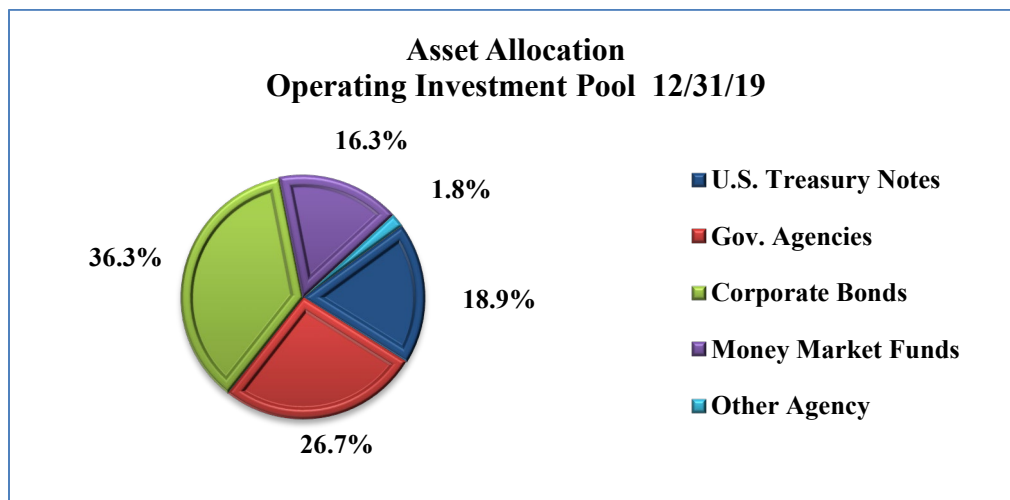
The OIP is managed internally, and is made up of high quality U.S. Treasuries, government agencies, and investment grade corporate bonds with laddered maturities extending ten years. The Short-term Liquidity portion of the OIP is invested in money markets, and 1 year or shorter treasuries, government 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 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 K-12 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 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.

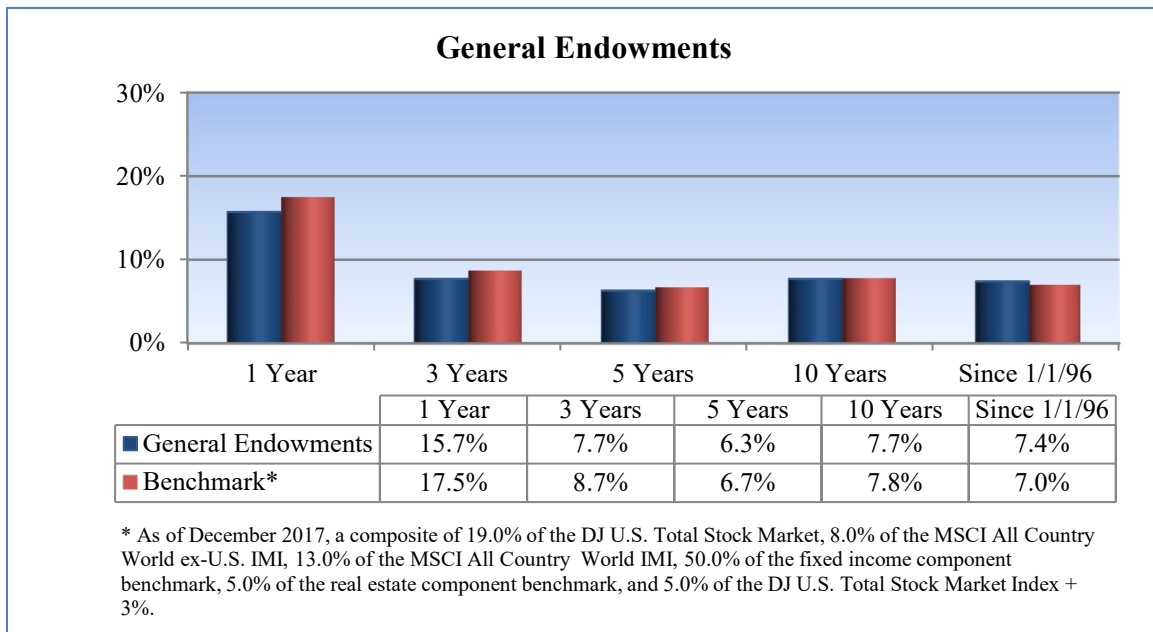
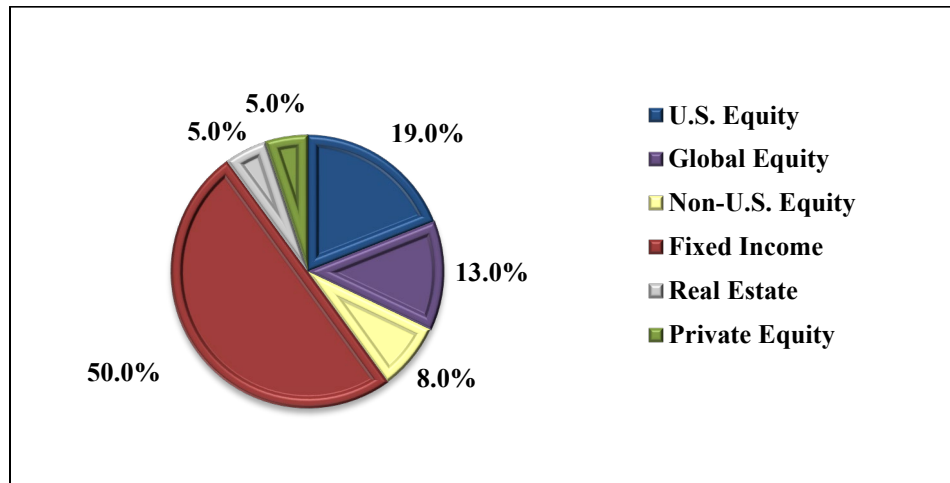
The Nebraska Environmental Endowment Fund

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

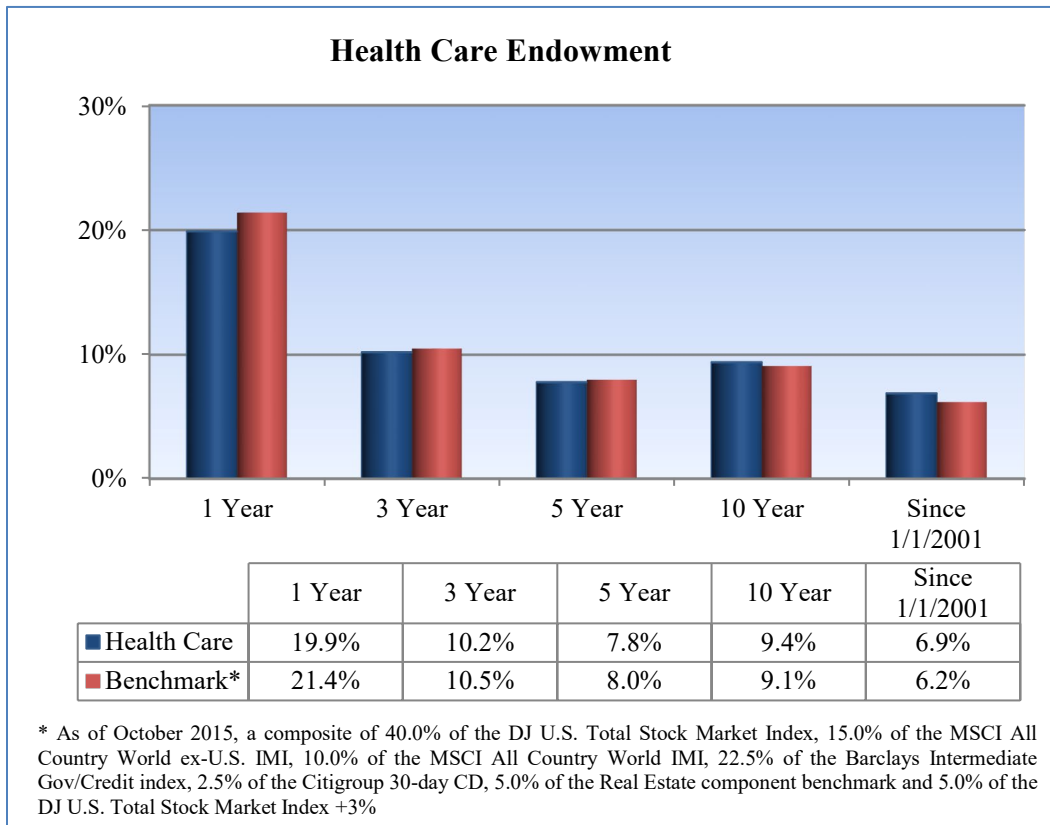
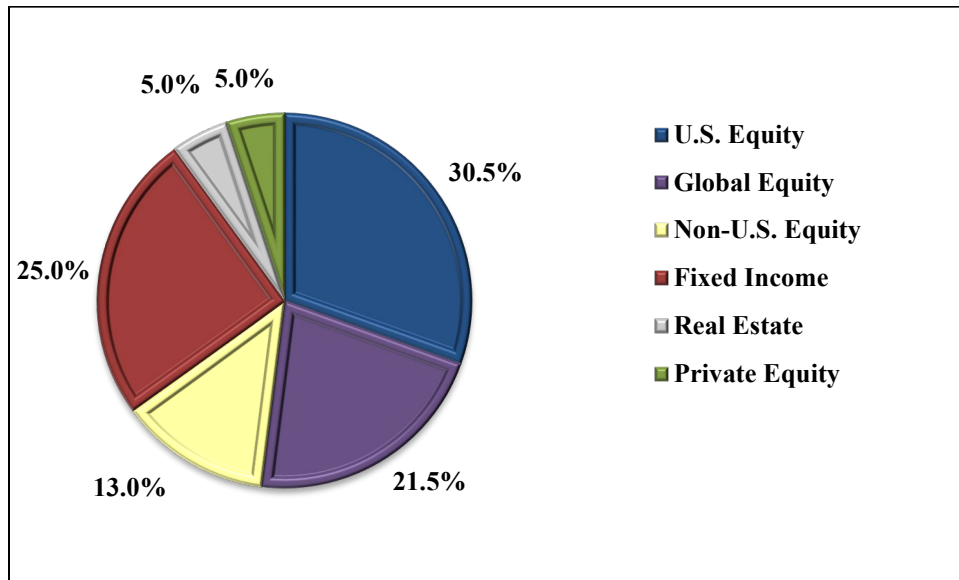
Asset Allocation



HEALTH CARE ENDOWMENT

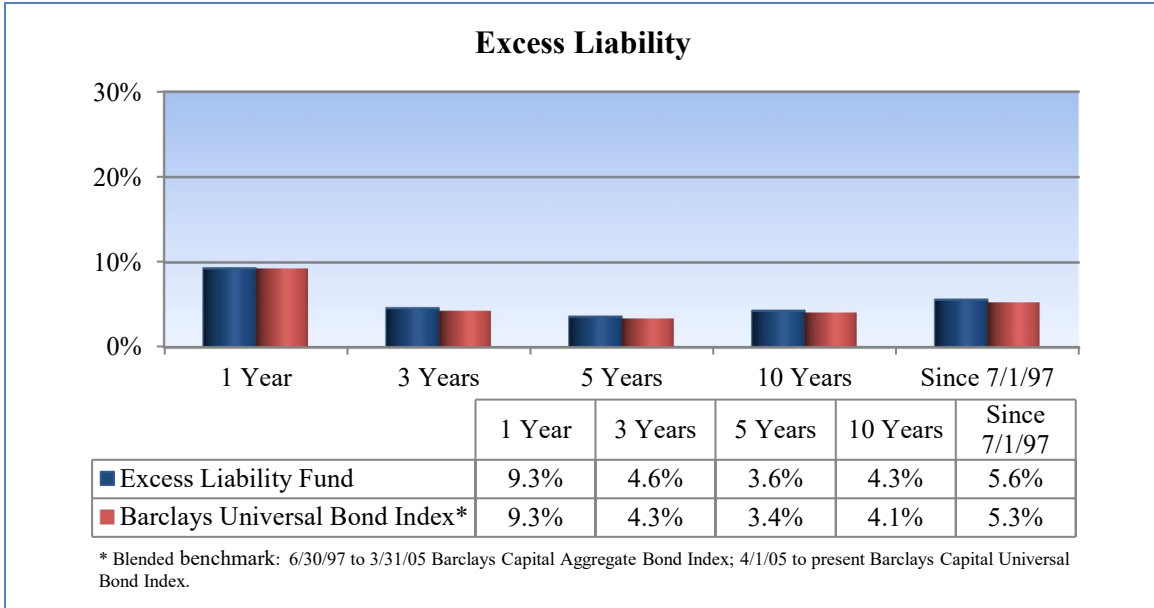
The Health Care Endowment Fund is comprised of two distinct state trust funds. These two are the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Trust Fund. Although their external contributions are different, the investments are the same and the spending policy is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

Asset Allocation



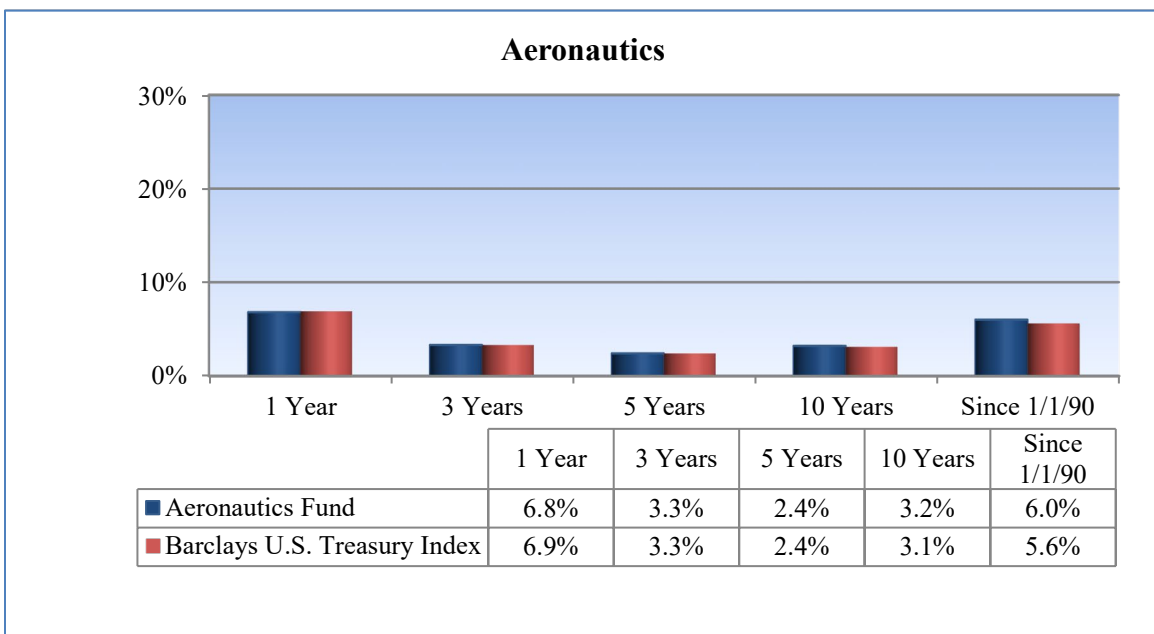
MISCELLANEOUS TRUSTS EXCESS LIABILITY

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 Council does not determine the distribution policy.



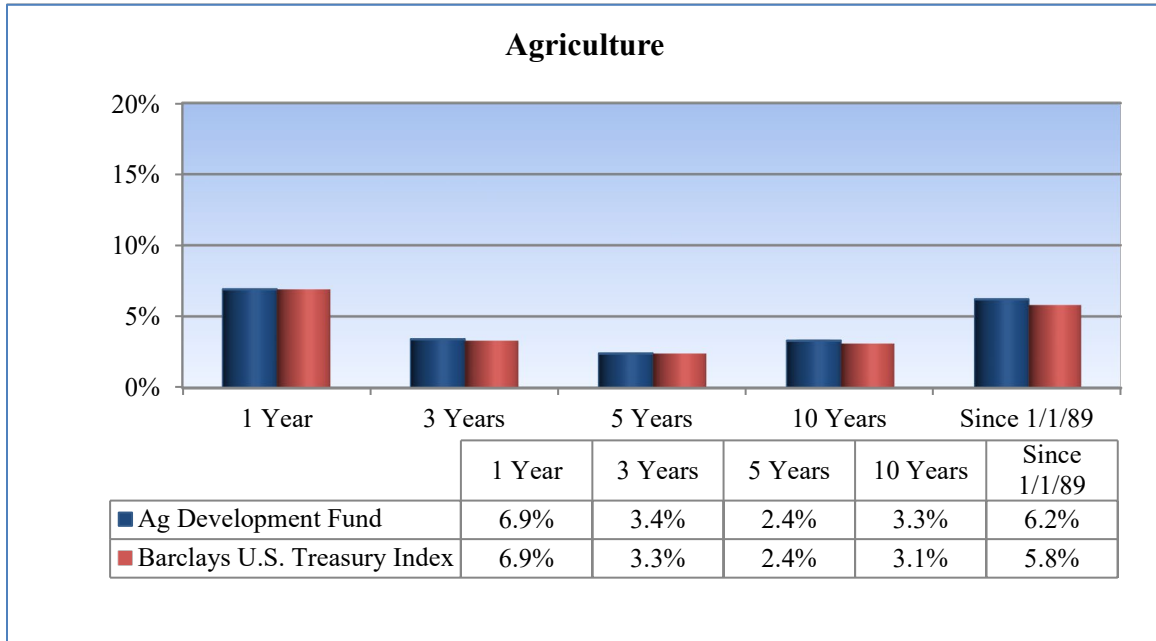
MISCELLANEOUS TRUSTS AERONAUTICS TRUST FUND

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 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 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.

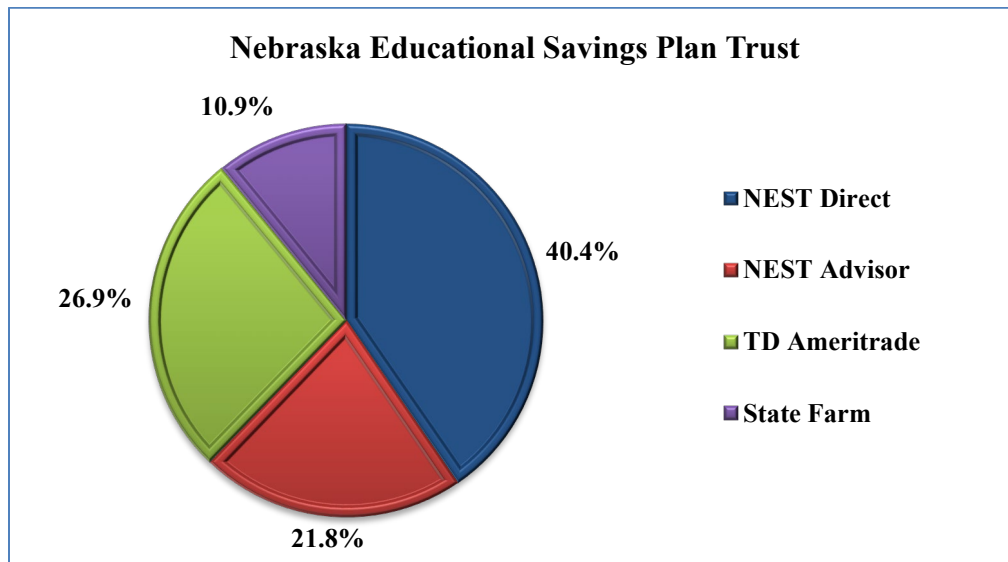
- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

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.



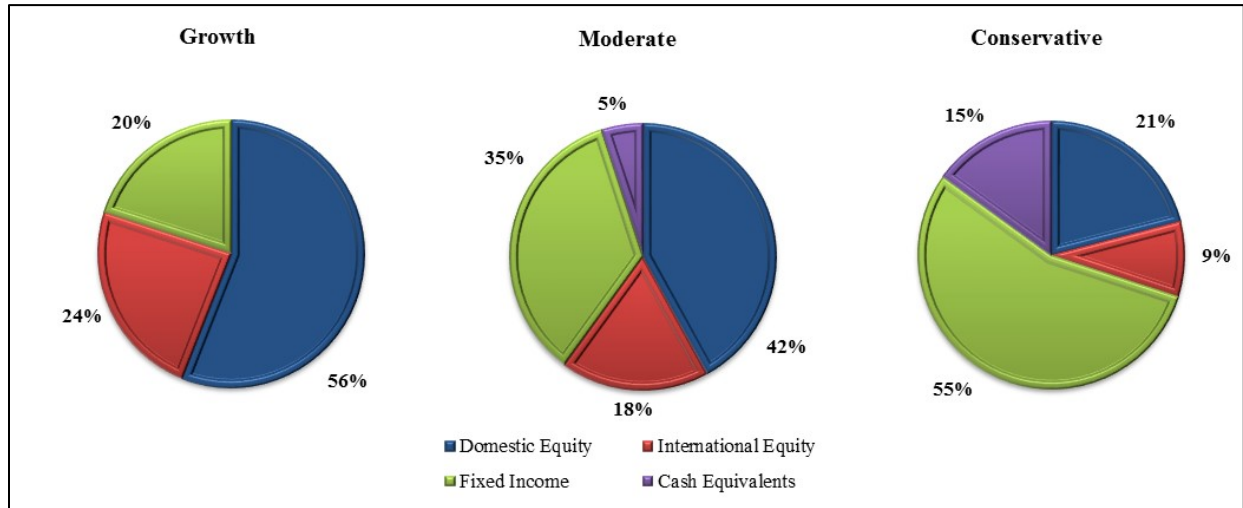
NEBRASKA ENABLE SAVINGS PLAN

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 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.

