



Nebraska Investment Council Real Estate Market Update & Portfolio Review

March 2018

Portfolio Overview

Portfolio Detail ¹ as of September 30, 2017	Defined Benefit Portfolio	Endowment Portfolio	Total Portfolio
Number of Active Investments	19	8	27
Total Commitments	\$969,000,000	\$79,500,000	\$1,048,500,000
Unfunded Commitments	\$188,988,929	\$7,006,637	\$195,995,567
Cumulative Paid-In	\$985,725,316	\$72,309,867	\$1,058,035,183
Cumulative Distributions	\$592,891,393	\$39,662,117	\$632,553,510
Net Asset Value	\$799,688,808	\$65,145,874	\$864,834,682
Total Value ²	\$1,392,580,201	\$104,807,991	\$1,497,388,192
DPI ³	0.60x	0.55x	0.60x
TVPI ⁴	1.41x	1.45x	1.42x
IRR since inception	7.12%	10.48%	7.27%
Real Estate Inception Date	12/31/2004	12/1/2008	12/31/2004

¹ Total Paid-In Cash includes all contributions and all management fees

² Total Distributions + Net Asset Value

³ Distributions / Paid-In Cash

⁴ Total Value / Paid-In Cash

- Performance across DB/CBB Direct and Endowment portfolios has greatly improved since the real estate market trough in late 2009

Presentation Notes

The portfolio summary slides shows high level stats on the size and returns for both the DB and Endowments real estate portfolios. The DB program is now over 10 years old while the Endowment program is just over 7 years in and has a more fortuitous entry point as noted by the since inception return of 10.5%.

Evolution of Performance

DB/CBB

Partnership Name	Vintage Year	RE Strategy	IRR as of					TVPI as of				
			12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017	12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017
Prudential Property Investment Separate Account	2006	Core	3.02%	4.06%	5.06%	5.31%	5.38%	1.21x	1.33x	1.49x	1.58x	1.64x
UBS Trumbull Property Fund	2006	Core	3.80%	4.50%	5.16%	5.25%	5.19%	1.30x	1.42x	1.55x	1.63x	1.68x
Barings Core Property Fund	2010	Core	12.75%	11.85%	12.30%	11.54%	10.91%	1.43x	1.54x	1.38x	1.49x	1.56x
Core			4.10%	4.90%	5.83%	6.02%	6.01%	1.28x	1.40x	1.48x	1.57x	1.63x
UBS Trumbull Property Income Fund	2015	Core Debt	N/A	N/A	8.84%	9.36%	7.64%	N/A	N/A	1.07x	1.15x	1.18x
Core Debt			N/A	N/A	8.84%	9.36%	7.64%	N/A	N/A	1.07x	1.15x	1.18x
Prudential Property Investment Separate Account II	2007	Core Plus	1.97%	3.70%	6.10%	6.74%	6.66%	1.11x	1.16x	1.29x	1.37x	1.43x
Core-Plus			1.97%	3.70%	6.10%	6.74%	6.66%	1.11x	1.16x	1.29x	1.37x	1.43x
Beacon Capital Strategic Partners Fund V	2007	Value Added	-11.26%	-8.36%	-7.57%	-7.85%	-7.87%	0.56x	0.64x	0.64x	0.62x	0.62x
Heitman Value Partners Fund II	2007	Value Added	5.18%	7.32%	8.35%	8.53%	8.56%	1.18x	1.32x	1.43x	1.46x	1.47x
Almanac Realty Securities Fund V	2008	Value Added	12.56%	12.75%	11.94%	11.64%	11.72%	1.32x	1.42x	1.44x	1.46x	1.48x
Rockwood Capital Real Estate Partners Fund IX, L.P.	2012	Value Added	1.03%	16.87%	17.67%	15.04%	16.04%	1.01x	1.14x	1.25x	1.32x	1.41x
Almanac Realty Securities Fund VII, L.P.	2015	Value Added	N/A	N/A	8.74%	10.48%	11.83%	N/A	N/A	1.05x	1.11x	1.18x
Rockwood Capital Real Estate Partners Fund X, L.P.	2016	Value Added	N/A	N/A	NM	-11.32%	-3.39%	N/A	N/A	N/A	0.94x	0.98x
Value Added			1.44%	3.79%	4.73%	4.97%	5.46%	1.05x	1.14x	1.19x	1.19x	1.21x
Rockpoint Real Estate Fund III	2007	Opportunistic	15.44%	15.01%	14.67%	14.18%	14.02%	1.36x	1.37x	1.38x	1.37x	1.37x
CB Richard Ellis Strategic Partners U.S. Opportunity Fund V	2008	Opportunistic	0.19%	2.67%	5.89%	5.08%	4.85%	1.01x	1.12x	1.34x	1.32x	1.32x
Landmark Real Estate Partners VI	2010	Opportunistic	28.48%	27.26%	23.88%	21.39%	20.55%	1.50x	1.62x	1.63x	1.58x	1.59x
AG Realty Fund VIII	2011	Opportunistic	13.41%	14.35%	17.09%	16.76%	15.56%	1.16x	1.25x	1.42x	1.52x	1.54x
Torchlight Debt Opportunity Fund IV	2013	Opportunistic	-1.94%	6.27%	8.86%	9.30%	9.61%	0.97x	1.06x	1.15x	1.23x	1.30x
Landmark Real Estate Partners VII, L.P.	2014	Opportunistic	N/A	38.93%	106.52%	28.06%	21.31%	N/A	1.21x	1.31x	1.23x	1.23x
Torchlight Debt Opportunity Fund V	2015	Opportunistic	N/A	N/A	-3.73%	10.24%	12.58%	N/A	N/A	0.98x	1.09x	1.10x
Landmark Real Estate Partners VIII, L.P.	2017	Opportunistic	N/A	N/A	N/A	N/A	56.49%	N/A	N/A	N/A	N/A	1.56x
Opportunistic			11.42%	12.81%	14.11%	12.87%	12.82%	1.25x	1.32x	1.38x	1.37x	1.36x
Total Defined Benefit Portfolio			5.30%	6.16%	7.06%	7.12%	7.12%	1.23x	1.30x	1.34x	1.39x	1.41x

Endowments

Partnership Name	Vintage Year	RE Strategy	IRR as of					TVPI as of				
			12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017	12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017
Barings Core Property Fund	2010	Core	12.74%	11.85%	12.23%	11.57%	10.99%	1.43x	1.54x	1.45x	1.56x	1.64x
Prudential Property Investment Separate Account	2010	Core	13.10%	12.84%	12.95%	11.90%	11.17%	1.21x	1.35x	1.52x	1.63x	1.70x
UBS Trumbull Property Fund	2010	Core	9.89%	10.08%	10.46%	9.68%	9.05%	1.23x	1.36x	1.50x	1.58x	1.63x
Core			11.71%	11.36%	11.71%	10.94%	10.32%	1.29x	1.41x	1.48x	1.59x	1.65x
UBS Trumbull Property Income Fund	2016	Core Debt	N/A	N/A	N/A	5.59%	5.74%	N/A	N/A	N/A	1.06x	1.09x
Core Debt			N/A	N/A	N/A	5.59%	5.74%	N/A	N/A	N/A	1.06x	1.09x
Metropolitan Real Estate Partners VI	2008	Opportunistic	10.75%	11.58%	12.05%	11.76%	11.56%	1.37x	1.47x	1.55x	1.57x	1.58x
Metropolitan Real Estate Partners International III	2009	Opportunistic	8.01%	7.91%	7.26%	5.86%	6.89%	1.18x	1.22x	1.23x	1.21x	1.27x
Landmark Real Estate Partners VII, L.P.	2014	Opportunistic	N/A	23.04%	132.97%	29.12%	21.73%	N/A	1.21x	1.31x	1.23x	1.23x
Metropolitan Real Estate Secondaries and Co-Investments Fund, L.P.	2015	Opportunistic	N/A	N/A	66.86%	14.32%	12.81%	N/A	N/A	1.29x	1.07x	1.11x
Value Added and Opportunistic			10.26%	10.97%	11.72%	10.83%	10.85%	1.32x	1.39x	1.43x	1.38x	1.38x
Total Endowment Portfolio			10.83%	11.14%	11.71%	10.84%	10.48%	1.30x	1.40x	1.46x	1.43x	1.45x

Presentation Notes

Evolution of performance shows how the IRR & Equity Multiples for the total programs and underlying holdings have changed over time. Both programs have shown strong recoveries since the bottom of the market in late 2009.

Private Market Equivalent Analysis

Private Market Equivalent IRR Comparison As of September 30, 2017

RE Strategy	NIC Performance	NFI-ODCE	NPI	Inception Date
DB Value Added	5.5%	6.5%	7.7%	8/24/2007
DB Opportunistic	12.8%	9.9%	10.1%	9/28/2007
DB Value Added & Opportunistic	9.3%	8.2%	8.9%	8/24/2007

As of September 30, 2017

RE Strategy	NIC Performance	NFI-ODCE	NPI	Inception Date
Endowment Opportunistic	10.9%	8.9%	9.5%	12/1/2008

Presentation Notes

The private market equivalent analysis seeks to answer the question of whether the non-Core investments are providing alpha over the lower-risk Core alternatives. Non-Core performance is best measured through dollar weighted performance metrics (i.e. IRR) while Core indices have traditionally been provided in time weighted return ("TWR") methodologies. The private market equivalent analysis converts the Core indices from TWRs to IRRs by taking the cash flows from the non-Core portfolio and making hypothetical investments into the Core indices. This exercise allows for a like-kind comparison on performance.

The Non-Core components of both the DB program and the Endowment are providing alpha on a net of fee basis over the Core index. For the DB program, the Opportunistic investments have carried the Value-Added investments thus far, which is a sub-group have not outperformed.

DB/CBB Portfolio Time Weighted Performance¹

Partnership Name	Style	Investment Vehicle	Commitment	Net Asset Value	Time-Weighted Returns					
					Current Quarter	1 Year	3 Year	5 Year	Since Inception	Inception Date
Prudential Property Investment Separate Account	Core	Open end	\$135,000,000	\$186,443,683	2.01%	7.15%	10.35%	11.05%	5.32%	3/31/2006
UBS Trumbull Property Fund	Core	Open end	115,000,000	156,648,535	1.28%	4.42%	7.95%	8.51%	5.35%	6/30/2006
Barings Core Property Fund	Core	Open end	110,000,000	148,635,577	2.27%	7.51%	9.77%	9.63%	10.86%	11/10/2010
Core			360,000,000	491,727,795	1.86%	6.37%	9.47%	9.89%	5.63%	3/31/2006
UBS Trumbull Property Income Fund	Core Debt	Open end	120,000,000	66,561,874	0.96%	4.53%	N/A	N/A	7.73%	4/1/2015
Core Debt			120,000,000	66,561,874	0.96%	4.53%	N/A	N/A	7.73%	3/31/2006
Prudential Property Investment Separate Account II	Core Plus	Open end	51,500,000	76,552,995	1.46%	7.09%	11.21%	11.95%	2.90%	6/29/2007
Core Plus			51,500,000	76,552,995	1.46%	7.09%	11.21%	11.95%	2.90%	6/29/2007
Beacon Capital Strategic Partners Fund V, L.P.	Value Added	Closed end	22,500,000	194,699	2.23%	2.15%	-2.15%	0.56%	-10.12%	8/24/2007
Heitman Value Partners Fund II, L.P.	Value Added	Closed end	25,000,000	186,554	-1.79%	5.07%	13.89%	18.55%	1.67%	11/5/2007
Almanac Realty Securities Fund V, L.P.	Value Added	Closed end	25,000,000	2,058,561	7.99%	20.22%	11.17%	13.47%	8.30%	5/12/2008
Rockwood Capital Real Estate Partners Fund IX, L.P.	Value Added	Closed end	20,000,000	12,677,665	7.18%	17.54%	16.82%	N/A	N/A	12/28/2012
Almanac Realty Securities Fund VII, L.P.	Value Added	Closed end	40,000,000	17,473,551	4.35%	13.82%	N/A	N/A	9.32%	4/24/2015
Rockwood Capital Real Estate Partners Fund X, L.P.	Value Added	Closed end	40,000,000	11,629,210	1.13%	-6.06%	N/A	N/A	-9.48%	9/7/2016
Value Added			172,500,000	44,220,240	4.75%	12.07%	12.20%	14.49%	-0.65%	8/24/2007
Rockpoint Real Estate Fund III, L.P.	Opportunistic	Closed end	25,000,000	2,633,302	-0.77%	4.16%	1.47%	6.37%	N/A	9/28/2007
CB Richard Ellis Strategic Partners U.S. Opportunity Fund V, L.P.	Opportunistic	Closed end	25,000,000	8,429,571	-1.40%	4.86%	13.81%	11.45%	N/A	8/13/2008
Landmark Real Estate Partners VI, L.P.	Opportunistic	Closed end	40,000,000	8,153,088	1.16%	0.14%	4.11%	10.67%	31.84%	5/19/2010
AG Realty Fund VIII, L.P.	Opportunistic	Closed end	25,000,000	14,678,649	2.07%	3.92%	16.15%	16.43%	13.29%	1/23/2012
Torchlight Debt Opportunity Fund IV	Opportunistic	Closed end	20,000,000	16,797,736	2.31%	13.26%	10.92%	N/A	8.65%	10/10/2013
Landmark Real Estate Partners VII, L.P.	Opportunistic	Closed end	50,000,000	34,657,778	5.04%	10.25%	42.63%	N/A	N/A	9/12/2014
Torchlight Debt Opportunity Fund V	Opportunistic	Closed end	40,000,000	25,804,249	2.16%	15.67%	N/A	N/A	8.33%	6/29/2015
Landmark Real Estate Partners VIII, L.P.	Opportunistic	Closed end	40,000,000	9,471,531	N/A	N/A	N/A	N/A	N/A	7/11/2017
Opportunistic			265,000,000	120,625,904	5.38%	11.58%	14.89%	14.74%	N/A	9/28/2007
Total Direct RE Portfolio			\$969,000,000	\$799,688,808	2.40%	7.33%	10.47%	11.10%	5.65%	9/28/2007
NCREIF NFI-ODCE					1.64%	6.70%	9.84%	10.57%	5.59%	3/31/2006
Total Defined Benefit					2.40%	7.33%	10.47%	11.08%	7.38%	12/31/2004
Custom Benchmark					1.64%	6.70%	9.65%	10.24%	8.59%	12/31/2004

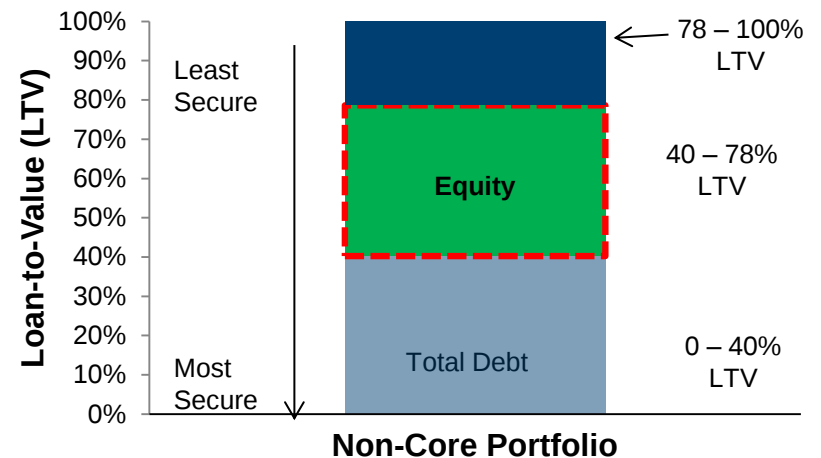
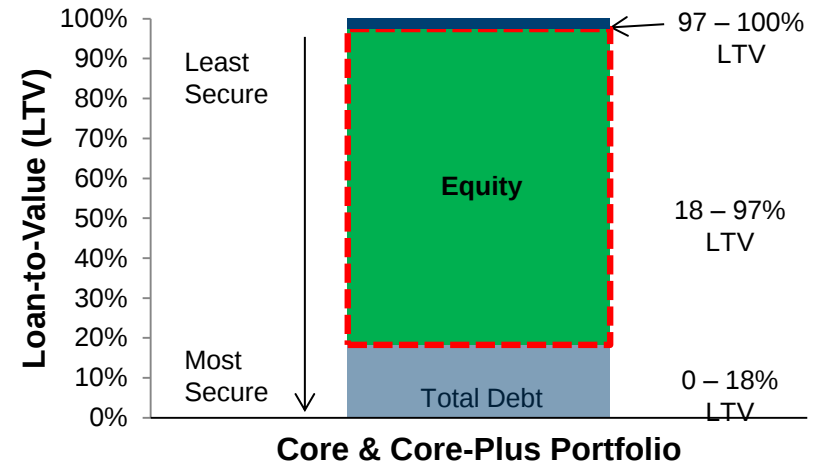
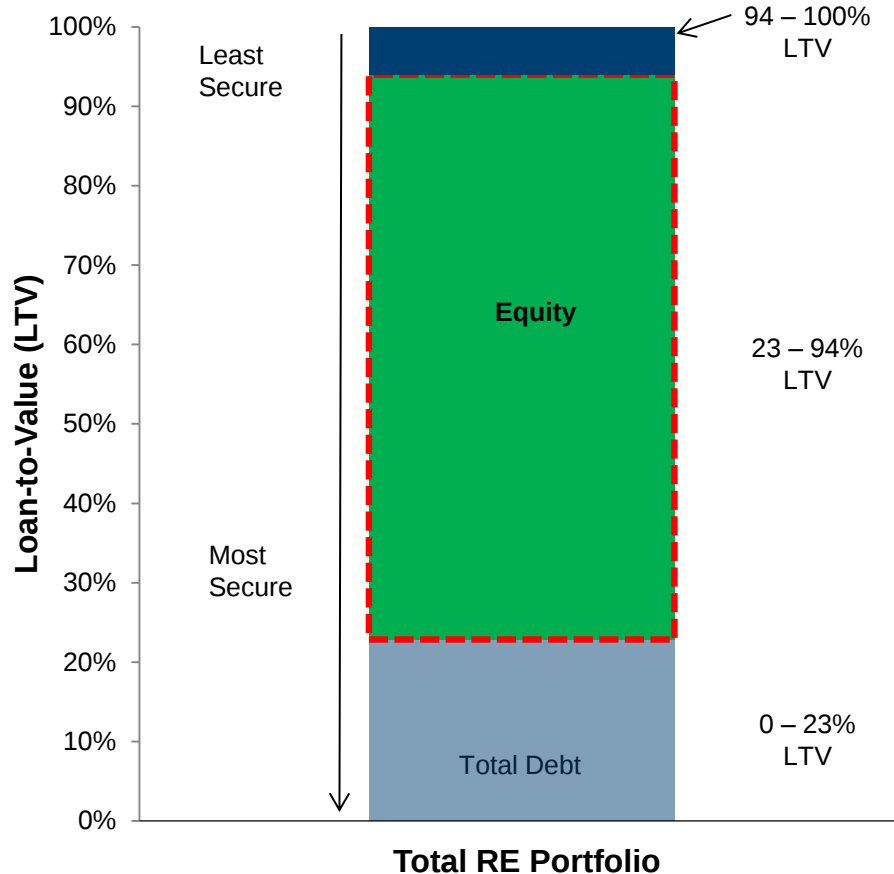
¹Returns shown are time-weighted, which ignores both the timing and magnitude of cash flows into and out of the portfolio. While time-weighted returns are commonly used as a standard measure of performance in traditional asset classes, the Internal Rate of Return ("IRR") is a better and more common measure of real estate performance

²Total Defined Benefit performance includes liquidated investments

Presentation Notes

Traditional performance measurement time weighted returns are depicted for the DB program. Real estate portfolios are best viewed on both a dollar-weighted return and time-weighted return basis as portfolios generally utilize both open ended evergreen structures for Core stabilized investments and private equity style closed end partnerships for alpha focused non-Core investments. Investors should focus on three- and five-year time weighted returns to evaluate total programs against traditional time-weighted benchmarks. Closed end funds can display some "noise" in time weighted returns when viewing start-up and wind-down periods which distort since inception returns. At this point the DB program is performing well against its benchmark.

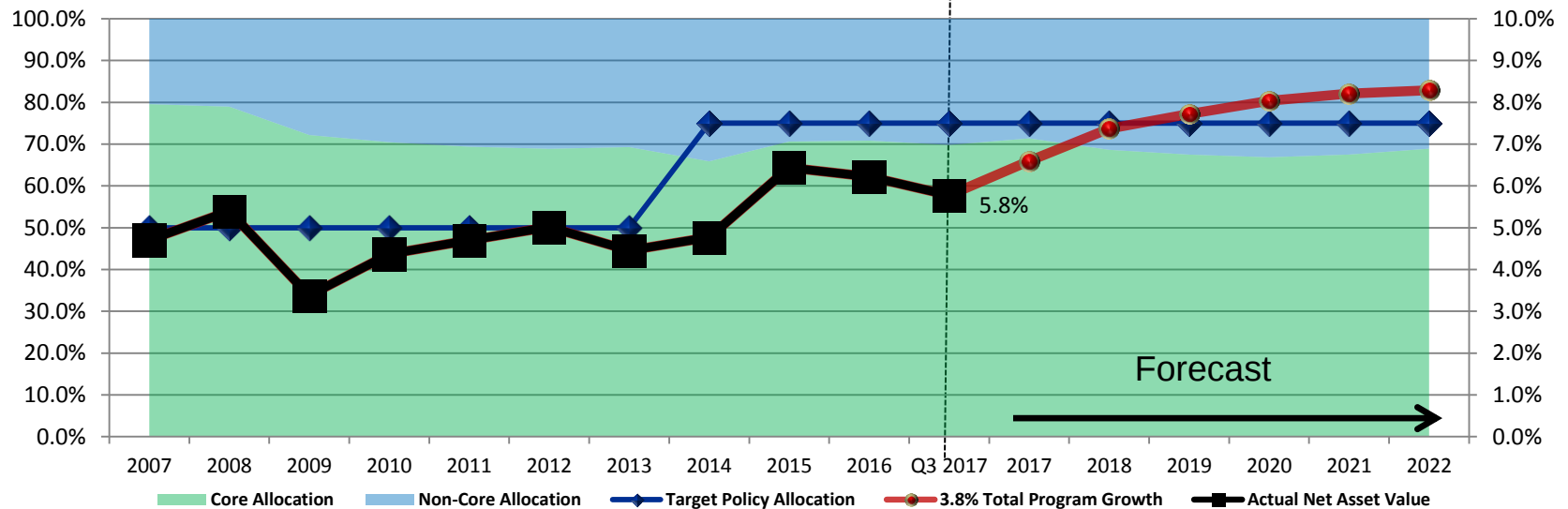
DB/CBB Capital Stack Exposure



Presentation Notes

The DB Real Estate Program contains modest leverage at the overall portfolio level. As expected, the non-Core allocation has higher leverage (46%) but also contains preferred equity and debt positions through investments with Almanac and Torchlight that provide some equity cushion as the weighted average last dollar of exposure within the non-Core component is at the 86% LTV position. As the real estate cycle progresses, it is desirable to build in some cushion within the capital stack.

DB/CBB Pacing Considerations – 2017 & Beyond



	Inception to Q3 2017	2017	2018	2019	2020	2021	2022
\$ in millions							
Commitments	929	70	90	60	60	60	60
- Core		30	30	-	-	-	-
- Non-Core		40	60	60	60	60	60
Capital Calls	(986)	(167)	(108)	(62)	(62)	(52)	(41)
Distributions	593	76	29	48	55	70	75
Annual Net Cash Flows	(393)	(91)	(79)	(14)	(7)	18	34
Real Estate NAV	800	923	1,071	1,165	1,259	1,334	1,398
Total Plan Value	13,871	14,003	14,535	15,087	15,661	16,256	16,873
RE Value as a % of Total	5.8%	6.6%	7.4%	7.7%	8.0%	8.2%	8.3%

Presentation Notes

Strong equity markets in early 2017 have challenged the RE program to reach its target allocation which was increased in 2013. Allocation to Core should be allowed to drift higher within the policy range (50 – 80%) as the cycle moves from recovery to expansion. The lower leveraged style provides more downside protection late cycle than Non-Core and tweaking the split between styles is one of the most effective ways to manage downside risk in the portfolio.

Endowment Portfolio Time Weighted Performance¹

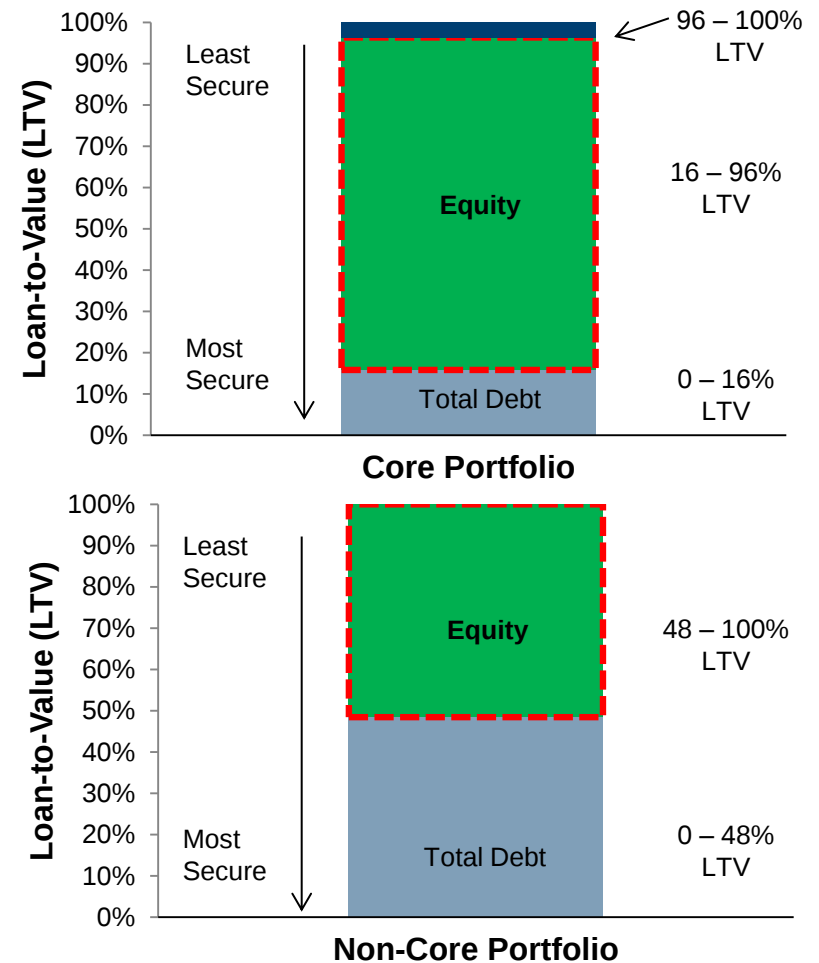
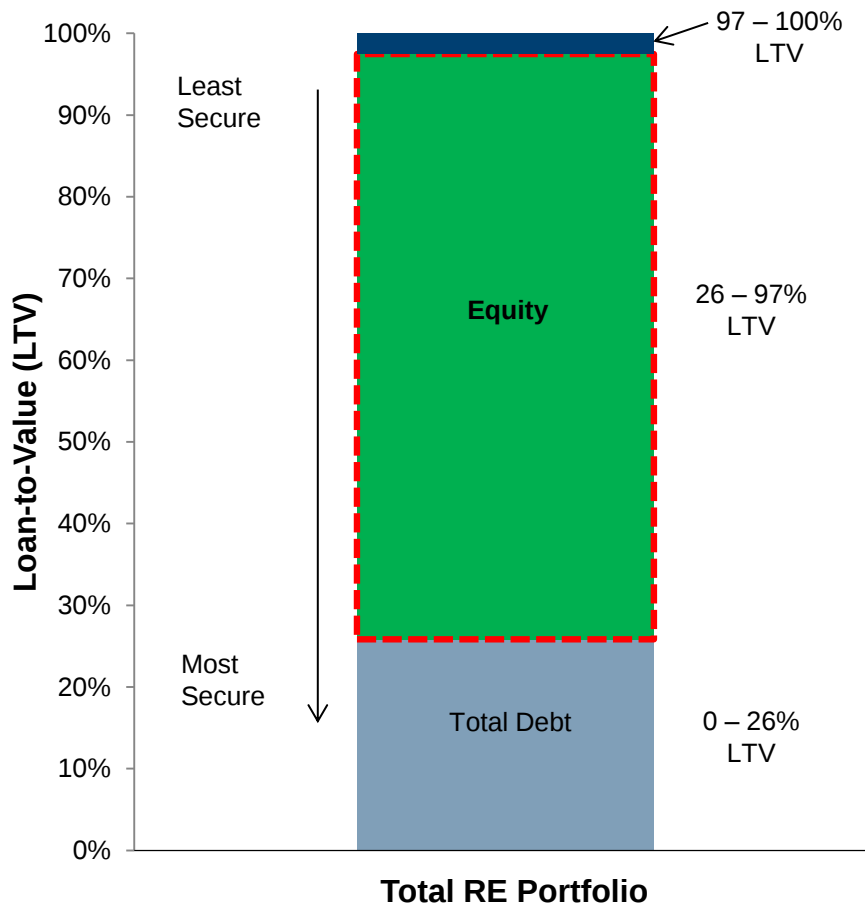
Partnership Name	Style	Investment Vehicle	Commitment	Net Asset Value	Time-Weighted Returns					
					Current Quarter	1 Year	3 Year	5 Year	Since Inception	Inception Date
Prudential Property Investment Separate Account	Core	Open end	\$6,000,000	\$9,033,340	2.06%	7.18%	9.93%	10.78%	12.29%	12/31/2009
UBS Trumbull Property Fund	Core	Open end	8,500,000	12,002,408	1.28%	4.42%	7.95%	8.51%	10.12%	1/4/2010
Barings Core Property Fund	Core	Open end	11,500,000	16,089,900	2.27%	7.51%	9.77%	9.63%	10.86%	11/10/2010
Core			26,000,000	37,125,648	1.90%	6.41%	9.26%	9.58%	11.48%	12/31/2009
UBS Trumbull Property Income Fund	Core Debt	Open end	6,000,000	6,264,216	0.96%	4.53%	N/A	N/A	5.73%	4/1/2016
Core Debt			6,000,000	6,264,216	0.96%	4.53%	N/A	N/A	5.73%	4/1/2016
Metropolitan Real Estate Partners VI, L.P.	Opportunistic	Closed end	20,000,000	4,293,145	-0.47%	3.50%	12.12%	13.53%	6.67%	12/1/2008
Metropolitan Real Estate Partners International III, L.P.	Opportunistic	Closed end	10,000,000	4,579,471	4.79%	11.32%	6.40%	8.50%	N/A	6/19/2009
Landmark Real Estate Partners VII, L.P.	Opportunistic	Closed end	7,500,000	5,198,665	4.99%	10.19%	N/A	N/A	29.10%	12/22/2014
Metropolitan Real Estate Secondaries and Co-Investments Fund, L.P.	Opportunistic	Closed end	10,000,000	7,684,730	1.97%	3.16%	N/A	N/A	19.56%	12/30/2015
Value Added and Opportunistic			47,500,000	21,756,011	2.73%	7.43%	12.82%	13.48%	5.40%	12/1/2008
Total Endowment Portfolio			\$79,500,000	\$65,145,874	2.07%	6.53%	10.44%	11.13%	4.51%	12/1/2008
NCREIF NFI-ODCE					1.64%	6.70%	9.84%	10.57%	5.81%	12/1/2008

¹Returns shown are time-weighted, which ignores both the timing and magnitude of cash flows into and out of the portfolio. While time-weighted returns are commonly used as a standard measure of performance in traditional asset classes, the Internal Rate of Return ("IRR") is a better and more common measure of real estate performance

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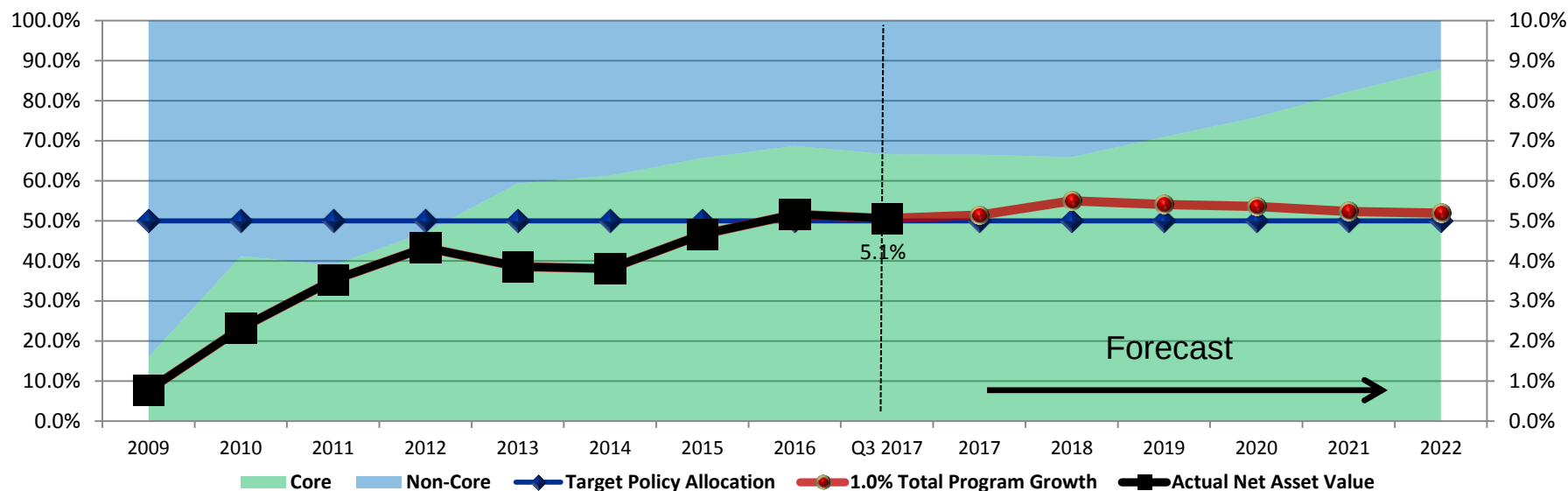
Endowment Capital Stack Exposure



Presentation Notes

The Endowment Real Estate Program contains modest leverage at the overall portfolio level as it is anchored in Core funds which have an LTV of 20%. As expected, the non-Core allocation has higher leverage (48%). As the real estate cycle progresses, it is desirable to build in some cushion within the capital stack.

Endowment Pacing Considerations – 2017 & Beyond



\$ in millions	Inception to Q3 2017	2017	2018	2019	2020	2021	2022
Commitments	80	-	-	-	-	-	-
- Core		-	-	-	-	-	-
- Non-Core		-	-	-	-	-	-
Capital Calls	(72)	(5)	(2)	-	-	-	-
Distributions	40	6	3	7	6	7	5
Annual Net Cash Flows	(33)	1	0	7	6	7	5
Real Estate NAV	65	66	72	71	71	70	70
Total Plan Value	1,288	1,291	1,304	1,317	1,330	1,343	1,357
RE Value as a % of Total	5.1%	5.1%	5.5%	5.4%	5.4%	5.2%	5.2%

Presentation Notes

Program has reached its target allocation of 5.0% and does not require any new commitments in the immediate future.