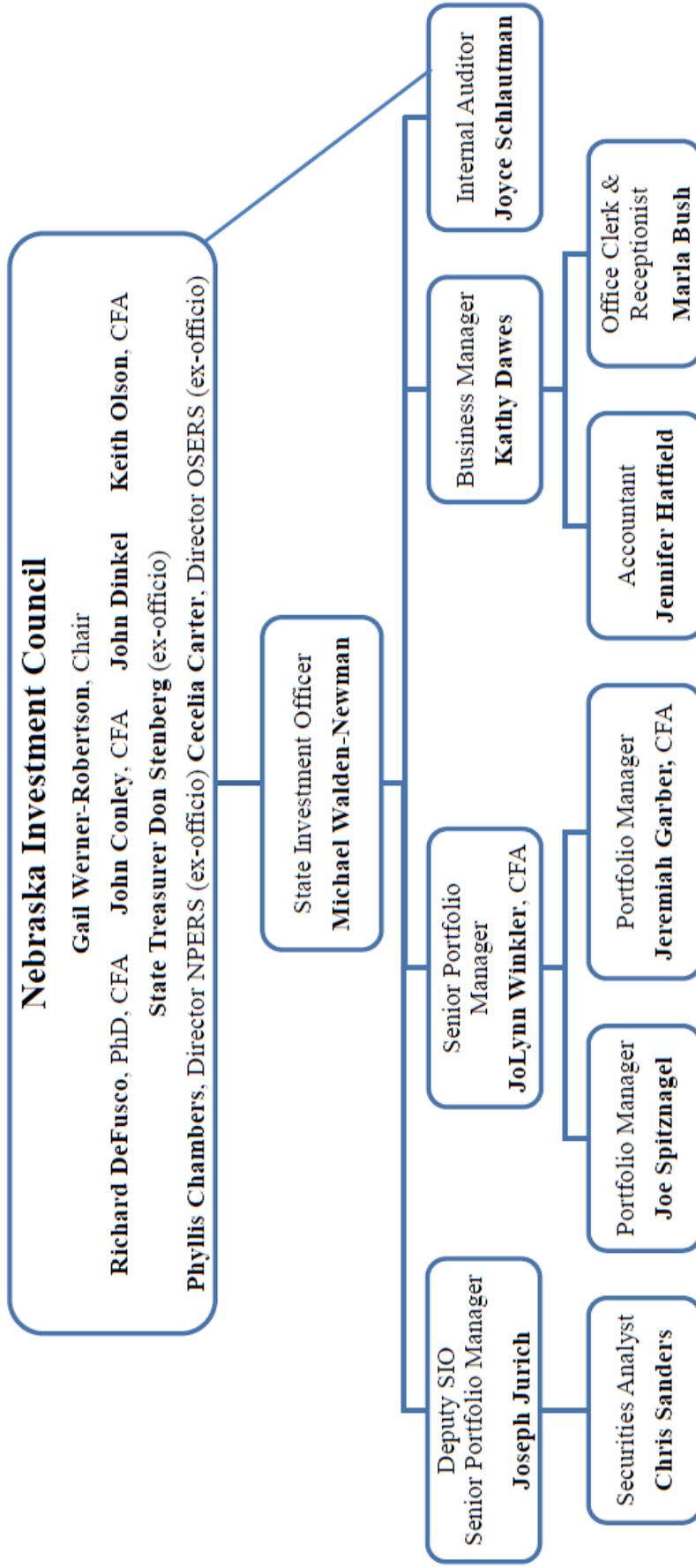




2016 Annual Report Executive Summary

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email: NIC.Info@nebraska.gov

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



NEBRASKA INVESTMENT COUNCIL



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

Council Chairwoman

Gail Werner-Robertson

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

Council

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

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

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

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

John H. Conley, CFA
D.A. Davidson.
Omaha, NE
Term 2017-2021

Phyllis Chambers
NPERS Director
Lincoln, NE
Ex Officio (non-voting)

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

State Investment Officer

Michael Walden-Newman
State Investment Officer
Lincoln, NE

NEBRASKA INVESTMENT COUNCIL STAFF



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

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

Staff

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

Investment Consultant

Aon Hewitt Investment Consulting, Inc
Chicago, Illinois

Custodian

State Street Bank & Trust, Co.
Boston, Massachusetts

EXECUTIVE SUMMARY

I am pleased to present the Annual Report for the Nebraska Investment Council for the year ending December 31, 2016. The Council oversees \$23 billion across 32 investment programs:

- \$10.6 billion in 4 defined benefit pension plans.
- \$2.9 billion in 7 other retirement plans.
- \$1.2 billion in 11 public endowments.
- \$3.8 billion in the Operating Investment Pool, the State's checkbook, which is managed internally.
- \$294.4 million in State funds managed by the University of Nebraska Foundation.
- \$76 million in 3 State trusts.
- \$4.2 billion in 4 college savings plans.
- \$1.0 million in Nebraska Enable, a new program for disability expenses.

The funds are spread among 58 investment firms and over 150 investments.

The term Council is used in several ways:

- The Council is the seven-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.
- The Council is an independent state agency with a ten-member Investment Team.
- Most importantly, the Investment Council is the eighteen of us working together for the citizens of Nebraska.
- Beginning January 1, 2017 the Director of the Omaha School Employees Retirement System becomes an ex-officio member, bringing the Council to a total of eight members.

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, and the Nebraska Public Employees Retirement Systems staff and board. 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."

The following Executive Summary provides an overview of our 2016 Annual Report. This summary includes Council activity, 2016 capital markets, and general portfolio overview including performance on the ten main Investment Programs. The full Annual Report follows with detailed sector and manager performance. This report and a wealth of other information about the Nebraska investment program can be found on the Council website at <https://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

Council Initiatives

The Council investment program remains solid and 2016 work produced results. In May the Council approved a new, improved \$2 billion global equity portfolio. This was the result of an initiative launched in 2015 to examine the entire Council portfolio, asset class by asset class, using a "blank sheet" approach. The process does not simply target underperforming managers. We ask instead: "Does the asset class have a place in the portfolio? If so, what style? What weight? What Structure? And finally, which managers?"

It was Council directed. We used over 20 existing and potential investment firms as an extension of staff. Together we explored the strengths and weaknesses in the current structure, and potential for improvement. We sent the best of the ideas to our consultant Aon Hewitt for analysis. Together, we devised a final structure and selected best-in-class managers to implement.

In August of last year we turned our attention to the rest of the public equity portfolio—the \$6 billion invested in domestic and international equities. We have used the same blank sheet approach and by year-end had again worked with over 20 different firms exploring options for improvement. We will bring an improved, integrated equity structure to the Council for approval by mid-year 2017. 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.

2016 saw the transfer of the Omaha School Employees' Retirement System (OSERS) assets to the Council effective January 1, 2017. The State legislature first considered such a merger in 2015, and approved it in March 2016. The Council and OSERS developed a transition plan effective July 1, 2016. Cooperation and collaboration on all sides resulted in a very smooth transfer. The OSERS director becomes a welcomed ex-officio member of the Council.

The Council's 2016 summer retreat—an annual policy-focused Council meeting—covered three critical areas:

- *Fixed Income Investing in Today's Economy* with a panel of our managers which covered the changing bond market landscape.
- "An *Asset Liability Study* provides the tools to align a retirement plan's risk taking with its liabilities, says Council consultant Aon Hewitt." The Council conducts a study every three to five years. Our consultant presented the results of the 2016 study.
- Council members and the State Investment Officer are bound by State law to act as fiduciaries for the State and the beneficiaries of the assets we manage. *Fiduciary Responsibility* was the focus of the last session.

Audits improve accountability. The Council has a full-time internal auditor to ensure on-going compliance. The State Auditor also calls on Council staff to help prepare the comprehensive annual financial reports for the State of Nebraska, and the pension and retirement plans. It seems the reporting becomes more in-depth each year. A significant amount of Council time is spent discussing the investment program and preparing specific financial information.

Finally, the Council launches a new website in early 2017. This six-month effort will result in improved transparency and public access.

Capital Markets Overview

Global equities provided positive returns over 2016, but there was a notable degree of regional disparity. After a volatile year, the equity markets finished 2016 on an upbeat note. The Dow Jones U.S. Total Stock Market Index, a broad measure for U.S. equities, returned 12.6% for the year. Developed non-U.S. equities, as represented by the MSCI EAFE Index, returned 1.0% in 2016. The MSCI Emerging Markets Index, a measure of emerging market equities, gained 11.2% during the year. Following Donald Trump's election win in November, the U.S. Dollar strengthened meaningfully. The strengthening of the U.S. Dollar eroded much of the gains made in other regional equity markets in USD-terms. (In local currency terms, the performance of developed non-U.S. equity markets was nearly eight percentage points better than it was in USD-terms during 4Q.) Emerging market economies improved in 2016, mainly due to rising commodity prices and economic stabilization in China.

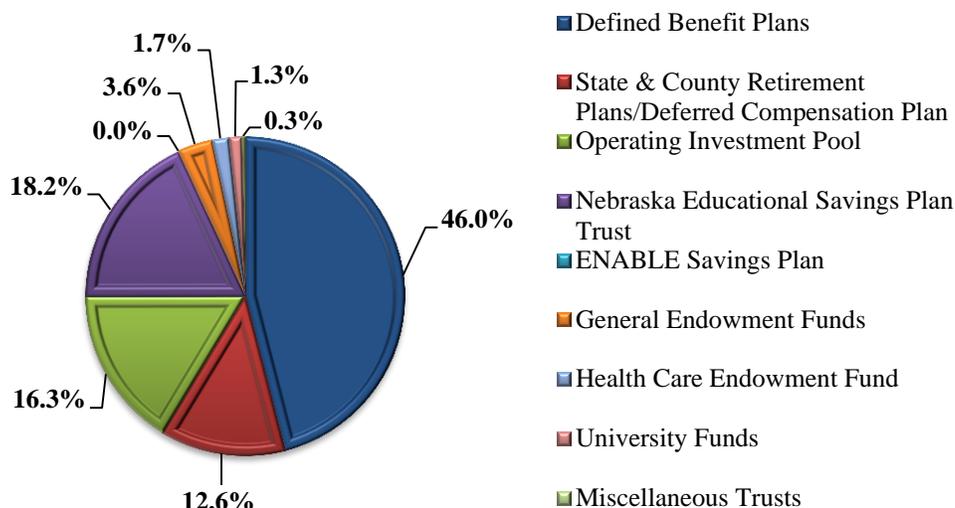
Federal Reserve hikes benchmark rate and targets three further hikes in 2017. Signs of a stronger economy alongside returning inflationary pressures prompted the Federal Reserve ("Fed") to increase the target for the Federal Funds rate to 0.5-0.75% in December. Moreover, with the potential of the economy to surprise on the upside, members of the Federal Open Markets Committee (FOMC) indicated that they envisioned an additional three rate increases in 2017, in line with market expectations. Domestic fixed income markets, as measured by the Bloomberg Barclays U.S. Universal Index, returned 3.9% during 2016.

Europe is showing improving economic conditions, however political risk remains ahead of a busy 2017. Immediately after the U.K.'s referendum decision to leave the European Union, the Europe ex-U.K. region and the U.K. experienced a significant sell-off. European equity markets recovered rapidly, however, erasing mark-to-market losses before the end of Q3. While Eurozone annualized GDP remained unchanged at 2% at the end of the year, growth picked up in the manufacturing sector as the manufacturing purchasing managers' index moved firmly into expansionary territory. The unemployment rate also broke through the 10% threshold for the first time in five years. That said, a high level of uncertainty remains owing to the large number of geopolitical risk factors on the horizon, including ongoing Brexit negotiations and German and French elections. Although the European economic recovery remains intact, the European Central Bank extended their quantitative easing program until the end of 2017.

Japan's economy continues to stutter, but a weaker yen provides some help. The Japanese economy posted anemic GDP growth throughout 2016. However, after six consecutive months of deflation, inflation rose modestly in the fourth quarter of 2016. The weakening of the yen in the fourth quarter provided a boost to the economy, partially restoring exporters' competitiveness to near-early-2016 levels. The Bank of Japan made no changes to its monetary policy during 2016; as of year-end, Japanese short-term interest rates remained in negative territory.

Emerging markets outperformed non-U.S. developed markets in 2016. Emerging markets benefitted from the stabilization of oil prices, China's introduction of fresh stimulus measures, and gradual U.S. monetary policy tightening. However, the recovery of emerging markets was threatened in the fourth quarter by the strengthening in the U.S. dollar and expectations of increased protectionism under a Trump administration.

NEBRASKA INVESTMENT COUNCIL PORTFOLIO HIGHLIGHTS



Transaction Summary

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Benefit Plans	\$ 9,933	- \$ 159	\$ 847	\$ 10,621
State & County Retirement Plans/ Deferred Compensation Plan	2,714	- 27	231	2,918
Operating Investment Pool	3,922	- 207	57	3,772
NE Educational Savings Plan Trust	3,848	64	282	4,194
Nebraska ENABLE Savings Plan	0	1	0	1
General Endowment Funds	766	- 8	68	826
Health Care Endowment Fund	377	- 21	30	386
University Funds	287	- 13	20	294
Miscellaneous Trusts	75	- 2	3	76
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

The Nebraska Investment Council manages the investments of over 30 different entities. Numerous organizations may be included in an entity, such as the many separate departments of State Government in the Operating Investment Pool. These entities fall into the ten major investment programs displayed above. For example, the pension plans for the employees of the Schools, the State Patrol, and Judges have similar characteristics and are grouped under “Defined Benefit Plans.” The pension plans for State and County employees have different characteristics and are listed separately. For all these entities, the Council’s responsibilities are primarily investment management. It does not determine the amount of funds contributed to nor disbursed from the funds it manages.

This report is intended to provide an overview of the investment management activities of the Council. All figures are believed to be materially accurate within the context of this report. Returns on all funds managed by the Council are reported net of fees unless noted otherwise.

DEFINED BENEFIT PLANS

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

School

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

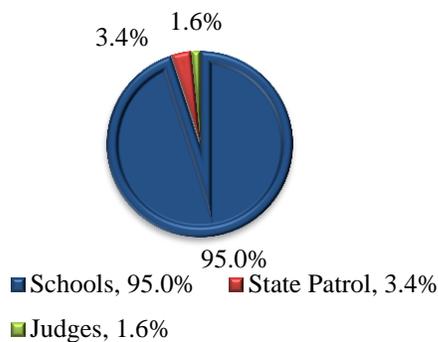
State Patrol

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

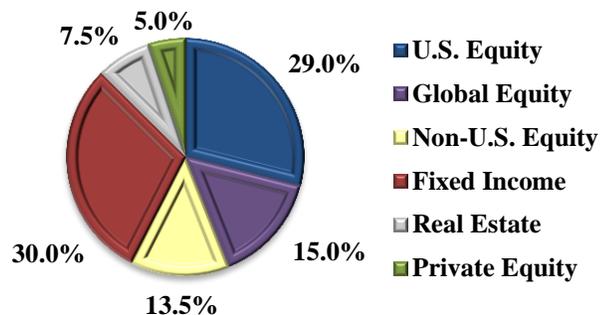
Judges

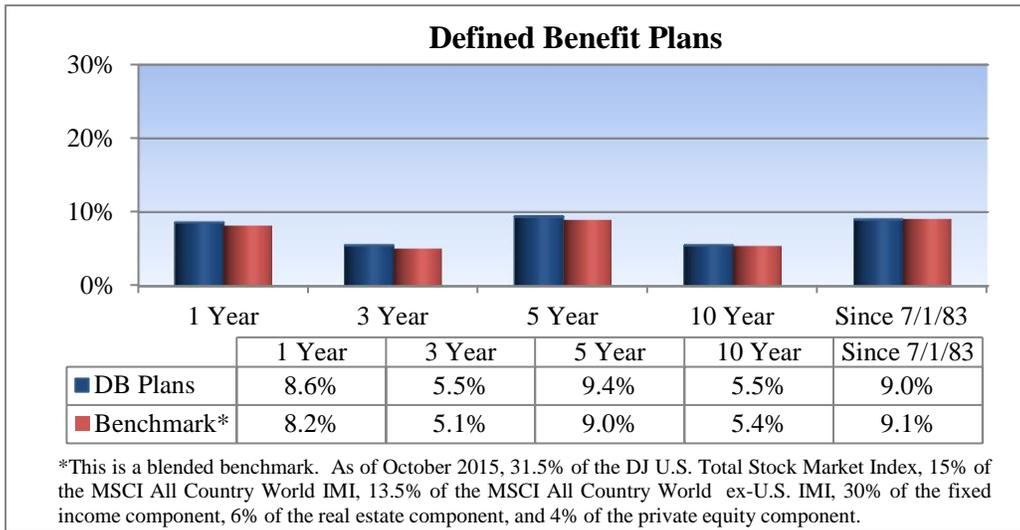
- Judges hired on or after July 1, 2015 (Tier 2) contribute 10% of compensation. A \$6 retirement plan fee, as prescribed by law, is remitted by district and county courts to assist in the funding of retirement benefits.
- Judges hired on or after July 1, 2004 or Judges who elected to participate in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

Plans as a Percentage of Total



Policy Asset Allocation





The School Plan is the largest of the three plans totaling \$10.0 billion of the \$10.6 billion (95%) in the Defined Benefit Plan. The Policy Asset Allocation of the plan currently is listed above and it maintains a 57.5% to public equity, 30% fixed income, 5.0% to private equity, and 7.5% to private real estate.

During 2016 the Defined Benefit Plans experienced an 8.6% return compared to its benchmark of 8.2%. This is an improvement from 2015's return of 1.1%.

The following table outlines the Actuarial Report completed as of June 30, 2016. The School Plan has a funded ratio of 89.6% compared to 88.7% 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, 2016	Assets (actuarial value)	\$10,046	\$ 374	\$ 165	\$10,585
	Liabilities (AAL)	<u>11,207</u>	<u>422</u>	<u>168</u>	<u>11,797</u>
	Surplus	- \$ 1,161	- \$ 48	- \$ 3	- \$ 1,212
	Funded Ratio	89.6%	88.7%	98.1%	89.7%

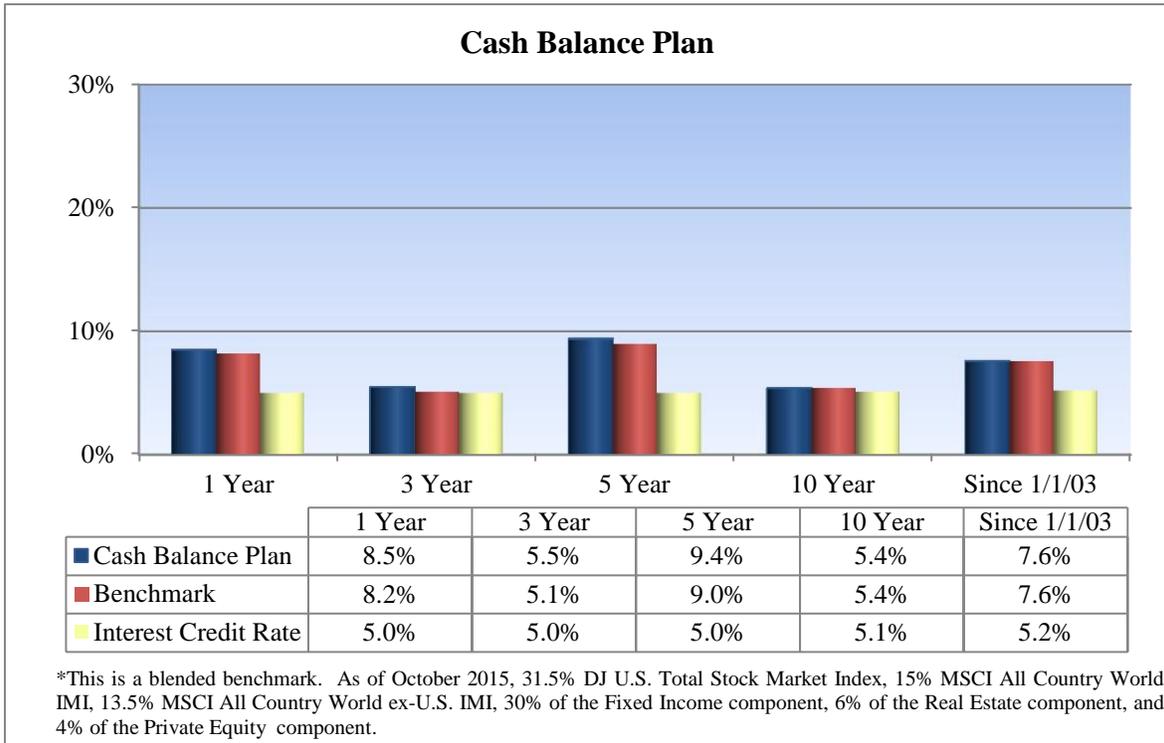
The Defined Benefit Plans operate on a July 1 – June 30 fiscal year. The State and County Plans (see following) operate on a calendar year.

CASH BALANCE PLAN

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

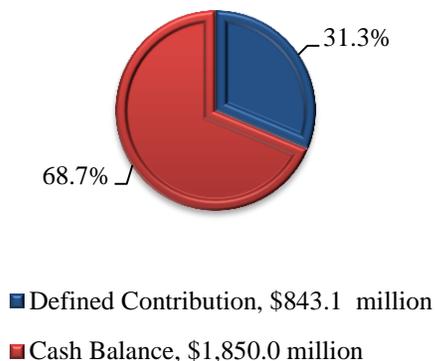
The Cash Balance Plan has a strategy that is designed to mirror the investment strategy of the Defined Benefit Plans, so the asset allocation is the same as the Defined Benefit Plans.

Although the asset allocation is the same as the Defined Benefit Plans, the annual investment return does vary just slightly. During 2016, the Cash Balance Plan experienced a return of 8.5 percent compared to 8.2 percent for the benchmark. This return is above the crediting rate earned by the participants during the year.

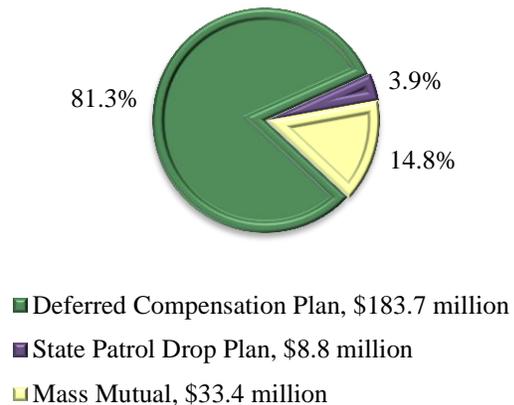


STATE & COUNTY RETIREMENT PLANS/ DEFERRED COMPENSATION PLAN

State & County Retirement Systems



State Deferred Compensation Plan & State Patrol DROP Plan



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, 2016, Mass Mutual's balance was \$33.4 million or 14.8% of State Deferred Compensation Plan & State Patrol DROP, compared to \$38.1 million or 17.4% as of December 31, 2015.

State Patrol DROP

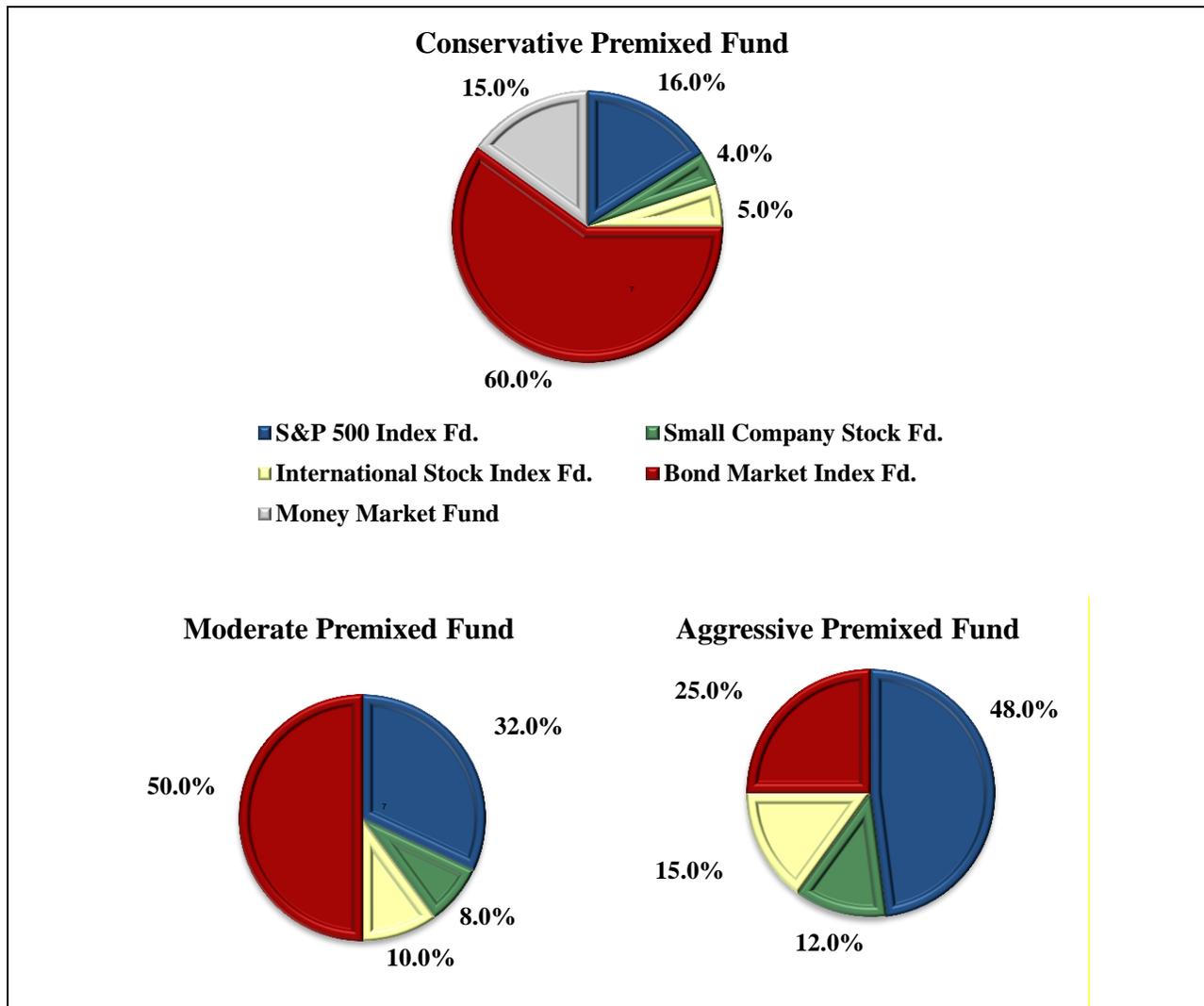
A retirement payment option called "DROP" is available in the State Patrol Retirement Plan. DROP stands for Deferred Retirement Option Plan. The feature is voluntary and provides a way for a Patrol Plan member to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit, 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.

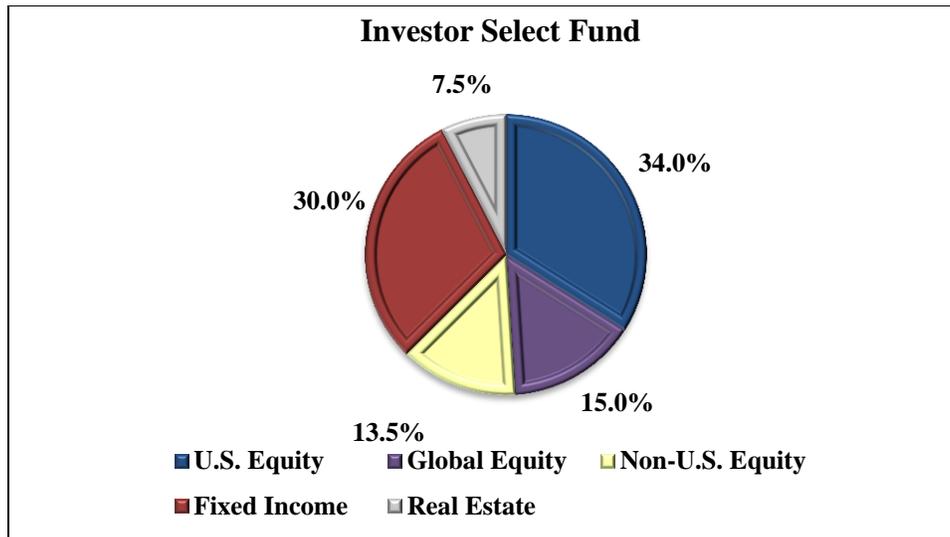
Asset Allocation

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.



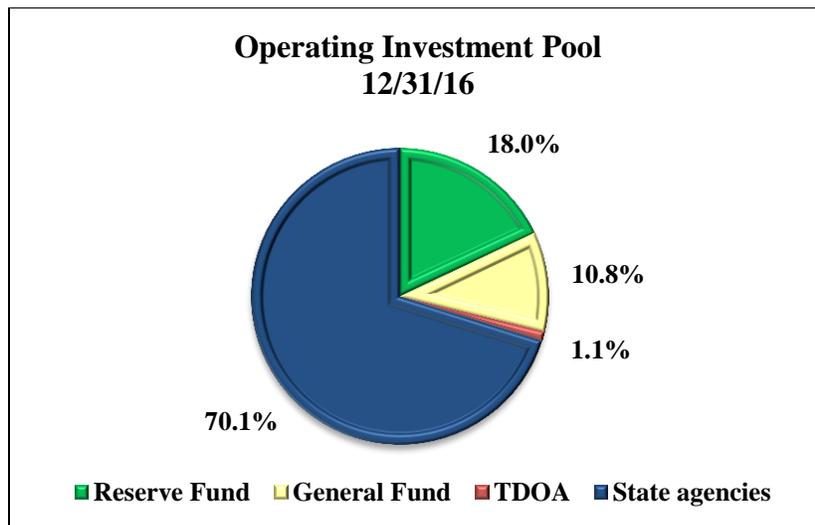


OPERATING INVESTMENT POOL (OIP)

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 six million dollars.

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



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

Below are the Short-term Liquidity portfolio constraints.

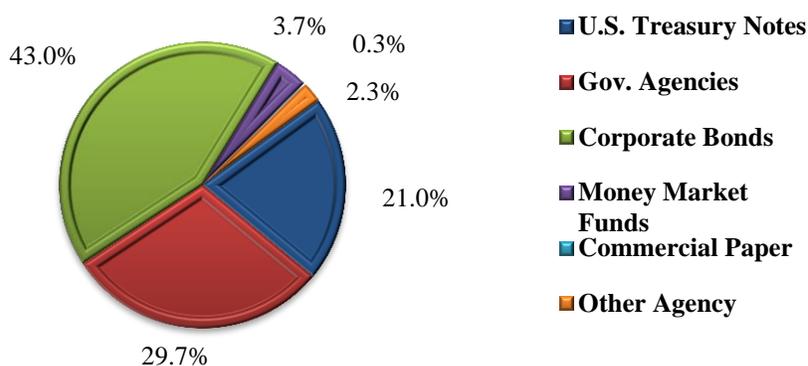
- Money Market Funds – 100% maximum, 50% to any single Money Market Fund
- Commercial Paper – 5% maximum per issue

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

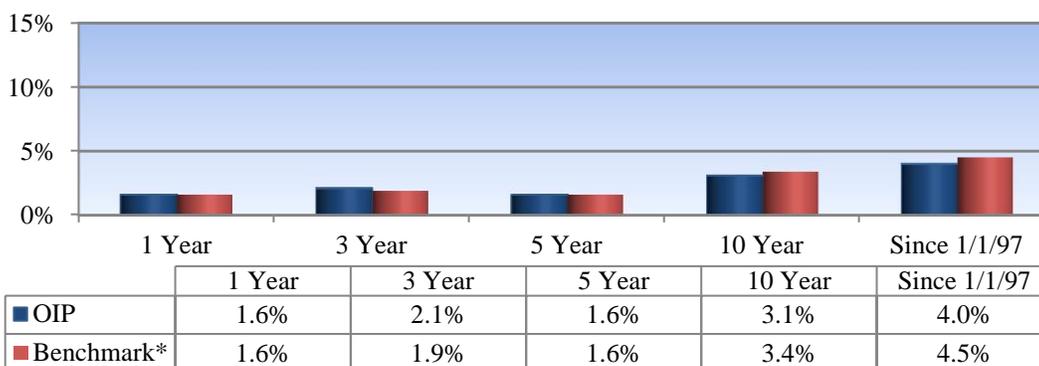
- U.S. Treasuries – 15% minimum
- U.S. Agency Notes & Debentures – 50% maximum in total, 20% maximum per agency issuer
- Money Market Funds – 5% maximum
- Corporate Bonds – 50% maximum for the total corporate sector
- AAA and AA rated corporate – 3% maximum per issuer
- A rated corporate – 30% maximum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

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

Asset Allocation Operating Investment Pool 12/31/16



Operating Investment Pool



*As of March 2014 15% Citigroup 1 Month CD, 51% BofA 1-10 year U.S. Treasury & Agency Index, 34% BofA 1-10 year AAA-A Corporate Index. Oct 2011-Feb 2014, 85% Barclays US Gov/Corp Interm. (UOW), 15% Citigroup 1 Month CD (YIM). July 2003-Sept 2011, 90% BC Int Gov/Credit (X14), 10% 90 Citigroup 30 day CD (YIM). Oct 1997 - June 2003, 85% ML 1-3 Yr Gov/Credit 15% 90 day T-bill +15 bps Inception to Sept 1997, 50% ML 1-3 Yr Gov/Credit, 50% 90 day Tbill +90bps.

NEBRASKA EDUCATIONAL SAVINGS PLAN (NEST)

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

NEST Direct College Savings Plan

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

- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

NEST Advisor College Savings Plan

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

- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

TD Ameritrade 529 College Savings Plan

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

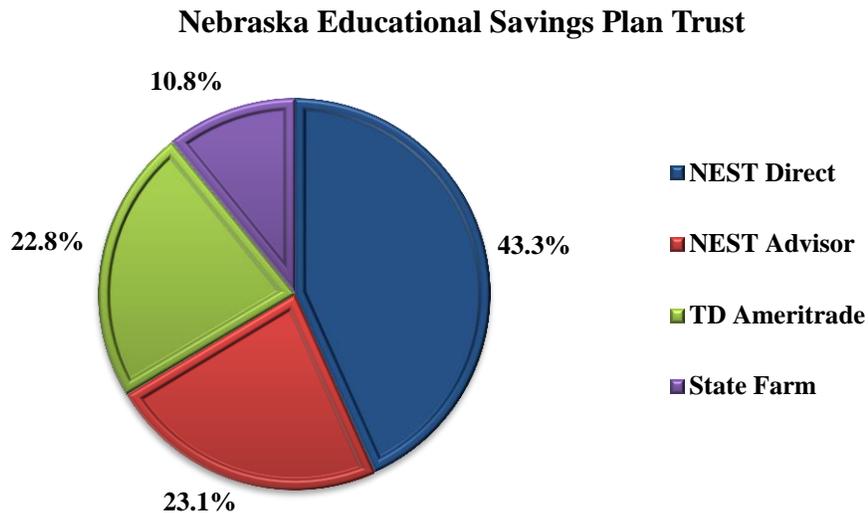
- Age Based Portfolios
- Static Portfolios
- Individual Fund Portfolios

State Farm College Savings Plan

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

- Static Portfolios
- Enrollment-based Portfolios

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

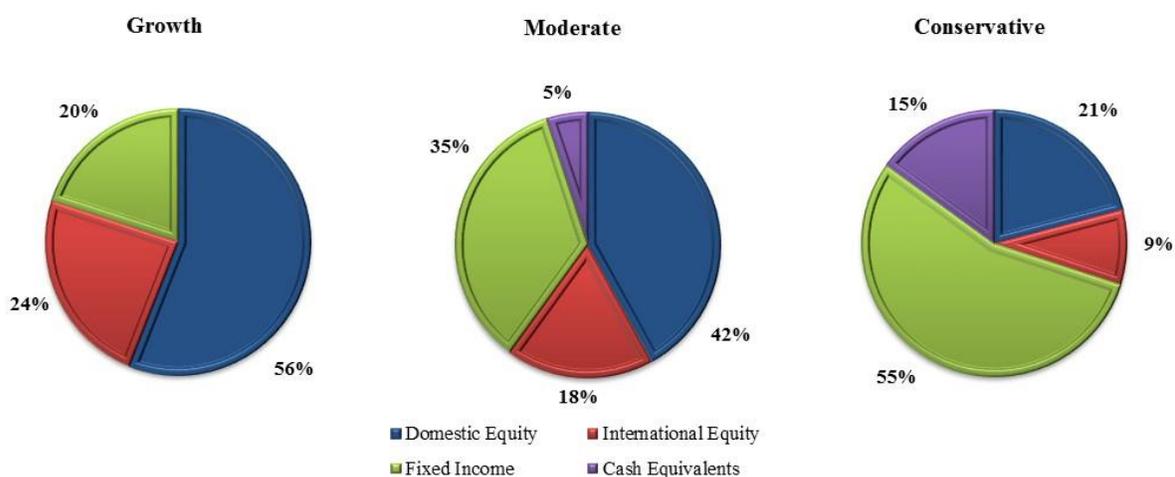


NEBRASKA ENABLE SAVINGS PLAN

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

The Enable Plan offers participants five investment options.

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



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

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

GENERAL ENDOWMENTS

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

The basic purpose of each endowment is described below.

The Permanent School Fund

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

The Nebraska Early Childhood Education Endowment Fund

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

The Nebraska Veterans' Aid Fund

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

The Cultural Preservation Endowment Fund

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

The Agricultural Endowment Fund

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

The Permanent Endowment Fund

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

The Normal School Endowment

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

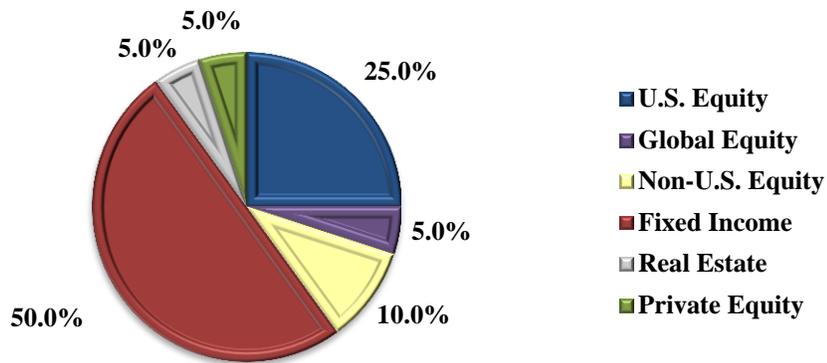
The Nebraska Environmental Endowment Fund

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

The Bessey Memorial Fund

The endowment provides aid to widows of University of Nebraska professors

Asset Allocation



General Endowments

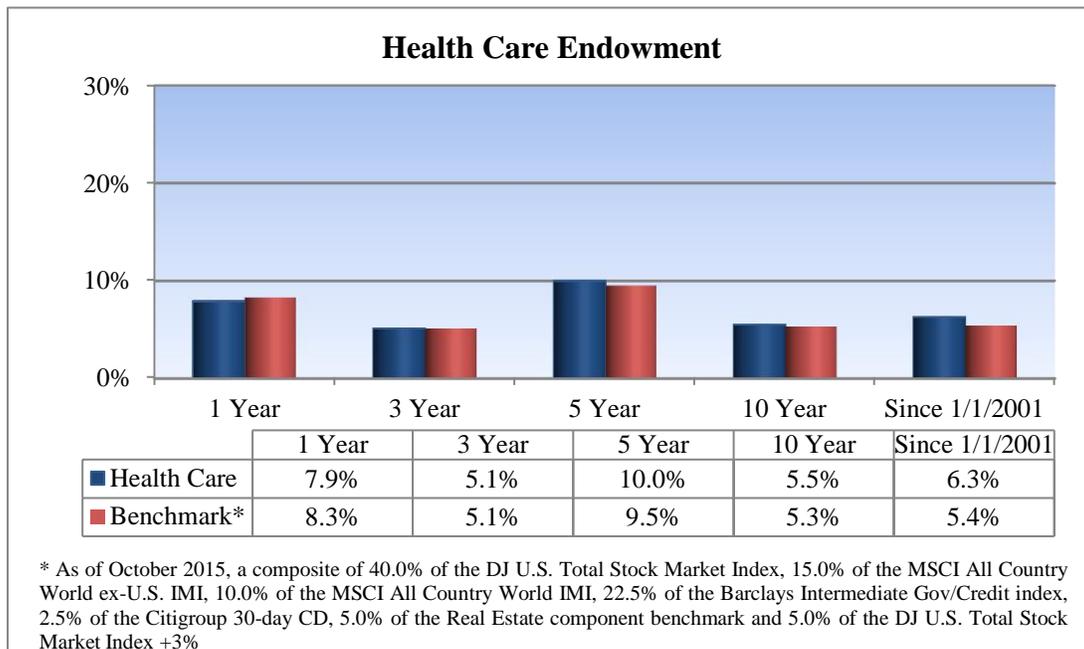
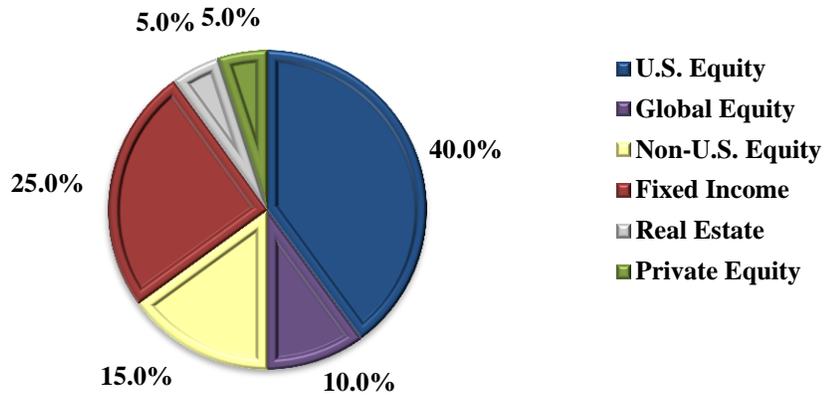


* As of April 2016, a composite of 25.0% of the DJ U.S. Total Stock Market, 10.0% of the MSCI All Country World ex-U.S. IMI, 5.0% of the MSCI All Country World IMI, 50.0% of the fixed income component benchmark, 5.0% of the real estate component benchmark, and 5.0% of the DJ U.S. Total Stock Market Index + 3%.

HEALTH CARE ENDOWMENT

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

Asset Allocation



UNIVERSITY FUNDS

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

Fund N

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

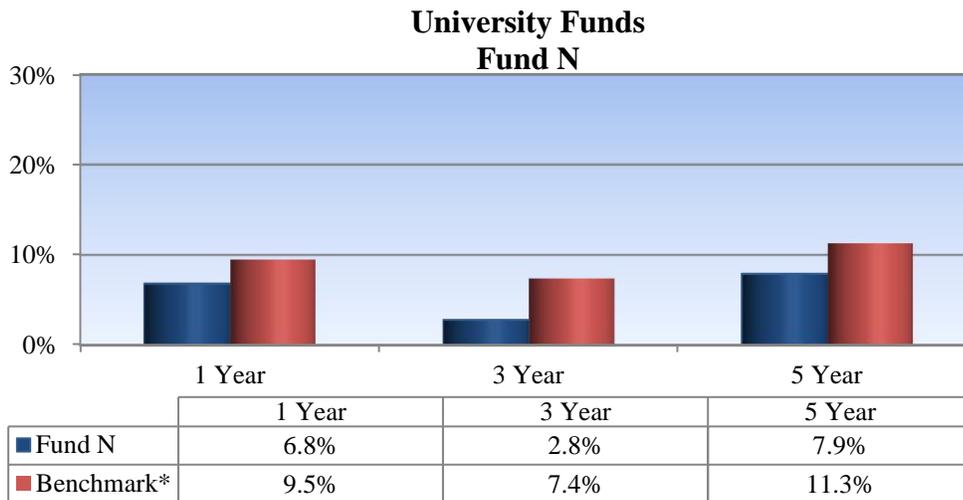
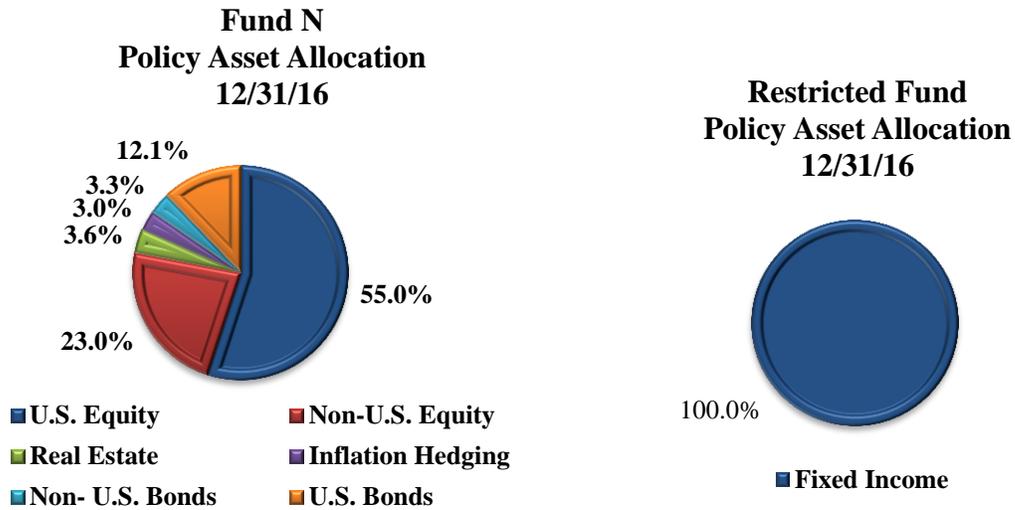
Permanent and Quasi Endowments

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

Board of Regents has designated to function as endowments, with the income to be spent for the purposes designated by the Board.

Restricted Fund

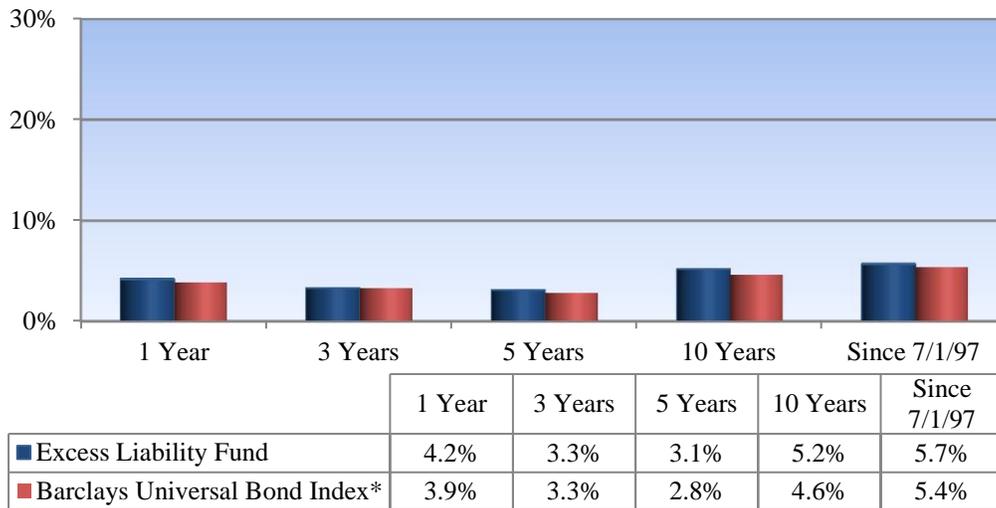
The Restricted Fund is comprised of several funds that are restricted by the benefactors to be invested in U.S. Government and U.S Agency fixed income securities only. This is a permanent endowment fund.



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

MISCELLANEOUS TRUSTS EXCESS LIABILITY

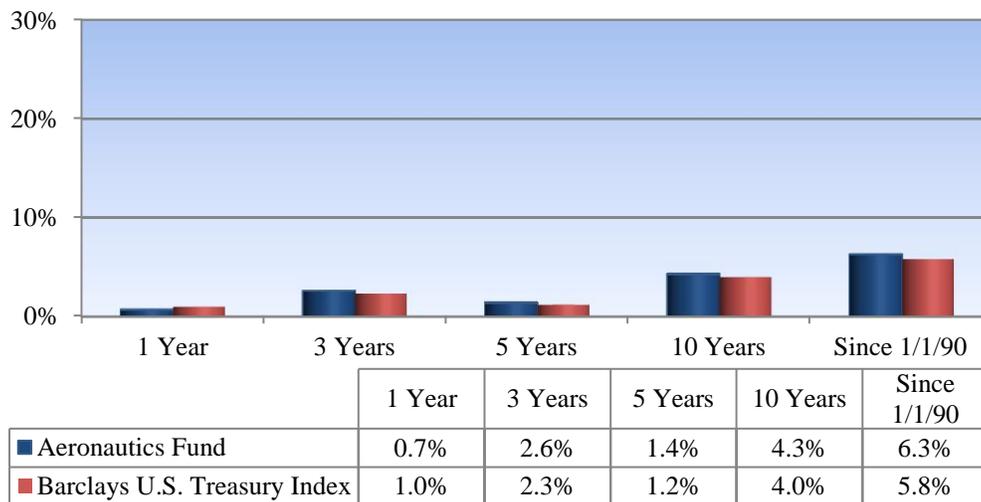
This Fund was created by the Nebraska Hospital-Medical Liability Act. Contributions consist of insurance premiums from certain health care providers and a surcharge levied on all healthcare providers in the State. The funds are used to pay judgments against the insured health care providers. The Nebraska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



* Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 4/1/05 to present Barclays Capital Universal Bond Index.

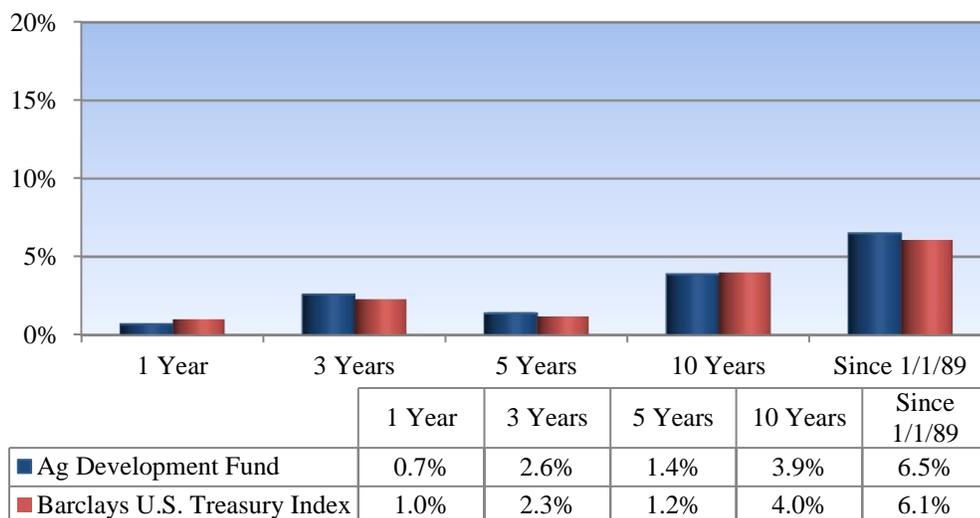
MISCELLANEOUS TRUSTS AERONAUTICS TRUST FUND

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



MISCELLANEOUS TRUSTS AGRICULTURE TRUST FUND

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



INVESTMENT AND CUSTODIAN 2016 EXPENSES¹

	Total Costs	% of Assets ²
	(thousands of dollars)	
Internal Costs		
Salaries and benefits	\$ 1,311	
Operating expenses	426	
Other expenses	27	
Total Internal Costs	\$ 1,764	
Asset Management		
Abbott Capital Management, LLC	804	
Acadian Asset Management, LLC	1,158	
Accel-KKR Capital Partners, LP	371	
Almanac Realty Investors	613	
Angelo, Gordon & Co.	180	
Ares Management LLC	761	
Arrowstreet Capital	433	
Baillie Gifford Overseas Ltd.	1,106	
Beacon Capital Partners	19	
Beeken Petty O'Keefe	251	
BlackRock Financial Management	2,412	
Bridgepoint Capital Limited	177	
CB Richard Ellis Investors	145	
Constitution Capital Partners	0	
Cornerstone Real Estate Advisors	1,191	
CVC European Partners	332	
Dimensional Fund Advisors, Inc.	1,517	
Francisco Partners Management, LP	407	
Franklin Templeton Institutional	1,239	
Goldman Sachs Asset Management	13	
Gryphon International Investment Corporation	1,144	

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

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

	Total Costs	% of Assets²
	<u>(thousands of dollars)</u>	
Gryphon International Investment Corporation	\$ 1,144	
Harbourvest Partners, LLC	709	
Heitman Real Estate Securities LLC	25	
Ironbridge Capital Management, L.P.	1,852	
Landmark Real Estate Partners L.P.	1,000	
Leonard Green & Partners, L.P.	84	
Lightyear Capital, LLC	311	
Lincolnshire Equity Partners IV, L.P.	104	
Longroad Capital Partners III, L.P.	58	
Loomis Sayles & Company L.P.	2,142	
McCarthy Capital	1,111	
Merit Capital Partners	67	
Metropolitan Real Estate Equity Management, LLC	311	
MFS Institutional Advisors, Inc.	1,656	
Mondrian Investment Group	1,260	
Nueberger Berman Investment Management	925	
New Enterprise Associates 13 L.P.	326	
New Mountain Capital, LLC	772	
Oaktree Capital Management, LP	1,539	
Pathway Capital Management, LLC	729	
PIMCO	3,485	
Pine Brook Partners	559	
Presidio Partners Ventures	190	
Prudential Investment Management, Inc.	2,490	
Quantum Energy Partners V, L.P.	684	
RCP Advisors, LLP	279	
Rockpoint Group, LLC	64	
Rockwood Capital, LLC	606	
State Street Global Advisors	0	
Sun Capital Partners, Inc.	5	
The Energy & Minerals Group	305	
The Jordan Company	447	
The Rohatyn Group	139	
Torchlight Investors	825	
T. Rowe Price Associates, Inc.	244	
UBS Global Asset Management, Inc.	2,150	
Wayzata Investment Partners, LP	539	
Wellington Management Company, LLC	1,131	
Wynnchurch Capital Partners	640	
Total Asset Management		\$ 44,036
Other Services		
State Street Bank - custodian	\$ 542	
State Street Bank - cash management	183	
State Street Bank - securities lending	834	
Aon Hewitt Investment Consulting Inc. - consulting	825	
Total Other Services		\$ 2,384
CY 2016 Total Expenses		\$ 48,184
		0.26%