

DEFINED BENEFIT PLANS INVESTMENT POLICY STATEMENT

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to set forth the investment objectives, asset allocations, investment strategy, investment managers, and responsibilities for the assets in the Defined Benefit Plans (the Portfolio). The assets in the Portfolio support three distinct Retirement Plans, as listed below in the section titled Entities. Because of the similar objective and in order to optimize investment rates of return, reduce investment expense and expedite operational efficiencies, the assets for the three entities are combined for investment purposes but accounted for individually using plan accounting.

ENTITIES

- School Retirement System of the State of Nebraska
- Nebraska State Patrol Retirement System
- Nebraska Judges' Retirement System

STATUTORY REFERENCES

- | | |
|-----------------------------------|--------------------------|
| • State Funds Investment Act | 72-1237 through 72-1260 |
| • School Employees Retirement Act | 79-901 through 79-977.01 |
| • State Patrol Retirement Act | 81-2014 through 81.2036 |
| • Judges Retirement Act | 24-701 through 24-714 |

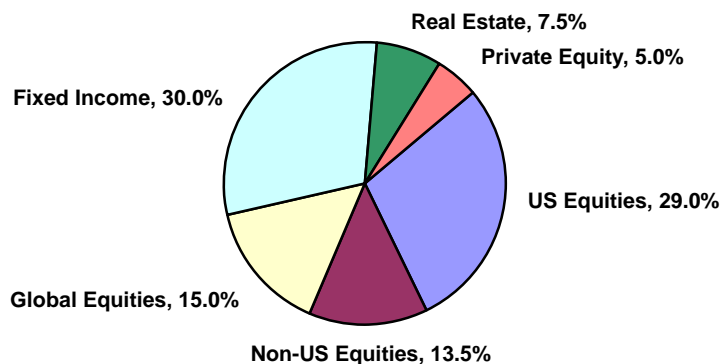
INVESTMENT OBJECTIVES

The fundamental objective for the Portfolio is to be able to pay the promised retirement benefits to the school employees, state patrol and judges covered by the three Plans. These promised retirement benefits create a liability for each Plan, and a corresponding risk of being unable to pay the promised benefits. Funds available for retirement benefits consist of external contributions and their investment returns. If there is insufficient money from these sources, the entity must turn to the State to fund any shortfall. If there are more assets than needed to pay the promised benefits, the excess assets flow to each entity proportionally. All assets must be used for the exclusive benefit of the members. The time horizon of the liabilities is long-term, and thus the asset allocation and implementation strategy for the investment of the assets on behalf of these Plans is long-term. The objective for the rate of return from the investment of the assets is to maximize the investment return on the assets within acceptable levels of risk and to meet or exceed the actuary's assumed rate of return on the assets.

The performance objective is to earn a net-of-fees rate of return in excess of the policy portfolio, over measurable periods of time. The policy portfolio, which is the passive representation of the Portfolio's asset allocation, provides a critical performance evaluation tool for the investment process.

ASSET ALLOCATION AND STRATEGY

In accordance with the investment objectives, the asset allocation adopted by the Nebraska Investment Council ("the Council") is as follows:



The investment strategy for the major asset classes is as follows: US equities - to be style neutral to the DJ U.S. Total Stock Market index; non-US equities - to be managed with the MSCI ACW Ex-US Investable Market Index as the benchmark; fixed income - to be managed with the Barclays US Universal Bond Index as the benchmark. Fixed Income has a subclass of Bank Loans in it. Bank Loans are 5% of the asset class' 30% total. In order to capture potential opportunities from a broader mandate, 15% of the portfolio is allocated to the asset class of global equities. Global equities have the MSCI ACW Investable Market Index as a benchmark. An allocation of 5% has been made to private equity investments and 7.5% to real estate investments. Because of the nature of this asset classes, the investment of the allocation is subject to capital calls and any uncalled capital will be invested in the public U.S. equity markets.

The Council manages the investment risk incurred in the Portfolio by adopting active risk ranges for the total portfolio and the major asset classes. The active risk range for the total portfolio is 0.75%-1.50%. The section below states the active risk range for the major asset classes.

PORTFOLIO MANAGERS, ALLOCATIONS, AND BENCHMARKS

<u>Manager</u>	<u>Mandate</u>	<u>Allocation</u>		<u>Benchmark</u>	
		<u>(% of Asset Class)</u>	<u>(% of Portfolio)</u>		
US Equities:					
Dimensional Fund Advisors	Active Sm Cap	10%	2.9%	Active Risk Range: 1.0%-2.0% DJ U.S. Sm-Cap Total Stock Market Russell 1000 index	
BlackRock Russell 1000 Index	Russell 1000 Index	90%	26.1%		
Non-US Equities:					
BlackRock World ex-US IMI	World ex-US IMI Index	57.5%	7.7625%	Active Risk Range: 2.0%-3.0% MSCI World ex-US IMI Index MSCI EM Free Index MSCI ACW ex-US IMI Index net \$	
Baillie Gifford	Active EM	17.5%	2.3625%		
Gryphon Int'l	Active ACW ex-US IMI	25%	3.375%		
Global Equities:					
Acadian Asset Mgmt	Active Global	18.75%	2.8125%	Active Risk Range: 3.0%-4.0% MSCI All Country World IMI Index MSCI All Country World IMI Index MSCI All Country World IMI Index MSCI All Country World IMI Index MSCI All Country World IMI Index	
MFS Investment Mgmt	Active Global	18.75%	2.8125%		
Mondrian Investment	Active Global	18.75%	2.8125%		
IronBridge Capital	Active Global	18.75%	2.8125%		
BlackRock ACW IMI	ACW IMI Index	25%	3.75%		
Fixed Income:					
BlackRock Financial Mgmt	Active Core Plus	20%	6%	Active Risk Range: 0.5%-1.0% Barclays US Universal Bond Index Barclays US Universal Bond Index Barclays US Aggregate Index Barclays US Government/Credit Index Barclays Global Aggregate Index	
PIMCO	Active Core Plus	25.5%	7.65%		
BlackRock US Debt Index	Barclays Agg. Index	16%	4.8%		
Loomis Sayles	Active Multi Sector	5%	1.5%		
Wellington	Active Global	10%	3%		
BlackRock Mortgage Investors					
Oaktree Real Estate Debt Fund		3.5%	1.05%		
PIMCO Bravo II Fund		3.5%	1.05%		
Franklin Templeton	Bank Loans	8.25%	2.475%		TBD
Loomis Sayles	Bank Loans	8.25%	2.475%		TBD
Real Estate:					
UBS Realty Investors	Core				NFI ODCE
UBS-T Property Income	Core				NFI ODCE
Prudential PRISA	Core			NFI ODCE	
Cornerstone Patriot Fund	Core			NFI ODCE	
Prudential PRISA II	Core Plus	\$51.5m		See Real Estate Policy	
Heitman HVP II	Value added	\$25m		See Real Estate Policy	
Beacon Capital	Value added	\$25m		See Real Estate Policy	
Almanac Realty Securities	Value added	\$25m		See Real Estate Policy	

Portfolio Managers, Allocations and Benchmarks Continued

<u>Manager</u>	<u>Mandate</u>	<u>Allocation</u>		<u>Benchmark</u>
		<u>(% of Asset Class)</u>	<u>(% of Portfolio)</u>	
Real Estate Continued				
Torchlight Debt Opp Fund IV	Value-added	\$20m		See Real Estate Policy
Rockpoint Real Estate Fund III	Opportunistic	\$25m		See Real Estate Policy
CBRE Strategic Partners	Opportunistic	\$25m		See Real Estate Policy
Rockwood Fund IX	Value added	\$20m		See Real Estate Policy
AG Realty Fund VIII	Opportunistic	\$25m		See Real Estate Policy
Landmark Real Estate Fund VI	Opportunistic	\$40m		See Real Estate Policy
Private Equity				
Abbott Capital V	Fund of Funds	\$50m		Thomson Reuters VentureXpert, net of fees
Pathway PE Fund XVIII, LLC	Fund of Funds	\$100m		Thomson Reuters VentureXpert, net of fees
Dover Street VIII, L.P.	Fund of Funds	\$25m		Thomson Reuters VentureXpert, net of fees
Sun Capital	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees
CVC Growth Fund II	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees
CMEA VII	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees
Resolute Fund II	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees
New Mountain Partners III	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Wayzata Opportunities Fund II	Direct Partnership	\$15m		Thomson Reuters VentureXpert, net of fees
Bridgepoint Europe IV, L.P.	Direct Partnership	€20m		Thomson Reuters VentureXpert, net of fees
Quantum Energy Partners V	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
CVC European Equity V	Direct Partnership	€20m		Thomson Reuters VentureXpert, net of fees
Lincolnshire Equity Fund IV	Direct partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Accel-KKR III	Direct Partnership	\$12.5m		Thomson Reuters VentureXpert, net of fees
ACOF III	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Fulcrum Growth Partners IV	Direct Partnership	\$10m		Thomson Reuters VentureXpert, net of fees
Longroad Capital Partners III	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
NEA 13, L.P.	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Merit Mezzanine V, L.P.	Direct Partnership	\$15m		Thomson Reuters VentureXpert, net of fees
EIF US Power Fund IV	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Ares Mezzanine Partners	Direct Partnership	\$15m		Thomson Reuters VentureXpert, net of fees
McCarthy Capital V	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Lightyear Fund III	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Green Equity Investors VI	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Accel-KKR IV	Direct Partnership	\$12.5m		Thomson Reuters VentureXpert, net of fees
ACOF IV	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
NEA 14, L.P.	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Beecken Petty O'Keefe & Co.	Direct Partnership	\$20m		Thomson Reuters VentureXpert, net of fees
Wayzata Opportunities Fund III	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees
New Mountain Partners IV	Direct Partnership	\$30m		Thomson Reuters VentureXpert, net of fees
CVC Capital Partners VI	Direct Partnership	€20m		Thomson Reuters VentureXpert, net of fees
The Resolute Fund III	Direct Partnership	\$30m		Thomson Reuters VentureXpert, net of fees
Pine Brook Capital Partners II	Direct Partnership	\$30m		Thomson Reuters VentureXpert, net of fees
EMG III	Direct Partnership	\$35m		Thomson Reuters VentureXpert, net of fees
Bridgepoint Europe V	Direct Partnership	€20m		Thomson Reuters VentureXpert, net of fees
Quantum Energy VI	Direct Partnership	\$30m		Thomson Reuters VentureXpert, net of fees
Wynnchurch Fund IV	Direct Partnership	\$25m		Thomson Reuters VentureXpert, net of fees

INVESTMENT MANAGER GUIDELINES

The investment portfolios are managed according to written investment guidelines that are approved by the State Investment Officer (SIO) and reported to the Council. These guidelines are intended to ensure that each manager operates in the manner and style consistent with the approach it represented and for which it was retained, and within acceptable risk parameters. The guidelines for each manager are included in their written, signed Investment Manager Agreement.

RESPONSIBILITIES FOR THE DEFINED BENEFIT PLANS

The Council:

- Approve the Investment Policy Statement (IPS) for the Portfolio. The IPS includes the investment objectives, asset allocation, investment strategy, investment managers utilized, and manager benchmarks.
- Approve exceptions to the IPS as requested by the SIO.

The State Investment Officer:

- Make recommendations to the Council regarding components of the IPS, such as asset allocation, investment managers utilized, and manager benchmarks.
- Implement the Council-approved IPS for the Portfolio.
- Rebalance the investments when necessary halfway back to target allocation and look for no cost opportunistic ways to get back to target. At the asset class level, the allowable range is $\pm 5\%$. For individual managers, the allowable range is $\pm 3\%$.
- Evaluate and report investment performance and other investment-related issues of the Portfolio.
- Maintain a current written IPS approved by the Council.
- Establish written procedures for internal implementation of the IPS as needed.
- Obtain Council-approved IPS exceptions as needed.

The Custodian:

- Provide care and custody of the securities owned.
- Implement authorized investment directions of the Council and the SIO.
- Perform necessary custodial, accounting, control and reporting services.

The Consultant:

- Advise the Council and the SIO regarding the development of the investment strategy for the Portfolio.
- Perform regular performance measurement and analytics regarding the investments.