

**REAL ESTATE STATEMENT OF INVESTMENT POLICY
FOR THE NEBRASKA INVESTMENT COUNCIL**

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I. Revision History

<u>Action</u>	<u>Date</u>
Original approved and established.....	April 2007
Policy revised and approved.....	March 2009

II. Scope

This policy applies to the private markets and public markets Real Estate within all of the funds managed by the Nebraska Investment Council (“The Council”). This policy does not govern the public Real Estate securities exposure within the U.S. or Non-U.S. Equity Policy.

III. Purpose and Objectives

The purpose of this Real Estate Statement of Investment Policy is to formalize the Nebraska Investment Council’s investment objectives and policy with respect to the Real Estate asset class and to define the duties and responsibilities of the various entities involved in the Real Estate investment process. This statement is to be considered an extension of The Council’s overall Statement of Investment Policy. No provision of this Real Estate Statement of Investment Policy shall be construed in contravention of the enabling legislation found in the Nebraska State Funds Investment Act and the Nebraska Capital Expansion Act.

IV. Investment Philosophy

The Council allocates a portion of its total assets to the Real Estate asset class. The Council defines its Real Estate asset class by its investment values directly relating to the ownership or operation of commercial or residential Real Estate investments. The Council also includes investments in timberland and farmland within the Real Estate asset class. The Council allocates assets to Real Estate with the following goals:

Diversification with Other Asset Classes

Real Estate returns have historically performed differently than the returns of other asset classes in which The Council invests. The Council believes that Real Estate returns will continue to behave differently from other asset class returns, allowing The Council to lower the risk of its overall portfolio through diversification by allocating to the Real Estate asset class.

Potential Inflation Hedge

Real Estate returns have historically shown the ability to provide a hedge against rising inflation. By allocating a portion of its investments to an asset class with these characteristics, the overall risk of rising inflation to the portfolio is reduced.

Current Income and Appreciation

Core and Value-Added Real Estate strategies have historically shown the ability to maintain a moderate current income component with a modest appreciation component. As such, an appropriate proportion of the Real Estate portfolio is targeted to be allocated to each of these strategies.

Return Enhancement

Value-Added and Opportunistic Real Estate strategies have historically shown the ability to deliver higher degrees of appreciation and higher total returns relative to Real Estate industry benchmarks. To help the portfolio's ability to outperform and produce excess returns, an allocation is made to the Real Estate asset class in these styles.

V. Allocation

The Council controls allocation risk at the fund level as shown below in Table 1.

Table 1. Real Estate Target Allocations and Ranges

<u>Fund</u>	<u>Private Markets</u>		<u>Public Markets</u>		<u>Total</u>	
	<u>Target</u>	<u>Range</u>	<u>Target</u>	<u>Range</u>	<u>Target</u>	<u>Range</u>
Defined Benefit ("DB/CBB")	5.0%	+/- 2.0%	0.0%	+ 1.0%	5.0%	+/- 2.0%
General Endowment	5.0%	+/- 2.0%	0.0%	0.0%	5.0%	+/- 2.0%
Health Care Endowment	5.0%	+/- 2.0%	0.0%	0.0%	5.0%	+/- 2.0%
Investor Select Program	0.0%	+/- 2.0%	5.0%	+/- 2.0%	5.0%	+/- 2.0%

VI. Performance Objective

The private markets Real Estate performance is benchmarked against the National Council of Real Estate Investment Fiduciaries ("NCREIF") Property Index ("NPI"). The private markets Real Estate portfolio is measured net of manager fees (not including overhead expenses) and the NPI is unadjusted. The private markets Real Estate portfolio is expected to meet or exceed the NPI over rolling three-year periods.

The public markets Real Estate performance is benchmarked against the Dow Jones Wilshire Real Estate Securities Index ("DJ WRESI"). The public markets Real Estate portfolio is measured net of manager fees and the DJ WRESI is unadjusted. The public markets Real Estate portfolio is expected to meet or exceed the DJ WRESI over rolling three-year periods.

As the Defined Benefit program is allocated up to 20% in public markets Real Estate and at least 80% private markets Real Estate, the program's total Real Estate performance is benchmarked against the Custom Index of 80% NPI + 20% DJ WRESI. The total Real Estate portfolio is expected to meet or exceed the Custom Index over rolling three-year periods.

As the Investor Select Program may invest in either public markets or private markets Real Estate depending on the availability of products that meet the program's needs, the benchmark will be weighted according to the actual allocation between the two markets at each quarter end.

As The Council added non-Core Real Estate investments to the DB/CBB program in 2007, it is appropriate to begin the DB/CBB's benchmarking process in 2010 due to the three-year rolling period.

As The Council added non-Core Real Estate investments to the General Endowment and Health Care Endowment in 2009, it is appropriate to begin these programs' benchmarking processes in 2012 due to the three-year rolling period.

As The Council added REITs to the Investor Select Program at its 2005 inception, it is appropriate to begin this program's benchmarking process in 2008 due to the three-year rolling period.

VII. Permissible Investments

A. Private Markets

The private markets Real Estate should consist of a majority of equity ownership of privately-held institutional Real Estate investments. A portion of The Council's private markets Real Estate assets may also consist of non-equity investments (e.g., first mortgages, B-note loans, mezzanine financing, preferred equity), not to exceed 30% of the overall Real Estate portfolio. Compliance with this risk parameter shall be based on a percentage of the private markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end. Investment vehicles whose sole investment strategy is to invest in single family residential Real Estate are precluded from investment, as these vehicles' sole investment strategy is to invest in Real Estate debt (whole loans).

This policy authorizes the use of all types of investment structures including:

- Separate Accounts
- Co-investments
- Joint ventures
- Open and closed-end funds
- Partnerships
- Private Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs)

B. Public Markets

Investments in public markets Real Estate are intended to be made directly through publicly-traded REITs. It is understood that the Council may receive distributions in kind of other types of publicly-traded securities, such as those authorized below.

This policy authorizes the holding of all forms of public markets Real Estate securities including:

- Common stock
- Exchange-traded funds
- American Depositary Receipts
- Warrants
- Initial Public Offerings
- Preferred securities
- Cash and cash equivalents as necessary

VIII. Risk Management

A. Private Markets

For private markets Real Estate investments, the following sections identify the most significant risks and the method of control. Compliance with the following risk parameters shall be based on % of the private markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end.

1. *Property Type*

The Council seeks to minimize the risk of its Real Estate portfolio by allocating its assets across the spectrum of property types, with the majority of its investments allocated to the primary sectors of the NPI as follows:

Office	10-50%
Industrial	10-40%
Retail	10-40%
Multifamily (apartment)	10-40%
Lodging (hotel)	0-20%
Other	0%-10%

2. *Geographic*

The Council seeks to minimize the risk of its Real Estate portfolio by allocating its investments across the geographic spectrum. Within the United States, the allowable range of total Real Estate allocation is as follows:

West	NPI +/-25%
East	NPI +/-25%
Midwest	NPI +/-25%
South	NPI +/-25%

No more than 25% of the Real Estate portfolio may be invested outside of the United States.

3. *Individual Investment*

In order to mitigate the risk of large loss, The Council will diversify its Real Estate investments across many different individual properties. As such, and based on the aggregate size of the Real Estate asset class allocation, direct investment into properties is prohibited as are fund investments that have the sole purpose of acquiring or developing an individual property.

4. *Manager*

Manager risk consists of two elements: the exposure to a manager and the number of managers in the private markets Real Estate portfolio. To control manager exposure, the allocation to a single private markets Real Estate manager is limited to 20% of the private markets Real Estate portfolio.

5. *Life Cycle*

The Council will endeavor to invest the majority of its assets in fully established, income-producing Real Estate, commonly referred to as core Real Estate. As defined above, The Council will have between 50% and 70% of its Real Estate asset class in core investments.

6. *Liquidity*

Private Real Estate is an illiquid asset class. As such, The Council understands and recognizes that the Real Estate asset class will not be structured in a way to provide liquidity for the overall portfolio. Should market values for Real Estate change such that the asset class falls out of compliance with these guidelines, all avenues of remedying the violation will be evaluated and monitored by the consultant and The Council's Staff, but no action will be required to be taken to rebalance if it is believed that the forced sale will result in adverse economic impact to the overall Real Estate portfolio.

7. *Currency*

The Council accepts that there are currency risks consistent with investments held outside of the United States.

B. Public Markets

The expected tracking error (active risk) is expected to be no higher than 200 basis points per annum measured over rolling five-year periods. The manager guidelines may define tracking error targets for specific portfolios provided the overall public markets tracking error is expected to stay within 200 bps. The allowable allocation range for each portfolio type and the investment guidelines defined for each portfolio are designed to keep the public markets within its expected tracking error guidelines.

Risk is managed through a combination of quantitative and qualitative constraints. The primary approach to managing risk is to control the characteristics and risk factors of the aggregate portfolio within a reasonable tolerance of the benchmark to minimize biases and unintended portfolio mismatches. The following sections identify the significant elements of risk at the individual portfolio level. Managers shall establish reasonable parameters in each portfolio's investment guidelines to control such risks.

Compliance with the following risk parameters shall be based on % of the public markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end.

1. *Liquidity*

It is the objective of the public markets Real Estate portfolio to be fully invested at all times in Real Estate equity and related securities. Allocation ranges will be maintained through disciplined rebalancing. A small allocation to cash or cash equivalents is permitted to provide operating liquidity.

2. *Portfolio Composition*

The public markets Real Estate investments will achieve diversification across all sectors of the DJ WRESI. Public markets Real Estate investments will target geographic diversification within the United States. Diversification is a primary risk control element.

IX. Investment Manager Selection

In order to implement its investment strategy, The Council will use individual investment managers. The Council has a responsibility to its members to make investments with the objective of obtaining superior total long-term rates of return, while using acceptable levels of risk and reasonable cost controls. The availability of qualified minority and women-owned business enterprises is recognized by the Council. The characteristic of being a minority or woman-owned business enterprise is not a barrier to employment by the Council.

It is the policy of the Council to include qualified minority and women-owned business enterprises in the investment manager selection process, and to objectively evaluate all qualified investment manager candidates regardless of race, gender, or handicap.

The Council will evaluate all qualified investment manager candidates with emphasis on demonstrated track record performance, organizational depth, fit within The Council's Real Estate portfolio, institutional investment management capability and experience, investment process, and reasonableness of fee structure and terms, regardless of the amount of investment assets under management or the age of the investment management firm.

The Council will use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases, and will require the consultants

to affirm their use of non-discriminatory practices when recommending investment manager candidates to the Council.

X. Distinction of Responsibilities

The Council is responsible for approving the Real Estate Statement of Investment Policy.

The Council is responsible for selecting the investment managers used to implement the Real Estate Statement of Investment Policy.

The Council's Staff is responsible for recommending investment managers to the Council, as well as for managing the Real Estate asset class and monitoring the investment managers, as described by the Real Estate Statement of Investment Policy on an ongoing basis.

The Council's Staff may retain the Consultant to assist in selecting and monitoring investment managers, as well as to present the performance of the Real Estate asset class to The Council's Staff and Council Members. The Consultant may also assist the Staff in developing and recommending the Real Estate Statement of Investment Policy and any changes to this document.

Investment managers are used by The Council to implement the specific investment strategies selected by The Council.

XI. Reporting and Monitoring

The Council's Staff and the Consultant will monitor performance and compliance of the Real Estate asset class on a quarterly basis.

Adopted March 31, 2009