REAL ESTATE STATEMENT OF INVESTMENT POLICY
FOR THE NEBRASKA INVESTMENT COUNCIL

Revised & Approved by Nebraska Investment Council on August 23, 2012

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I. REVISION HISTORY

Action	Date
Original approved and established	April 2007
Policy revised and approved…………………………………..……………………………….	March 2009
Policy drafted and proposed………………...………………………………………………………….	July 2007
Policy revised and approved……………………..…………...………………………………………	September 2011
Policy revised and approved……………………..…………...…………………………………..…	August 2012

II. SCOPE AND HISTORY

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

In 2004, the Council established a Real Estate program through the Defined Benefit/Cash Balance Benefit plan with a 5% target allocation which was segregated between an 80% target allocation to REITs and a 20% allocation to private Real Estate. At that time, the Council approved two REIT investments. In 2005, the Council established a 5% Real Estate target allocation for the Investor Select Program and approved the program's sole investment in REITs. In 2006, the Council approved two commitments to open-end Core Real Estate funds, marking its initial investment in private Real Estate. In 2007, the Council approved the first formal Real Estate Statement of Investment Policy. Also in 2007, the Council approved the Defined Benefit/Cash Balance Benefit program's first investments in Value-Added and Opportunistic closed end Real Estate funds. In 2008, the Council approved the General and Health Care Endowments' first Real Estate investments through commitments to two Value-Added and Opportunistic fund of funds. In 2009, the Council approved the General and Health Care Endowments' first investments in Core Real Estate through two commitments. Also in March 2009, the Council approved decreasing the target allocation to REITs to 20% and increasing the target allocation to private Real Estate to 80% and updated the Defined Benefit/Cash Balance Benefit plan's benchmark accordingly.

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 Philosophy. 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 agriculture and natural resources 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 plan level as shown below in Table 1. The allocation establishes a 5.0% target for Real Estate.

Table 1. Real Estate Target Allocations

Fund	Target
Defined Benefit ("DB/CBB")	5.0%
General Endowment	5.0%
Health Care Endowment	5.0%
Investor Select Program	5.0%

Given the typical funding/distribution pattern of Real Estate funds, in order to achieve its invested target allocation the Council may need to commit more than the target allocation to the funds of the Real Estate portfolio. Once the Council's Real Estate allocation is fully funded, distributions can be deployed to maintain target exposures in other asset classes and/or to be utilized in the Real Estate portfolio if the need arises.

Asset allocation is a critical driver for the long-term success of the Real Estate program. Modern portfolio theory suggests that asset allocation risk is managed by establishing target portfolio exposure parameters and optimizing the portfolio along risk and return expectations. Real Estate is not conducive to a rigorous quantitative approach and asset allocation risk is controlled through long-term subjective market value parameters.

Long-term market value targets are established below. The Real Estate portfolio will achieve diversification beyond geographic focus by making investments that are complementary in nature regarding fund size, style and strategic focus.

Table 2. Real Estate Style Allocations

Fund	Target
Core	50 to 80%
Value-Added	10 to 30%
Opportunistic	10 to 30%

VI. PERFORMANCE OBJECTIVES

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 and the NPI is unadjusted. The private markets Real Estate portfolio is expected to meet or exceed the NPI and exceed the investment returns on publicly traded investment grade fixed income securities net of fees.

Effective April 1, 2009 through September 30, 2011, the total Real Estate portfolio's performance, exclusive of the Investor Select Program, is benchmarked against the Custom Index of 80% NPI + 20% Dow Jones U.S. Select Real Estate Securities Index ("DJ US SRESI"). Effective October 1, 2011, the total Real Estate portfolio's performance, exclusive of the Investor Select Program, is benchmarked against the NPI. The total Real Estate portfolio is expected to meet or exceed the Custom Index and meet or exceed the investment returns on publicly traded investment grade fixed income securities net of fees.

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.

Performance of the real estate asset class against its return objective will be measured over a market cycle of 5-7 years. Performance of funds that have been approved by the Council, but have not called capital, will be excluded from the performance analysis.

It is also important to note that the time horizon for the Real Estate class is longer than that of traditional asset classes. The underlying Real Estate assets are not easily traded. Closed end funds have lives ranging from ten (10) to twelve (12) years and open-end funds have infinite lives. Performance over both longer and shorter periods of time will continue to be reported to assess progress towards the Real Estate asset class return objective.

Individual Real Estate fund/separate account performance will be measured based upon style. Core Real Estate will be benchmarked against the NCREIF Fund Index – Open-end Diversified Core Equity ("NFI-ODCE") net of fees. Value-Added and Opportunistic Real Estate will be benchmarked against the performance of funds of the same style and vintage year.

VII. PERMISSABLE 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 investment types, including:

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

B. Public Markets

Investments in public market 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 Depository 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 one 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 net asset value exposure to a single private markets Real Estate manager is limited to 20% of the private markets Real Estate portfolio. As Core Real Estate comprises a majority of the portfolio and most Core fund managers are large stable managers, Core fund managers exposure is limited to 30%.

5. *Life Cycle*
Most Real Estate closed end funds will have life cycles between 10 and 12 years. Fund of funds may have a lifespan of 15 years or more years. Real Estate open-end funds have infinite lives and typically provide a periodic redemption feature.

6. *Liquidity*
The private Real Estate asset class has limited liquidity. 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 acknowledges that there are currency risks consistent with investments held outside the United States.

8. *In-Kind Distributions*
   The Staff will be responsible for administering the orderly liquidation of any in-kind distributions received from Real Estate investments. The Council's policy is to liquidate in-kind distributions as soon as practicable through brokers designated by general partners or the Council's approved managers or brokers, as appropriate. Unlisted stock distributions and properties will be liquidated in the most effective and orderly manner.

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 U.S. SRESI. 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's objective is to obtain 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. It is the policy of the Council to objectively evaluate all qualified investment manager candidates regardless of protected classification under governing law.

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.

The Council will use professional consultants that do not use unlawful 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 and it may not be amended without the approval of the Council.

The Council 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 any changes to 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.

XII. APPENDIX

The Nebraska Investment Council has granted the SIO the authority to make commitments and fund follow-on private equity partnerships (partnerships) and private closed-end real estate funds (funds) on behalf of the NIC if, and only if time is of the essence, and there is a risk that the most favorable terms for the investment will not be obtained if the SIO waits until the next regularly scheduled Council meeting to make a commitment on behalf of the NIC. In addition, the following conditions also apply to this delegation of authority:

1. The amount of the commitment is in line with the respective target asset allocation for private equity or real estate funds, the sub-asset class limitations, and the respective pacing schedules set by the Council;
2. The investment is with the same partnership or fund that the NIC currently has a private equity or private real estate investment with;
3. The investment is in a partnership or fund that has a similar focus, risk profile, and strategy as that of NIC's prior investments in the respective partnership or fund;
4. A majority of the general partners or the leadership teams has remained the same;
5. The standard approach to investment and legal due diligence has been completed and documented and no material adverse findings exist beyond those that were in existence when NIC made prior investments with the same general partnership or fund;
6. The amount to be committed to a follow-on partnership or fund shall not be larger than any prior single commitment NIC has made to any partnership or fund, as the case may be (excluding fund-of-fund investments);
7. The commitments shall not result in NIC owning more than 10% of the follow-on partnership or fund; and
8. The investment decision is communicated to all members of the Council in writing, along with supporting documentation, before a commitment is made.

The Council reserves the right to change this delegation of authority at any time.