NEBRASKA INVESTMENT COUNCIL

SUMMARY ANNUAL REPORT
CALENDAR YEAR 2006

NEBRASKA INVESTMENT COUNCIL

Back row (left to right): Earl H. Scudder, Randy Gerke (interim Director of NPERS), John L. Maginn, John M. Dinkel, and David L. Bomberger
Front row (left to right): Dr. Richard A. DeFusco, Gail Werner-Robertson, and Ron Ross (State Treasurer to 1/3/07)
Not pictured: Shane Osborn and Phyllis Chambers

Council Chairwoman

Gail Werner-Robertson
President
GWR Wealth Management, LLC
Omaha, NE
Term 2003-2008

State Investment Officer

David L. Bomberger, CFA
State Investment Officer
Lincoln, NE

Council

Dr. Richard A. DeFusco, Ph. D., CFA
Associate Professor of Finance
University of Nebraska-Lincoln
Lincoln, NE
Term 2007-2011

Earl H. Scudder
President
Scudder Law Firm, P.C., L.L.O.
Lincoln, NE
Term 2002-2007

Shane Osborn
Nebraska State Treasurer
Lincoln, NE
Ex Officio
(non-voting)
Effective 1/4/07

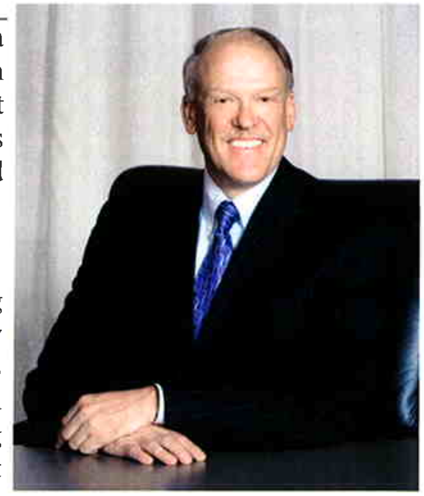
John M. Dinkel
Dinkel Implement Co.
Norfolk, NE
Term 2006-2009

John L. Maginn, CFA
President
Maginn Associates, Inc.
Omaha, NE
Term 2005-2010

Phyllis Chambers
NPERS Director
Lincoln, NE
Ex Officio
(non-voting)
Effective 1/2/07

State Investment Officer's Report

I am pleased to present the 2006 Annual Report for the Nebraska Investment Council. This report includes detailed information about the Defined Benefit Plans, the State and County Retirement Plans, and all other assets for which the Investment Council has investment responsibility. At the end of 2006, these assets totaled over $13 billion, an increase of over 17% from year end 2005.



David L. Bomberger, CFA

Capital Markets Overview

The U.S. economy continued to deliver moderate growth during 2006. This economic growth, combined with modest inflationary expectations, continued strong corporate earnings growth (18 consecutive quarters of double digit earnings gains) and increasing merger and acquisitions activity led to strong investment performance. Following a year of modest investment returns in 2005, the S&P 500 Index returned 15.8% in 2006. International stocks performed much better than their U.S. counterparts, with the MSCI EAFE Index (Europe, Australasia, Far East) returning 26.3% and the MSCI Emerging Markets Index returning a robust 32.2%.

After 17 increases in the federal funds rate since 2004, the Federal Reserve held short term rates steady during the second half of 2006. At the end of the year, the federal funds rate was 5.25%. The U.S. bond market posted positive returns for the year. The Lehman Aggregate Bond Index returned 4.3% in 2006. High yield bonds returned 8.4% during 2006.

2006 Highlights

As noted, the assets for which the Council has responsibility for grew to over $13 billion, with total net contributions of over $540 million and total net investment earnings of nearly $1.5 billion during the year. Nearly half of the contributions during 2006 were into the College Savings Plans of Nebraska. During the year, net contributions were $223 million, representing an external growth rate of 18%. Nebraska's 529 Plans, also known as the College Savings Plans, were first offered in 2001. Total assets in these Plans at the end of 2006 were $1.65 billion, up over 30% in 2006.

During 2006, the Council continued to analyze the higher expected rates of return and diversification benefits created by adding new alternative asset classes and to implement its previous decisions. As reported in the 2005 annual report, the Council allocated 5% of certain portfolios to private equity investments and selected two private equity fund of funds managers - Abbott Capital Management, LLC and Pathway Capital Management, LLC - for a portion of that allocation. During 2006, a modest amount was invested in these funds. We expect the private equity investment pace to accelerate in 2007. Also in 2005, the Council changed the structure of the real estate investments to 20% public real estate and 80% private real estate. During 2006, $230 million was invested in two private core real estate funds. It is expected that the Council will evaluate core-plus and value added real estate strategies during 2007. The Council also funded an allocation to high yield bonds during 2006. The new asset classes described above have been employed in the Defined Benefit Plans and the Cash Balance Benefit option in the State and County Retirement Systems Plans. Where appropriate, the Council is also utilizing some of these new asset classes in other portfolios it oversees.

The Council understands that the investment objective for the assets supporting the Defined Benefit Plans and the Cash Balance Benefit option is to be able to pay the benefits promised to the participants. The Council must always be mindful of the nature of these future liabilities. The results of our continuing review of the needs of the underlying liabilities confirmed that the investment structures currently employed are prudent and advisable. An efficient frontier analysis confirmed that the addition of private equity, private real estate, high yield bonds and global equities results in a higher expected rate of return and lower expected volatility for the total portfolio. The Council believes that any disadvantage of illiquidity can be easily managed, and is offset by the expected long-term advantages. The promised benefits to our participants are very long-term as well.

Performance

The total return on the assets supporting the Defined Benefit Plans was 15.2% in 2006. This exceeded the policy benchmark by 0.9%. The dollar impact of this performance is that $899 million of investment earnings was added to the Plans. The rate of return on the Plans has exceeded the benchmark over the trailing one, three, five and ten year periods. The annualized rate of return for the Plans since 1983, the inception of the current performance measurement process, is 10.6%. This compares very favorably to the actuarial assumption of 8% for the rate of return on the investments, and helps to reduce the long-term cost of operating the Plans.

In the State and County Retirement Systems, the Cash Balance Benefit option is offered to participants and the asset allocation is designed to mirror the returns of the Defined Benefit Plans. In 2006, the assets supporting the Cash Balance Benefit option earned 15.0%, a return similar to the Defined Benefit Plans. Since the new option was implemented in 2003, the average annualized rate of return is 13.1%. The interest credit rate averaged 5.5% over this four-year time period. Because of the excess investment return relative to the crediting rate plus a reserve required by the Plan, a dividend of 13.5% for State employees and 16.4% for County employees was granted in 2006 to participants with an account balance in this benefit option on December 31, 2005. This is the third year in a row that participants have received a dividend.

The rate of return for participants in the Defined Contribution option of the State and County Retirement Systems, the State Deferred Compensation Plan, and the Nebraska Educational Savings Plan Trust are dependent upon the investment funds selected by the participants. In all of these Plans, a variety of investment options such as equity, fixed income, and premixed funds are offered. The Council recognizes that the investment objectives and risk tolerance of individual participants can differ considerably, and thus seeks to provide a sufficient range options to meet the needs of the participants. For the investment information on the remaining trusts and endowments for which the Council is responsible, please see the appropriate section following in this report.

Conclusion

2006 was a year of transition at the Nebraska Investment Council. Carol Kontor resigned as State Investment Officer at the end of the second quarter. We thank Ms. Kontor for her service to the Council, both as a Council member and as the SIO. We wish her much happiness and success in her future endeavors. In addition, John Dinkel from Norfolk, NE was appointed to the Council by Governor Heineman to serve the remaining portion of John Maddux's term. We thank Mr. Maddux for his service on the Council.

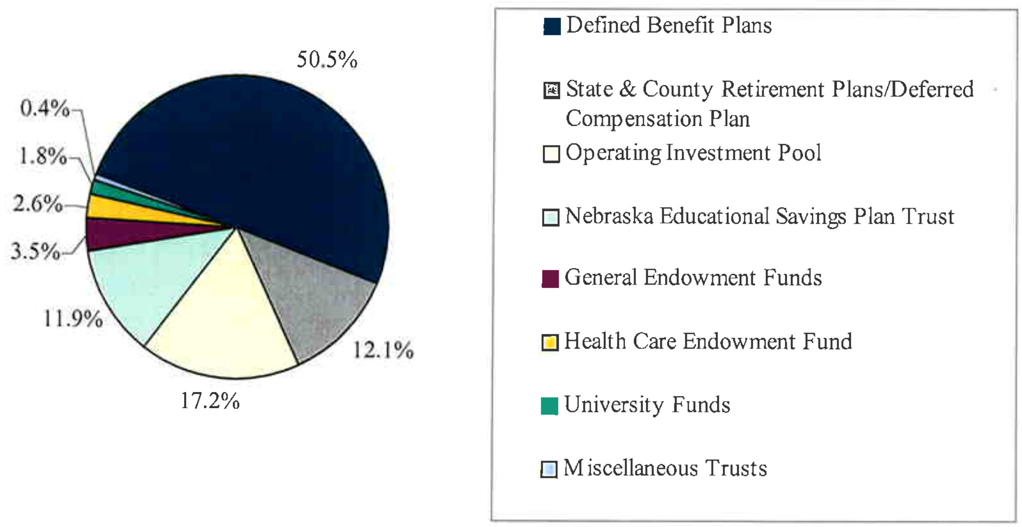
I was appointed SIO effective July 1, 2006. I am honored to have been selected and look forward to working with the Council and serving its many constituents in carrying out our responsibilities. What hasn't changed is the dedication and commitment that the Council and the Agency staff has to our responsibilities. As faithful stewards of the assets entrusted to our care, the Council seeks to understand each portfolio's objectives, invest accordingly, and focus on long-term results rather than short-term volatility. We are committed to helping the owners of the assets achieve their objectives by fulfilling our duties with integrity, prudence, and hard work.

Sincerely,

David L. Bomberger

David L. Bomberger, CFA
State Investment Officer

Executive Summary



The Nebraska Investment Council manages the investments of 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 30 entities fall into the eight major categories 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 regarding asset management. It does not determine the amount of funds contributed to nor disbursed from the funds it manages.

The Council portfolios experienced a $546 million net external cash inflow during 2006. The two largest contributors to this were the Nebraska Educational Savings Plan Trust which had a $223 million cash inflow and the Operating Investment Pool with a $218 million net cash inflow.

During the eleven years displayed on the following page, assets have more than tripled from $3.7 billion to $13.8 billion. Approximately $6.6 billion of this increase is attributable to investment returns during the period. The largest investment returns for any one year occurred in 2006, with investment gains of $1.5 billion. The asset base increased by approximately $0.8 billion due to the Council assuming responsibility for the State and County Retirement Plans' assets in 1997, $0.1 billion from the Nebraska Educational Savings Plan Trust in 2002, and $0.2 billion from the University Trust Funds in 2005. Approximately $2.4 billion was due to net cash inflows to the various funds.

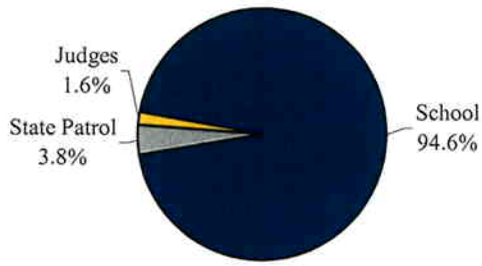
This report is intended to provide an overview of the investment management activities of the Council. All figures are believed to be materially accurate within the context of this report. Returns on all funds managed by the Council are reported net of fees unless noted otherwise.

Defined Benefit Plans – School, State Patrol, and Judges

OVERVIEW

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

Plan as a Percentage of Total



Funding for the three plans comes from a variety of sources. For the School plan, active employees contributed 7.25% of salary to the plan through August 31, 2005. However, the passage of LB503 temporarily changed the contribution rates. From September 1, 2005 through August 31, 2006, the contribution rate increased to 7.98%. From September 1, 2006 to August 31, 2007 the contribution rate decreased to 7.83%. Thereafter, the contribution rate will return to 7.25%. School districts contribute 101% of the employee's contribution and the State contributes 0.7% of payroll. The State also contributes to a COLA, which is currently funded by an annual contribution in an amount set by statute. For the Patrol plan, the passage of LB503 increased contribution rates for a two-year period to 13% of pay for employees and 15% of pay from the State. On July 1, 2007, the rate decreases to 12% for employees and 13% for the employer. For the Judges' plan, active employees contribute 8% of pay for up to 20 years of service. Members with more than 20 years of service contribute 4% of pay. The plan is also funded by court fees assessed on various court filings. At present, the State makes no contributions to the Judges' plan.

2006 HIGHLIGHTS

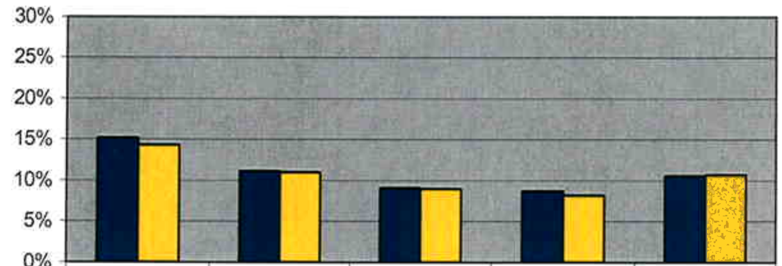
During 2005, the Council approved adding an allocation to high yield bonds. Loomis Sayles was approved as the investment manager. In February 2006, the Council voted to begin funding its investment in high yield fixed income in monthly installments. Funding occurred over several months and was completed in 2006.

In November, the Council reaffirmed its decision to allocate 5% of the assets of certain funds to real estate and 5% to private equity. To support the asset allocation, the Council adopted a Statement of Investment Objectives and Policies for Alternative Investments. A copy of the policy is included in this report.

Also in November, the benchmark for the DFA Small Cap Value Trust portfolio and the Ariel Small Cap Value portfolio was changed from the Wilshire Small Cap Value Index to the DJ Wilshire Small Cap Value Index.

PERFORMANCE SUMMARY

DB Plans - School, State Patrol, Judges



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
■ DB Plans	15.2%	11.1%	9.1%	8.7%	10.6%
□ Benchmark*	14.3%	11.0%	9.0%	8.2%	10.7%

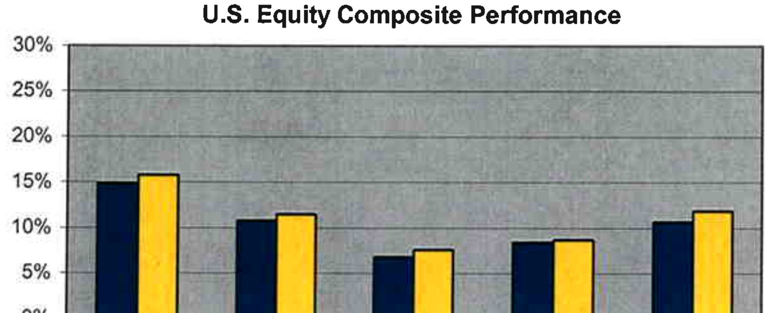
*This is a blended benchmark - 2Q03 to 2Q04: 50% Wilshire 5000/35% Citigroup LPF/15% MSCI ACWI ex-U.S. Beginning 3Q04, the fixed income benchmark was gradually transitioned from the Citigroup LPF to the Lehman Brothers U.S. Universal Bond Index. Thus, during 3Q04 and 4Q04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Lehman Brothers U.S. Universal Bond Index. As of 1/1/05, the fixed income benchmark is solely the Lehman Brothers U.S. Universal Bond Index.

The assets for the three Defined Benefit Plans are invested identically. Investment returns will reflect overall market conditions given the asset allocation. Global equities, U.S. equities, international equities and real estate led the total portfolio to an investment gain of 15.2% for the year. In the short-term, the Council expects rates of return to experience some volatility. Investment strategies which have lower risk also have lower expected rates of return. The Council believes the strategy used has a prudent and reasonable trade-off between risk and rate of return.

Performance versus the benchmark for 2006 was a positive 0.9%. This outperformance can be mostly attributed to investment manager outperformance in global equities. International equities and real estate contributed to outperformance to a lesser extent.

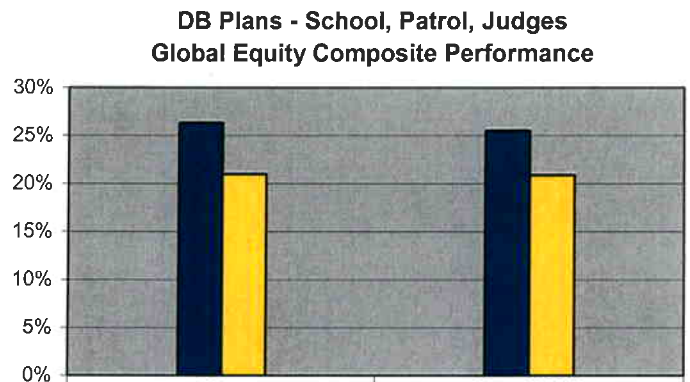
U.S. Equity Composite

DB Plans - School, Patrol, Judges
U.S. Equity Composite Performance



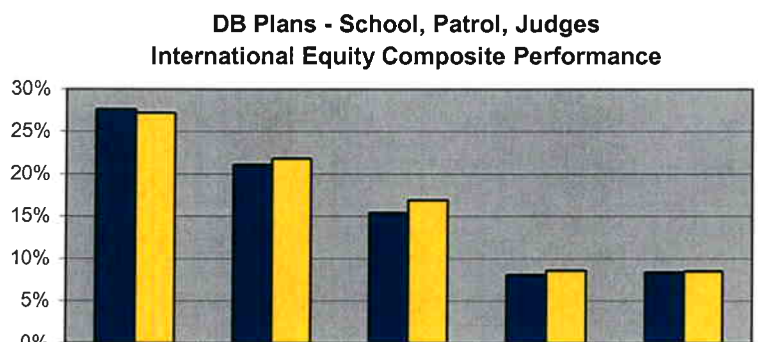
	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
■ U.S. Equity Composite	14.9%	10.8%	6.8%	8.4%	10.7%
□ DJ Wilshire 5000	15.8%	11.5%	7.6%	8.7%	11.9%

Global Equity Composite



	1 Year	Since 8/31/05
■ Global Equity Composite	26.3%	25.5%
□ MSCI All-Country World Index	21.0%	20.9%

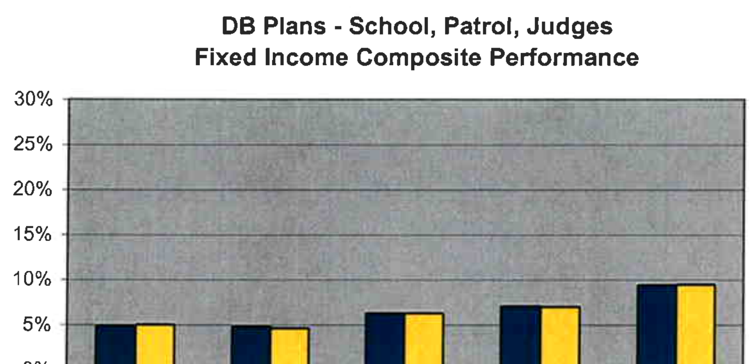
International Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 9/30/91
■ Int'l Equity Composite	27.6%	21.1%	15.4%	8.1%	8.4%
□ Benchmark*	27.2%	21.8%	16.9%	8.6%	8.5%

*4Q1991-Sept. 2000 MSCI EAFE; Oct. 2000 - present MSCI ACWI ex-U.S.

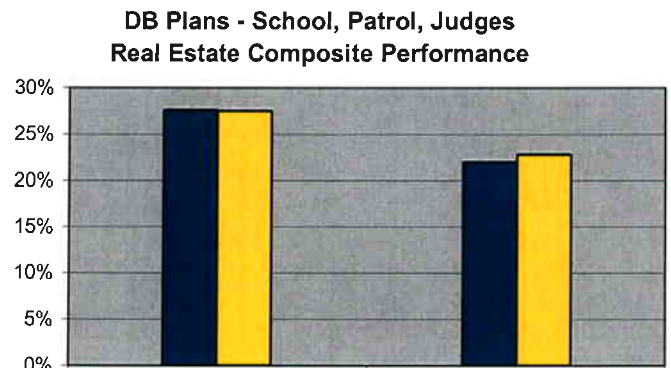
Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
■ Fixed Income Composite	4.9%	4.8%	6.3%	7.1%	9.4%
□ Benchmark*	5.0%	4.6%	6.3%	7.0%	9.5%

*Prior to Sept. 2004, the Citigroup LPF Index. As of September 2004, the fixed income benchmark was gradually transitioned to the Lehman Brothers U.S. Universal Bond Index. Therefore, from 9/1/04 to 12/31/04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Lehman Brothers U.S. Universal Bond Index. Beginning 1/1/05, the fixed income benchmark is solely the Lehman Brothers U.S. Universal Bond Index.

Real Estate Composite

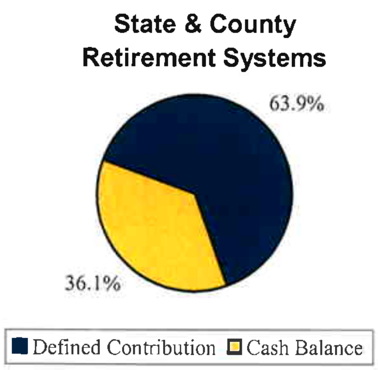


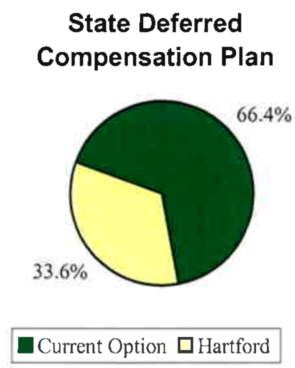
	1 Year	Since 11/30/04
Real Estate	27.6%	22.0%
DJ Wilshire Real Estate Securities Index	27.5%	22.8%

State and County Retirement Systems & State Deferred Compensation Plan

OVERVIEW

The Nebraska Investment Council determines the investments for the State Employees Retirement System of the State of Nebraska, the Retirement System for Nebraska Counties, and the State Deferred Compensation Plan. In the Retirement System for Nebraska Counties, all counties are included except Lancaster and Douglas counties. Prior to 1997, the State Deferred Compensation Plan was managed by Hartford Life Insurance Company. Some assets still remain with Hartford.





State and County Retirement Systems

Defined Contribution Option

In December 2002, participants were given the option to remain in the Defined Contribution option or transfer to the Cash Balance Benefit option implemented in January 2003. Prior to that time, employees in the State and Country Retirement System Plans were only offered the Defined Contribution option. Members who remain in the Defined Contribution option make their own investment choices based on the funds offered. Contributions to these accounts come from both the employee and the employer. With the passage of LB 366, State employees are required to contribute 4.8% of their salary (beginning January 2007). 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.

Cash Balance Benefit Option

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 Benefit option. Members who participate in the Cash Balance Benefit option 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 option. The assets are held in a trust fund which is managed by the Nebraska Investment Council. Cash Balance Benefit 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.

State Deferred Compensation Plan

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 option. Combining the investment options of the State Deferred Compensation Plan and the much larger State and County Defined Contribution option provides a major reduction in costs for participants making voluntary contributions.

Hartford

Effective 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 to the Hartford investment options have not been allowed since then and participants remaining in the Hartford investment options may transfer their balances from Hartford to the current State Deferred Compensation investment options at any time. Given the elimination of new cash flows, the Council expects the Hartford investment options to lose assets over time.

2006 HIGHLIGHTS

Defined Contribution Option/Deferred Compensation Plan (current version)

A new fund called the Age-Based Fund was added to the investment line-up in the Defined Contribution option and the Deferred Compensation Plan. This fund was authorized in 2005 by LB 503. As of July, 2006, participants may choose to invest in the Age-Based Fund which is similar to a "life-cycle" fund. As the participant moves closer to retirement, the asset allocation mix among bonds, stocks, and cash changes. The existing three premixed funds serve as the underlying investments for a participant who chooses the Age-Based Fund.

In August, 2006, the Council voted to change the current bond and cash allocations within the Conservative and Moderate Premixed Funds. The Conservative Premixed Fund option will continue to allocate 25% to stocks (20% U.S. stocks and 5% international stocks). However, the bond allocation will increase from 37.5% to 60% and the money market allocation will decrease from 37.5% to 15%. The Moderate Premixed Fund option will continue to allocate 50% to stocks (40% U.S. stocks and 10% international stocks). However, the bond allocation will increase from 37.5% to 50% and the money market allocation will decrease from 12.5% to 0%.

Cash Balance Benefit Option

During 2005, the Council approved adding an allocation to high yield bonds. Loomis Sayles was approved as the investment manager. In February 2006, the Council voted to begin funding its investment in high yield fixed income in monthly installments. Funding occurred over several months and was completed in 2006.

In November, the Council reaffirmed its decision to allocate 5% of the assets of certain funds to real estate and 5% to private equity. To support the asset allocation, the Council adopted a Statement of Investment Objectives and Policies for Alternative Investments. A copy of the policy is included in this report.

Late in the year the benchmark for the DFA Small Cap Value Trust portfolio and the Ariel Small Cap Value portfolio was changed from the Wilshire Small Cap Value Index to the DJ Wilshire Small Cap Value Index.

Excellent investment returns in prior years enabled the Public Employees Retirement Board (PERB) to approve a dividend for State and County Cash Balance Benefit members. A State member's 12/31/05 account balance was multiplied by an earnings factor of 13.5%. A County member's account balance was multiplied by an earnings factor of 16.4%. The dividend was distributed by the end of the fourth quarter 2006.

Hartford

There were no significant changes in 2006.

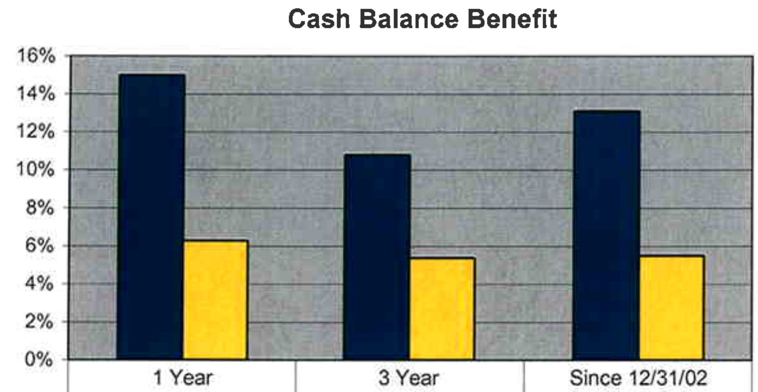
State and County Retirement Systems
Investment Option 1 – Defined Contribution
& State Deferred Compensation Plan

PERFORMANCE SUMMARY

Each participant chooses his or her own investment strategy. Therefore, performance measurement for the State and County Retirement Plans and the State Deferred Compensation Plan is limited to manager performance.

State and County Retirement Systems
Investment Option 2 – Cash Balance Benefit

PERFORMANCE SUMMARY



	1 Year	3 Year	Since 12/31/02
Cash Balance Benefit	15.0%	10.8%	13.1%
Interest Credit Rate	6.3%	5.4%	5.5%

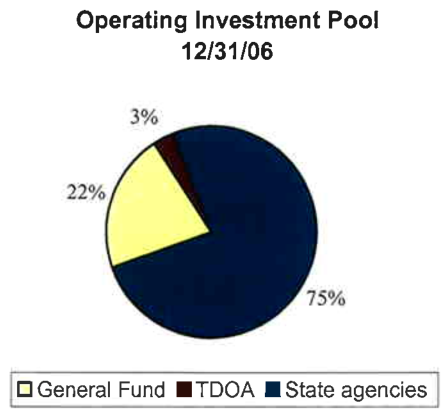
The investments in the Cash Balance Benefit option returned 15.0% in 2006. This return is above the crediting rate earned by participants during the year. In 2006, participants in the Cash Balance Benefit earned an average of 6.3%, as the federal mid-term rate plus 1.5% was above 5%, the guaranteed minimum crediting rate. When investment performance results are above the interest credit rate plus the required reserve, the Public Employees Retirement Board has the option to issue a dividend to plan members, or the Nebraska State Legislature may pass legislation to improve plan benefits. The Public Employees Retirement Board has issued a dividend each year to participants since 2003.

Operating Investment Pool

OVERVIEW

The Nebraska Investment 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). Each institution is allowed up to a $1,000,000 deposit as long as they satisfy the requirements of the program. The first $100,000 of the deposit is insured either by the FDIC or the FSLIC. The statute requires the pledging of collateral for deposits greater than $100,000, 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.



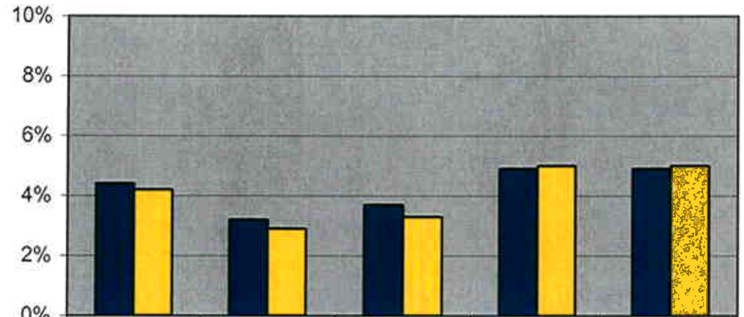
2006 HIGHLIGHTS

There were no changes in the investment policy of this portfolio during 2006.

PERFORMANCE SUMMARY

In comparison to the benchmark, the OIP portfolio was overweighted in agency securities, high quality corporate bonds, and cash/cash equivalents. These sectors performed better than the treasury sector in 2006. The variance in sector weighting is due to the policy requirements and the daily liquidity needs. The OIP outperformed the benchmark by 20 basis points during 2006.

Operating Investment Pool



	1 Year	3 Year	5 Year	10 Year	Since 12/31/96
OIP	4.4%	3.2%	3.7%	4.9%	4.9%
Benchmark*	4.2%	2.9%	3.3%	5.0%	5.0%

* 90% Lehman Brothers Intermediate Government/Credit Index and 10% Citigroup 30-Day CD. Prior to July 2003, the benchmark consisted of 85% Merrill Lynch 1-3 Year Government/Credit Index and 15% 90-Day T-Bill +15 basis points. Prior to October 1997, the benchmark consisted of 50% Merrill Lynch 1-3 Year Government/Credit Index and 50% 90-Day T-Bill +90 basis points.

Nebraska Educational Savings Plan Trust

OVERVIEW

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. Participants may choose between two series of the Nebraska Educational Savings Plan Trust – the College Savings Plan of Nebraska or the AIM College Savings Plan. Within each of these series, there are several types of accounts that are described in further detail below.

THE COLLEGE SAVINGS PLAN OF NEBRASKA

Union Bank Direct Accounts

Individuals may contact Union Bank directly to participate in the College Savings Plan of Nebraska. Participants may choose from the following investment options.

Age-based Portfolios: Participant contributions are invested based on the current age of the child and the type of investment style elected. Investments are automatically changed as the child moves from one age bracket to the next.

Age of Beneficiary	Age-Based Aggressive	Age-Based Growth	Age-Based Balanced	Age-Based Conservative
	(Equity/Fixed Income/Real Estate/Money Market)			
Ages 0-5	100/0/0/0	80/15/5/0	60/26/5/9	40/36/5/19
Ages 6-10	80/15/5/0	60/26/5/9	40/36/5/19	20/46/5/29
Ages 11-15	60/26/5/9	40/36/5/19	20/46/5/29	0/50/0/50
Ages 16-20	40/36/5/19	20/46/5/29	0/50/0/50	0/25/0/75
Ages 21+	20/46/5/29	0/50/0/50	0/25/0/75	0/0/0/100

Note: The equity asset class includes both domestic and international equities.

Target Portfolios: These portfolios provide a static asset allocation over the life of the account.

	Equity	Fixed Income	Real Estate	Money Market
Fund 100	100%	0%	0%	0%
Fund 80	80%	15%	5%	0%
Fund 60	60%	26%	5%	9%
Fund 40	40%	36%	5%	19%
Fund 20	20%	46%	5%	29%
Conservative	0%	50%	0%	50%

Note: The equity asset class includes both domestic and international equities.

Individual Fund Portfolios: Participants may choose from 21 individual fund portfolios for their investment. These portfolios invest in the underlying mutual fund.

Overall, twenty-two investment/mutual funds are utilized within the program, either offered as an individual portfolio and/or used in the target and age-based portfolios. In addition to any manager fees within the funds selected, the Plan imposes a 0.60% annual program manager fee as well as a $5.00 quarterly account fee.

Union Bank Advisor Accounts

The College Savings Plan of Nebraska is also offered to individuals who are using the expertise and guidance of a financial advisor. The financial advisor will work with Union Bank to open and transfer money to the participant account.

Participants with a Union Bank advisor account are offered all of the same investment options as those with a direct account. However, participants must elect which fee structure they wish to purchase: Fee Structure A, Fee Structure C, or Fee Structure H. Annual fees and initial sales charges vary depending on which fee structure the participant chooses. The fees are listed below.

	Annual Fee	Initial Sales Charge	Annual Program Manager Fee	Quarterly Account Fee
Fee Structure A	0.35%	3.50%	0.60%	$5.00
Fee Structure C	0.65%	0.00%	0.60%	$5.00
Fee Structure H	0.10%	5.75%	0.60%	$5.00

Mutual fund expenses will also apply. For a more detailed fee schedule, please refer to the College Savings Plan Enrollment Handbook.

TD Ameritrade Direct Accounts

Participant accounts can be set up directly with TD Ameritrade and participants are offered the same investment options as those offered to participants with Union Bank direct and advisor accounts. Each account is assessed a 0.85% annual management fee and a $7.50 quarterly account fee. Beginning with the first quarter of 2007, the quarterly account fee will be $5.00 per quarter. Applicable mutual fund fees will vary by investment choice.

AIM COLLEGE SAVINGS PLAN

AIM Accounts

The AIM series allows individuals to participate in the Nebraska 529 Plan while utilizing the expertise and guidance of a financial advisor. Participants may choose from the following investment options which are comprised solely of AIM mutual funds.

Fixed-allocation Portfolios: These portfolios provide a static asset allocation over the life of the account.

- AIM Aggressive Growth (100% Equity)
- AIM Growth (85% Equity/15% Fixed Income)
- AIM Balanced (60% Equity/40% Fixed Income)

Enrollment-based Portfolios: Investments in these portfolios are based on the anticipated time to college enrollment of the beneficiary. Participant accounts are automatically transferred to the appropriate portfolios as the beneficiary ages to the next tier.

	Domestic Equity	International Equity	Fixed Income	Money Market
16+ Years to College Portfolio	75%	25%	0%	0%
13-15 Years to College Portfolio	68%	22%	10%	0%
10-12 Years to College Portfolio	60%	20%	20%	0%
7-9 Years to College Portfolio	53%	17%	30%	0%
4-6 Years to College Portfolio	45%	15%	40%	0%
1-3 Years to College Portfolio	30%	10%	50%	10%
College Now Portfolio	15%	5%	50%	30%

Individual Fund Portfolios: Participants may choose from 17 individual fund portfolios for their investment. These portfolios invest in the AIM underlying mutual fund.

AIM College Savings Plan participants must elect which class of portfolio shares they wish to purchase: Class A, Class B, or Class C. Annual fees and initial sales charges vary depending on which class of shares the participant chooses. The fees are illustrated on the following page. Each account will also bear its pro-rata share of the fees and expenses charged within the AIM funds that make up each 529 portfolio.

	Annual Fee[1]	Initial Sales Charge[2]	Contingent Deferred Sales Charges[3,4]		Annual Account Fee
Class A	0.35%	5.50%	0.0%	Held < 18 months	$25.00
		0.00%	1.0%	Held < 18 months	
Class B [5]	1.10%	0.00%	5.0%	Redeemed year 1	$25.00
			4.0%	Redeemed year 2	
			3.0%	Redeemed year 3 or 4	
			2.0%	Redeemed year 5	
			1.0%	Redeemed year 6	
			0.0%	Redeemed year 7 or after	
Class C	1.10%	0.00%	1.00%	Redeemed < 12 months	$25.00

1. The annual fee for the first six years on Class B shares is 1.10% if shares are purchased prior to 10/8/02. Thereafter, it is 0.35%. If shares are purchased on or after 10/8/02, the annual fee is 1.10% for the first eight years and 0.35% thereafter.
2. The initial sales charge varies for Class A shares based on the portfolio category of the purchase and the amount of the purchase. The charge listed for Class A shares is based on a purchase under $25,000 of Class A shares in a Category 1 portfolio. There are also other situations in which the sale charge may be waived. Please see the AIM enrollment handbook for further details.
3. If shares are redeemed within 18 months of purchase, a deferred sales charge of 1.0% is imposed for Class A shares if the initial purchase was part of an initial investment over $1,000,000 or more made on a single day with the initial sales charge waived. Otherwise, no deferred sales charge is imposed.
4. Deferred sales charges for Class B shares vary depending on the original purchase and what year the redemption occurs. The charges displayed are for purchases made on or after 10/8/02. Please see the AIM enrollment handbook for further details.
5. Class B shares will be converted to Class A shares at the end of the month which is eight years after the date on which the shares were purchased. Class B shares purchased prior to 10/8/02, will convert to Class A shares at the end of the month which is six years after the date on which the shares were purchased.

State Farm Accounts

State Farm agents market the AIM series of the Nebraska Educational Savings Plan Trust under the State Farm name. Participants may choose from the following investment options which are comprised solely of AIM mutual funds.

Fixed-allocation Portfolios: These portfolios provide a static asset allocation over the life of the account.

- AIM Aggressive Growth (100% Equity)
- AIM Growth (85% Equity/15% Fixed Income)
- AIM Balanced (60% Equity/40% Fixed Income)

Enrollment-based Portfolios: Investments in these portfolios are based on the anticipated time to college enrollment of the beneficiary. Participant accounts are automatically transferred to the appropriate portfolios as the beneficiary ages to the next tier.

	Domestic Equity	International Equity	Fixed Income	Money Market
16+ Years to College Portfolio	75%	25%	0%	0%
13-15 Years to College Portfolio	68%	22%	10%	0%
10-12 Years to College Portfolio	60%	20%	20%	0%
7-9 Years to College Portfolio	53%	17%	30%	0%
4-6 Years to College Portfolio	45%	15%	40%	0%
1-3 Years to College Portfolio	30%	10%	50%	10%
College Now Portfolio	15%	5%	50%	30%

At this time, State Farm does not offer an investment option consisting of individual fund portfolios. State Farm College Savings Plan participants must elect which class of portfolio shares they wish to purchase: Class A or Class B. Annual fees and initial sales charges vary depending on which class of shares the participant chooses. The fees are illustrated on the following page. Each account will also bear its pro-rata share of the fees and expenses charged within the AIM funds that make up each 529 portfolio.

	Annual Fee[1]	Initial Sales Charge[2]	Contingent Deferred Sales Charges[3,4]		Annual Account Fee
Class A	0.35%	5.50%	0.0%	Held < 18 months	$25.00
		0.00%	1.0%	Held < 18 months	
Class B	1.10%	0.00%	5.0%	Redeemed year 1	$25.00
			4.0%	Redeemed year 2	
			3.0%	Redeemed year 3 or 4	
			2.0%	Redeemed year 5	
			1.0%	Redeemed year 6	
			0.0%	Redeemed year 7 or after	

1. The annual fee on Class B shares is 1.10% for the first eight years and 0.35% thereafter.
2. The initial sales charge varies for Class A shares based on the portfolio category of the purchase and the amount of the purchase. The charge listed for Class A shares is based on a purchase under $25,000 of Class A shares in a Category 1 portfolio. There are also other situations in which the sale charge may be waived. Please see the State Farm enrollment handbook for further details.
3. A deferred sales charge of 1.0% is imposed for Class A shares if the initial purchase was part of an initial investment over $1,000,000 or more made on a single day with the initial sales charge waived. Otherwise, no deferred sales charge is imposed.
4. Deferred sales charges for Class B shares vary depending on the original purchase and what year the redemption occurs. Please see the State Farm enrollment handbook for further details.

2006 HIGHLIGHTS

In November 2006, the Council approved changes to the investment portfolios the AIM College Savings Plan offers and the underlying mutual funds in which those portfolios are invested. The Plan will consist of five Allocation Portfolios, five Enrollment-Based Portfolios, and one Individual Fund Portfolio. These changes will be effective March 26, 2007.

General Endowment Funds

OVERVIEW

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 investment strategy is described later in this section.

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 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.

2006 HIGHLIGHTS

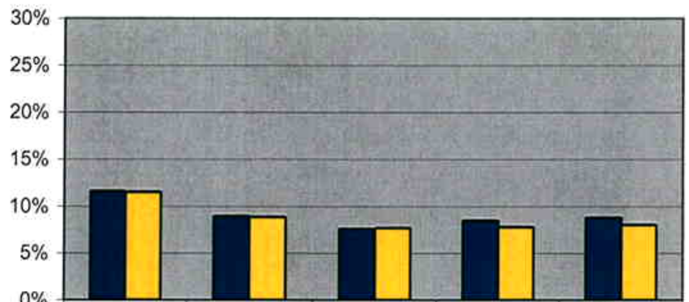
There were no changes in the investment policy or investment managers of this Fund during 2006. However, funding the fixed income allocation decided upon in 2005 was completed this past year.

In November, the benchmark for the DFA Small Cap Value portfolio and the Ariel Small Cap Value portfolio was changed from the Wilshire Small-Cap Value Index to the DJ Wilshire Small-Cap Value Index.

PERFORMANCE SUMMARY

The portfolio's total rate of return for the year was 11.6% which was slightly better than its benchmark return of 11.5% The 15.1% return of the U.S. equities portfolio, although a fine rate in isolation, underperformed its benchmark return of 15.8%. The international equities portfolio faired slightly better than its benchmark, 26.9% versus 26.7%, respectively. The fixed income portfolio outperformed its benchmark slightly, 5.3% versus 5.0%. The global equities portfolios which had a rate of return of 26.3% outperformed its benchmark rate of 21.0% by a fair amount.

General Endowments

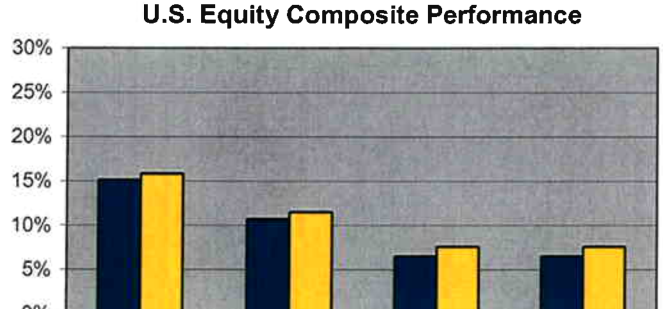


	1 Year	3 Years	5 Years	10 Years	Since 12/31/95
■ General Endowments	11.6%	9.0%	7.6%	8.5%	8.8%
□ Benchmark*	11.5%	8.9%	7.7%	7.8%	8.0%

* Effective September 2005, a composite of 37.625% DJ Wilshire 5000 Index, 10.125% MSCI ACWI ex-U.S., 2.25% MSCI ACWI, and 50% Lehman U.S. Universal Bond Index.

U.S. Equity Composite

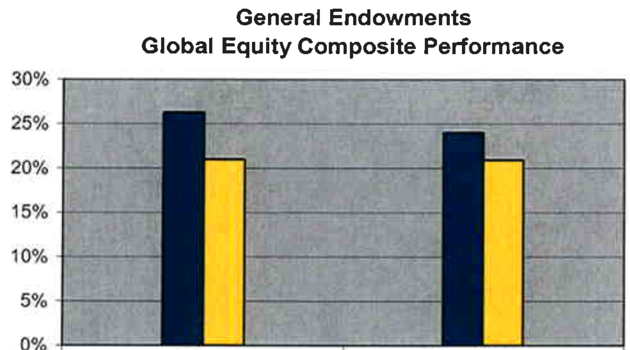
General Endowments
U.S. Equity Composite Performance



	1 Year	3 Year	5 Year	Since 12/31/01*
■ U.S. Equity Composite	15.1%	10.7%	6.5%	6.5%
□ Wilshire 5000	15.8%	11.5%	7.6%	7.6%

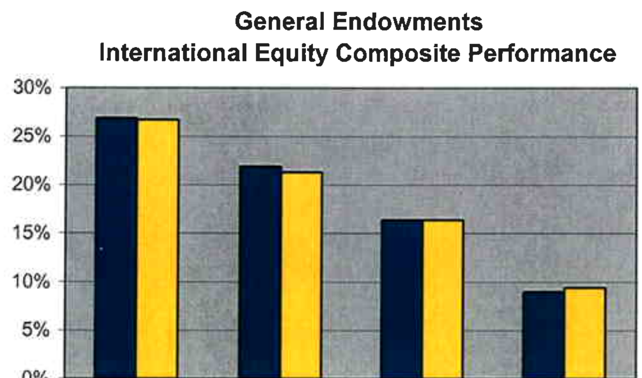
* Inception date reflects the start date of the current U.S. equity structure.

Global Equity Composite



	1 Year	Since 8/31/05
■ Global Equity Composite	26.3%	24.0%
□ MSCI All-Country World Index	21.0%	20.9%

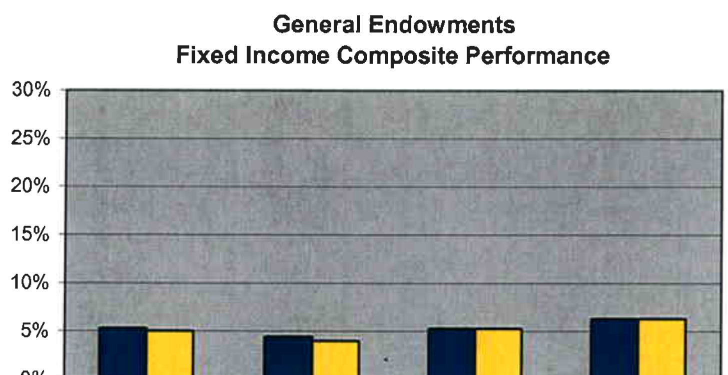
International Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/00
■ Int'l Equity Composite	26.9%	21.9%	16.4%	9.0%
□ Benchmark*	26.7%	21.3%	16.4%	9.4%

* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

Fixed Income Composite



	1 Year	3 Year	5 Year	Since 6/30/97*
■ Fixed Income	5.3%	4.4%	5.3%	6.3%
□ Benchmark**	5.0%	4.0%	5.3%	6.3%

* Inception date reflects the start date of the current U.S. fixed income structure

** Blended benchmark: 6/30/97 to 3/31/05 Lehman Aggregate; 3/31/05 to present Lehman U.S. Universal Bond Index

Health Care Endowment Fund

OVERVIEW

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 (IGT). 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.

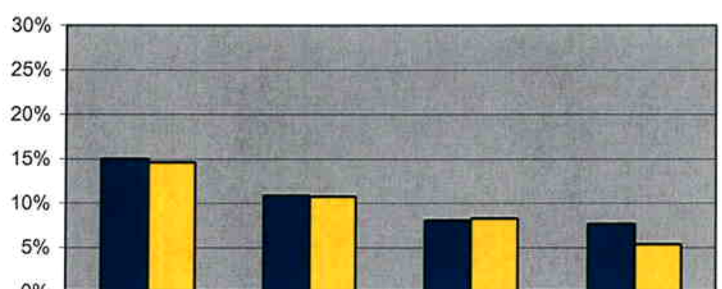
2006 HIGHLIGHTS

The Tobacco Settlement Trust Fund receives payments from the Master Settlement Agreement (the tobacco settlement). The payment was $32 million in 2006. The Medicaid IGT payments are controlled by the federal government. The Medicaid IGT payment for 2006 was $19 million and is anticipated to be made in the spring of 2007.

In November, the benchmark for the DFA Small Cap Value portfolio and the Ariel Small Cap Value portfolio was changed fro the Wilshire Small-Cap Value Index to the DJ Wilshire Small-Cap Value Index.

PERFORMANCE SUMMARY

Health Care Endowment Fund



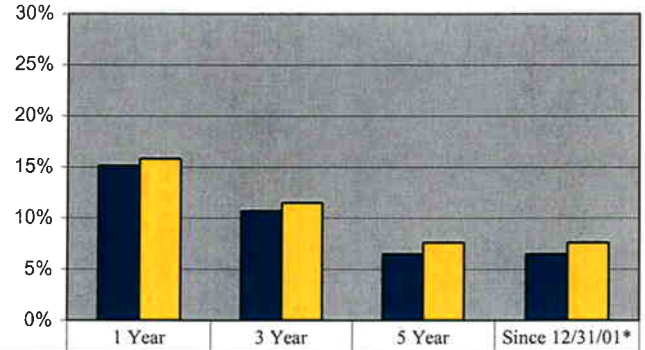
	1 Year	3 Year	5 Year	Since 12/31/00
Health Care	15.0%	10.9%	8.1%	7.7%
Benchmark*	14.6%	10.8%	8.3%	5.4%

* Effective September 2005, a composite of 55.75% DJ Wilshire 5000 Index, 15,75% MSCI ACWI ex-U.S., 3.5% MSCI ACWI, 22.5% Lehman Brothers Intermediate Government/Credit Index, 2.5% Citigroup 30-Day CD.

The portfolio's total rate of return for the year was 15.0%, which was slightly better than its benchmark return of 14.6%. The U.S. equities portfolio underperformed its benchmark slightly, while the international equities and the fixed income portfolios outpaced their benchmark. The rate of return for the global equities portfolio outpaced the return on its benchmark by 5.3% for the year.

U.S. Equity Composite

Health Care Endowment Fund
U.S. Equity Composite Performance

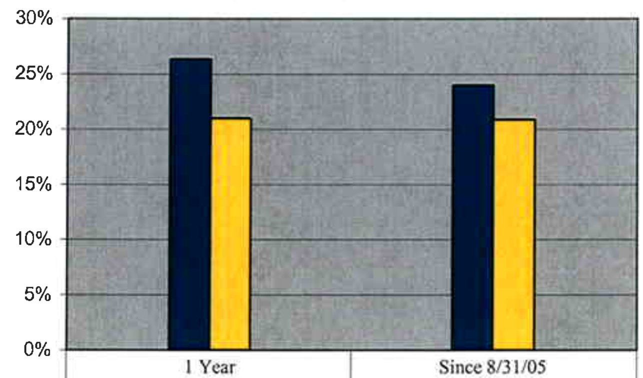


	1 Year	3 Year	5 Year	Since 12/31/01*
■ U.S. Equity Composite	15.1%	10.7%	6.5%	6.5%
□ Wilshire 5000	15.8%	11.5%	7.6%	7.6%

*Date reflects the start date of the current U.S. equity structure.

Global Equity Composite

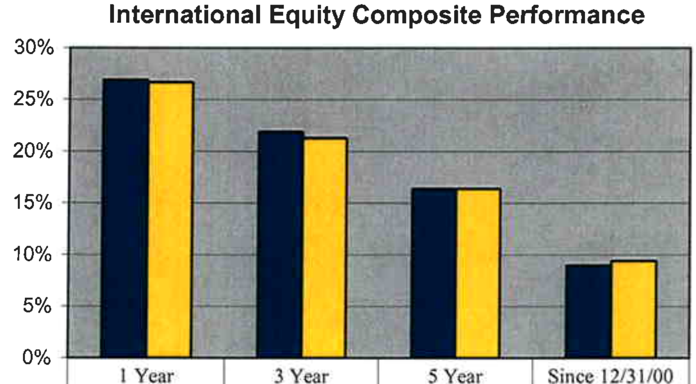
Health Care Endowment Fund
Global Equity Composite Performance



	1 Year	Since 8/31/05
■ Global Equity Composite	26.3%	24.0%
□ MSCI All-Country World Index	21.0%	20.9%

International Equity Composite

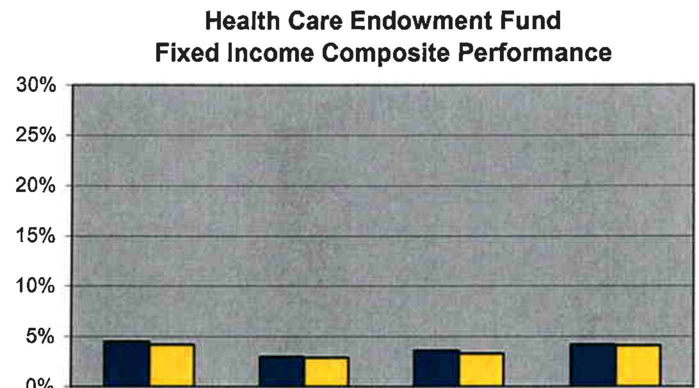
Health Care Endowment Fund
International Equity Composite Performance



	1 Year	3 Year	5 Year	Since 12/31/00
■ Int'l Equity Composite	26.9%	21.9%	16.4%	9.0%
□ Benchmark*	26.7%	21.3%	16.4%	9.4%

* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

Fixed Income Composite



	1 Year	3 Year	5 Year	Since 12/31/00
Fixed Income	4.5%	3.0%	3.6%	4.2%
Benchmark*	4.2%	2.9%	3.3%	4.1%

*As of 7/1/03, the benchmark is 90% Lehman Intermediate G/C /10% Citigroup 30-Day CD

University Funds

OVERVIEW

The University Funds are comprised of the Othmer-Topp Endowment Fund, the Permanent Pool, the Quasi Pool, the Lied Endowment, the Restricted Pool, and the Stone Fund. The investment manager for the Othmer-Topp Endowment Fund is the University of Nebraska Foundation. The investment manager for the other five Funds is U.S. Bank.

Othmer-Topp Endowment Fund

The Othmer-Topp Endowment Fund was established from the estates of Mildred Topp Othmer and Donald F. Othmer. The 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 & Quasi Pools

The Permanent and Quasi Pools represent the commingled investments of approximately 225 individual funds. The Permanent Pool 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 Pool contains funds that the Board of Regents has designated function as endowments, with the income to be spent for the purposes designated by the Board.

Lied Endowment

The Lied Endowment was established to provide income to augment funding of the Lied Center for Performing Arts.

Restricted Pool

The Restricted Pool 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.

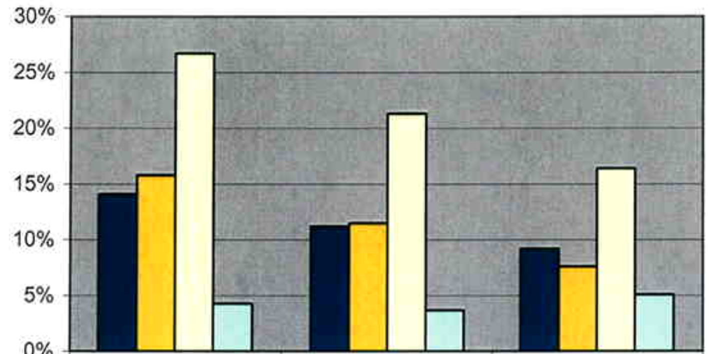
Stone Fund

The Stone Fund was designated by the Board of Regents to be invested in fixed income securities and the income used to repay the lease obligation on certain facilities. This is a permanent endowment fund.

PERFORMANCE SUMMARY

Performance information for the University Funds is presented below. The Othmer-Topp Endowment Fund performance information was provided by the investment manager – the University of Nebraska Foundation. The Permanent Pool, the Quasi Pool, and the Lied Endowment performance information was provided by the investment manager – U.S. Bank. At this time, the performance information for the Restricted Pool and the Stone Fund is not available.

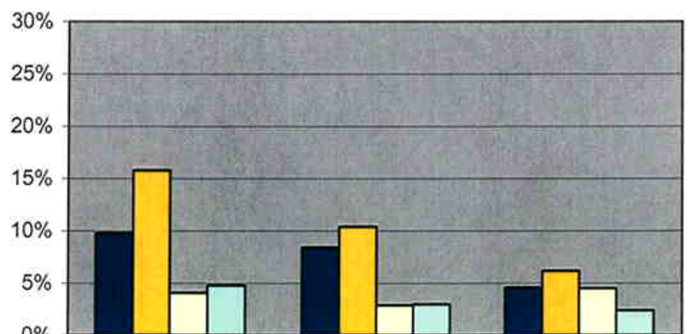
University Funds
Othmer-Topp Endowment



	1 Year	3 Year	5 Year
■ Othmer-Topp Endowment*	14.1%	11.2%	9.2%
□ DJ Wilshire 5000	15.8%	11.5%	7.6%
□ ACWI ex-U.S.	26.7%	21.3%	16.4%
□ LB Aggregate Bond Index	4.3%	3.7%	5.1%

*These returns were calculated by Cambridge Associates LLC gross of fiscal agent fees of 100 basis points; this fee is paid to the Unviersity of Nebraska Foundation.

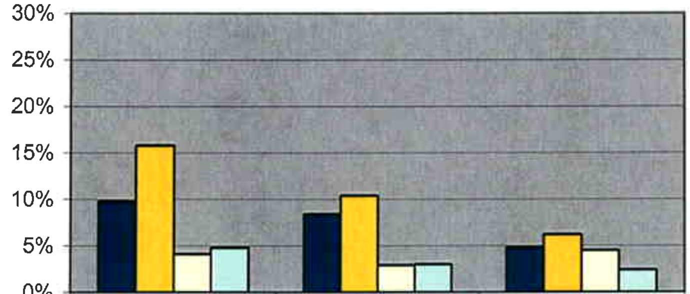
University Funds
Permanent Pool



	1 Year	3 Year	5 Year
■ Permanent Pool*	9.8%	8.4%	4.6%
□ S&P 500 Composite Index	15.8%	10.4%	6.2%
□ Lehman Int Govt/Credit Index	4.1%	2.9%	4.5%
□ Citigroup 3 Month T-bill	4.8%	3.0%	2.4%

*These returns were calculated by U.S. Bank gross of fees; the fee paid to U.S. Bank for management services is estimated to be 30 basis points

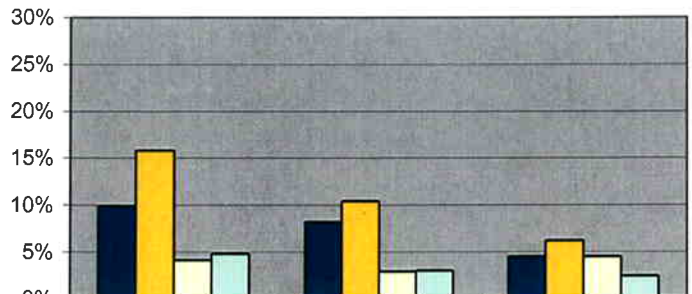
University Funds
Quasi Pool



	1 Year	3 Year	5 Year
Quasi Pool*	9.8%	8.4%	4.8%
S&P 500 Composite Index	15.8%	10.4%	6.2%
Lehman Int Govt/Credit Index	4.1%	2.9%	4.5%
Citigroup 3 Month T-bill	4.8%	3.0%	2.4%

*These returns were calculated by U.S. Bank gross of fees; the fee paid to U.S. Bank for management services is estimated to be 30 basis points

University Funds
Lied Endowment



	1 Year	3 Year	5 Year
Lied Endowment*	9.9%	8.2%	4.5%
S&P 500 Composite Index	15.8%	10.4%	6.2%
Lehman Int Govt/Credit Index	4.1%	2.9%	4.5%
Citigroup 3 Month T-bill	4.8%	3.0%	2.4%

*These returns were calculated by U.S. Bank gross of fees; the fee paid to U.S. Bank for management services is estimated to be 30 basis points

Miscellaneous Trusts
Excess Liability Fund

OVERVIEW

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 health care 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.

2006 HIGHLIGHTS

There were no changes in the investment policy or investment managers of this Fund during 2006. However, funding the asset allocation decided upon in 2005 was completed this past year.

PERFORMANCE SUMMARY

	1 Year	3 Years	5 Years	Since 06/30/97
Excess Liability Fund	4.8%	4.2%	5.2%	6.3%
Benchmark*	5.0%	4.0%	5.3%	6.3%

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

Miscellaneous Trusts
Aeronautics Trust Fund

OVERVIEW

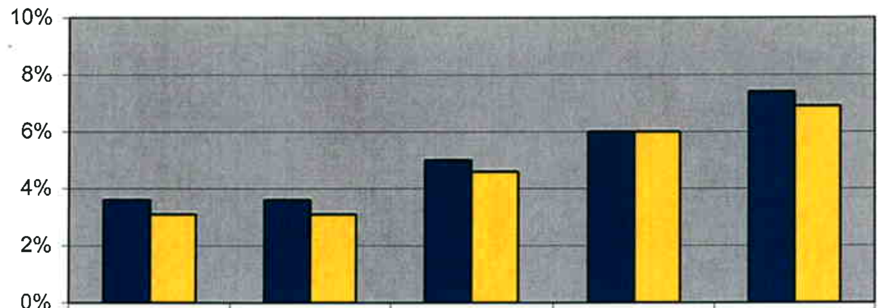
This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Department of Aeronautics. The Nebraska Investment Council does not determine the distribution policy.

2006 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2006.

PERFORMANCE SUMMARY

Aeronautics Trust Fund



	1 Year	3 Years	5 Years	10 Years	Since 12/31/89
Aeronautics Fund	3.6%	3.6%	5.0%	6.0%	7.4%
Lehman Treasury	3.1%	3.1%	4.6%	6.0%	6.9%

Miscellaneous Trusts
Agricultural Development Fund

OVERVIEW

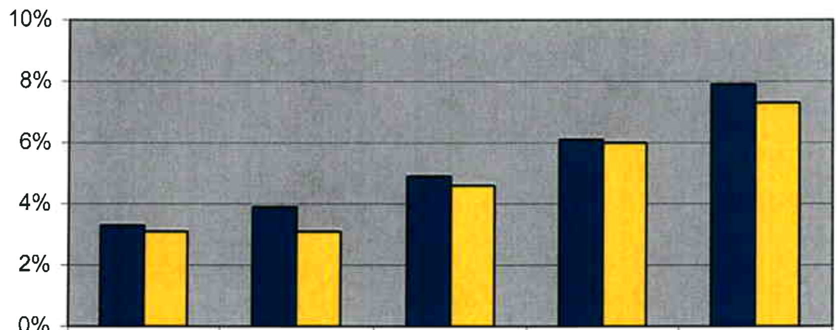
This Fund consists of money received from the U.S. Department of Agriculture. Income from the Fund is used to pay expenses of the Nebraska Department of Agriculture. The Nebraska Investment Council does not determine the distribution policy.

2006 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2006.

PERFORMANCE SUMMARY

Agricultural Development Fund



	1 Year	3 Years	5 Years	10 Years	Since 12/31/88
Ag Development Fund	3.3%	3.9%	4.9%	6.1%	7.9%
Lehman Treasury	3.1%	3.1%	4.6%	6.0%	7.3%

Miscellaneous Trusts
Joseph J. Soukup Trust Fund

OVERVIEW

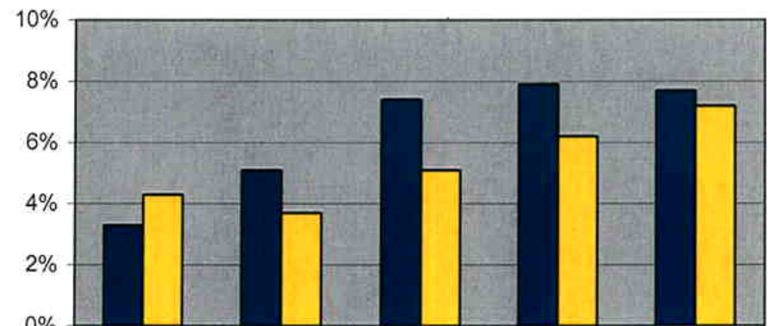
This Fund was established to provide a lifetime income benefit to Joseph J. Soukup. The principal in the Fund reverts to the State upon his death.

2006 HIGHLIGHTS

In September 2006, an increase in the monthly income benefit to Joseph J. Soukup was granted. The new income benefit is $1,263 per month, an increase from the prior year's payout of $1,238 per month.

PERFORMANCE SUMMARY

Joseph J. Soukup Trust Fund



	1 Year	3 Years	5 Years	10 Years	Since 12/31/89
■ Soukup	3.3%	5.1%	7.4%	7.9%	7.7%
□ Lehman Aggregate Bond Index	4.3%	3.7%	5.1%	6.2%	7.2%

Miscellaneous Trusts
Department of Environmental Quality Funds
The Drinking Water Recycled Bond Proceeds Fund

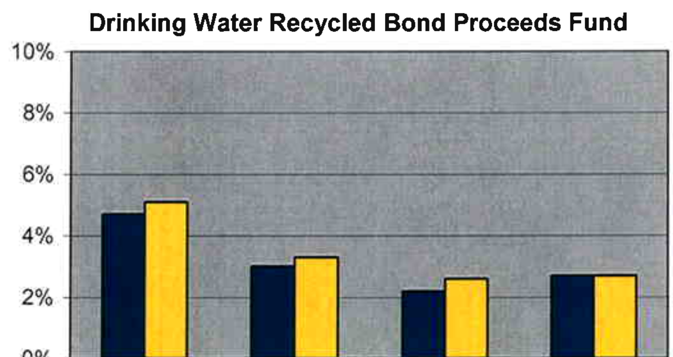
OVERVIEW

The Drinking Water Fund was created in 1997. The Nebraska Department of Environmental Quality (NDEQ), in cooperation with the Nebraska Investment Finance Authority (NIFA), issues revenue bonds to finance the costs incurred in planning, designing, and constructing eligible safe drinking water projects for public and private entities in the State of Nebraska. The repayment of the principal is deposited into the Recycled Bond Proceeds Fund. Pursuant to the bond indenture, the Nebraska Investment Council is responsible for the investment of these funds.

2006 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2006.

PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	Since 9/30/00
NDEQ-Recycled Bond Proceeds Fund	4.7%	3.0%	2.2%	2.7%
Citigroup 30-day CD index	5.1%	3.3%	2.6%	2.7%