Statement of Investment Objectives & Policies for Alternative Investments
Adopted November 20, 2006

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I. PURPOSE OF INVESTMENT POLICY STATEMENT

This Statement of Investment Objectives and Policies for Alternative Investments (the "Alternatives Investment Policy") for Nebraska Investment Council (the "Council" or "NIC") is intended to:

A. Define the responsibilities of Nebraska Investment Council and its providers of investment services;

B. Establish formal yet flexible investment guidelines incorporating prudent asset guidelines and realistic return objectives; and

C. Create standards of investment performance which are historically achievable and by which the investment managers agree to be measured over a reasonable time period.

The Statement of Investment Objectives and Policies for Alternative Investments is established and implemented by the State Investment Officer and approved by the Council. This Statement will be reviewed annually to ensure the relevance of its contents to current capital market conditions, the needs of Nebraska Investment Council and to achieve an effective mix of investments.

The purpose of the Policy for Alternatives Investments Policy is to prudently employ the assets that NIC has allocated to real estate, private equity and other alternative/non-traditional investments to produce well-diversified, profitable portfolios that will enhance the total return of the NIC portfolios, diversify away from the traditional capital markets risks and ultimately benefit participants and beneficiaries and meet actuarial requirements.

In 2005, the Nebraska Investment Council approved a recommendation to invest 5% of the Defined Benefit and Cash Balance Benefit Plans assets in private equity in early 2005. At the same time, NIC approved a recommendation to invest in private real estate.

In 2005, NIC changed its policy for investing in real estate, adopting target allocations of 3% in core private real estate, 1% in REITS and 1% in value added real estate opportunities, diversifying away from a larger REIT allocation that began funding in late 2004. Currently (as of November, 2006), the REIT and core private real estate targets are fully funded. The value added target has not been funded.

NIC's first investment step in Private Equity was to approve a long-term target allocation of 5% to this asset class, but purposely committed only a portion of the 5% allocation to allow the Council time to gain further experience and comfort with this asset class. As a result, two fund of funds managers were hired with commitments of $100 million and $50 million, respectively. Fully funded, the $150 million commitment would represent less than 3% of defined benefit/cash balance benefit assets. The Council's intent in not making a full commitment initially to Private equity through funds of funds was to re-evaluate the allocation and to consider a strategy at a later date to fully implement the long-term target allocation of 5%.

II. DESCRIPTION OF ASSETS

The Nebraska Investment Council was established by the 1967 Legislature pursuant to LB 355. In 1969, new legislation passed under LB 1345 which provided for the centralization of the investment of State funds and addressed the types of investments authorized. Provisions in the law call for the appointment of five Council members by the Governor to staggered five-year terms with legislative approval. The Council appoints a full-time State Investment Officer, subject to the approval of the Governor and the Legislature, and fixes his/her compensation. Prior to this creation of a central State investing agency, State operating funds were invested by the State Treasurer and the trust funds were invested by the Board of Educational Lands and Funds.

DESCRIPTION OF ASSETS
The assets which the Nebraska Investment Council manages are defined as follows:

1) Defined Benefit Plans a) The School Retirement System b) The State Patrol Retirement System c) The Judges' Retirement System 2) The State Employees Retirement System of the State of Nebraska a) Defined Contribution b) Cash Balance Benefit 3) The Retirement System for Nebraska Counties a) Defined Contribution b) Cash Balance Benefit 4) The State of Nebraska Deferred Compensation Plan 5) College Savings Plans a) College Savings Plan of Nebraska b) AIM College Savings Plan	6) Operating Investment Pool 7) University Funds 8) Trusts and Endowments a) Health Care Endowment Fund b) Permanent Endowment Fund c) Nebraska Veteran's Aid Fund d) Cultural Preservation Endowment Fund e) Agricultural Endowment Fund f) Permanent University Endowment Fund g) Normal School Endowment Fund h) Nebraska Environmental Endowment Fund i) Bessey Memorial Fund j) Excess Liability Fund k) Aeronautics Trust Fund l) Agricultural Development Fund m) Joseph J. Soukup Trust Fund n) Department of Environmental Quality Fund

III. STATEMENT OF INVESTMENT PHILOSOPHY

Introduction

The Nebraska Investment Council ("NIC") has been empowered by Neb Rev. Stat. § 72-1239.01 to act as fiduciary on behalf of the State's Retirement Plans, Operating Investment Pool, College Savings Plan, and other Trusts and Endowments. The mission of the NIC is as follows:

It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to it by the people of the State of Nebraska. NIC's activities provide direct financial benefit exclusively to the owners of these funds. NIC is committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.

Purpose

The NIC has developed this Statement of Investment Philosophy to provide clear articulation of the NIC's long-term investment philosophy regarding return and risk objectives for the various investment pools for which the NIC has fiduciary obligations.

Investment Philosophy

The guiding philosophy is to allow sufficient flexibility in the management process while maintaining reasonable parameters to ensure prudence and care in the execution of the investment program. The NIC will comply with all existing and future applicable State and Federal regulations and will administer its duties solely for the benefit of the plan participants and State agencies with the care, skill, prudence and diligence under the prevailing circumstances that a prudent expert acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character, purposes and aims.

The NIC believes that its long-term investment objectives will be achieved through emphasizing equity-oriented investments and through prudent management of those risks which do not offer sufficient long-term rewards. Thus, investment strategies will be developed to provide consistent value-added relative to relevant market-based benchmarks and will incorporate effective risk controls. The NIC's investment philosophy is based upon a set of factors that have widely accepted theoretical and empirical bases.

1. Asset allocation has the most significant impact on investment results. The NIC will focus significant efforts on the development and maintenance of asset allocation strategies that will optimally fulfill investment objectives.
2. Some markets are efficient while others are less so or inefficient. Investment strategies will reflect a mix of active and passive investments, with passive investments being emphasized in the more efficient markets.
3. Capital markets revert to the mean over long-time periods. Investment strategies will generally be long-term in nature and will avoid ad hoc decision-making based upon short-term factors.
4. Costs have a meaningful impact on returns. Investment strategies will utilize cost effective approaches.
5. Valuation and analysis based upon fundamentals generally produce superior return/risk results. Investment strategies will focus on fundamentally-based processes.
6. Performance measurement and monitoring activities provide assessment of success of the NIC's investment strategies and implementation of those strategies. Clear, unambiguous market-based benchmarks will be selected for each investment strategy. Performance reviews of all investment strategies will be conducted at least annually.
7. When hiring investment managers, the Council prefers to utilize Nebraska-based investment advisers licensed by the State of Nebraska as long as the manager satisfies the criteria, State statutes, etc., established for the selection process.
8. In order to achieve prudent diversification in the Defined Benefit Plans, the Cash Balance Benefit, the General Endowment Funds and the Health Care Endowment, the maximum target allocation that will be allowed to any one active equity investment manager is 10% of the total portfolio, except in unusual, and most likely temporary circumstances.
9. No contributions of any kind will be made to the portfolios of investment managers in the Defined Benefit Plans, the Cash Balance Benefit, the General Endowment Funds and the Health Care Endowment which are on the Council's watch list. An index fund corresponding to the specific mandate of the manager on watch will be used for the contributions instead.

IV. RESPONSIBILITIES - NEBRASKA INVESTMENT COUNCIL

Responsibilities of Nebraska Investment Council, the State Investment Officer and the NIC Agency staff include:

Relationships

The Nebraska Investment Council ("NIC") has been statutorily given fiduciary responsibility for certain Retirement Plans, the State's Operating Investment Pool, the College Savings Plan, and other trusts and endowments. The State Investment Officer ("SIO") reports directly to the NIC and has responsibility for the overall administration and day-to-day operations of the NIC.

The NIC will hire an investment consultant ("IC") who will coordinate with the SIO on all investment matters. The NIC will also hire various investment managers and other consultants as it may from time to time require, all of whom report to the SIO. Any Council member who has individual interactions with current or prospective investment service providers must disclose that interaction at the next NIC meeting at which consideration of the provider is addressed.

The NIC Agency staff reports to the SIO and interactions with Agency staff will be through the SIO, unless direct contact is authorized by the SIO.

Responsibilities

The NIC has the following responsibilities:

1. Articulate Fund Objectives.
2. Approve and oversee investment philosophy and policies.
3. Approve and oversee asset allocation and/or investment structure.
4. Approve and oversee asset class strategy and investment guidelines.
5. Assess and oversee investment performance for the total portfolio and each asset class.
6. Approve and oversee the investment program operating policies (proxy voting, manager monitoring, securities lending, commission recapture, etc.).
7. Act on recommendations of the SIO and the IC for selection, retention and termination of investment managers, consultants and custodians (to the extent statutorily required, jointly with an elected official).
8. Assure that the investment program is in compliance with laws, regulations, Plan documents, and the custodian agreement.
9. Assure cost effective management of the investment program.
10. Assure the effective administration/management of the investment program by the SIO.
11. For the relevant plans, conduct an asset/liability study every three years and reevaluate the asset allocation annually (after the updated expected rates of return are available from the IC), or more frequently as required by the NIC .

The SIO has the following responsibilities:

1. Investment policy development and implementation
    a. Provide oversight to, and coordinate the development of, the State of Nebraska investment policies for the approval of the NIC. Investment policies shall include asset allocation, risk measurement, and return objectives for each investment fund.
    b. Investment policy development shall entail a review and selection of acceptable vehicles and structures for the State's investments.
    c. Investment policy shall articulate the respective roles in investment decision-making of the NIC, staff, the IC, and investment managers.
    d. Coordinate the presentation of proposed policies to the NIC and the communication of approved policies to interested parties.
    e. Determine implementation priorities and time schedules.
    f. Orchestrate and participate in the recruitment, selection, and contract negotiation process on behalf of the NIC with investment service providers.
    g. Provide oversight to all implementation activities, including portfolio accounting, cash allocation, and the compliance of the investment funds with applicable state and federal laws and regulations.
    h. Execute legal documents on behalf of the NIC, including investment advisory and consulting contracts, partnership agreements and commingled fund subscription agreements.
    i. Evaluating and recommending to the Council new asset classes to be included in NIC's portfolios.

2. Liaison activities

a. Coordinate the NIC meetings and activities including development of meeting agendas and the provision of all internal and external reports and presentations on each meeting agenda.
b. Inform the NIC members in a timely manner of all significant developments related to State investment programs.
c. Communicate regularly, and work cooperatively, with the Executive Director of NPERS, including PERB meeting attendance.
d. Communicate regularly, and work cooperatively, with the State Treasurer.
e. Conduct orientation sessions for the new NIC members.
f. Represent State investment programs to other State agencies, the Governor's office, Nebraska legislature, federal government agencies and members of the press.

3. Maintain knowledge of current industry trends
   a. Attend relevant industry conferences, regularly meet with industry representatives, and regularly review industry publications.
   b. Provide the NIC with periodic educational sessions on investment topics of current relevance.
   c. Inform the NIC of educational opportunities for fiduciaries.
   d. Keep current on federal laws, regulations, standards and policies governing the various funds for which the NIC has responsibility.
   e. Keep current on investment principles, practices, and procedures for all public markets asset classes.
   f. Be acquainted with the role of actuarial concepts in funding defined benefit retirement plans and providing for payment of promised benefits.

4. In-state investment opportunities
   a. Regularly meet, and communicate with, State agencies, investment officers, investment managers, and private investors.
   b. Monitor and ensure that in-state investment opportunities are objectively and thoroughly evaluated under the State investment programs' investment criteria.

5. Supervise State investment staff
   a. Develop strategic plan for investment staff.
   b. Make recommendations regarding staffing requirements and appropriate salary levels to ensure optimal fulfillment of investment staff responsibilities.
   c. Oversee and participate in the recruitment, selection, and retention of investment staff.
   d. Administer personnel policies within the State investment office, evaluate staff performance, determine merit increases, oversee staff development and training, and determine appropriate disciplinary actions.

6. Other duties, projects and responsibilities as the NIC may from time to time assign.

The NIC Agency staff has the following responsibilities:
1. Perform those duties and responsibilities as are assigned to them by the SIO.

V. RESPONSIBILITIES – GLOBAL CUSTODIAN BANK

The GLOBAL CUSTODIAN BANK, in recognition of its role as a service provider for the Council, must assume the following responsibilities as they pertain to:

A. Safekeeping of Assets - Hold assets, as required, in the appropriate accounts. Safekeeping procedures, if required, must meet regulatory requirements.

B. Facilitation of Funding - Arrange for timely and business-like funding of all capital contributions/withdrawals or purchase/redemptions of unitized funds based upon proper instruction by the Council or its designated investment manager or advisor.

C. Collection of Income and Distributions - Provide for receipt and prompt crediting of all principal and income payments received as a result of the Council's portfolio holdings.

D. Plan Accounting, Reporting and Recordkeeping – Maintain accounting records on the Council's portfolio holdings. Provide monthly reports showing asset holdings with sufficient descriptive detail to include units, unit price, cost, market value (where available) and any other information requested, subject to availability of such information. Principal cash transactions, including distributions, dividends received, deposits and withdrawals, securities purchased, sold and matured, and fee payments will also be listed.

VI. RESPONSIBILITIES – FUND OF FUND MANAGERS

The FUND OF FUND MANAGERS, in recognition of their role as fiduciaries to the Council, must assume the following responsibilities as they pertain to:

A. Investment Program

1. The Council will select investment managers and funds whose guidelines comply with its guidelines, objectives and standards of performance and which invest assets in accordance with those objectives, guidelines and standards.

2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each fund under management subject to the guidelines as defined in this statement. Manager will consult with NIC prior to implementing new portfolio strategies or before using new asset classes. All transactions are to be implemented on the "best net basis" to the Council.

3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.

4. Review, document and monitor the risk control process of the underlying fund managers.

B. Reporting

1. Communicate all transactions in a timely and accurate manner to facilitate prompt accounting for each trade by NIC and to insure adequate cash availability.

2. Produce a statement for each portfolio at the end of each quarter describing the portfolio asset class weightings, individual security position showing both cost and market value and all principal cash transactions, including all buys and sells in sufficient descriptive detail. Total time weighted investment returns shall be reported for the most recent quarter, year, and inception-to-date.

C. Review Meetings - The fund of funds manager will participate in annual review meetings, the agenda to include:

1. A review and re-appraisal of the investment program.

2. A commentary on investment results in light of the appropriate standards of performance.

3. A synopsis of the key investment decisions made by the manager, his or her underlying rationale, and how those decisions could affect future results.

4. A discussion of the manager's outlook, what specific investment decisions this outlook may trigger, and how these decisions could affect future results.

D. Communication - The fund of funds manager is responsible for frequent and open communication on all materials pertaining to investment policies and the management of the portfolios. In particular, the investment managers will:

1. Participate in a periodic conference call to discuss financial market conditions, recent transactions, strategies and changes.
2. Provide written notice of any material changes in the manager's investment outlook, strategy, and portfolio structure.

3. Provide notice of material changes in the investment manager's firm ownership, organization structure, financial conditions, senior staffing and management (this would include all individuals associated with the NIC account in any decision making capacity).

4. Send a copy each year of the firm's S.E.C. Form ADV filing.

5. Send a copy of audited financial statements within 180 days of the end of each fiscal year.

VII. RESPONSIBILITIES - REAL ESTATE FUND MANAGERS

The REAL ESTATE FUND MANAGERS, in recognition of their role as fiduciaries to the Council, must assume the following responsibilities as they pertain to:

A. Investment Program

1. The Council will select investment managers and funds whose guidelines comply with its guidelines, objectives and standards of performance and which invest assets in accordance with those objectives, guidelines and standards.

2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each security or property under management subject to the guidelines as defined in this statement. Manager will consult with NIC prior to implementing new portfolio strategies or before using new asset classes.

3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.

B. Reporting - Communicate all transactions in a timely and accurate manner to facilitate prompt accounting for each trade by NIC and to insure adequate cash availability.

Produce a statement for each portfolio at the end of each quarter describing the portfolio asset class weightings, individual security position or property showing both cost and market value and all principal cash transactions, including all buys and sells in sufficient descriptive detail. Total time weighted investment returns shall be reported for the most recent quarter, year, and inception-to-date.

C. Review Meetings - The real estate fund manager will participate in periodic review meetings, the agenda to include:

1. A review and re-appraisal of the investment program.

2. A commentary on investment results in light of the appropriate standards of performance.

3. A synopsis of the key investment decisions made by the manager, his or her underlying rationale, and how those decisions could affect future results.

4. A discussion of the manager's outlook, what specific investment decisions this outlook may trigger, and how these decisions could affect future results.

D. Communication - The real estate manager is responsible for frequent and open communication on all materials pertaining to investment policies and the management of the portfolios. In particular, the investment managers will:

1. Participate in a periodic conference call to discuss financial market conditions, recent transactions, strategies and changes.
2. Provide written notice of any material changes in the manager's investment outlook, strategy, and portfolio structure.

3. Provide notice of material changes in the investment manager's firm ownership, organization structure, financial conditions, senior staffing and management (this would include all individuals associated with the NIC account in any decision making capacity).

4. Send a copy each year of the firm's S.E.C. Form ADV filing.

5. Send a copy of audited financial statements within 180 days of the end of each fiscal year.

VIII. RESPONSIBILITIES – PRIVATE EQUITY FUND MANAGERS

The PRIVATE EQUITY FUND MANAGERS, in recognition of their role as a fiduciary for the Council, must assume the following responsibilities as they pertain to:

A. Investment Program

1. The Council will select investment managers and funds whose guidelines comply with its guidelines, objectives and standards of performance and which invest assets in accordance with those objectives, guidelines and standards.

2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management subject to the guidelines as defined in this statement and the operative fund/partnership agreement. Manager will consult with NIC prior to implementing new portfolio strategies or before using new asset classes.

3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.

B. Reporting - Communicate all transactions in a timely and accurate manner to facilitate prompt funding and accounting for capital requests and to insure adequate cash availability.

Produce a statement for each portfolio at the end of each quarter describing the portfolio investment type weightings, individual security position showing both cost and estimated market value and all principal cash transactions. The report shall also list individual security and total portfolio holdings. Total time weighted investment returns shall be reported for the most recent quarter, year, and inception-to-date.

C. Review Meetings - The private equity manager will participate in annual review meetings, the agenda to include:

1. A review and re-appraisal of the investment program.
2. A commentary on investment results in light of the appropriate standards of performance.
3. A synopsis of the key investment decisions made by the manager, his or her underlying rationale, and how those decisions could affect future results.
4. A discussion of the manager's outlook, what specific investment decisions this outlook may trigger, and how these decisions could affect future results.

D. Communication - The private equity manager is responsible for frequent and open communication on all materials pertaining to investment policies and the management of the portfolios. In particular, the investment managers will:

1. Participate in a periodic conference call to discuss market conditions, recent transactions, strategies and changes.
2. Provide written notice of any material changes in the manager's investment outlook, strategy, and portfolio structure.
3. Provide notice of material changes in the investment manager's firm ownership, organization structure, financial conditions, senior staffing and management (this would include all individuals associated with the NIC account in any decision making capacity).
4. Send a copy each year of the firm's S.E.C. Form ADV filing.
5. Send a copy of audited financial statements within 180 days of the end of each fiscal year.

IX. RESPONSIBILITIES - INVESTMENT CONSULTANT

The Investment Consultant for Alternative Investments has the following responsibilities:

1. Assist with development of Alternative Asset policy, allocation and portfolio design.
    a. Make recommendations regarding asset allocation and real estate, private equity or fund of fund managers.
    b. Assist in the establishment of benchmarks.
    c. Provide education as needed and/or requested.
2. Assist with fund and fund manager identification, evaluation, selection and documentation.
    a. Participate in alternative investment manager searches.
3. Periodic portfolio review and evaluation.
    a. Regularly calculate investment performance and provide systematic review of the performance, including comparison to objectives, benchmarks, etc.
    b. Monitor investment managers for performance, style attributes, and key personnel changes.
4. Bring new ideas/products to the NIC and the SIO that may aid in accomplishing goals.
5. Coordinate with the SIO in advance of presentation to the NIC any recommendations and evaluations.
6. Special projects as assign or requested by the Council or the SIO.

The IC will be evaluated based on:

1. The comparison of the long-term rate of return of the Alternative Investment holdings vs. the benchmarks describe below and ranking of the council's Alternative Investments as compared to a universe of comparable investments.
2. Responsiveness to the requests of the NIC and the SIO.

X. INVESTMENT OBJECTIVES

Nebraska Investment Council's Investment Objectives are based upon the responsibility to provide superior long-term, risk-adjusted returns for the underlying portfolios. These objectives reflect the nature of Nebraska Investment Council's

A **Objective** - long-term rates of return on investments

1. To achieve long-term rates of return on alternative investments, net of fees and expenses, that meet or exceed the required rate of return on liabilities or other fund objectives and that meet or exceed market-based performance benchmarks (see Section X. F. below), without taking imprudent risk.

2. To achieve superior total returns when compared to traditional asset classes and to exceed the Wilshire 5000 (total time-weighted returns including dividends) by 300 basis points in the long run.

3. To diversify away from traditional asset classes' capital market risks.

B. **Time Horizon** - Performance of the alternative investment assets against their return objectives will be measured over a full market cycle. Market cycles may differ markedly in length based on the type of investments made, and there is no standardized measure for a market cycle's term. The time horizon for alternative asset classes, by their nature, is longer than traditional assets classes. Most of the partnerships have lives ranging from seven (7) to twelve (12) years. Performance shortfalls relative to the return objectives for the alternative assets will be tolerated over portions of the market cycles, provided that the return objectives for the alternative assets are met over the full market cycle. Performance of funds with less three years of actual history will be excluded from the performance analysis.

C. **Diversification** - Diversification of risk across a broad cross-section of funds is a primary way that the Council will manage the riskier and illiquid nature of investments in alternative asset classes. The objective in each alternative asset class will be to achieve broad diversification by having access to a large number of underlying transactions, property types, geographic locations, general partners, industry sectors, deal/property size, vintage years and other categories.

D. **Cashflows and Liquidity** - Investments in alternative assets classes such as real estate and private equity are less liquid than traditional asset classes (public equities and fixed income). As a result, the management of cashflows into and out of alternatives must be carefully managed. Early in the investment cycle, there will be a negative cashflow as new investments and fees to managers on commitments exceed the cash that is being distributed from the investments in the form of income, appreciation or return of capital. It should also be noted that given the typical funding/distribution pattern of private equity funds, the Council will likely need to over-commit by a ratio of approximately 2 to 1. To achieve its target allocation of 5%, the Council will need to commit nearly 10% of its assets to private equity funds and funds of funds. Once the Council's alternative investment allocation is fully funded, distributions will be redeployed in new opportunities to maintain target exposure to these asset classes and to rebalance as either real estate or private equity is below or exceeds the target allocation.

Most of the structures that NIC will utilize in implementing its alternative asset strategy will have limited liquidity as compared to public securities. Some of the real estate funds will offer quarterly liquidity. The real estate funds may have periodic distributions of income and realized gains. The private equity funds will draw down capital as transactions are funded and distribute proceeds as transactions are liquidated.

Other Considerations - After NIC's allocations to real estate and private equity are fully funded, it is expected that cashflows from distributions will be reinvested in the assets classes to maintain full funding of allocations and to rebalance if the asset class is above or below its target allocation.

E. **Risk Tolerance** - Real estate and private equity investments do not lend themselves to traditional quantitative measures of risk such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints.

Liquidity Risk. Real estate and private equity investments are illiquid and typically have expected holding periods of 10-12 years. These investments are typically held until maturity and selling prior to maturity results in discounts to market value.

Investments in individual real estate or private equity transactions are more risky than investments in individual public securities or portfolios of public securities, due in part to limited liquidity. To manage the risk inherent in real estate and private equity, NIC will only invest in funds to gain exposure to the asset classes. These funds will provide diversification by geography, property type, industry, deal size, general partner, etc.

Vintage Risk reflects the year of first capital draw and the variability of private equity commitments over time. To avoid excess exposure to any one economic or investment cycle, it is important to structure the private real estate and private equity portfolios so that a significant number of the investments are not made at the same time and do not mature at the same time. The implementation plan will define a pacing policy to manage vintage risk by committing capital in each year, regardless of market conditions, as vintage year diversification is critical to managing the risk of a private equity portfolio.

Manager and Firm Risk consists of two elements, the exposure within a fund and the number of general partners in the real estate and private equity portfolios. Fund/Partnership exposure is managed by limiting the commitment within a fund/partnership to 25% of the asset class allocation. Manager and firm risk is controlled by commitments made to funds managed by a general partner. NIC will limit its exposure to funds managed by a general partner to 30% of the asset class allocation. These limits represent 1.5% or less of the total portfolio.

Industry Risk is controlled through appropriate diversification across a broad cross-section of funds which focus on specific industries and through commitments to funds whose objectives include industry diversification objectives.

Geographic Risk (including, but not limited to, currency, political and economic risks) is controlled through fund and manager diversification. Funds and managers will establish geographic limits in their individual guidelines. These individual geographic exposures can be rolled up to the portfolio level and managed through future fund and manager selection. The investments will be diversified by geographic regions through investments in a broad cross-section of fund which seek diversification within the United States as well as within other areas of the world.

Real estate and private equity investments are subject to **leverage risk**. Real estate and private equity managers use the full array of instruments available through the capital markets to structure transactions. The capital markets control the maximum leverage available. NIC will control leverage risk through a broad cross-section of fund investments and portfolio construction.

Other Risk Management Considerations - There are several additional factors inherent in private real estate and private equity transactions that further manages the transaction specific risk in these transactions:

(a) Detailed due diligence and analysis – the private nature of these transactions allows for access to more information and more time to evaluate the transactions.
(b) Greater Control – the nature of these transactions provides the funds' the ability to exert more influence over management or the underlying property to better maximize value.
(c) Focus on long-term value maximization – a private company or direct real estate investment is not as focused on quarter to quarter or year to year results. This longer term horizon offers more opportunities to create value.
(d) Management Incentive – management teams often have a significant stake in the success of a real estate project or private company. This aligns the interest of management with the investor.
(e) Efficient use of leverage can lead to tax benefits and enhance returns.

Risk will be managed through diversification and through the asset allocation guidelines provided in Section XI below.

F. **Benchmarks** - The goals of benchmarks for investable assets are to:

1. Express the target returns to be achieved above a market based index.

2. Capture the eligible investment universe available to the investment manager, e.g., Market-Oriented benchmarks.

3. Replicate the liability cashflow characteristics if the primary management goal is to manage assets with liabilities of specified portfolios, e.g., Liability- Oriented benchmarks.

I. **Real Estate**

(1) Real Estate Investments Trusts (REITs)

Performance will be measured vs. the Wilshire Real Estate Securities Index.

(2) Core Real Estate

Performance will be measured vs. the NCREIF Core Open End Funds Index

(3) Value Added/Opportunistic Real Estate

Performance will be measured vs. the NCREIF Core Open End Funds Index plus 200 basis points

II. **Private Equity**

(1) Performance will be measured vs.

a. the Wilshire 5000 plus 300 basis points for cashflows older than three years (to reflect higher risk and illiquidity)

b. the Wilshire 5000 plus 300 basis points for cashflows during the first three years (to reflect higher risk and illiquidity)

(2) The Pooled Average Return from Venture Economics

III. **Other Asset Classes**

(1) Benchmarks will be established as needed.

XI. ALTERNATIVE INVESTMENT ASSET GUIDELINES

A. Asset Guidelines will be established on a fund by fund basis within the following broad parameters:

1. Real Estate – Target Allocation - 5% of Total Assets
   a. Real Estate Investment Trusts – Target Allocation - 1%
   b. Core Real Estate Funds – Target Allocation – 3%
   c. Value Added Real Estate Opportunity Funds – Target Allocation – 1%
   d. Individual Real Estate Property investments – Target Allocation – 0%

2. Private Equity – Target Allocation – 5% of Total Assets
   a. Private Equity Funds of Funds – up to 5%
   b. Direct Investment in Private Equity Funds – up to 5%
   c. Individual private equity transaction investment – 0%
   d. Allocation of private equity investments across type of investment
      i. Buyout funds – 50 to 70%
      ii Special situation funds – 20 to 30%
      iii. Venture capital funds – up to 25%
      iv. Other – less than 20%