Nebraska Investment Council

2020 Annual Report

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NEBRASKA INVESTMENT COUNCIL

Back Row (left to right): Michael Walden-Newman, John Conley, Randy Gerke, John Dinkel
Front Row (left to right): Richard DeFusco, Gail Werner-Robertson, John Murante (State Treasurer), Cecelia M. Carter, and Keith Olson.

Council Chairwoman

Gail Werner-Robertson
President
GWR Wealth Management, LLC
Omaha, NE
Term 2019-2023

Council

Richard A. DeFusco, Ph.D., CFA
University of Nebraska-Lincoln
Lincoln, NE
Term 2017-2021

Dr. Keith A. Olson, Ph.D., CFA
Creighton University
Omaha, NE
Term 2021-2025

John Murante
Nebraska State Treasurer
Lincoln, NE
Ex Officio (non-voting)

John M. Dinkel
Dinkel Implement Co.
Norfolk, NE
Term 2020-2024

John H. Conley, CFA
D.A. Davidson.
Omaha, NE
Term 2018-2022

Randy Gerke
NPERS Director
Lincoln, NE
Ex Officio (non-voting)

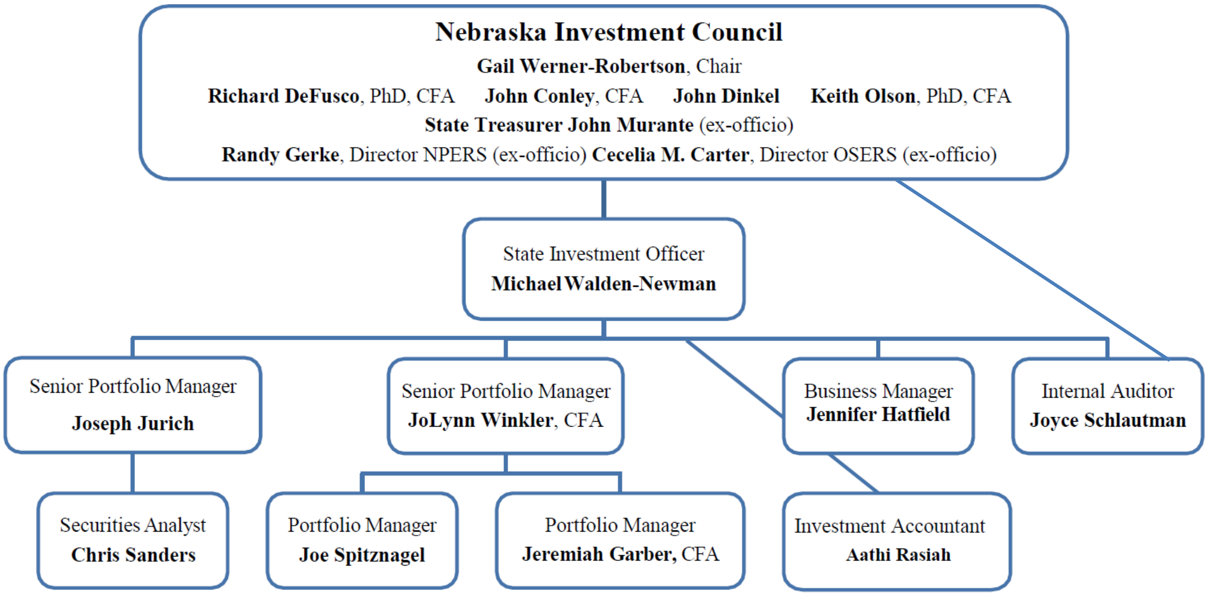
Cecelia M. Carter
OSERS Director
Omaha, NE
Ex-Officio (Non-voting)

State Investment Officer

Michael W. Walden-Newman
State Investment Officer
Lincoln, NE

Organizational Chart

It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.



Transaction Summary

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Benefit Plans	$ 13,507	- $ 239	$ 1,696	$ 14,964
State & County Retirement Plans/ Deferred Compensation Plan	3,594	- 80	458	3,972
Omaha School Retirement	1,323	- 37	125	1,411
Operating Investment Pool	4,384	952	233	5,569
NE Educational Savings Plan Trust	5,653	73	689	6,415
Nebraska ENABLE Savings Plan	11	6	1	18
General Endowment Funds	990	- 4	82	1,068
Health Care Endowment Fund	449	- 19	54	484
Miscellaneous Trusts	79	- 2	7	84
2020 Totals	**$ 29,990**	**$ 650**	**$ 3,345**	**$ 33,985**
2019 Totals	$ 25,695	$ 75	$ 4,220	$ 29,990
2018 Totals	27,009[1]	- 511	- 803	25,695
2017 Totals	24,279	- 459	3,189	27,009
2016 Totals	21,922	- 372	1,538	23,088
2015 Totals	21,962	- 227	187	21,922
2014 Totals	20,595	159	1,208	21,962
2013 Totals	17,769	372	2,454	20,595
2012 Totals	15,831	241	1,697	17,769
2011 Totals	15,578	112	141	15,831

1. University Funds were removed in July 2018.

NEBRASKA INVESTMENT COUNCIL
ANNUAL REPORT

I am pleased to present the Annual Report for the Nebraska Investment Council for the year ending December 31, 2020. The Council oversees $34 billion across 32 investment programs:

- $16.4 billion in 5 defined benefit pension plans.
- 4.0 billion in 7 other retirement plans.
- 1.6 billion in 11 public endowments.
- 5.6 billion in the Operating Investment Pool, the State's checkbook, managed internally.
- 84.1 million in 3 State trusts.
- 6.4 billion in 4 college savings plans.
- 17.8 million in the Nebraska Enable plan.

The funds are spread among over 60 investment firms and over 150 investments.

You will see and hear the term Council used in several ways:

- The Council board is the eight-member governing body including five private citizens appointed by the Governor and confirmed by the State Legislature, and three ex-officio members: the State Treasurer, the Director of the Public Employees' Retirement Systems, and the Executive Director of the Omaha School Employees Retirement System.
- The Council staff is a nine-member Investment Team.
- Most importantly, the Nebraska Investment Council is the seventeen of us working together as an independent state agency for the citizens of Nebraska.

All of us at the Council are grateful for the support we receive from the Governor and other statewide elected officials. We appreciate the interest and encouragement of state legislators, particularly the Nebraska Retirement Systems Committee, Appropriations Committee and their staff. We value our close working relationship with other state agencies, the Nebraska Public Employees Retirement Systems and Omaha School Employees Retirement System staffs and boards.

Our mission statement reflects our shared goals:

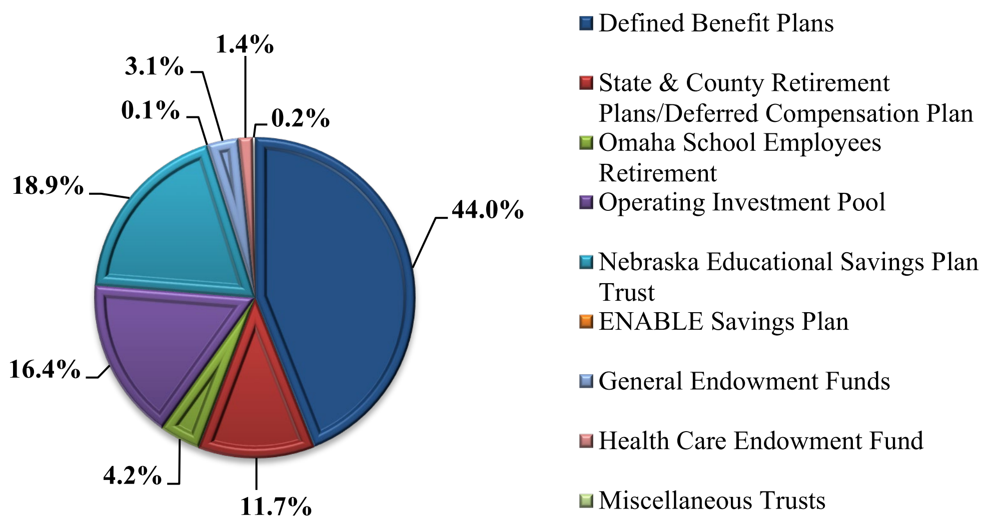
> ***It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.***

This Annual Report is designed to give Nebraska citizens a summary as outlined in Neb. Rev. Stat. §72-1243 of Council activity, and an overview of portfolio structure and performance for the assets entrusted to the Council. This report and a wealth of other information about the Nebraska investment program—including specific manager detail in quarterly performance reports—can be found on the Nebraska Investment Council website at http://www.nic.nebraska.gov. Please contact me with any questions you have at 402-471-2001 or michael.walden-newman@nebraska.gov.

Michael walden-Newman

Michael W. Walden-Newman
State Investment Officer

NEBRASKA INVESTMENT COUNCIL PORTFOLIO



2020 Administrative Review

The year 2020 will be long remembered for many reasons, safe to say. Financial markets ended the year higher than most predictions last year, rebounding dramatically from Covid-19 shock in March. U.S. Equities ended the year up over 20 percent, bonds up over 7.5 percent. The State's pension plans with their mix of 70 percent equities and alternatives, and 30 percent fixed income saw returns of over 12.5 percent for the 2020 calendar year. Endowments overseen by the Council returned around 8.5 percent, with their larger exposure to fixed income. Total assets under Council oversight grew to $34 billion in 2020 from $30 billion on December 31, 2019, a 13.3% increase.

The Council keeps an eye on management expenses. For the fiscal year ending June 30, 2020, for example, retirement fund assets totaled $16.3 billion in market value and annual costs were $62.0 million, or only 38 basis points. Endowments totaled $1.4 billion and costs were $3.7 million, only 26 bps.

State law mandates that the Council diversify the investments of the assets in their charge "so as to minimize risk of large losses." With that in mind, the Council begins portfolio construction by setting risk parameters, then an asset allocation designed to stay within that risk. It is a conservative, deliberate approach.

The Council has continued its "blank sheet review" of its portfolios. The process does not simply target underperforming managers. We ask instead: “Does the asset class have a place in the portfolio? If so, what style? What weight? And finally, which managers?” We believe this methodical investment management process keeps the portfolio fresh and fine-tuned. Without it, portfolios run the risk of being based on yesterday's best practices and ideas, not tomorrow's.

Council staff is on track to complete its review of the fixed income portfolios across all managed assets—retirement plans as well as endowments. We look for stability and reliability in fixed income. This project began over a year ago. Any proposed changes to the portfolio structure will be to better position it in an uncertain interest rate environment.

The Council conducts blank sheet reviews on a five-year rotation. The last major fixed income changes were in 2015. Equity reviews began then and changes fully implemented in 2017. So, Council staff has launched another holistic review of the equity portfolios across retirement plans and endowments this year. The process will take into 2022 before staff brings recommendations to the Council board.

The Council updated the investment options offered to current participants in the now-closed State and County Defined Contribution Plan, and the Deferred Compensation Plan for State and some County employees. This was a multi-year project for the Council. Study began in earnest in 2018, the State Legislature approved enabling legislation during its 2019 session, and the Council board approved the new investment line-up in September 2019. The Nebraska Public Employees Retirement Systems took over the lead in participant education throughout 2020. Participants were able to begin moving funds to the new investment options in December, with final transfers to new options completed in January 2021.

The Council continues to move alignment of the Omaha School Employees Retirement System investment portfolio with the asset allocation established for the rest of Nebraska teachers. In 2016, the Legislature gave the Council OSERS's pension assets effective January 2017. The Council quickly repositioned the liquid portion of the OSERS portfolio; illiquid private investments take longer.

OSERS Asset Allocation Compared to Long-Term Target

Asset Class	12-31-2016	12-31-2020	Target
US Equity	13.4%	22.9%	27.0%
Non-US Equity	0.0%	10.5%	11.5%
Global Equity	18.5%	18.1%	19.0%
Fixed Income	11.5%	27.0%	30.0%
Real Estate	21.1%	9.7%	7.5%
Private Equity	10.3%	10.4%	5.0%
Hedge Funds	9.1%	0.5%	0.0%
Real Assets	14.9%	0.9%	0.0%
Cash	1.4%		0.0%

* Table may not add up to 100 percent due to rounding.

Capital Markets Overview

This was the year of Covid-19. Amidst high drama, the pandemic-ridden year saw several market and economic records break and new precedents set in the global policymaking environment that would have been deemed unthinkable in any earlier time. The year 2020 saw the swiftest bear market ever, with equity markets falling by 30-40% in a matter of days as economies locked down around the world starting in late February. GDP fell in a way never seen before in the first half of the year, falling by over a fifth in the UK, and a tenth in the US.

Early in the pandemic, governments and central banks launched the swiftest and biggest policy intervention ever seen to fight the pandemic. This combined fiscal-monetary and direct market intervention lifeboat was unprecedented in its scale and matched the scale of the economic challenges posed. 2020 has very likely seen fiscal deficits reach about a fifth of GDP in both the US and UK (unmatched in peacetime) and about 13% of GDP globally; US money supply (M1) grew by over 50% between March and November and global money supply expanded over 20%. The combined fiscal and monetary firepower, termed ‘Fiscal Q-E’, was instrumental to the market recovery as central banks directly financed government spending expansion in a way never seen, even after the global financial crisis in 2008.

This lifeboat had differential success in its effects on economies and markets. On economic activity, the fiscal lifeboat undoubtedly limited job and income losses. A recovery in Q2 2020 followed the earlier collapse in activity, but this showed signs of petering out in the closing months of the year as the pandemic's second wave gathered pace.

The lifeboat's biggest success was in in lifting risk asset markets, led by the US. Of course, not all boats were lifted; for instance, the UK failed to see a significant rebound, but most markets benefited. While economies at best stabilized, the unprecedented policy intervention led to the fastest and strongest ever rebound from a bear equity market from late March. So successful was this that risk premiums in asset markets all but collapsed. By year end, US equities were at about the most expensive valuation levels ever seen, with credit spreads reaching levels in similar outlier territory despite rising default and downgrade losses. Promises of zero interest rates for a long period, ongoing fiscal Q-E, a comprehensive central bank backstop and the expectation of a rapid Covid-19 vaccine rollout, made all this appear, somehow, sustainable to market players.

Bond risk premiums were no different, and disappeared too, notwithstanding dramatic monetary expansion and startling levels of public debt issuance. At the time of the maximum pandemic panic in March, the entire US yield curve had moved below 1%. Yields then stabilized at very low levels. The closing months of the year saw yields rebound somewhat on vaccine optimism and expectations of more fiscal stimulus but are still well below start of the year levels.

Market returns in 2020 resembled 2019, which was odd, given the pandemic in play last year. Not only was it the second year of strong performance in stocks, bonds performed well in both years too. 2020 once again showed conventional wisdom on bond-equity relationships as hopelessly wrong, highlighting the magic of lower interest rates and abundant liquidity in goosing all asset prices. By the end of last year, the S&P 500 index showed a cumulative gain of nearly 50% for 2019-20. Bonds could not match the S&P in absolute terms of course, but in their own risk-adjusted terms did just as well. It was ironical too, that the S&P's stellar gains over 2019-20 were almost matched by that arch-defensive asset, gold.

It was undoubtedly a banner year for US stocks, and particularly for US tech stocks. That is, for most of the year. By September, the runaway outperformance of US stocks over other markets and tech over other sectors had reached awesome proportions. Q4 saw other markets like the UK and other sectors close some of the gaps as the sheer size of valuation disparities and a pick-up in bond yields set some counter trends in motion. By year end, emerging markets had even crawled ahead of the US. US dollar weakness also helped close some of the regional gaps. But the sector gap had become so large already that much of it remained even by year end. US tech's 44% calendar-year return compared with financials at -1.7% and energy at -33.7% hinted at the sort of year it had been. Another divergence indicator was the astonishing gap between value and growth stocks, with the Russell 1000 value and growth indices delivering 2.8% and 38.5%, respectively, for the calendar year. Of course, notwithstanding so much regional and sector divergence last year, neither the US's outperformance or the sector patterns seen in 2020 were new as such. They were like rocket fuel attached to a trend already in motion for a decade.

The most remarkable feature of 2020? The way the promise of prolonged easy money and ultra-low discount rates swept aside the pandemic's far-reaching economic and business effects. This was a 'Wall Street vs Main Street' divide on a staggering scale. The bet was, and still is, that the power of easy money will outlive the pandemic's temporarily negative cash flow effects. Let us see if 2021 bears this out.

DEFINED BENEFIT PLANS

Plan	12/31/20 (in millions)
School Retirement System	$ 14,228
Nebraska State Patrol	499
Nebraska Judges'	224
Omaha Schools Service Annuity Fund	13
Total	$ 14,964

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

School

- School Plan members contribute 9.78% of gross compensation to the retirement plan. This is matched by the employer at 101%.

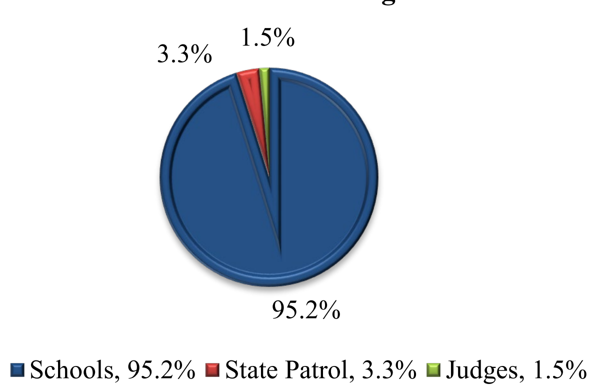
State Patrol

- Members hired on or after July 1, 2016 fall under "Tier Two" benefits. Benefits are capped at 75% of final average compensation for all members. Tier Two members contribute 17% of gross compensation to the retirement plan. This is matched by the employer at 100%.
- Tier One members (hired before July 1, 2016) contribute 16% of gross compensation to the retirement plan. This is matched by the employer at 100%. Tier One members do have the option to invest in the DROP (Deferred Retirement Option).

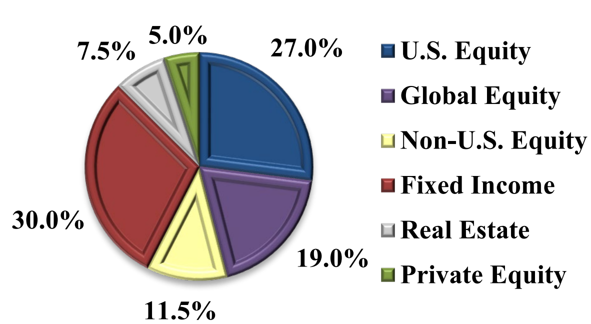
Judges

- Judges hired on or after July 1, 2015 (Tier 2) contribute 10% of compensation. A $6 retirement plan fee, as prescribed by law, is remitted by district and county courts to assist in the funding of retirement benefits.
- Judges hired on or after July 1, 2004 or Judges who elected to participate in the provisions created by LB1097 contribute 9% of compensation. Upon reaching 20 years of service credit, this rate decreases to 5%.
- Judges hired before July 1, 2004 who elected not to participate in the provisions created by LB1097 contribute 7% of compensation. Upon reaching 20 years of service credit, this rate decreases to 1%.

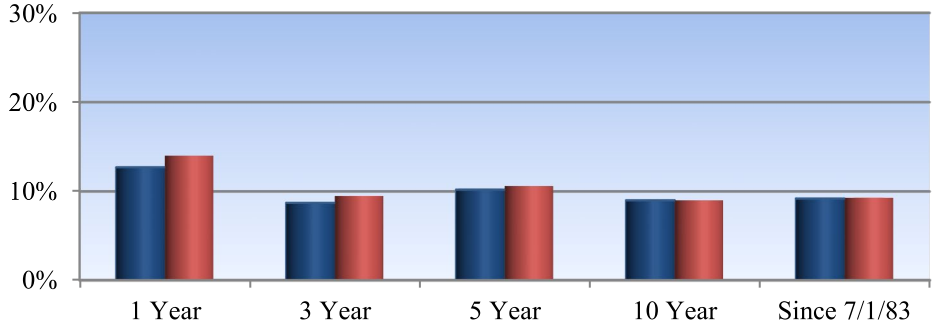
Plans as a Percentage of Total



Policy Asset Allocation



Defined Benefit Plans



	1 Year	3 Year	5 Year	10 Year	Since 7/1/83
DB Plans	12.7%	8.7%	10.2%	9.0%	9.2%
Benchmark*	14.0%	9.5%	10.6%	9.0%	9.3%

*This is a blended benchmark. As of April 2020, 27.5% of the DJ U.S. Total Stock Market Index, 19% of the MSCI All Country World IMI, 11.5% of the MSCI All Country World ex-U.S. IMI, 30% Bloomberg Barclays Capital Universal, 7% of the NCREIF ODCE, and 5% of the DJ Total Stock Market + 3%.

The Defined Benefit Plans operate on a July 1 – June 30 fiscal year. The School Plan is the largest of the three plans totaling $14.2 billion of the $14.9 billion (95%). The Policy Asset Allocation is 57.5% to public equity, 30% fixed income, 5.0% to private equity, and 7.5% to private real estate.

During 2020, the Defined Benefit Plans had a 12.7% return compared to its benchmark of 14.0%.

The following table outlines the Actuarial Report completed as of June 30, 2020. The School Plan has a funded ratio of 91.6% compared to 88.1% for the Patrol and 97.3% for the Judges plan.

		School	Patrol	Judges	Total
		(millions of dollars)			
June 30, 2020	Assets (actuarial value)	$ 12,692.0	$ 450.2	$ 201.0	$ 13,343.12
	Liabilities (AAL)	13,849.0	510.8	206.5	14,556.21
	Surplus	- $ 1,157.0	- $ 60.6	- $ 5.5	- $ 1,223.09
	Funded Ratio	91.6%	88.1%	97.3%	91.6%

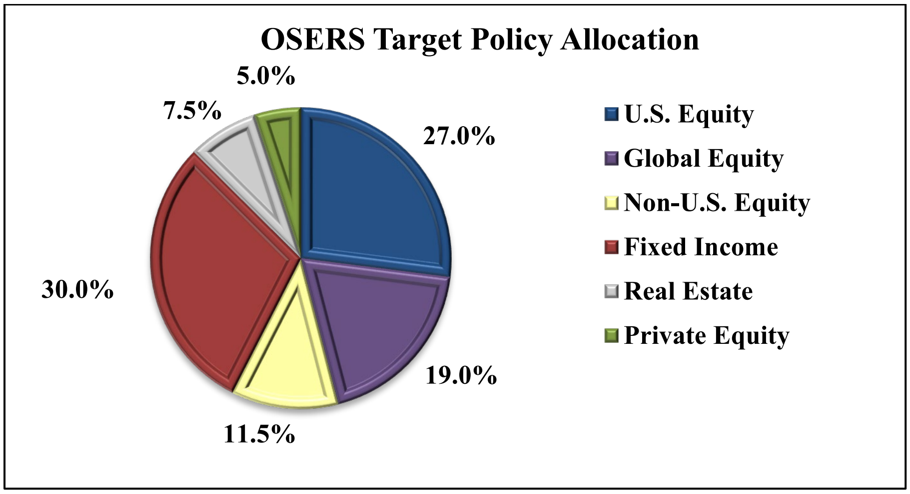
OMAHA SCHOOL EMPLOYEES RETIREMENT SYSTEM (OSERS)

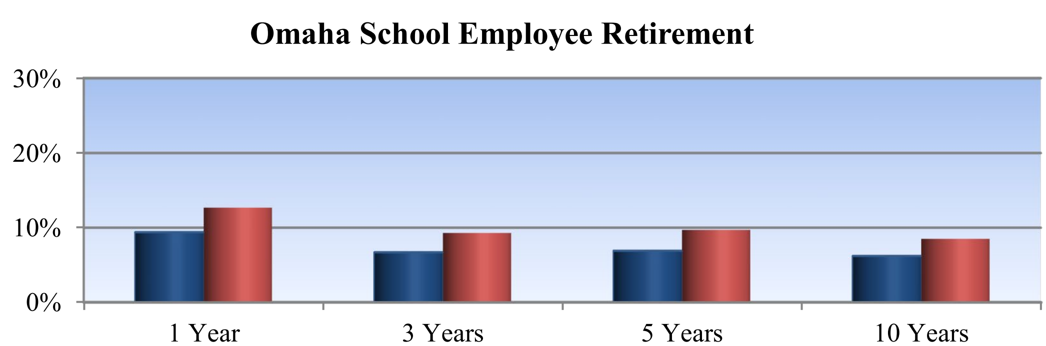
Plan	12/31/20 (in millions)
Omaha School Employees Retirement	$ 1,411

The Omaha School Employee's Retirement System (OSERS) is the second oldest teacher retirement system in the United States, created in 1909. Since 1951, OSERS has served as the consolidated retirement system for all eligible district employees.

It is a defined benefit plan. Funding is split among three sources: 9.78% of gross compensation from plan members; a 101% match, or 9.88% from the employer; and 2.0% from the State of Nebraska.

The Council assumed management of OSERS assets in 2017 and is transitioning the portfolio to its new long-term target.





	1 Year	3 Years	5 Years	10 Years
OSERS	9.4%	6.7%	6.9%	6.2%
Benchmark*	12.7%	9.3%	9.7%	8.5%

* This is a blended benchmark. As of April 2017, The policy index will be calculated monthly based on weightings of each underlying benchmark for the respective composites from previous month close. US Equity = DJ U.S. Total Stock Market; Global Equity = MSCI ACWI IMI; International Equity = MSCI ACWI ex U.S. IMI; Fixed Income = Bloomberg Barclays Universal; Private Equity = Burgiss All U.S. PE (1 Qtr lag); Real Asseets = Burgiss All US PE (1 Qtr Lag) & NCREIF Timerland Index; Hedge Fund = The HFRI RV; Real Estate = NCREIF Property

OSERS experienced a 9.4% return in 2020, compared to the benchmark 12.7% return.

STATE & COUNTY RETIREMENT PLANS/ DEFERRED COMPENSATION PLAN

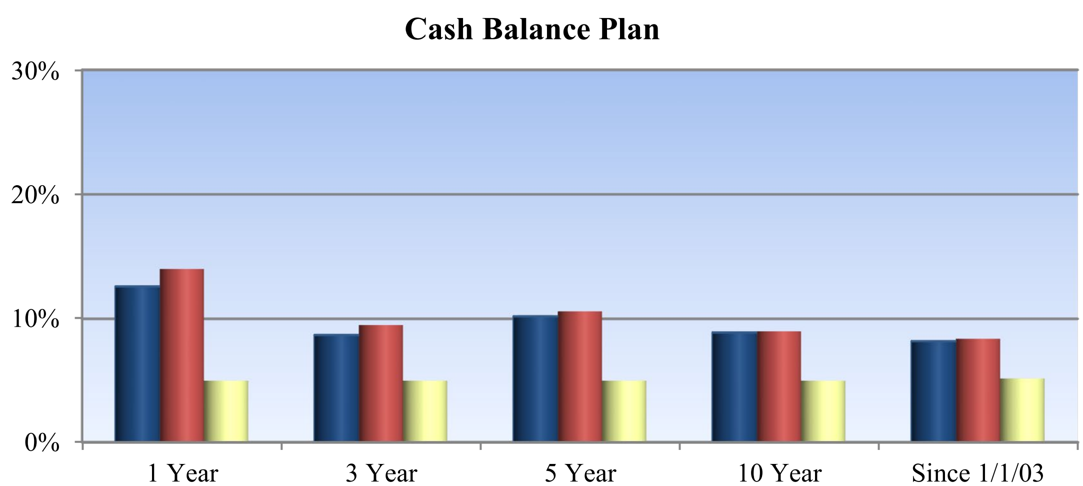
Plan	12/31/20 (in millions)
Defined Contribution	$ 1,051
Deferred Compensation	243
Cash Balance Plan	2,645
Mass Mutual	33
Total	$ 3,972

Cash Balance Plan

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 Plan. Members who participate in the Cash Balance Plan 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 Plan. The assets are held in a trust fund which is managed by the Council. Cash Balance 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 resets each calendar quarter. During the 2020 calendar year State and County employees earned a 3 percent dividend based on 2019 calendar year.

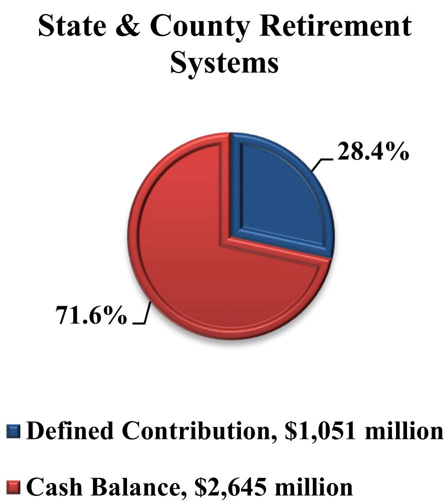
The Cash Balance Plan has a strategy that is designed to mirror the investment strategy of the Defined Benefit Plans, so the asset allocation is the same as the Defined Benefit Plans.

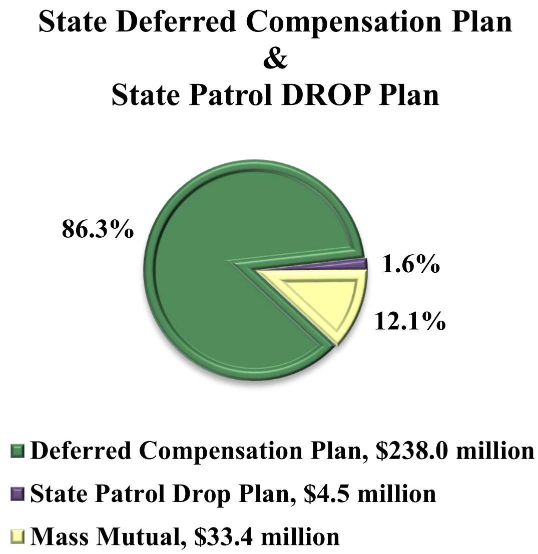
During 2020, the Cash Balance Plan had a positive return of 12.6% compared to 14.0% for the benchmark.



	1 Year	3 Year	5 Year	10 Year	Since 1/1/03
Cash Balance Plan	12.6%	8.7%	10.2%	8.9%	8.2%
Benchmark	14.0%	9.5%	10.6%	9.0%	8.4%
Interest Credit Rate	5.0%	5.0%	5.0%	5.0%	5.2%

*This is a blended benchmark. As of April 2020, 27.5% DJ U.S. Total Stock Market Index, 19.0% MSCI All Country World IMI, 11.5% MSCI All Country World ex-U.S. IMI, 30% Bloomberg Barclays Capital Universal, 7% of the NCREIF ODCE, and 5% of the DJ Total Stock Market + 3%.





Defined Contribution Plan

Prior to 2002, employees in the State and County Retirement System Plans only received the Defined Contribution benefit. In December 2002 participants were given the option to remain in the Defined Contribution Plan or transfer to the Cash Balance Plan implemented in January 2003. LB 328 and LB 916 passed in 2007 and 2012 respectively, which allowed Defined Contribution members another opportunity to transfer to the Cash Balance Plan.

Members who remain in the Defined Contribution Plan make their own investment choices based on the funds offered. Contributions to these accounts come from both the employee and the employer. State employees are required to contribute 4.8% of their salary. 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.

State Deferred Compensation Plan, Mass Mutual DCP and State Patrol Drop

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

Mass Mutual Deferred Compensation Plan (Previously Hartford)

In January 1, 1997, the investment management of the State Deferred Compensation Plan assets was changed from Hartford Life Insurance Company to the Nebraka Investment Council, with different investment options. Contributions in the Hartford investment options were not allowed after the transition. As of January 2, 2013, Massachusetts Mutual Life Insurance Company has acquired the Hartford Retirement Plans Group.

Investment options with Mass Mutual consist of interest bearing deposits in the General Account plus a large number of mutual funds. Some of the mutual funds are managed by Hartford, frequently using a sub advisor. Some are managed by other mutual fund companies.

Participants remaining in the Mass Mutual Deferred Compensation Plan cannot make new contributions into the plan, but may transfer their balances at any time to the current State Deferred Compensation Plan. Given the absence of new cash flows, the Council expects the Mass Mutual investment options to lose assets over time. As of December 31, 2020, Mass Mutual's balance was $33.4 million or 12.1% of State Deferred Compensation Plan & State Patrol DROP, compared to $31.5 million or 12.4% as of December 31, 2019.

State Patrol DROP

A retirement payment option called "DROP" is available in the State Patrol Retirement Plan. DROP stands for Deferred Retirement Option Plan. The feature is voluntary and provides a way for a Patrol Plan member to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit, in exchange for working up to five more years (but not beyond age 60). The account will be invested by the member using the 13 investment funds offered in the voluntary Deferred Compensation Plan (DCP). The member assumes full responsibility for how the DROP account is invested and for any market gains or losses.

Asset Allocation

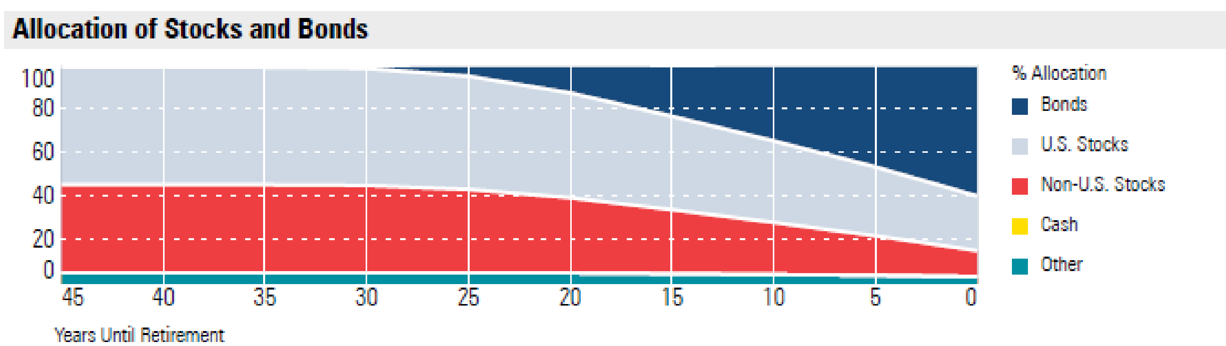
For both employee and employer contributions, a participant selects among investment funds offered by the Plans. The Council selects, monitors, and terminates, when necessary, these funds. Because participants direct the investment of these contributions, the participant determines the allocation to each of these funds.

The State Deferred Compensation Plan is voluntary and participants may choose to invest their assets in any of the available Defined Contribution investment funds. By offering the same investment funds for both the Defined Contribution Plan (mandatory contributions) and the State Deferred Compensation Plan (voluntary contributions), plan participants may find it easier to implement an integrated investment strategy. Combining the investment options also provides a reduction in costs for participants.

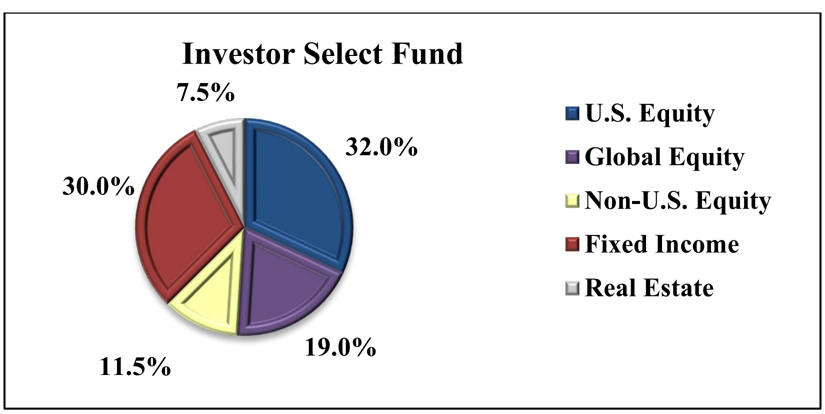
Beginning December 4, 2020, the investment options available for participants has been revised. The list of available investment options is shown in the following table. Participants who had assets left in investment options that are no longer offered in the plan were mapped to the new investment options on January 8, 2021.

U.S. Equities	Premixed Fund
U.S. Total Stock Market Index Fund	Investor Select Fund
Non-U.S. Equities	**Target Date Funds**
International Stock Index Fund	LifePath Index 2065 Fund
	LifePath Index 2060 Fund
Global Equities	LifePath Index 2055 Fund
Global Equity Fund	LifePath Index 2050 Fund
	LifePath Index 2045 Fund
Fixed Income	LifePath Index 2040 Fund
Stable Value Fund	LifePath Index 2035 Fund
U.S. Bond Index Fund	LifePath Index 2030 Fund
U.S. Core Plus Bond Fund	LifePath Index 2025 Fund
	LifePath Index Retirement Fund

The LifePath Index Funds are target date funds that automatically adjust the asset allocation among stocks, bonds, and other investments from more aggressive to more conservative as the participant gets closer to retirement.



The Investor Select Fund is invested with an asset allocation and investment strategy substantially similar to the investment allocations made for the Defined Benefit Plans.



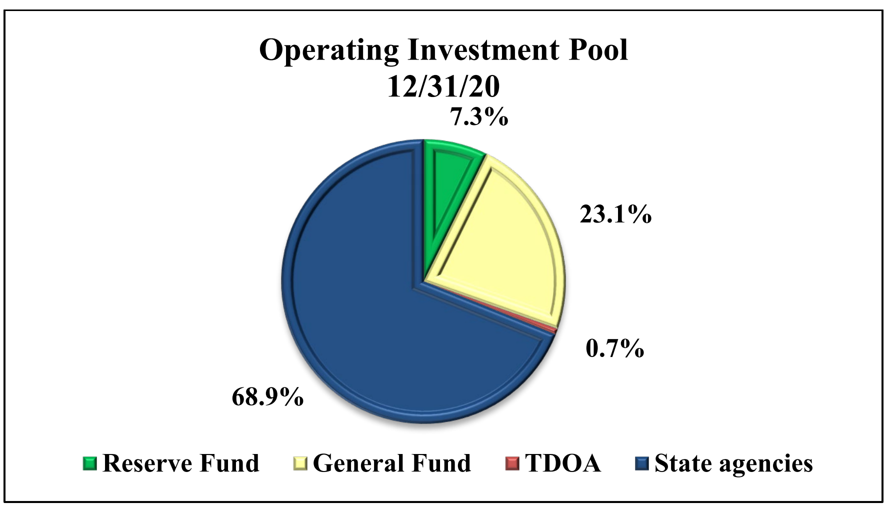
OPERATING INVESTMENT POOL (OIP)

Plan	12/31/20 (in millions)
Short Term Liquidity	$ 1,289
Intermediate Gov. / Corp.	4,255
Time Deposit Open Account	39
Less: DB Assets	- 14
Total	$ 5,569

The 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) of one million dollars. To the extent that the total amount of funds initially offered to each bank or capital stock financial institution is not accepted by such institutions, the balance of the funds shall be reoffered to such banks and capital stock financial institutions that are willing to meet the rate and other requirements set forth for participation in the program. No one bank or capital stock financial institution may receive for deposit a sum of more than sixteen million dollars.

The first $250,000 of the deposit is insured by the FDIC. The statute requires the pledging of collateral for deposits greater than $250,000 with a minimum pledge of 102% of the amount deposited. However, when publicly traded fixed income 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.



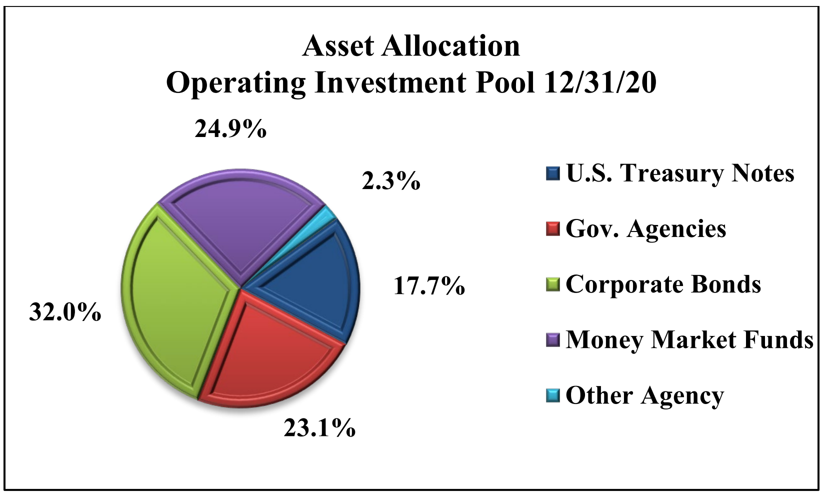
The OIP is managed internally, and is made up of high quality U.S. Treasuries, government agencies, and investment grade corporate bonds with laddered maturities extending ten years. The Short-term Liquidity portion of the OIP is invested in money markets, and 1 year or shorter treasuries, government agencies, and commercial paper whereas the Intermediate Government / Corporate portion is invested in 10 year or shorter treasuries, government agencies, and domestic corporate bonds. Money market funds are used to provide liquidity for the daily cash needs of the participants. The Council established an Investment Policy

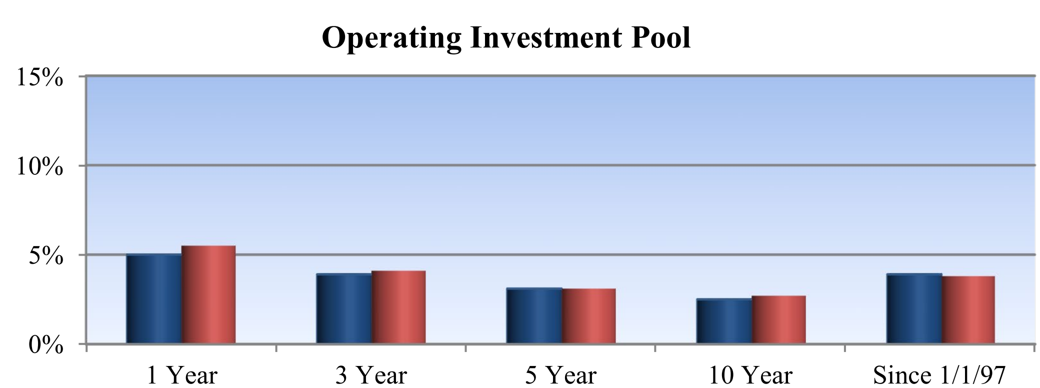
Statement for the OIP that includes credit quality and diversification constraints to provide safety of principal, liquidity for the daily cash flow needs of the entities within the OIP, and return on investment. Below are the Short-term Liquidity portfolio constraints.

- Money Market Funds – 100% maximum, 50% to any single Money Market Fund
- Commercial Paper – 5% maximum per issue

The following are the constraints for the Intermediate Government / Corporate portfolio.

- U.S. Treasuries – 15% minimum
- U.S. Agency Notes & Debentures – 50% maximum in total, 20% maximum per agency issuer
- Money Market Funds – 5% maximum
- Corporate Bonds – 50% maximum for the total corporate sector
- AAA and AA rated corporate – 3% maximum per issuer
- A rated corporate – 30% maximum in total, 2% maximum per issuer
- Industry – 5% maximum per industry





	1 Year	3 Year	5 Year	10 Year	Since 1/1/97
OIP	5.0%	3.9%	3.1%	2.5%	3.9%
Benchmark*	5.5%	4.1%	3.1%	2.7%	3.8%

*As of June 2018, 15% ICE BofAML 3 Month T-Bill, 51% BofA Merrill Lynch US Treasury/Agency 1-10 Year Index, and 34% BofA Merrill Lynch US Corporate A-AAA 1-10 Year Index. March 2014- May 2018, 15% Citigroup 1 Month CD, 51% BofA 1-10 year U.S. Treasury & Agency Index, 34% BofA 1-10 year AAA-A Corporate Index. Oct 2011-Feb 2014, 85% Barclays US Gov/Corp Interm. (UOW), 15% Citigroup 1 Month CD (YIM). July 2003-Sept 2011, 90% BC Int Gov/Credit (X14), 10% 90 Citigroup 30 day CD (YIM). Oct 1997 - June 2003, 85% ML 1-3 Yr Gov/Credit 15% 90 day T-bill +15 bpt s Inception to Sept 1997, 50% ML 1-3 Yr Gov/Credit, 50% 90 day Tbill +90bps.

GENERAL ENDOWMENTS

Plan	12/31/20 (in millions)
Permanent School Fund	$ 929.576
Early Childhood Education	63.627
Veterans' Aid	57.258
Cultural Preservation	11.348
Agricultural Endowment	3.385
Permanent Endowment	1.538
Normal School Endowment	0.364
Environmental Endowment	1.251
Bessy Memorial	0.030
Total	$ 1,068.377

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 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 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 K-12 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 Nebraska Early Childhood Education Endowment Fund

The endowment provides funding for grants to schools and community partners to provide programs serving at-risk children birth to age three.

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.

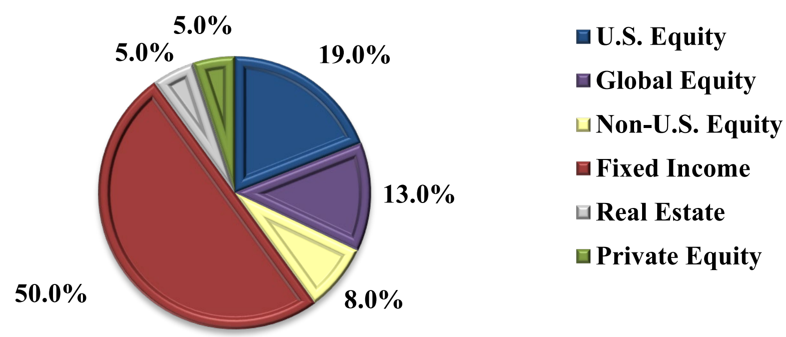
The Nebraska Environmental Endowment Fund

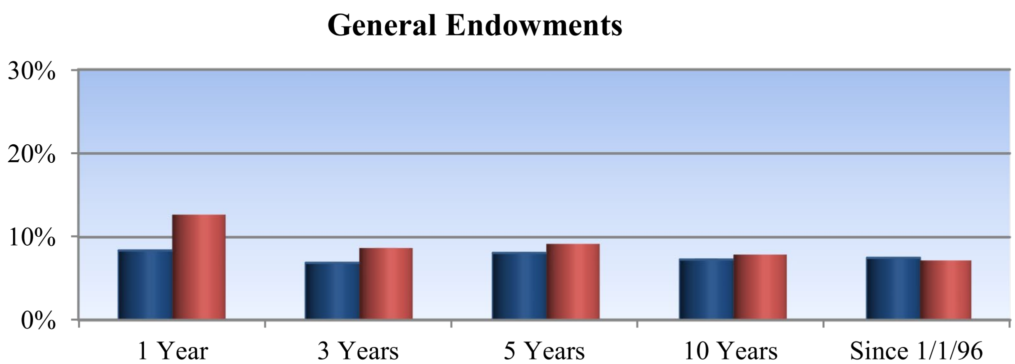
The endowment is funded by the state lottery program and is part of the Nebraska Environmental Trust. The Trust provides grants for the purposes of environmental conservation in Nebraska.

The Bessey Memorial Fund

The endowment provides aid to widows of University of Nebraska professors.

Asset Allocation





	1 Year	3 Years	5 Years	10 Years	Since 1/1/96
General Endowments	8.4%	6.9%	8.1%	7.3%	7.5%
Benchmark*	12.7%	8.7%	9.2%	7.9%	7.2%

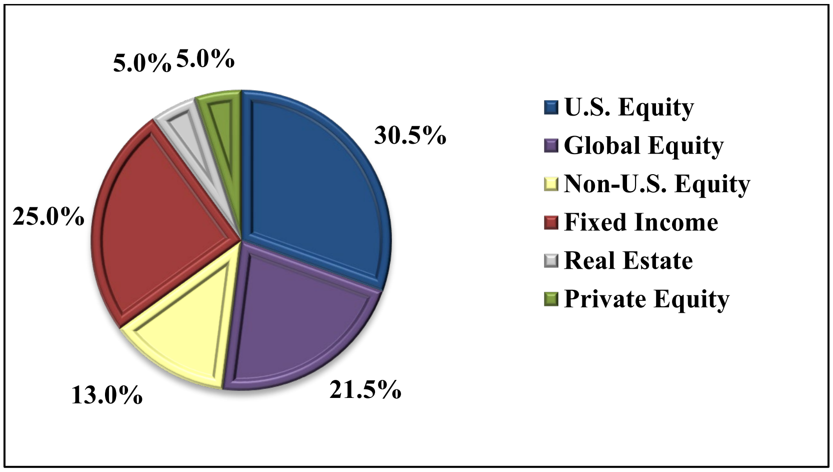
* As of December 2017, a composite of 19.0% of the DJ U.S. Total Stock Market, 8.0% of the MSCI All Country World ex-U.S. IMI, 13.0% of the MSCI All Country World IMI, 50.0% of the fixed income component benchmark, 5.0% of the real estate component benchmark, and 5.0% of the DJ U.S. Total Stock Market Index + 3%.

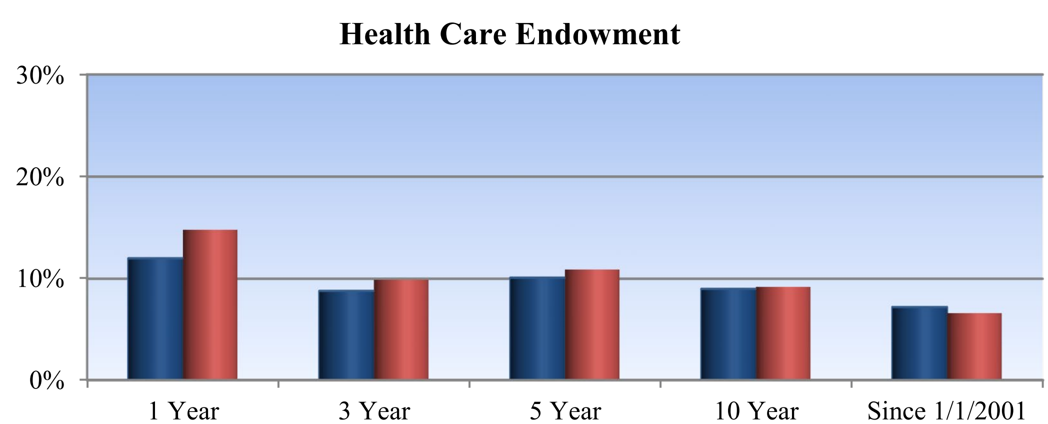
HEALTH CARE ENDOWMENT

Plan	12/31/20 (in millions)
Tobacco Settlement	$ 483.9
Total	$ 483.9

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. Although their external contributions are different, the investments are the same and the spending policy is similar. Nebraska Medicaid Intergovernmental Trust Fund ended 2019 with a zero balance, going forward The Health Care Endowment will only consist of the Nebraska Tobacco Settlement. The Council's responsibility is managing the investments only.

Asset Allocation





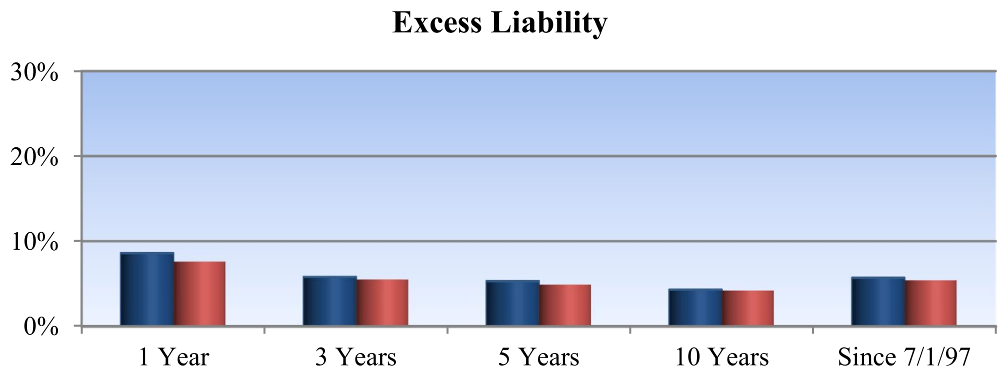
	1 Year	3 Year	5 Year	10 Year	Since 1/1/2001
Health Care	12.0%	8.8%	10.1%	9.0%	7.2%
Benchmark*	14.8%	9.9%	10.9%	9.2%	6.6%

* As of October 2015, a composite of 40.0% of the DJ U.S. Total Stock Market Index, 15.0% of the MSCI All Country World ex-U.S. IMI, 10.0% of the MSCI All Country World IMI, 22.5% of the Barclays Intermediate Gov/Credit index, 2.5% of the Citigroup 30-day CD, 5.0% of the Real Estate component benchmark and 5.0% of the DJ U.S. Total Stock Market Index +3%

MISCELLANEOUS TRUSTS - EXCESS LIABILITY

Plan	12/31/20 (in millions)
Excess Liability	$ 74.3
Total	$ 74.3

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 healthcare providers in the State. The funds are used to pay judgments against the insured health care providers. The Council does not determine the distribution policy.



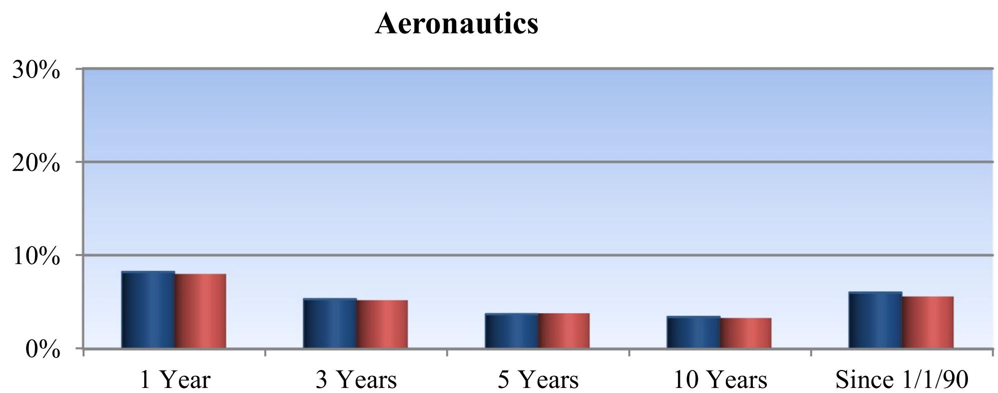
	1 Year	3 Years	5 Years	10 Years	Since 7/1/97
Excess Liability Fund	8.6%	5.8%	5.3%	4.3%	5.7%
Barclays Universal Bond Index*	7.6%	5.5%	4.9%	4.2%	5.4%

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

MISCELLANEOUS TRUSTS - AERONAUTICS TRUST FUND

Plan	12/31/20 (in millions)
Aeronautics Trust Fund	$ 7.1
Total	$ 7.1

This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Aeronautic Trust Fund. Uses of the funds include, in order of priority, operations of the State-owned Airfields, the Navigational Aids Division, and grants to eligible Nebraska airports.

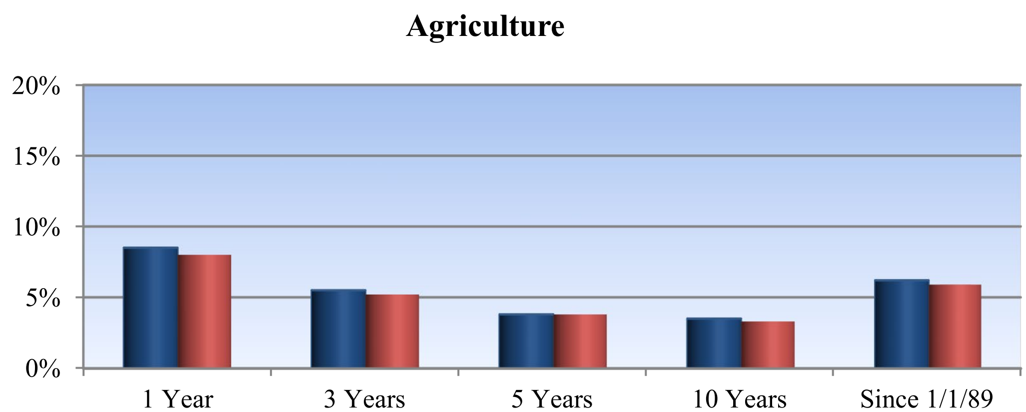


	1 Year	3 Years	5 Years	10 Years	Since 1/1/90
Aeronautics Fund	8.2%	5.3%	3.7%	3.4%	6.0%
Barclays U.S. Treasury Index	8.0%	5.2%	3.8%	3.3%	5.6%

MISCELLANEOUS TRUSTS - AGRICULTURAL DEVELOPMENT TRUST FUND

Plan	12/31/20 (in millions)
Agricultural Development	**$ 2.8**
Total	**$ 2.8**

This Fund consists of money received from the U.S. Department of Agriculture. Income from the Fund pays expenses of the Nebraska Department of Agriculture. The Council does not determine the distribution policy.



	1 Year	3 Years	5 Years	10 Years	Since 1/1/89
Ag Development Fund	8.5%	5.5%	3.8%	3.5%	6.2%
Barclays U.S. Treasury Index	8.0%	5.2%	3.8%	3.3%	5.9%

NEBRASKA EDUCATIONAL SAVINGS PLAN (NEST)

Plan	12/31/20 (in millions)
Direct	$ 2,523
Advisor	1,369
TD Ameritrade 529	1,839
State Farm 529	684
Total Nebraska Educational Savings Plan	$ 6,415

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. There are four plans within the Nebraska Educational Savings Plan Trust – NEST Direct College Savings Plan, NEST Advisor College Savings Plan, the TD Ameritrade 529 College Savings Plan, and the State Farm College Savings Plan. The Nebraska State Treasurer serves as the Program Trustee and all investments are approved by the Council. As of December 4, 2020, Union Bank and Trust serves as the Program Manager.

NEST Direct College Savings Plan

The NEST Direct Plan puts the account owner in charge of managing the account without guidance from a financial advisor. The account can be invested in the following investment options.

- Age Based Investment Options
- Static Investment Options
- Individual Fund Investment Options

NEST Advisor College Savings Plan

The NEST Advisor Plan is offered to individuals who are using the expertise and guidance of a financial advisor. The financial advisor will work with the Program Manager to open and transfer money to the participant account. The account can be invested in the following investment options.

- Age Based Investment Options
- Static Investment Options
- Individual Fund Investment Options

TD Ameritrade 529 College Savings Plan

Participant accounts can be set up directly with TD Ameritrade and participants are offered similar investment options as those offered to participants with the NEST direct and advisor accounts. The account can be invested in the following investment options.

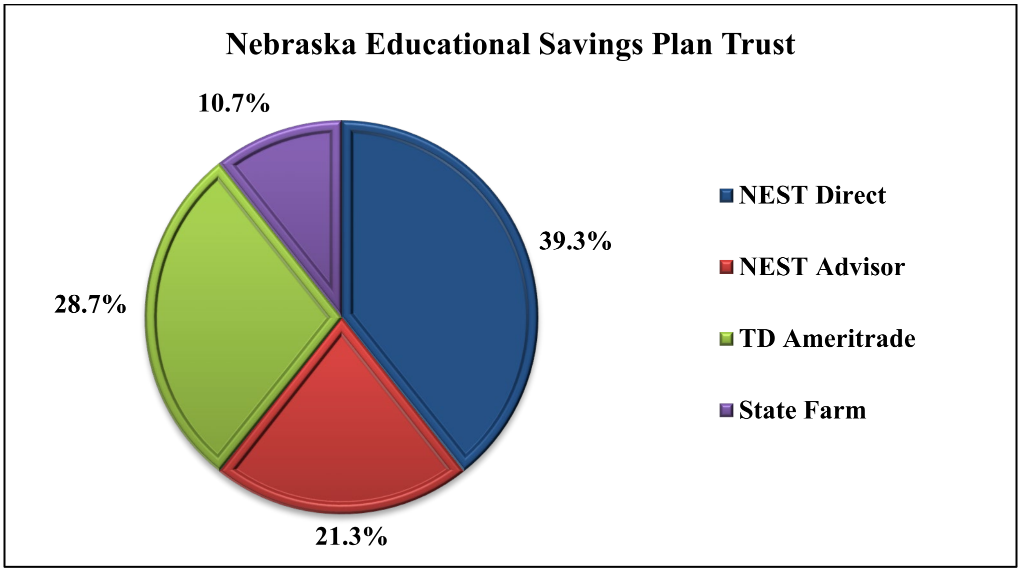
- Age Based Investment Options: Core and Socially Aware
- Static Investment Options: Core and Socially Aware
- Individual Fund Investment Options

State Farm 529 Savings Plan

State Farm agents market a series of the Nebraska Educational Savings Plan Trust under the State Farm name. Participants may choose from the following investment options.

- Age Based Investment Options
- Static Investment Options

The following pie chart provides a breakdown of the 4 plans within the NEST Trust.



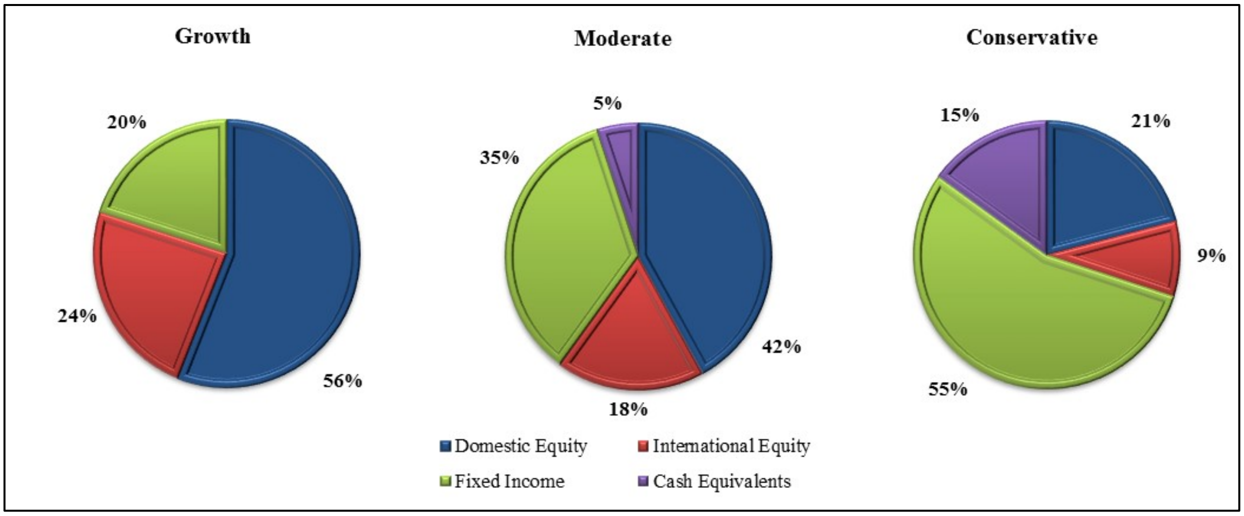
NEBRASKA ENABLE SAVINGS PLAN

Plan	12/31/20 (in millions)
ENABLE	$ 17.8
Total	$ 17.8

The Nebraska Enable Savings Plan (Enable) is issued by The Nebraska Achieving a Better Life Experience Program Trust. The Plan is intended to operate as a qualified ABLE program to be used only to save for Qualified Disability Expenses, pursuant to the Achieving a Better Life Experience Act of 2014 and Section 529A of the U.S. Internal Revenue Code. The Nebraska State Treasurer serves as the Program Trustee, First National Bank of Omaha serves as the Program Manager, and all investments are approved by the Council.

The Enable Plan offers participants five investment options.

Target-Risk Options: The Growth Option, Moderate Option, and Conservative Option. Each option is invested in Vanguard index funds across various asset classes – equity, fixed income or cash equivalents.



Bank Savings Option: Investment in the Bank Savings Option will earn varying rates of interest and provides FDIC insurance on a per participant, pass-through basis to each account owner up to the maximum amount set by federal law, currently $250,000.

Checking Option: The Checking Investment Option provides FDIC insurance for the investment and allows the account owner to write a check or use a debit card to withdraw funds. This option is available to participants as of January 26, 2017.