

Health Care Endowment Update

Updated September 2012

Hewitt ennisknupp

An Aon Company

Information for the Nebraska Investment Council

(This page left blank intentionally)

Health Care Endowment Summary

- Health Care Endowment investment goals are two part:
 - 1) provide funds for current spending needs
 - 2) increase the portfolio to support future needs
- Contributions from Tobacco Settlement Trust are invested in a high-quality, short-term fixed income portfolio managed internally before distribution
- Spending is set by legislation; based on projections annual spending may exceed contributions by up to \$25 mm
- Asset allocation is aggressively positioned at 75% equity/25% fixed income
- Projections are updated to include:
 - Asset allocations as of July 31, 2012
 - Hewitt EnnisKnupp 2Q12 Capital Markets Assumptions

Health Care Endowment Modeling

- Health Care Endowment includes two funds grouped together with a similar spending policy and asset allocation:
 - Nebraska Medicaid Intergovernmental Trust
 - Nebraska Tobacco Settlement Trust
- NIC determines asset allocation only
- Spending policy is determined by legislation; historically a fixed dollar amount:

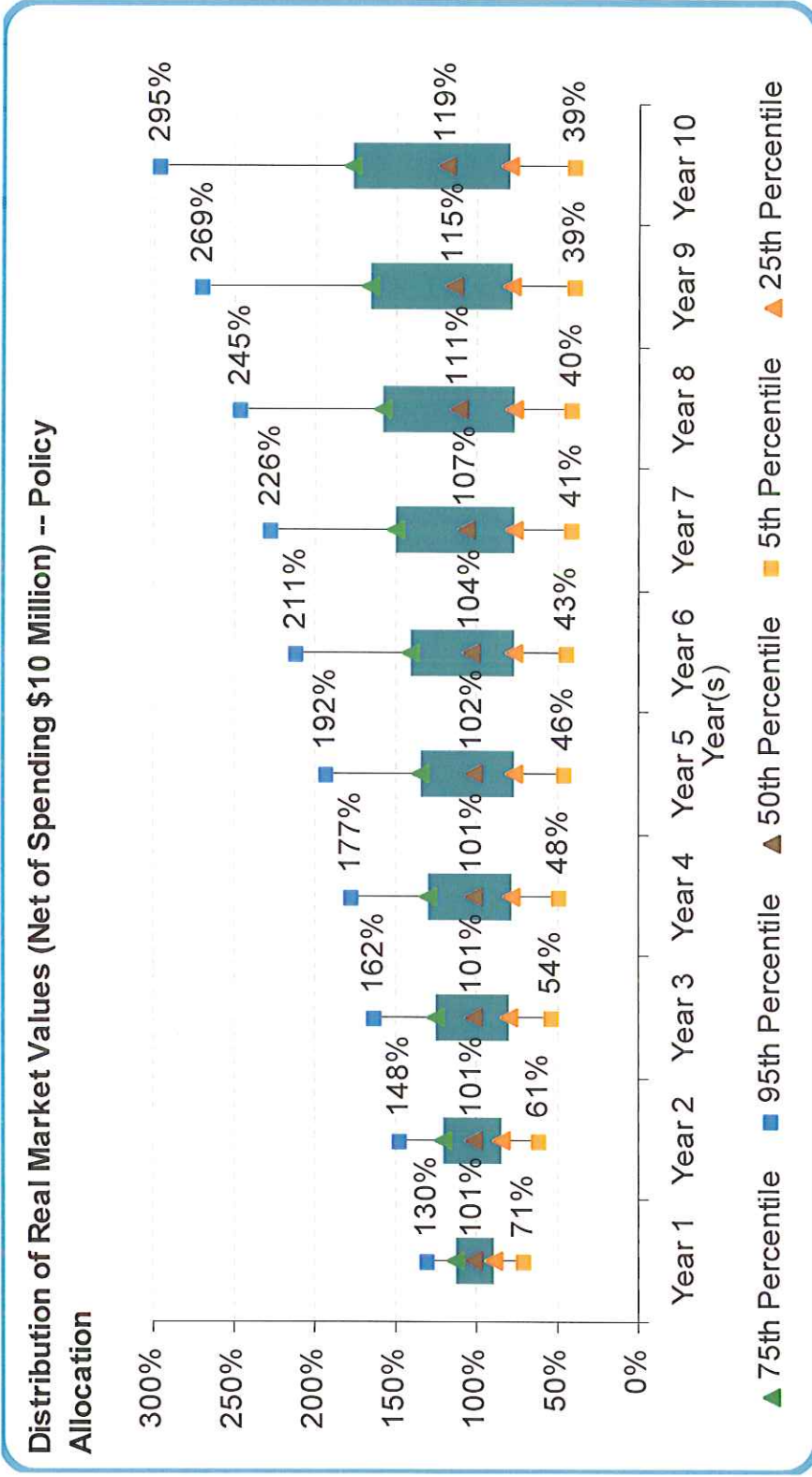
2012	\$56.3 million	2008	\$56.4 million
2011	\$59.1 million	2007	\$55.0 million
2010	\$56.1 million	2006	\$52.0 million
2009	\$53.6 million	2005	\$52.0 million
- Contributions are provided from the Tobacco Settlement Trust
- Three spending scenarios are modeled:
 - Scenario 1) Low: distributions exceed contributions by \$10 million
 - Scenario 2) High: distributions exceed contributions by \$25 million
 - Scenario 3) Very High: distributions exceed contributions by \$40 million
- Two asset allocation scenarios:
 - 1) Aggressive: 75% equity/25% fixed income (current allocation)
 - 2) Conservative: 50% equity/50% fixed income

Health Care Endowment

	Policy Allocation
Real Estate	5.0%
Private Equity	5.0%
Fixed Income	25.0%
U.S. Equity	40.0%
Non-U.S. Equity	15.0%
Global Equity	10.0
Total Health Care Endowment	100.0%

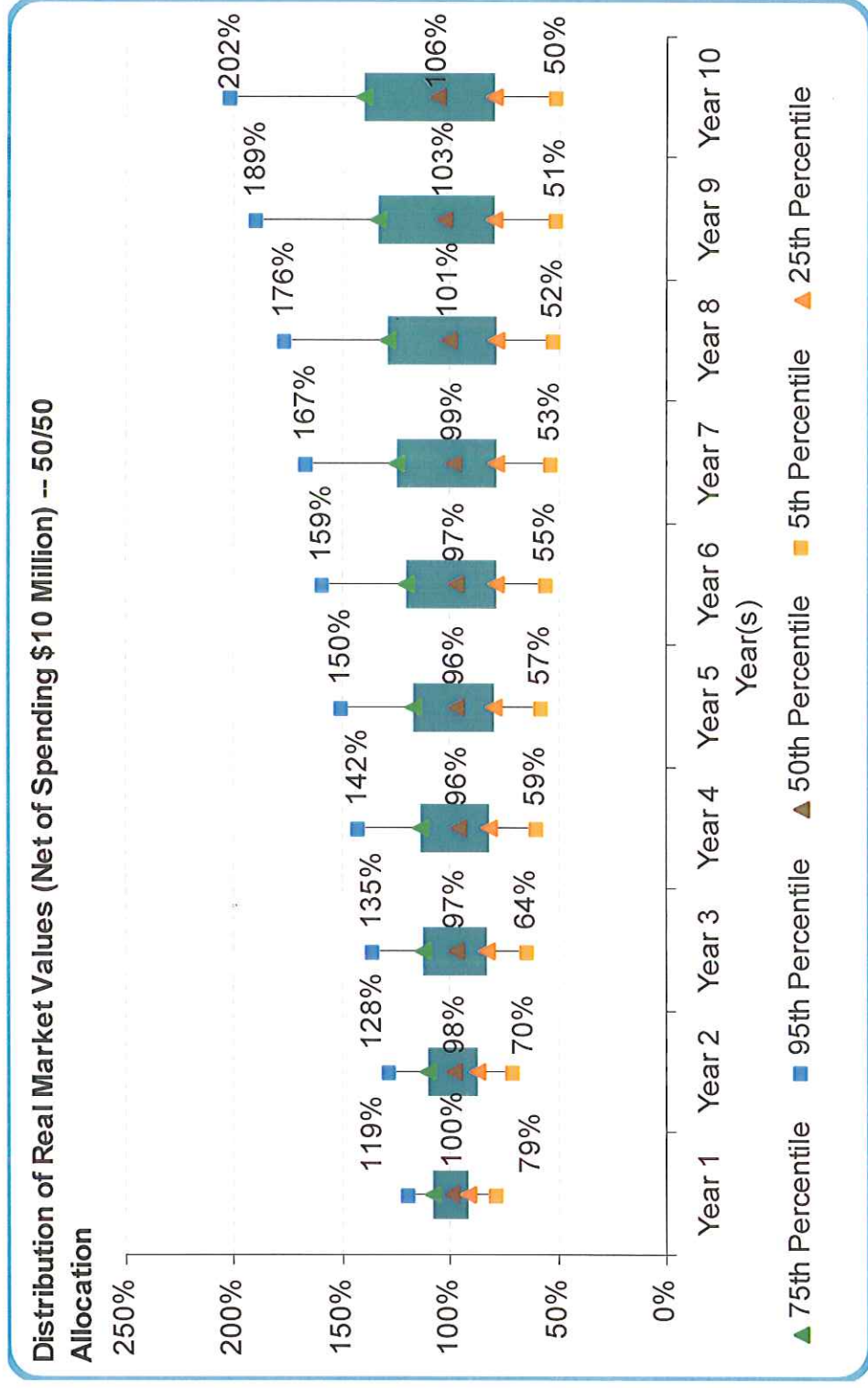
	Market Value (as of 7/31/2012)
Medicaid Intergovernmental	\$76,163,018
Tobacco Settlements	\$237,171,130
Total Health Care Endowment	\$313,334,148

Health Care Endowment – Distribution of Real Market Values: Low: Distributions Exceed Contributions by \$10 mm - Aggressive Asset Allocation



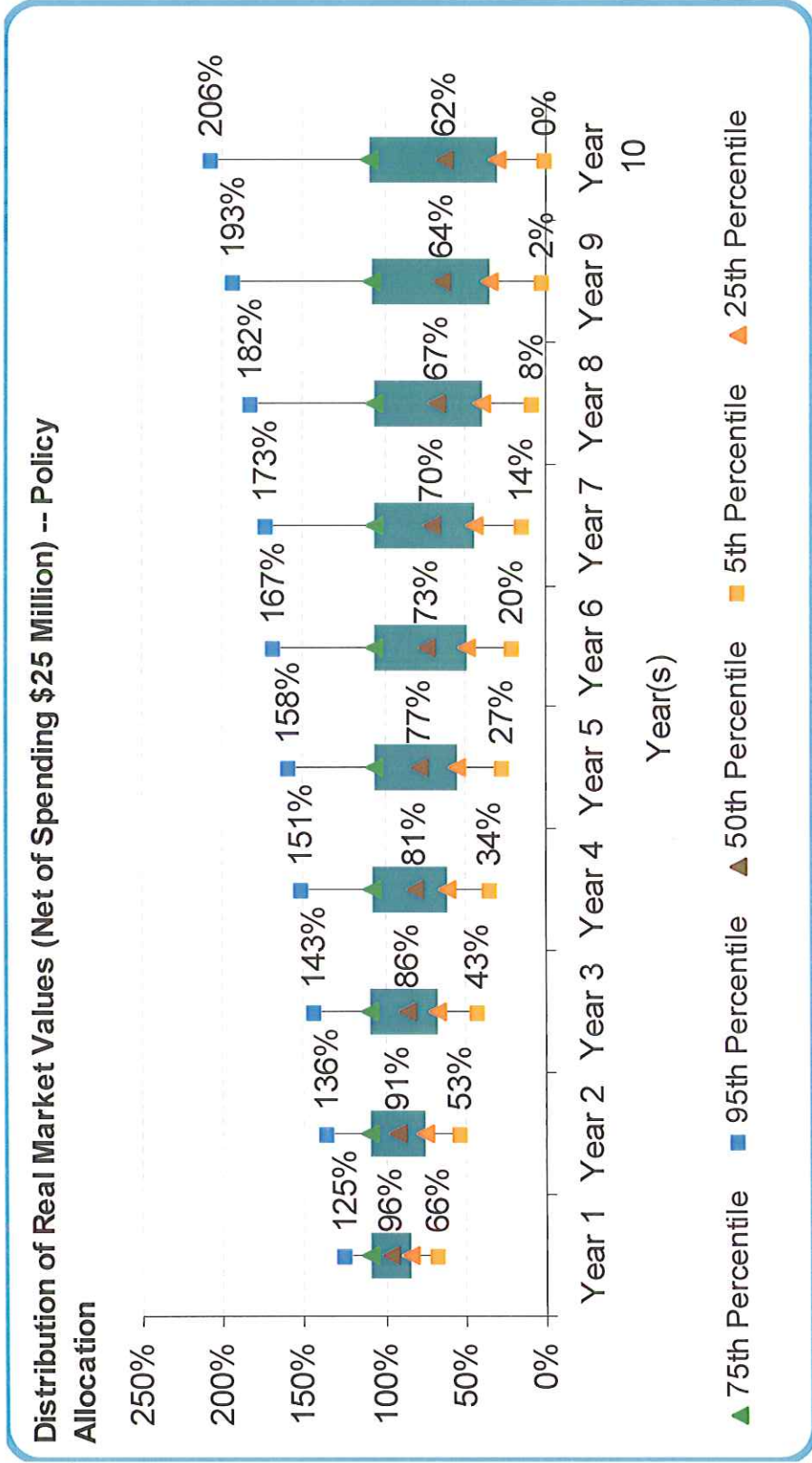
- Portfolio will likely grow over the next 10 years.
- Some risk that portfolio will decline.
- Upside potential for portfolio growth.

Health Care Endowment – Distribution of Real Market Values: Low: Distributions Exceed Contributions by \$10 mm - Conservative Asset Allocation



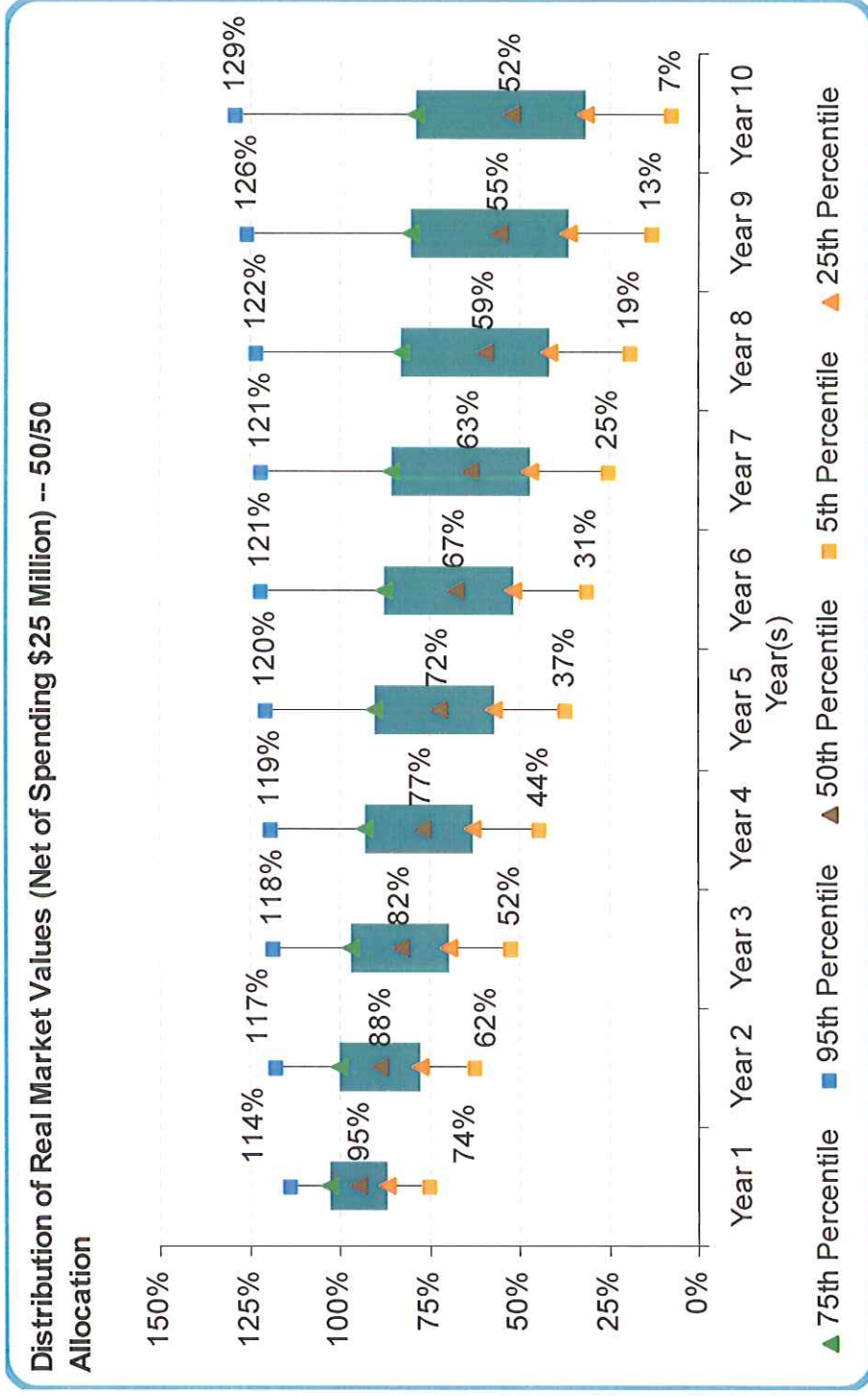
- Portfolio will likely grow over the next 10 years.
- Some risk that portfolio will decline.
- Upside potential for portfolio growth.

Health Care Endowment – Distribution of Real Market Values : High: Distributions Exceed Contributions by \$25 mm - Aggressive Asset Allocation



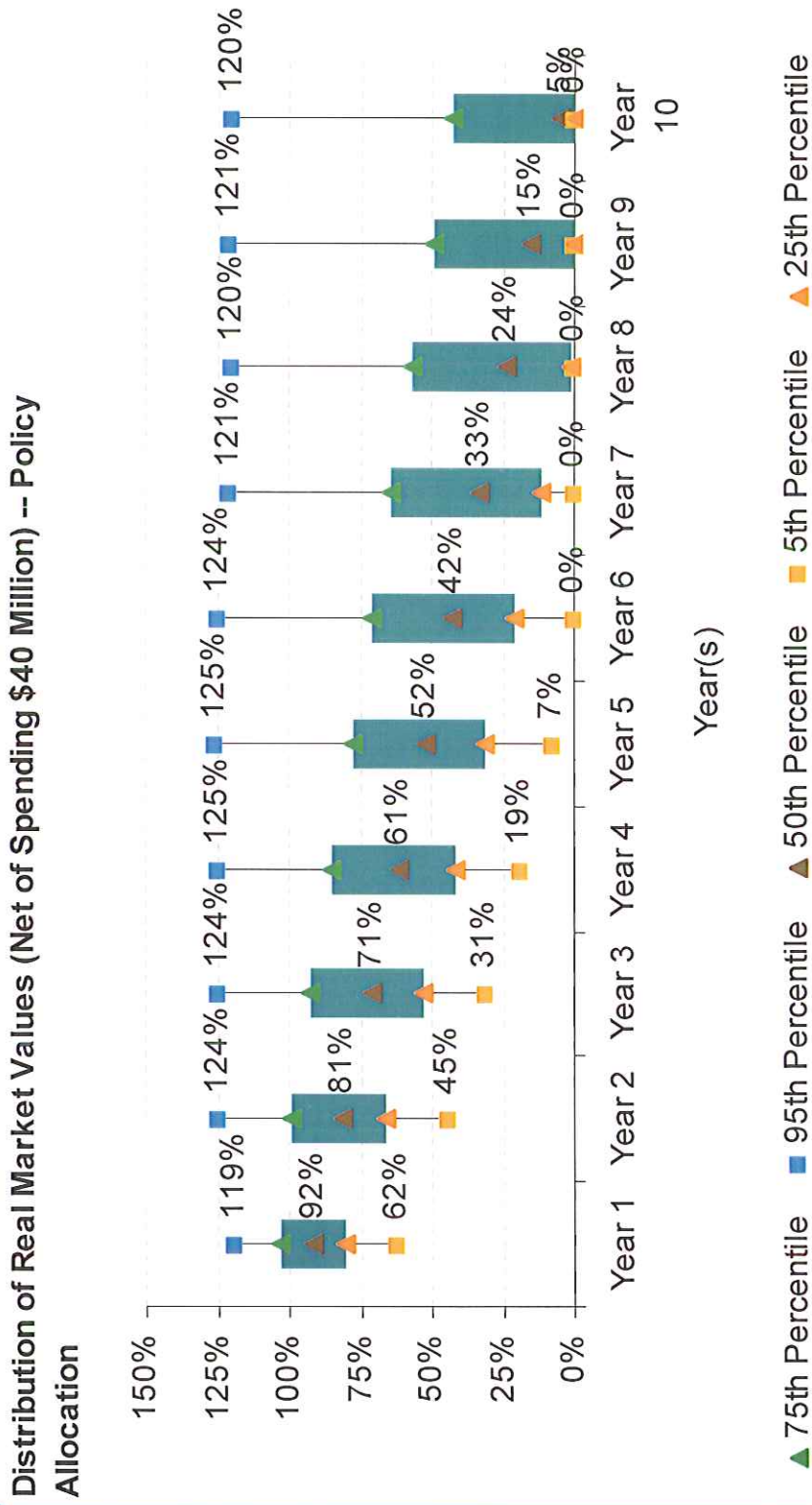
- Spending level is too high; portfolio will likely decline over next 10 years.
- Downside risk of declining portfolio is significant.
- Very modest opportunity for upside portfolio growth.

Health Care Endowment – Distribution of Real Market Values : High: Distributions Exceed Contributions by \$25 mm - Conservative Asset Allocation



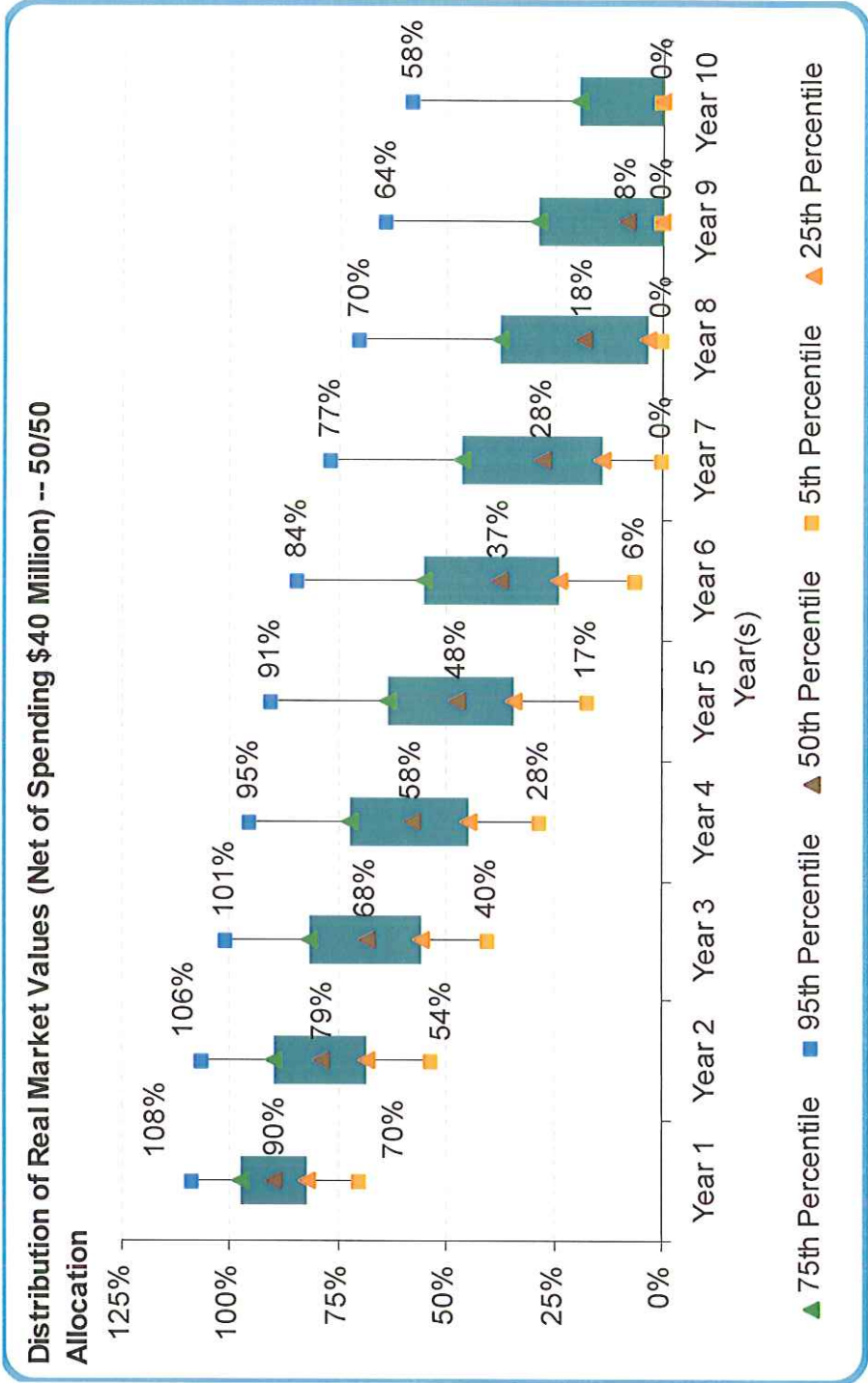
- Spending level is too high; portfolio will likely decline over next 10 years.
- Downside risk of declining portfolio is very significant.
- Very modest opportunity for upside growth.

Health Care Endowment – Distribution of Real Market Values : Very High: Dist. Exceed Contributions by \$40 mm - Aggressive Asset Allocation



- Spending level is too high; portfolio will likely decline and may be depleted over next 10 years.
- Downside risk of depleting portfolio is very significant.
- Portfolio growth is unlikely.

Health Care Endowment – Distribution of Real Market Values : Very High: Dist. Exceed Contributions by \$40 mm - Conservative Asset Allocation



- Spending level is too high; portfolio will likely decline and may be depleted over next 10 years.
- Downside risk of depleting portfolio is very significant.
- No opportunity for portfolio growth.