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SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **LIFE INCOME FUNDS - INVESTMENT GOALS, OBJECTIVES AND POLICIES**

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PURPOSE: To provide direction for the investment of trust assets held in the Life Income Fund.

EFFECTIVE DATE: **September 12, 2008**

HISTORICAL: February 24, 1989; June 7, 1991

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**LIFE INCOME FUNDS**  
**INVESTMENT GOALS, OBJECTIVES AND POLICIES**

**I. BACKGROUND AND PURPOSE**

**A. Business Objective:** To provide a program for the investment of assets held by the Cal Poly Corporation ("CPC") as trustee for life income funds that have, as an objective, the achievement of optimum total return given:

- 1) The yield requirement of the trust instrument; and
- 2) An acceptable level of portfolio risk.

**B. Investment Return Objective:** To provide sufficient current income to meet required payments to each life income beneficiary, while preserving and appropriately enhancing remainder value.

**C. Preservation of Capital:** To protect asset values by minimizing market value risks.

**D. Spending Objective:** To provide income to be distributed as stipulated in each instrument.

**II. INVESTMENT POLICIES**

**A. Permitted Investments.** The primary investments are to be invested in a diversified mix of mutual funds, within the following asset classes:

Domestic Small Capitalization Stocks  
Domestic Large Capitalization Stocks  
International Small & Large Capitalization Stocks  
Real Estate (primarily REITs)  
High Grade Bonds  
\*High Yield Bonds  
\*International Bonds  
Precious Metals  
Short Term Investments

\*No international bond or high yield bond mutual fund will consist of more than 7% of any portfolio.

Other investment vehicles permitted are common stocks, U.S. Government obligations, corporate bonds & cash equivalents. Trust deed notes received as initial trust assets or as a result of the sale of trust real estate are also permitted investments.

- B. **Prohibited Transactions.** Eligible securities for the investment of trust assets shall be limited to those listed under II.A. above.
- C. **Sale of Donated Securities.** Donated securities will be sold in their entirety as soon as possible, barring any market trading limitations, typically on receipt of the gift by the investment manager unless specifically directed otherwise by the Corporation. The investment manager cannot guarantee that the donor's gift value will be captured in the sales. Due to high transaction costs, donated fixed income securities may be held as substitutes for mutual funds in the bond categories if they approximate the desired maturity and risk criteria. Illiquid securities may take longer to sell; the investment manager will make every effort not to represent more than 20% of the day's trading volume in any stock. Other assets received from life-income donors may be held as trust investments or converted to other investments as the circumstances warrant.
- D. **Investment of Gifted Assets.** The investment manager will average a new portfolio to its target portfolio allocation over a six-month period, generally in three pieces (four if the gift is greater than \$1 million). The investment manager will take into account the existing allocation of the trust or gift, and move some assets classes and managers to target sooner than others. The purpose of this policy is to prevent the trust from being exposed to a major market correction immediately after its funding. New contributions to existing portfolios will typically be invested immediately if they represent less than 30% of the portfolio's market value, otherwise, they will be averaged-in. The investment manager may vary this strategy due to trust size, market conditions, or other special circumstances. Upon termination of a trust, assets will be sold as soon as practicable and transferred on the Trustee's discretion.
- E. **Custodial Arrangements.** All marketable securities will be held by a custodian broker-dealer, who is registered with the Securities & Exchange Commission. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian, with the custodian being approved by the Investment Committee.

### III. **INVESTMENT MANAGEMENT**

#### A. **Investment Discretion.**

1. The assets of life income trusts may be invested separately or may be pooled with assets of other trusts, but shall not be commingled with Corporation general funds or endowment funds. Trust assets may not be invested in any vehicle or manner that is in conflict with the terms of the trust instrument.

2. All trust assets shall be fully invested in instruments and accounts that provide optimum security, liquidity, and cash flow timed to meet the income distribution requirements of each instrument.

**B. Manager/CPC Communications.**

1. All investment managers will acknowledge, in writing, the receipt of this statement and the acceptance of its terms. If any investment manager or consultant believes at any time that changes to this statement, or the fund's asset allocation mix, are advisable, it will be the manager's or consultant's responsibility to recommend such changes.
2. Each investment manager is expected to promptly advise the Corporation of any change in its investment philosophy, decision making structure and procedures, or investment personnel.

- C. Reporting.** After the end of each calendar quarter, all investment actions taken by the investment managers on behalf of the fund will be reviewed. Within 30 days of year-end, the investment managers will advise the Investment Committee that such actions were consistent with the guidelines of the fund, as well as the extent of any inconsistency.

**IV. SPENDING RULES**

**A. Appropriations.**

1. Individual investments of trust assets will be accounted in the appropriate accounts, and income will be distributed as stipulated in each instrument.
2. Pooled investment records will be maintained for pooled investments, documenting each trust's proportionate share in the pool. Pool income shall be distributed on a regular periodic basis, no less than four times per calendar year.