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

SUBJECT: **ACCUMULATED POST RETIREMENT BENEFITS OBLIGATION (APBO) - INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning the Accumulated Post Retirement Benefits Obligation (APBO).

EFFECTIVE DATE: March 19, 2004

APBO - INVESTMENT GOALS, OBJECTIVES AND POLICIES

I. GOALS AND OBJECTIVES

A. Business Objectives. Underlying the Fund's investment goals are its needs to provide for the future liabilities and expenses associated with post retirement health benefits.

B. Investment Return Objectives.

1. Provide a return net of fees that is reasonably stable and predictable over ten year periods. The portfolio is designed to achieve the target in rolling ten-year periods. Total return can include dividends, interest and both realized and unrealized market value changes. The Investment mix of equities and fixed income securities shall be consistent with the target return and stability objectives and the design will favor volatility dampening over benchmark tracking error. It is acknowledged that these objectives will require a substantial investment in equities and therefore significant variation around the expected return is likely in shorter periods.

2. The stated Investment Return Objective is intended to provide an average rate of return which will:

    a. Generate approximately 5% per year after adjusting for inflation.
    b. Be greater than or equal to the 10-year moving average of high-quality corporate bonds, and
    c. Meet or exceed the established rates of insurance premium employer contribution as controlled by the Board of Directors.

C. Spending Objectives. Allow for the payment of related retiree medical insurance premiums and associated administrative and program expenses.

II. ALLOWABLE INVESTMENTS

General policy shall be to diversify investments among both equity and fixed-income securities. Allowable investments will be:

A. Equity Investments. The principal category of equity investments will be common stock. Stock investments should be diversified by industry, capitalization size, relative value and nation of origin. Accordingly, the Board's Standing Committee on Investments (Investment Committee) will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.

B. Fixed Income Investments. The principal categories of fixed income Investments will be domestic, high quality intermediate or long-term corporate and Treasury bonds. Investments in professionally managed below-grade instruments or international instruments may be included, subject to limitations adopted by the Investment Committee.

Short-term, cash-equivalent investments are appropriate as a depository for Income distributions or as needed for temporary placement of funds directed for later investments to longer-term capital markets.

C. Other Investments. If they meet policy return and risk requirements, other investments such as individual real estate, private distressed securities, venture capital, hedge funds or other private equity may be authorized by the Investment Committee.

D. Prohibited Investments. The fund may not purchase investments in commodities or letter stock. In addition, the fund will not engage in short sales or purchases on margin.

III. SPENDING RULES

At the direction of those authorized by Minimum Authorized Signatures Policy Section No. 100, Document No. 102, funds may be withdrawn for the purposes of premium payment, fee recovery or actuarial study costs.

IV. ADMINISTRATION

A. Custodial Arrangements. All marketable securities will be held by an operating custodian. The custodian may be a bank or securities brokerage firm with a minimum of capital and surplus of $500,000,000. Securities may be held in the nominee name of the custodian but must be held separate and apart from, and may not be co-mingled with the assets of the custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.

B. Process. It is the charge of the Investment Committee and staff to implement the policies set forth above. The Investment Committee shall have discretion to establish and document specific guidelines necessary to meet the Accumulated Post Retirement Benefits Obligation Investment Goals, Objectives and Policies. The Investment Committee may utilize investment consultants and managers to achieve their goals.

The Investment Committee will make its documented guidelines available to the Board of Directors and will periodically advise the Board of any change(s) to the document.

V. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards, which make corporate investments, to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Cal Corporation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.