

**CAL POLY**  
CORPORATION

Policy 130

**Voluntary Employee Beneficiary  
Association Trust Investment Policy**

Section: 100 – General Administration

Responsible Executive: Lead Financial  
Administrator

Responsible Department: Investments and Treasury  
Management

First Effective Date: October 25, 2013

Last Reviewed: March 2018

Next Scheduled Review: October 2021

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**1.0 PURPOSE**

- 1.1. To provide investment management direction concerning the Voluntary Employee Beneficiary Association Trust (“VEBA Trust”).

**2.0 BACKGROUND 1**

- 2.1. The VEBA Trust supports expenses associated with Cal Poly Corporation (“CPC”) retiree medical benefits expense and liabilities. The Board has a fiduciary responsibility as one of the trustees of these funds. CPC employs professional financial managers and consults with the Board’s Investment Advisory Committee to meet these responsibilities.

**3.0 POLICY**

- 3.1. General. CPC shall manage the VEBA Trust in compliance with this policy. This policy and any related Guidelines must complement and comply with Policy 121-General Investment Policy and its guidelines.
- 3.2. Funding. Assets in the VEBA Trust shall be sufficient to cover the liability of retiree and actively employed and vested employee medical benefits. Funding will be reviewed at least annually and liabilities will be calculated by a qualified actuary no less than every two years.
- 3.3. Investment Return Objectives. Provide a total return, net of fees, of approximately 4.0% after the general inflation rate as measured by the U.S. Department of Labor Consumer Price Index—Western Region.
- 3.3.1. The return, in conjunction with annual funding from the Corporation’s Other Post-Employment Benefits fund or other sources should meet or exceed the following:
- 3.3.1.1. the established rates of insurance premium employer contribution as controlled by the Board of Directors,
- 3.3.1.2. The cost of investment manager and investment consultant,
- 3.3.1.3. The cost of third party trustee and custodian,
- 3.3.1.4. The cost of audit and tax preparation,
- 3.3.1.5. The cost of actuarial research and presentation, and
- 3.3.1.6. Any other cost associated with the maintenance and operation of the VEBA Trust
- 3.3.2. The return should be reasonably stable and predictable and will be measured in rolling ten year periods.
- 3.3.3. Total return is net of all investment fees and can include dividends, interest and both realized and unrealized market value changes.

- 3.3.4. The investment mix of equities and fixed income securities shall be consistent with the target return and the stability objective of dampening volatility 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.
- 3.4. Allowable Investments. The general goal shall be to diversify investments among both equity and fixed-income securities in order to maintain the purchasing power of the income and to protect the VEBA Fund principal in perpetuity. Allowable investments will be:
- 3.4.1. 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 Lead Financial Administrator, or his/her designee, as advised by the Investment Advisory Committee, will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.
- 3.4.2. 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 in the VEBA Trust Guidelines.
- 3.4.3. Short term. 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.
- 3.4.4. Other Investments. Other investments such as individual real estate, private distressed securities, venture capital, domestic and foreign private equity, directional and non-directional hedge funds or commodities (including energy and natural resources) may be utilized in the VEBA Trust portfolio if authorized by the Lead Financial Administrator, in consultation with the Investment Advisory Committee, after appropriate review and analysis of the role of the investment in the portfolio and a determination that the expected risk and return profile are in alignment with overall portfolio objectives and policies. It is expected that such other investments will be made utilizing diversified pools of assets.
- 3.5. Prohibited Investments. The VEBA Trust may not purchase investments in letter stock or individual commodities unless they are part of a broad group of commodities within a diversified fund that has been approved by the Lead Financial Administrator, in consultation with the Investment Advisory Committee. In addition, the VEBA Trust may not engage in short sales or purchases on margin unless they are part of a diversified fund that has been approved by the Lead Financial Administrator, in consultation with the Investment Advisory Committee.
- 3.6. Socially Responsible Investing. The Board of Trustees of California State University adopted a resolution urging auxiliary boards that make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The CPC Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.
- 3.7. Custodial Arrangements. All marketable securities will be held by a bonded or insured, notable and nationally recognized operating custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.

- 3.8. Spending Objectives and Payouts. Funds may be withdrawn for the purposes of direct payment or reimbursement for premium payment, trustee fees, investment management and consultant fees, VEBA consultant fees, payments to service providers related to VEBA tax audit and actuarial work, any other cost that might arise as a result of the VEBA Trust or VEBA Trust-reimbursable costs related to employee benefits. Funds may not be used to pay or reimburse the Corporation for normal administrative efforts.
- 3.9. Reporting. The Lead Financial Administrator, or his/her designee, will provide periodic reports to the Board of Directors.

#### **4.0 DEFINITIONS**

- 4.1 None.

#### **5.0 PROCEDURES, GUIDELINES AND FORMS**

- 5.1. The Lead Financial Administrator, or his/her designee, with consultation from the Investment Advisory Committee, may establish written guidelines and forms for practical operations to implement this policy. Guidelines may include philosophy and procedures, as needed.

#### **6.0 COMPLIANCE**

- 6.1. All CPC personnel involved in trusts and investments must comply with this policy.

#### **7.0 REFERENCES AND RELATED POLICY**

- 7.1. CSU Board of Trustee Resolution RFIN 7-78-6 Social Responsibility and Investments
- 7.2. CPC Policy 121-General Investment Policy and Guidelines
- 7.3. CPC Policy 131-Other Post-Employment Benefits Investment Policy

**Board approved revisions**

**Technical and administrative change updates**