

CAL POLY

CORPORATION

Annual Investment Report

June 30, 2014

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Annual Investment Report

The Annual Investment Report provides the Cal Poly Corporation Board of Directors and Investment Advisory Committee with information on current investment holdings and year-to-date performance. It includes information on the General Investment Fund, OPEB Fund, VEBA Trust, Endowment Fund and the Grant & Annuity Society.

The schedules present market value information, actual and benchmark rates of return, asset allocation and information on external managers' holdings. Non-performing assets such as operating cash are excluded from this report.

Please feel free to contact me at (805) 756-5031 if you have any questions or wish to discuss Cal Poly Corporation's investment activities.



Ron Weaver
Investment Administrator

Annual Investment Performance

Asset Values and Average Historical Total Returns as of 6/30/14

	1 Year	3 Years	5 Years	10 Years	15 Years
Corporate Pool	15.7%	8.5%	12.9%	8.1%	6.0%
<ul style="list-style-type: none"> \$27.7 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 71% equity, 29% fixed income 					
OPEB Pool	12.8%	7.4%	11.5%	7.3%	n/a
<ul style="list-style-type: none"> \$9.9 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 57% equities, 43% fixed income 					
VEBA Trust	n/a	n/a	n/a	n/a	n/a
<ul style="list-style-type: none"> \$17.5 million, Account opened March, 2014, Asset Allocation Strategy: 15% in a tactical fund and the balance 57% equities, 43% fixed income 					
Endowment Pool	15.6%	8.5%	12.9%	8.1%	7.3%
<ul style="list-style-type: none"> \$5.3 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 71% equities, 29% fixed income 					
Grant & Annuity Society	16.6%	9.1%	12.1%	6.9%	6.6%
<ul style="list-style-type: none"> \$2.1 million, customized portfolio in compliance with California Department of Insurance regulations 					

Market Indices at 6/30/14

	1 Year	3 Years	5 Years	10 Years	15 Years
S&P 500	24.6%	16.6%	18.8%	7.8%	4.3%
Russell 2000	23.6%	14.6%	20.2%	8.7%	8.0%
MSCI EAFE	23.6%	8.1%	11.8%	6.9%	4.6%
Barclays Capital Intermediate Government/Credit Bond Index	2.9%	2.8%	4.1%	4.3%	5.1%

General Investment Fund

The General Investment Fund consists of three investment sub-funds:

1. **The Internal Fund** holds notes receivable and short to mid-term assets. Notes receivable are categorized in two ways: (1) *Advanced Funds* are provided to University Departments for specific projects or programs. Investment performance is secondary to the purpose of project or program support. (2) *Program Investments* benefit university or Cal Poly Corporation programs. They are made with the full expectation that the note will be readily marketable and provide an attractive investment return. Program Investments are generally secured by real property.

Internal Fund assets are held in a combination of institutional money market, certificate of deposit (CD) and fixed income mutual fund accounts. The money market funds provide added earnings opportunity and full liquidity as operating cash fluctuates through normal business cycles. CD's are short to mid-term and provide a safe alternative between the fully liquid money market and the longer term Corporate Investment Pool portfolio. The Internal Fund also invests in low duration and short-term fixed income funds, further diversifying risk.

2. **The Corporate Fund** holds long-term investment assets. The Corporate Fund currently consists of one group of investment assets titled the *Corporate Investment Pool*. This pool is invested with a long term strategy and includes the market sensitive asset class of equities. Its overall asset allocation is 71% equities and 29% fixed income. Equities include a 15% allocation to a tactical strategy fund. The investment pool has a customized benchmark based upon its blended asset allocation.
3. **The Student Investment Management Program** holds long-term investment assets. It is managed by senior project students in the Orfalea College of Business. The Student Investment Management Program was created in 1992 when students were given the opportunity to manage \$200,000 of General Investment Fund assets. The program has been successful over the years both in investment performance and educational advancement. Asset value is capped at \$500,000 and reviewed annually in June.

75% of Student Investment Management Program assets are invested in a mix of domestic equity and fixed income. The remaining 25% may be invested in a mix of international equity, emerging market equity and REITs. The students also have the option of selling covered calls. The fund's benchmark is the S&P 500 Index.

Investment earnings from the assets described above help to support the Cal Poly Corporation general administration budget, assist with Corporation and University special projects and build Corporation reserves.

General Investment Fund, Continued

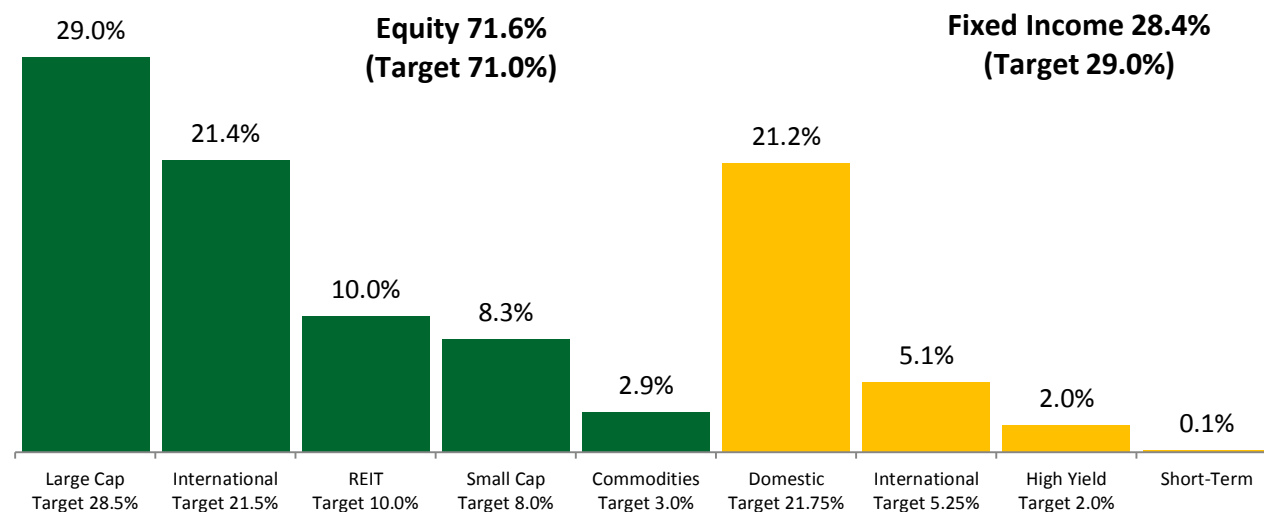
Twelve Months Ended June 30, 2014

(in thousands)

	Value	Return (annualized)	Benchmark	
Money Markets & Certificates of Deposit	17,526.0	.33%	N/A	
	<u>Short & Mid-Term Assets</u>		<u>Long-Term Assets</u>	
	PIMCO	PIMCO	Student	Corporate
	Short-Term	Low Duration	Investment	Investment
			Management	Pool
			Program	
Actual	1.8%	2.7%	9.0%	15.7%
Benchmark	0.0%	.8%	24.6%	15.9%
Asset Value at June 30, 2013	\$3,584.1	\$16,299.7	\$525.8	\$24,134.2
Income	83.4	174.5	5.2	459.0
Market Value Gain/(Loss)	61.9	156.2	42.2	3,104.3
Transfer In/(Out)	5,000.0	(5,000.0)	(65.0)	0
Change in Liabilities	0	0	.7	5.4
Asset Value at June 30, 2014	\$8,729.3	\$11,630.5	\$508.9	\$27,702.9

Corporate Investment Pool Asset Allocation

14.8% of Corporate Pool assets are invested in a tactical fund at June 30, 2014; the target allocation is 15.0%. The remaining Corporate Pool assets are invested in a 71% equity, 29% fixed income allocation as presented below.



All Corporate Investment Pool assets are managed with mutual funds selected by Kaspick & Company. All asset classes are within acceptable allowance from target, as set by Board policy, or in the process of being rebalanced. The Total Return reported above is net of all manager fees but excludes the administrative fee paid to Cal Poly Corporation.

Other Post-Employment Benefits (OPEB) Fund

Twelve Months Ended June 30, 2014

(in thousands)

The Cal Poly Corporation offers post-employment medical benefits to qualified retirees. Every three years, a professional actuary calculates the liability—or expected long-term cost—of the benefits. The most recent actuarial study was as of July 1, 2013. Calculations are made for three categories of employees. They are:

1. *Non-Vested Active Employees.* Assets to support the liabilities of this group of employees are held in the Corporation's OPEB Investment Pool. These assets are custodied with Charles Schwab and are managed with mutual funds selected by Kaspick & Company. The spending of OPEB assets for anything other than their intended use is prohibited by Board of Directors policy. As of July 1, 2013, liability associated with this group of employees is 100% funded.
2. *Vested Active Employees.* Assets to support the liabilities of this group of employees are held in the Cal Poly Corporation VEBA Trust. These assets are custodied with and trustee by U.S. Bank Institutional Trust & Custody. Assets are managed with mutual funds selected by Kaspick & Company. The spending of these assets for anything other than their intended purpose is prohibited by law. As of July 1, 2013, liability associated with this group of employees is 100% funded.
3. *Retirees.* Assets to support the liabilities of retirees are held in the Cal Poly Corporation VEBA Trust. As of July 1, 2013, liability associated with retirees is 100% funded.

Investment returns and allocation for the OPEB Investment Pool and the VEBA Trust follow.

<u>OPEB Investment Pool</u>	Actual (Year Ending)	Benchmark (Year Ending)
Total Return (Fiscal YTD)	12.8%	12.9%
Asset Value at June 30, 2013		\$24,054.9
Income		621.0
Market Value Gain/(Loss)		1,943.3
Transfer Out to Fund VEBA		(16,717.6)
Asset Value at June 30, 2014		\$9,901.6

At June 30, 2013 the OPEB investment fund also held \$1.5 million in certificate of deposits (CDs). During the year, \$519.3 of matured CDs were used to fund the newly formed VEBA Trust. At June 30, 2014, \$992.4 thousand remained in CDs, earning .26% (*annualized*).

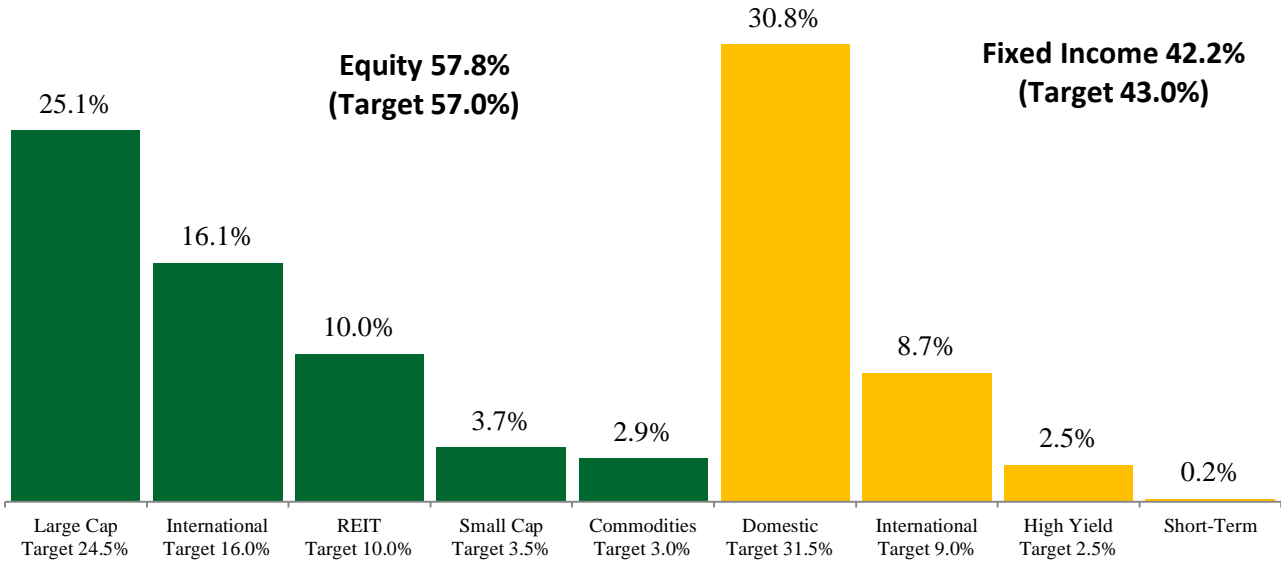
<u>VEBA Trust</u>	Actual (Quarter Ending)	Benchmark (Quarter Ending)
Total Return (Quarter Ending June 30, 2014)	3.8%	3.4%
Asset Value at June 30, 2013 (<i>thousands</i>)		\$0.0
Income		86.3
Market Value Gain/(Loss)		506.2
Benefits Paid		(314.6)
Trust Related Expense		(14.7)
Employer Funding		17,237.0
Change in Liabilities		26.5
Asset Value at June 30, 2014		\$17,526.6

The return above is for the *quarter* ending June 30, 2014. The VEBA Trust was funded with cash in March 2014. In April 2014, long-term investment assets were journaled in from the OPEB Investment Pool.

OPEB Fund, continued

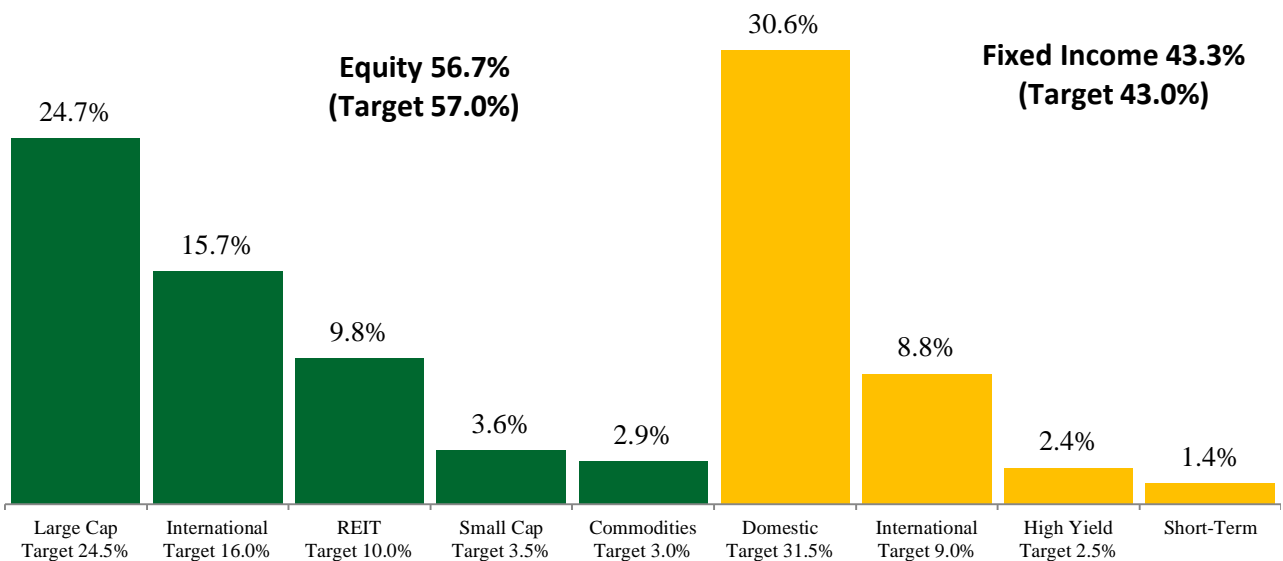
OPEB Investment Pool Asset Allocation

15.2% of OPEB Investment Pool assets are invested in a tactical fund at June 30, 2014; the target allocation is 15.0%. The remaining OPEB Investment Pool assets are invested in a 57% equity, 43% fixed income allocation as presented below.



VEBA Trust Asset Allocation

14.5% of VEBA Trust assets are invested in a tactical fund at June 30, 2014; the target allocation is 15.0%. The remaining VEBA Trust assets are invested in a 57% equity, 43% fixed income allocation as presented below.



Endowment Fund

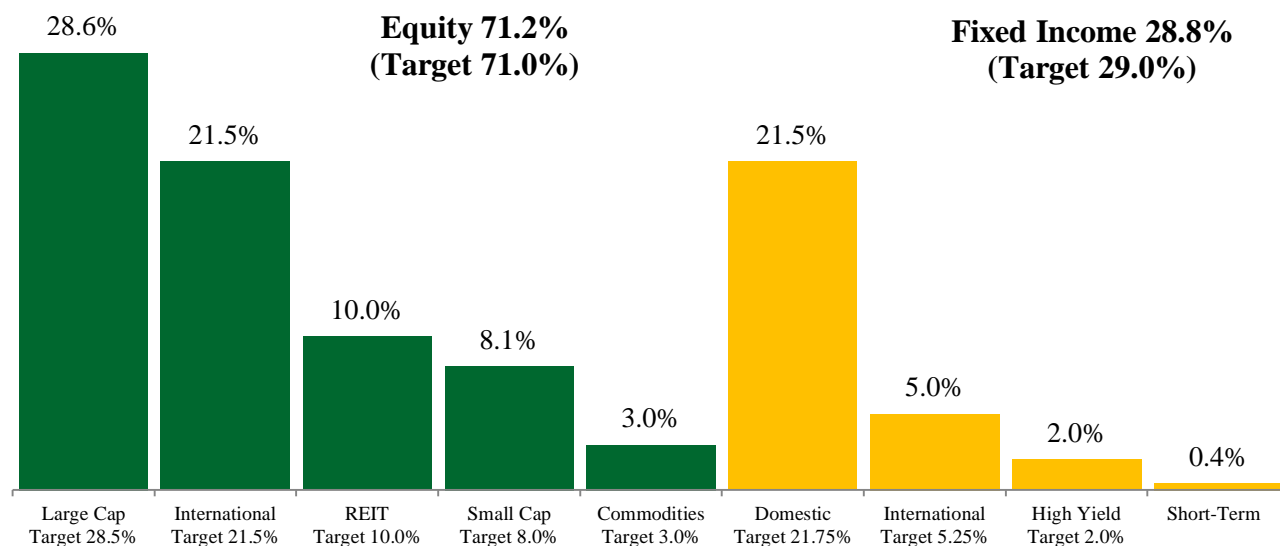
Twelve Months Ended June 30, 2014

(in thousands)

	Actual	Benchmark
Total Return (Fiscal YTD)	15.6%	15.9%
Asset Value at June 30, 2013 (thousands)	\$4,463.2	
Income	85.4	
Market Value Gain/(Loss)	571.2	
Additions to Fund	325.0	
Withdrawals from Fund	(97.3)	
Change in Liabilities	.2	
Asset Value at June 30, 2014	\$5,347.7	

Endowment Investment Pool Asset Allocation

14.2% of the endowment assets are invested in a tactical fund at June 30, 2014; the target allocation is 15.0%. The remaining endowment assets are invested in a 71% equity, 29% fixed income pool as presented below.



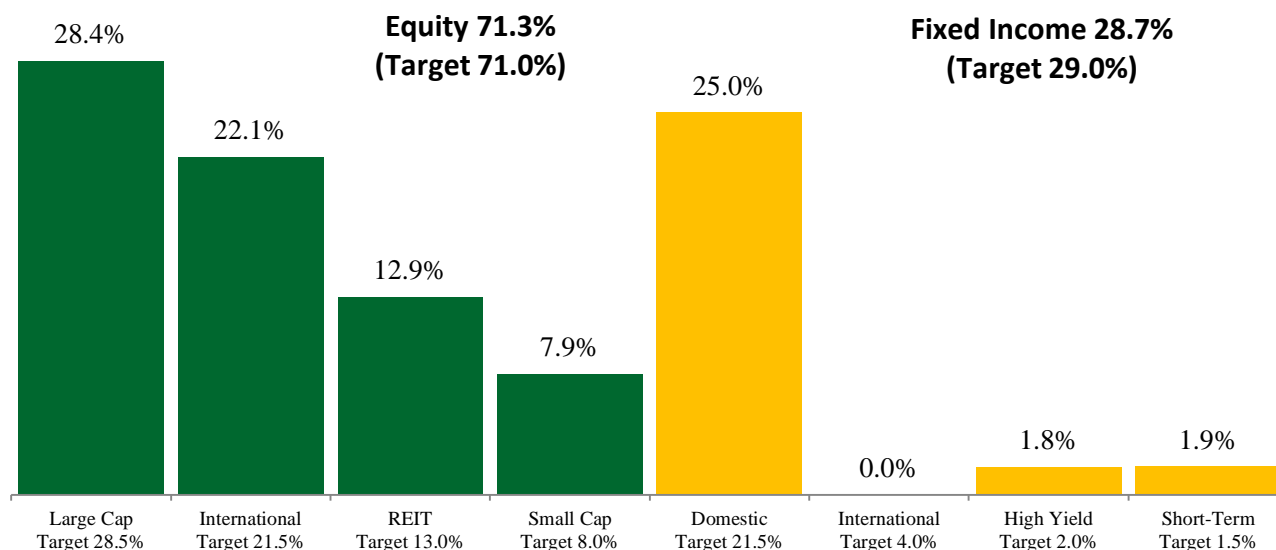
At June 30, 2014, Cal Poly Corporation managed ten endowments with direct or indirect benefit to Cal Poly and its auxiliaries and affiliated organizations.

All assets are managed by mutual funds selected by Kaspick & Company and all asset classes are within acceptable allowance from target, as set by Board policy or in the process of being rebalanced. The return reported above is net of all manager fees but excludes the administrative fee paid to Cal Poly Corporation.

Grant & Annuity Society
Twelve Months Ended June 30, 2014
(in thousands)

	Actual	Benchmark
Total Return (Fiscal YTD)	16.6%	16.0%
Asset Value at June 30, 2013 <i>(thousands)</i>	\$1,870.7	
Income (Net)	31.2	
Market Value Gain/(Loss)	264.2	
Gifts and Transfers In	15.0	
Distributions and Transfers Out	(113.8)	
Change in Liabilities & Funds Held for Others	(4.4)	
Asset Value at June 30, 2014	\$2,062.9	

Grant & Annuity Society Investment Pool Asset Allocation



The target asset allocation and benchmark for the Grant and Annuity pool—reserves and surplus combined—is 71% equity and 29% fixed income. While that is the ideal, reaching that allocation is dependent upon the mix of annuitants, the required reserve set by the California Department of Insurance and total assets of the pool. All assets are managed with mutual funds selected by Kaspick & Company. The return reported above is net of all manager fees but excludes the trustee fee paid to Cal Poly Corporation.

At fiscal yearend, the program consists of sixty individual contracts. During the year, two new contracts were written; \$5.0 thousand for the ultimate benefit of the Cal Poly Alumni Association and \$10.0 thousand the ultimate benefit of the Kennedy Library. One contract matured and \$7.0 thousand was delivered to the Cal Poly Foundation endowment for the benefit of Senior Projects in Animal Science & Industry.