

CAL POLY

CORPORATION

Annual Investment Report

June 30, 2015

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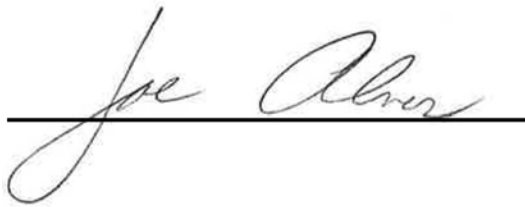
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Annual Investment Report

The Annual Investment Report provides the Cal Poly Corporation (the 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 Investment Pool, 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) 756-7352 if you have any questions or wish to discuss Cal Poly Corporation's investment activities.

A handwritten signature in cursive script, reading "Joe Alves", is positioned above a solid horizontal line.

Joe Alves
Financial Services Manager

Annual Investment Performance

Asset Values and Average Historical Total Returns as of 6/30/15

	1 Year	3 Years	5 Years	10 Years	15 Years
Corporate Investment Pool	(0.9)%	8.3%	9.5%	6.4%	4.7%
<ul style="list-style-type: none"> \$27.2 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 71% equity, 29% fixed income 					
OPEB Investment Pool	(0.8)%	6.6%	8.1%	5.7%	n/a
<ul style="list-style-type: none"> \$6.4 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 57% equities, 43% fixed income 					
VEBA Trust	(0.5)%	n/a	n/a	n/a	n/a
<ul style="list-style-type: none"> \$22.4 million, Account opened March, 2014, Asset Allocation Strategy: 15% in a tactical fund and the balance 57% equities, 43% fixed income 					
Endowment Fund	(0.8)%	8.3%	9.4%	6.4%	6.6%
<ul style="list-style-type: none"> \$5.8 million, Asset Allocation Strategy: 15% in a tactical fund and the balance 71% equities, 29% fixed income 					
Grant & Annuity Society	1.4%	9.6%	9.7%	5.9%	6.4%
<ul style="list-style-type: none"> \$1.9 million, customized portfolio in compliance with California Department of Insurance regulations 					

Market Indices at 6/30/15

	1 Year	3 Years	5 Years	10 Years	15 Years
S&P 500	7.4%	17.3%	17.3%	7.9%	4.4%
Russell 2000	6.5%	17.8%	17.1%	8.4%	7.5%
MSCI EAFE	(4.2)%	12.0%	9.5%	5.1%	3.2%
Barclays Capital Intermediate Government/Credit Bond Index	1.7%	1.6%	2.8%	4.0%	5.0%

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. As of March 31, 2015, there are no outstanding notes receivable.

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 fund provides added earnings opportunity and full liquidity as operating cash fluctuates through normal business cycles. CD's are of short to mid-term duration and provide a safe alternative between the fully liquid money market funds 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. Fifteen percent of its assets are allocated to a tactical fund and the remaining assets are invested in 71% equities and 29% fixed income. 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.

Seventy-five percent 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 and the students 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, 2015

(in thousands)

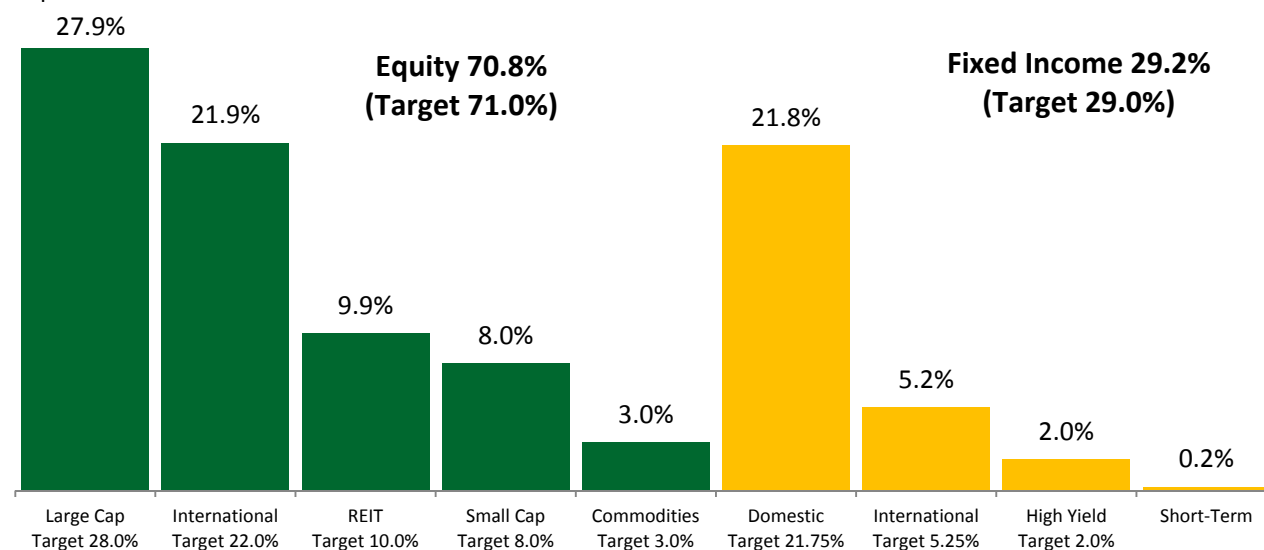
Money Market & Certificates of Deposit

Rate of Return (annualized)	.34%
Asset Value at June 30, 2015	\$24,308.3

	<u>Short & Mid-Term Assets</u>		<u>Long-Term Assets</u>	
	PIMCO Short-Term	PIMCO Low Duration	Student Investment Management Program	Corporate Investment Pool
Total Return (Fiscal YTD)	1.3%	0.4%	(4.9)%	(0.9)%
Benchmark	0.0%	0.9%	7.4%	1.9%
Asset Value at June 30, 2014	\$8,729.3	\$11,630.5	\$508.9	\$27,702.9
Income	128.3	459.1	7.6	547.3
Market Value Gain/(Loss)	(19.0)	(418.3)	(33.8)	(1,021.3)
Transfer In/(Out)	-	-	-	-
Change in Liabilities	-	-	2.5	0.7
Asset Value at June 30, 2015	\$8,838.6	\$11,671.3	\$485.2	\$27,229.6
Total General Investment Fund Assets				\$72,533.0

Corporate Investment Pool Asset Allocation

13.6% of Corporate Investment Pool assets are invested in a tactical fund at June 30, 2015; the target allocation is 15.0%. The remaining Corporate Investment 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. Asset allocation is within an acceptable allowance from the 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 Benefit (OPEB) Assets

Twelve Months Ended June 30, 2015

(in thousands)

Cal Poly Corporation offers post-employment medical benefits for qualified employees. A description of benefits, eligibility, administration and other aspects of the program are presented in the *Retiree Welfare Benefits Plan* (available upon request).

Every two years, on July 1, a professional actuary calculates the liability—or expected future cost—of the post-employment medical benefits commitment. The most recent actuarial study was as of July 1, 2015. Calculations are made for the following three categories of qualified employees:

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 these assets for anything other than their intended use is prohibited by Board of Director policy. As of July 1, 2015, the estimated 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, 2015, the estimated 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, 2015, the estimated liability associated with retirees is 100% funded.

Current investment return and asset allocation information for the OPEB Investment Pool and the VEBA Trust follow.

OPEB Assets, continued

OPEB Investment Pool

Nine Months Ended June 30, 2015

(in thousands)

	Actual	Benchmark
Total Return (Fiscal YTD)	(0.8)%	1.6%
Asset Value at June 30, 2014	\$9,901.6	
Income	311.9	
Market Value Gain/(Loss)	(362.7)	
Transfer In/(Out)	(3,430.0)	
Asset Value at June 30, 2015	\$6,420.8	

See page 9 for OPEB Investment Pool asset allocation

VEBA Trust

Nine Months Ended June 30, 2015

(in thousands)

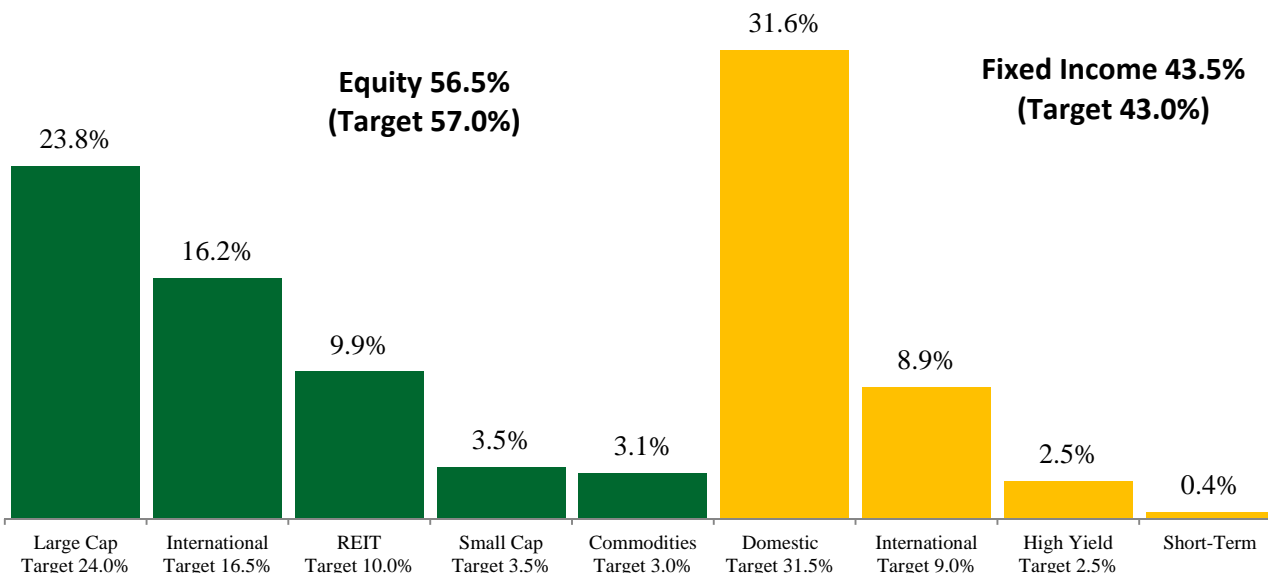
	Actual	Benchmark
Total Return (Fiscal YTD)	(0.5)%	1.6%
Asset Value at June 30, 2014 (<i>thousands</i>)	\$17,526.6	
Income	438.4	
Market Value Gain/(Loss)	(547.2)	
Benefits Paid	(967.7)	
Trust Related Expense	(9.9)	
Employer Funding	6,020.1	
Change in Liabilities	(13.9)	
Asset Value at June 30, 2015	\$22,446.4	

See page 9 for VEBA Trust asset allocation

OPEB Assets, continued

OPEB Investment Pool Asset Allocation

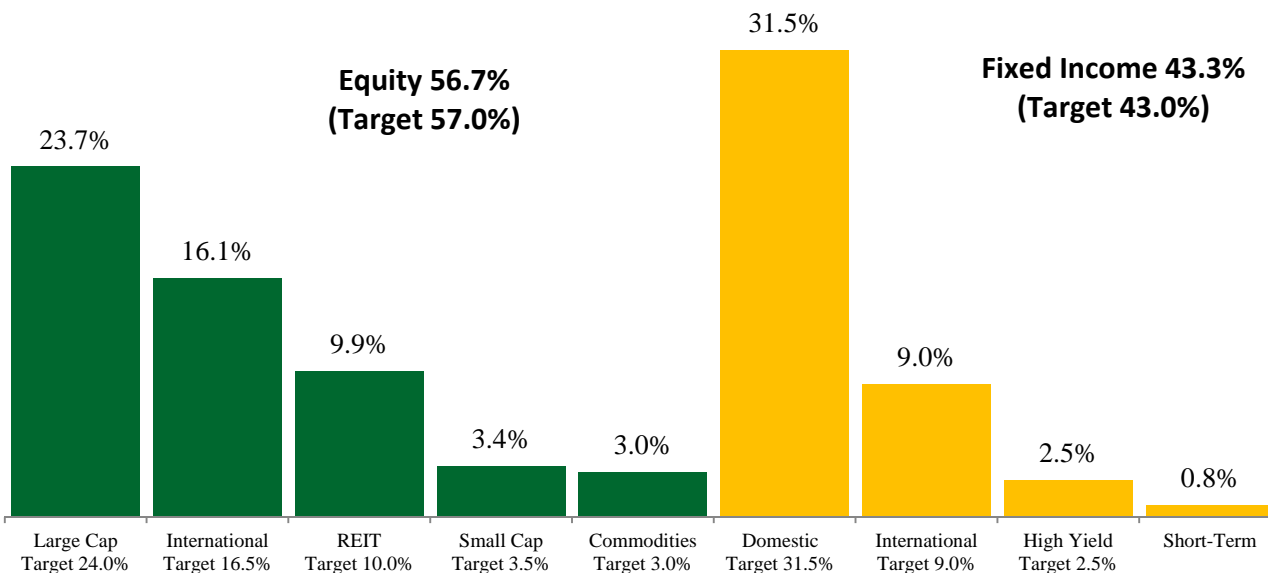
13.9% of OPEB Investment Pool assets are invested in a tactical fund at June 30, 2015; the target allocation is 15.0%. The remaining OPEB Investment Pool assets are invested in a 57% equity, 43% fixed income allocation as presented below.



At June 30, 2014 the OPEB Investment Pool held \$992.4 thousand in short-term certificates of deposit. The assets returned \$832 in interest over the course of the fiscal year. As the assets matured, the proceeds were used to fund the VEBA Trust with cash sufficient to cover benefit payments. There are no certificates of deposit remaining at June 30, 2015.

VEBA Trust Asset Allocation

12.5% of VEBA Trust assets are invested in a tactical fund at June 30, 2015; the target allocation is 15.0%. The remaining VEBA Trust assets are invested in a 57% equity, 43% fixed income allocation as presented below.



Assets of both the OPEB Investment Pool and the VEBA Trust are managed by mutual funds selected by Kaspick & Company and all asset allocations are within acceptable allowances from their targets as set by Board policy, or are in the process of being rebalanced. The return reported above is net of all manager fees.

Endowment Fund

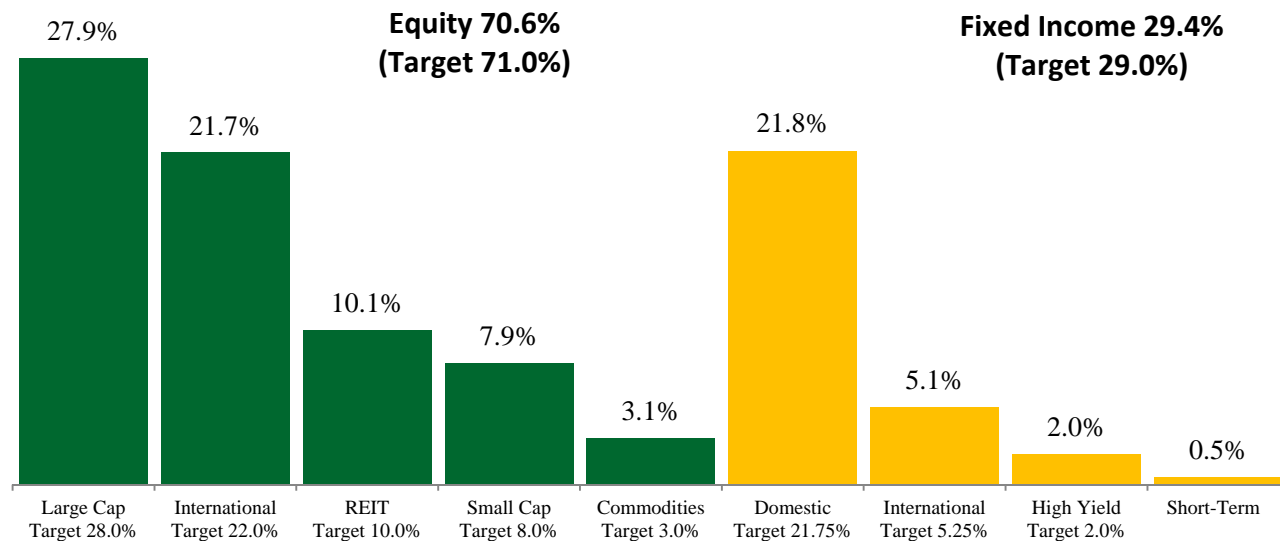
Twelve Months Ended June 30, 2015

(in thousands)

	Actual	Benchmark
Total Return (Fiscal YTD)	(0.8)%	1.9%
Asset Value at June 30, 2014 (thousands)	\$5,347.7	
Income	106.2	
Market Value Gain/(Loss)	(204.4)	
Additions to Fund	743.8	
Withdrawals from Fund	(171.7)	
Change in Liabilities	12.8	
Asset Value at June 30, 2015	\$5,834.4	

Endowment Fund Asset Allocation

11.8% of the Endowment Fund assets are invested in a tactical fund at June 30, 2015; the target allocation is 15.0%. The remaining Endowment Fund assets are invested in a 71% equity, 29% fixed income pool as presented below.



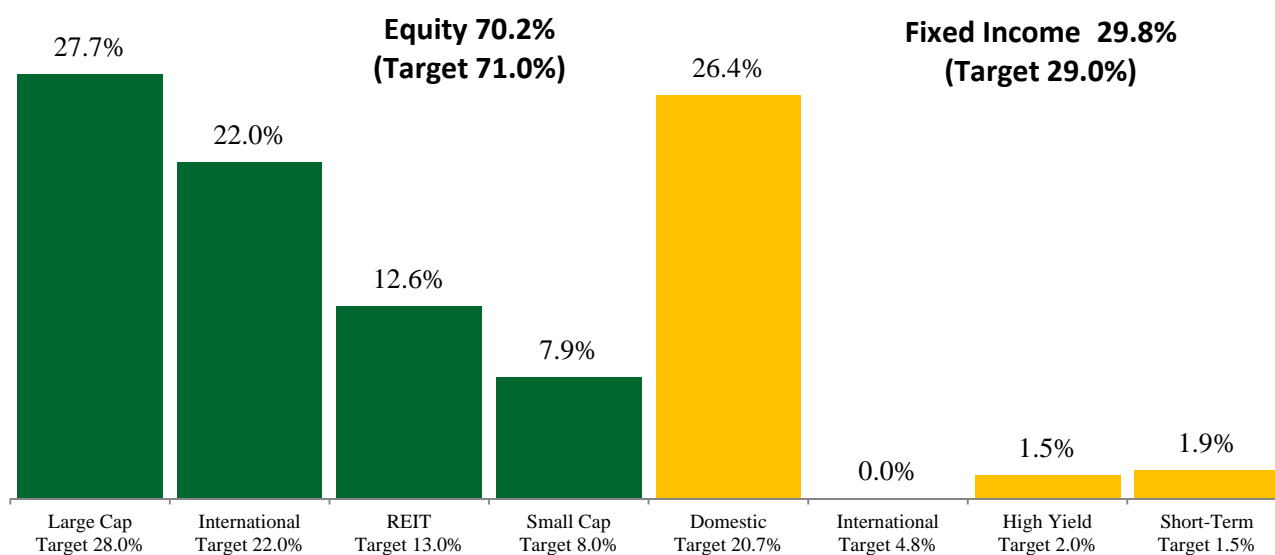
At June 30, 2015, Cal Poly Corporation managed eleven endowments with direct or indirect benefit to the university and its auxiliaries and affiliated organizations.

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, 2015
(in thousands)

	Actual	Benchmark
Total Return (Fiscal YTD)	1.4%	2.7%
Asset Value at June 30, 2014 <i>(thousands)</i>	\$2,062.9	
Income (Net)	32.0	
Market Value Gain/(Loss)	(11.2)	
Gifts and Transfers In	10.0	
Distributions and Transfers Out	(204.4)	
Change in Liabilities & Funds Held for Others	5.0	
Asset Value at June 30, 2015	\$1,894.3	

Grant & Annuity Society Investment Pool Asset Allocation



The target asset allocation and benchmark for the Grant and Annuity Society investment 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.

During the past fiscal year, the Grant & Annuity Society added one contract valued at \$10,000. Another contract was paid out in the amount of \$101,325 for the benefit of the Foundation for the Performing Arts. This leaves a total of 60 active contracts as of June 30, 2015.