

Enhancing Cal Poly's Future

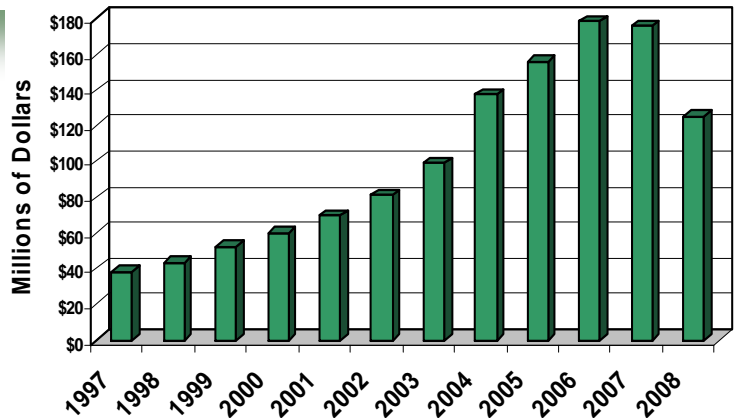
The Cal Poly Foundation Endowment

Background

Since 1985, the Cal Poly Foundation has maintained an endowment pool to hold, administer, and invest in perpetuity the private endowment gifts that benefit California Polytechnic State University.

The endowment pool combines the endowed funds into a single investment fund that can be efficiently and economically invested in a broadly diversified portfolio. The endowment pool operates as a "unitized" fund which allocates to each separate endowment a number of "units" proportionate to its size in the overall pool. Investment results and income distributions are then allocated to each individual endowment based on the number of units held.

The Cal Poly Foundation Board of Directors recently adopted a recommendation advanced by a presidential task force that is designed to bring additional resources to the University. The task force recommended reinvesting a portion of each gift to strengthen Cal Poly's ability to secure higher levels of private support. This practice is used by many other top-tier universities around the country and will provide Cal Poly with resources to enhance its development efforts. Effective January 1, 2009, 5% of each new gift has been reinvested to defray the cost of raising and administering private funds for Cal Poly.



As of December 31, 2008, the fair market value of the Endowment was \$125,367,350.

diversified mix of investments across a broad range of asset classes, including equities (stocks), fixed income (bonds) and alternative assets. The investment policy has a target allocation of 71% equities and 29% fixed income. The portfolio may hold up to 9.5% in alternative investments within these allocations. These assets are managed externally by professional investment managers hired by the Foundation.

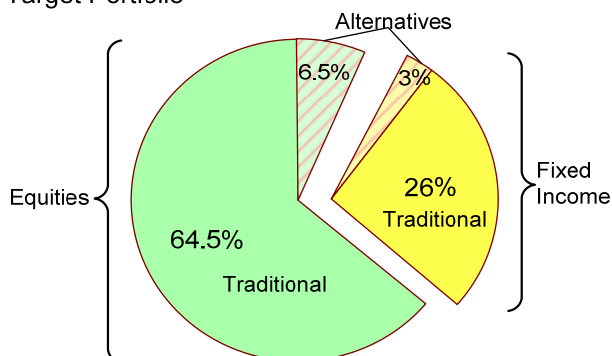
The equity allocation includes large and small capitalization domestic stocks, international stocks and securities of real estate investment trusts. Up to 6.5% of the total equity allocation can be held in alternative investments, which include directional hedge funds, distressed debt, venture capital, private equity and commodities.

Of the 29% fixed income allocation, 26% is held in a diversified mix of U.S. government securities, investment grade and high-yield domestic bonds, and international bonds. As an alternative investment, up to 3% can be invested using absolute return strategies.

Investment Policy

The endowment pool is invested in accordance with the Foundation's endowment investment policy. This policy is designed to achieve long-term total returns that preserve the endowment's purchasing power while providing a predictable stream of income to the University. These goals are achieved by developing a

Target Portfolio



Investment Results

Historical Returns

	1 Year	3 Years	5 Years	10 Years	15 Years
	-26.5%	-3.4%	3.3%	4.9%	7.79%

The Cal Poly Foundation Endowment

Spending Policy

The Foundation's endowment spending policy defines how much of each endowment will be distributed annually to the University for the purpose specified by the donor. The Foundation regularly reviews this policy, which balances the need to fund current University programs with the responsibility to protect endowments against inflation to preserve spending power for the future. In addition to the annual payout rate and inflation, the spending policy must consider investment management, custodial and administration expenses.

In February 2009 the Foundation's Board of Directors adopted a 4.25% spending rate for distributions. This reduction of .25% reflects the impact of the recent decline in worldwide investment values. Reducing the spending rate will allow endowment values to recover more rapidly once normal market returns resume. The Foundation also adopted a special 2% spending rate for newer endowments whose current value due to market declines has fallen below the original gift of the donor. This lower rate will allow these endowments to continue to fund the valuable programs supported by donors while more rapidly rebuilding the value of the endowment.

The Foundation endeavors to administer and invest the endowment pool funds in a very economical manner, seeking to minimize costs when prudent and feasible. Net endowment investment returns are reported for all investment management fees paid to external investment managers and

Breakdown of Expected Return

4.25%	Payout to University
3.25%	Average Inflation
1.3%	Average Administrative and Operating Costs

8.8%	Total Return

custodians. The average cost of administering the endowments and defraying part of the cost to raise private support for the University is approximately 1.3% annually.

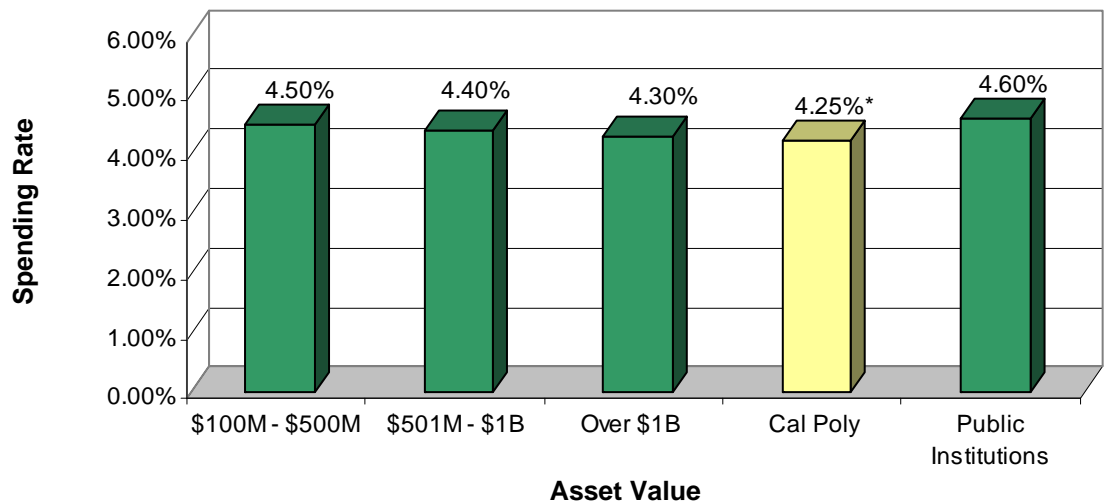
Distributions to the University are based on the average of the trailing 12 quarterly market values, and it is calculated on the preceding December 31. This smoothing strategy protects the University's income stream from the sharp fluctuations that occur from time to time in the financial markets. The resulting distributions are made to various colleges, units and programs across the campus in accordance with donor designations.

Comparable Spending Policies

The endowment spending rate for established endowments is comparable to other university payout rates as published by the National Association of College and University Business Officers (NACUBO) annual endowment survey for 2008.

*Cal Poly's spending policy as of February 2009.

Average Spending Rates



For more information about the Cal Poly Foundation Endowment call:

Planned Giving & Endowments - (800) 549-2666 or (805) 756-7125 - email - plannedgiving@calpoly.edu