



Investment Policy Statement

November 2015

UST Investment Policy Statement

Organization Name: UST

Account Information: Total Market Value as of 12/31/15: \$150,000,000

Primary Objective: Primary emphasis on moderate capital growth with some focus on income and preservation of capital.

Target Rate of Return: Return in excess of a dynamic benchmark based on the portfolio's asset allocation

Time Horizon: More than 10 years

Asset Allocation:	Asset Class	Minimum	Target	Maximum
	U.S. Equities	20%	25%	40%
	Ex-U.S. Equities	0%	15%	30%
	Fixed Income	20%	30%	80%
	Absolute Return	0%	10%	20%
	Alternative Investments	0%	20%	30%
	Real Assets	0%	0%	10%
	Cash & Cash Equivalents	0%	0%	15%

The maximum allowable allocation of the aggregate portfolio to illiquid securities is 30%.

Rebalancing Procedures: Portfolio is rebalanced when the portfolio exceeds the minimum or maximum constraints or when there is cash flow - reviewed monthly.

Cash Limits: UST does not normally maintain a cash allocation in this portfolio. The cash for liquidity needs is invested separately.

Restrictions: Other investment considerations in the management of this portfolio are:

Fixed Income:

Maximum Average Bond Maturity: 15 years

Maximum Individual Bond Maturity: 40 years

Individual corporate bonds may not exceed 10% of total portfolio market value at time of purchase.

Meeting Frequency: Meetings are held at least quarterly.

INVESTMENT POLICY DISCUSSION

What Is an Investment Policy Statement?

An Investment Policy Statement (IPS) describes the investment philosophies and investment management procedures to be utilized for the funds as further described below, as well as the long-term financial goals for UST.

The Need for an IPS

The principle reason for developing an investment policy and for putting it in writing is to protect the UST portfolio from ad hoc revisions of a sound long-term policy. Without an investment policy, in times of market turmoil, Investors are often inclined to make impromptu investment decisions that are inconsistent with prudent investment management principles. This investment policy is intended to provide a well thought out framework from which sound investment decisions can be made.

Steps to Take to Establish an Investment Policy

1. Assess UST's financial situation—identify the goals and needs.
2. Determine the tolerance for risk and the time horizon.
3. Set long-term investment objectives.
4. Identify any restrictions on the portfolio and its assets.
5. Determine the asset classes and appropriate mix (the "Asset Allocation") to maximize the likelihood of achieving the investment objectives at the lowest level of risk.
6. Determine the investment methodology to be used with regards to investment (manager) selection, rebalancing, buy-sell disciplines, portfolio reviews and reporting, etc.
7. Implement the decisions.

Uniform Prudent Investor Act

The Uniform Prudent Investor Act ("UPIA") was approved for use in all states at the 1994 annual Conference of Commissioners on Uniform State Law and by the American Bar Association in 1995. The Act is applicable to all trusts and sets forth appropriate practices for the management of trust assets. Noncompliance with these rules can expose a trustee to significant personal liability.

Key provisions of the UPIA include:

- No investment is inherently prudent or imprudent, except in how its inclusion or exclusion impacts the portfolio as a whole.
- Trustees are expected to use all reasonably available strategies to improve the risk-reward relationship of the portfolio.
- Under most circumstances, the assets of the trust must be diversified.
- Trustees are obliged to spread portfolio investments across asset classes to enhance performance and reduce risk.
- The possible effect of inflation must be considered as part of the investment strategy. As a result, use of equities is encouraged to allow the possibility that the portfolio's growth will outpace inflation.
- Fiduciaries have a duty to either demonstrate investment skill in managing trust assets or to delegate investment management to another, more qualified party.

Definitions

1. "UST Trustees" shall refer to the decision making body established to administer the portfolio as specified by applicable ordinance.
2. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the portfolio's assets.
3. "Investment Advisor" shall mean any individual, or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and performance monitoring.
4. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over the fund management or any authority or control over management, disposition or administration of portfolio assets.

This Investment Policy Statement:

- Establishes the UST Trustee's expectations, objectives and guidelines in the investment of the Portfolio's assets.
- Creates the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the UST Trustees including:
 - Describing an appropriate risk posture for the investment of the Portfolio
 - Specifying the target asset allocation policy
 - Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets
 - Specifying the criteria for evaluating the performance of the Portfolio's assets
- Defines the responsibilities of the UST Trustees, Investment Advisor and Investment Manager(s).
- Encourages effective communication between the Investment Manager(s) and UST Trustees.

This IPS is intended to be a summary of an investment philosophy and the procedures that provide guidance for the UST Trustees. The investment policies described in this IPS should be dynamic. These policies should reflect the UST Trustees' current status and philosophy regarding the investment of the Portfolio. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Portfolio, to the UST Trustees or the capital markets.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

INTRODUCTION

One of the important purposes of this Investment Policy Statement (IPS) is to establish a clear understanding as to the investment goals, objectives and management policies applicable to the UST investment portfolio ("Portfolio").

OVERVIEW COMMENTARY

Investor Information:

UST
21 Summerside
Coto De Caza, CA 92679

Authorized Decision Makers

The UST Board of Trustees shall approve the Investment Policy Statement and any future modifications. The Investment Advisor will manage the organizational assets subject to the provisions of the Investment Policy Statement.

Assets to be considered under this IPS

The investments being managed under this IPS have a current approximate value of \$150 million.

Investment Advisor:

James A. Diepenbrock
Graystone Consulting
400 Capitol Mall, Suite 1900
Sacramento, Ca 95814
916-567-2041
james.diepenbrock@msgraystone.com

INVESTOR CIRCUMSTANCES

Factors that could impact the manner in which this money will be managed include:

- Unemployment claims can produce inconsistent and variable cash flow

The UST Trustees describe their knowledge of investments as high.

UST is a revocable grantor trust in which all items of revenue and expense flow through the Trust to the individual participating agencies. UST provides unemployment compensation benefits for eligible employees of participating nonprofit agencies. It is subject to provisions of the unemployment insurance laws of the states in which the participating agencies reside. The Trust reimburses the participating state for benefits paid to former employees of the participating agencies.

It is recognized that the investment management of the Trust's assets has a direct effect on the achievement of this goal. The purpose of this document is to articulate the Board of Trustee's views on the investment objectives and risk tolerance for a balanced fund.

INVESTMENT OBJECTIVES

The investment objectives addressed in this investment policy statement represent the portfolio's overall investment objectives.

The UST Trustees' objective for this investment portfolio is primary emphasis on moderate capital growth with some focus on income and preservation of capital.

The long-term objective for the assets under this policy is to achieve a return after fees and expenses, in excess of a dynamic benchmark based on the portfolio's asset allocation

TIME HORIZON

UST's objectives for this portfolio are currently anticipated to continue without significant modification for a period of more than 10 years.

TAX POLICY

UST is a grantor trust and is not subject to income taxation.

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the UST Trustees can tolerate.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The UST Trustees desire long-term investment performance sufficient to meet the objectives. The UST Trustees understand that to achieve such performance the portfolio may experience periods of decline. The UST Trustees further understand that in a severe market, the potential recovery period could be extensive.

The UST Trustees prefer to limit the portfolio's volatility, they are comfortable with some fluctuations in their portfolio, but seek to minimize the possibility of large declines in value.

ASSET ALLOCATION

Academic research offers considerable evidence that the asset allocation decision far outweighs security selection and market timing in its impact on portfolio variability and performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior, the following asset classes were selected to achieve the objectives of the UST portfolio:

Asset Class	Minimum	Target	Maximum
U.S. Equities	20%	25%	40%
Ex-U.S. Equities	0%	15%	30%
Fixed Income	20%	30%	80%
Absolute Return	0%	10%	20%
Alternative Investments	0%	20%	30%
Real Assets	0%	0%	10%
Cash & Cash Equivalents	0%	0%	15%

U.S. Equities

All publicly traded equities listed on any U.S. exchange, including REITS and convertible securities.

Ex-U.S. Equities

All publicly traded equity securities in developed and emerging markets including REITS and convertible securities.

Fixed Income

All publicly traded global fixed Income instruments including high yield.

Absolute Return

Mutual funds, exchange traded funds or separate accounts, with daily liquidity, that seek to generate returns that are non-correlated to the fixed income markets with similar volatility.

Alternative Investments

Low volatility global hedge funds, with varying liquidity, designed to diversify the fixed income allocation.

Real Assets

Private real estate, commodities, natural resources and inflation-linked assets.

The maximum allowable allocation of the aggregate portfolio to illiquid securities is 30%.

PORTFOLIO RETURNS AND VOLATILITY

The UST Trustees' willingness to accept risk and their expectation for investment growth have a direct bearing on the rate of return objective for this portfolio.

It should be recognized that the portfolio will invest in a variety of securities and that the actual weighting of these securities can and will vary. It is also important to note that future returns of the securities with the portfolio and the portfolio itself can be expected to vary from the historical returns.

The portfolio's historical rate of return is not a guarantee of future investment returns, nor an indication of expectation regarding future results. Future returns could differ significantly and capital loss is possible. This Investment Policy Statement shall not be construed as offering a guarantee.

UPDATED ALLOCATIONS

Over time, it may be desirable to amend the basic allocation. When such changes are made, updates will be considered part of this Investment Policy Statement.

Rebalancing Procedures

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the approved allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Investment Advisor will periodically review the portfolio and each asset class in which the Portfolio is invested.

This portfolio will be rebalanced periodically as follows: when the portfolio exceeds the minimum or maximum constraints or when there is cash flow - reviewed monthly.

Adjustment in the Target Allocation

Modifications to the approved allocation may be needed from time to time for a variety of reasons. When such a change to the approved allocation needs to occur, it shall only be made with the concurrence of the UST Trustees.

INVESTMENT PHILOSOPHY

The basic tenets under which this Policy will be managed include the following:

1. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:

- Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns
 - Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently “beating the market”
 - The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface
 - For a given risk level, an optimal combination of asset classes will seek to maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole
 - Portfolio risk may be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another)
2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
 3. Equities have historically offered the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
 4. Picking individual securities and timing the purchase or sale of investments in an attempt to “beat the market” are highly unlikely to increase long-term investment returns; they also can significantly increase portfolio operating costs. Such practices are, therefore, to be avoided.

Given these tenets, the underlying approach to managing this Policy shall be to optimize the risk-return relationship appropriate to the Investor’s needs and goals. The Policy will be diversified globally employing a variety of asset classes. Mutual funds or managed portfolios will be employed to implement the portfolio and the chosen asset classes will be periodically re-balanced to maintain a more consistent risk/reward profile. In managing investment assets, every advisor has a unique style.

FREQUENCY OF IPS REVIEW

The UST Trustees recognize that all investments go through cycles and therefore there will be periods of time in which the investment objectives are not met or when specific managers fail to meet their expected performance expectations. The UST Trustees accept the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

The advisor and UST Trustees will meet at least annually to review and update this IPS.

LIQUIDITY

Investor's liquidity requirements are: no minimum liquidity needs (cash is handled separately).

DIVERSIFICATION AND INVESTMENT CONSTRAINTS

Allowable Investments include but are not limited to securities in the following categories:

Assets Classes

Money Market Funds	U.S. Equities - Large-Cap Companies
U.S. Short Term Taxable Bonds	U.S. Large-Cap Value
U.S. Intermediate Term Taxable Bonds	U.S. Large-Cap Growth
U.S. Long Term Taxable Bonds	U.S. Mid-Cap
U.S. Short Term Tax-Free Bonds	U.S. Mid-Cap Value
U.S. Intermediate Term Tax-Free Bonds	U.S. Mid-Cap Growth
U.S. Long Term Tax-Free Bonds	U.S. Small-Cap
U.S. Total Taxable Bonds	U.S. Small-Cap Value
U.S. Corporate Bonds	U.S. Small-Cap Growth
U.S. High Yield Bonds	World Stocks (Ex. U.S.)
Non-U.S. Bonds	Non U.S. Large Stocks- Developed Countries
Total U.S. Equities Market	Non U.S. Small Stocks- Developed Countries
	Foreign Equities - Emerging Market

Investment Types

Individual Stocks or Bonds
Open-ended Mutual Funds
Closed-end Mutual Funds
Exchange Traded Funds
Managed Separate Accounts
Investment Partnerships
Futures, Options, Puts, Short Sales or other derivative investments

Portfolio Limitations and Restrictions

Other investment considerations in the management of this portfolio are:

Fixed Income:

Maximum Average Bond Maturity: 15 years

Maximum Individual Bond Maturity: 40 years

Individual corporate bonds may not exceed 10% of total portfolio market value at time of purchase.

NON-TRADITIONAL/ALTERNATIVE INVESTMENTS

DEFINITION:

Non-Traditional/Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.

OBJECTIVE

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing the fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

TRANSPARENCY AND LIQUIDITY

It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

ALLOWABLE STRATEGIES

Since alternative investments generally seek to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments, investments strategies may include, but are not limited to, the following:

Statistical Arbitrage
Merger Arbitrage Structured Credit Products
Fixed Income Arbitrage
Debt/Equity Financing
Global macro
Mezzanine Debt

Equity Market Neutral
Convertible Arbitrage
Distress Securities
Equity Long/Short
Special Situations

The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as mutual funds, hedge funds, or funds of hedge funds.

ALLOWABLE INVESTMENTS

The above referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

SELECTION/RETENTION CRITERIA FOR INVESTMENTS

Investment Management Selection

Investment managers (including mutual funds, separate account managers and limited partnership sponsors) shall be chosen using the following criteria:

- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance
- Costs relative to other funds with like objectives and investment styles
- The manager's adherence to investment style and size objectives
- Size of the proposed fund
- Length of time the fund/manager has been in existence and length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization and personnel
- The historical volatility and downside risk of each proposed investment
- How well each proposed investment complements other assets in the portfolio
- The current economic environment
- The likelihood of future investment success, relative to other opportunities

INVESTMENT MONITORING AND CONTROL PROCEDURES

Benchmarks

The weighted benchmark based on the asset allocation of the UST portfolio will be used to evaluate performance. The current benchmark is:

Allocation	Asset Class	Benchmark
25%	US Equities	S&P 500
15%	Ex-US Equities	MSCI EAFE net
30%	Fixed Income	Barclays Aggregate
10%	Absolute Return	Barclays Aggregate
20%	Alternative Investments	HFRI Fund of Funds Conservative

Reports

The investment custodian shall provide the UST Trustees with monthly statements for each account held by UST and subject to this Investment Policy Statement. Such reports shall show values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.

The Investment Advisor shall provide the UST Trustees the following management reports on a periodic basis:

- Performance results comparing the Advisor's portfolio to the UST benchmark
- Review of current asset allocation versus policy guidelines
- Any recommendations for changes of the above

Meetings and Communication between UST and Investment Advisor

As a matter of course, the Advisor shall keep the UST Trustees apprised of any material changes in the Advisor's outlook, recommended investment policy, and tactics.

In addition, the Investment Advisor shall meet with the UST Trustees as needed to review and explain the Portfolio's investment results and any related issues. The Investment Advisor shall also be available on a reasonable basis for telephone and email communication as needed.

DUTIES AND RESPONSIBILITIES

The roles of the UST Trustees, the Investment Advisor and the Investment Managers, with regard to the Client's assets are delineated as follows.

UST Trustees shall be responsible for:

- Establishing overall financial objectives, risk tolerance, investment time horizon, tax policies and setting investment policies and notifying the Investment Advisor promptly of any changes to this information;
- Setting parameter's for UST's asset allocation
- Selecting a qualified Investment Advisor
- Selecting a qualified custodian
- Establishing a process and criteria for the selection and termination of the Investment Advisor and Custodians
- Monitoring investment results regularly to assure that objectives are being met and the Investment Policy Statement guidelines are being followed
- Communicating on a structured and ongoing basis with those persons responsible for investment results
- Reading and understanding the information contained in the prospectus and each investment in the Portfolio.

The Investment Advisor

The Investment Advisor will be a **discretionary** advisor to the Investment Committee. Investment advice concerning the investment management of the Portfolio will be offered by the Investment Advisor, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement.

The Investment Advisor may assist the UST Trustees in establishing investment policies, objectives and guidelines as is set forth in this Investment Policy Statement and as is amended from time to time. In addition, the Investment Advisor will be responsible to review Investment Managers, measure and evaluate investment performance, and other tasks as deemed appropriate.

Ongoing investment decisions will be made on a discretionary basis by the Investment Advisor, within the investment and governance parameters delineated in this Investment Policy Statement.

The Investment Advisor represents that with respect to the performance of its duties under this Investment Policy Statement, it is a "fiduciary" and is registered as an investment advisor under the Federal Investment Advisers Act of 1940 (the "Advisors Act") and will perform the duties set forth hereunder consistently with the fiduciary obligations imposed under the Advisors act, and regulations promulgated thereunder and any interpretations thereof by the U.S. Securities and Exchange Commission, notwithstanding the potential conflicts of interest described below.

Specific responsibilities of the Investment Advisor include, but are not limited to:

- assisting in the development and periodic review of the Investment Policy Statement, and asset allocation guidelines;

- execution of the investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this Investment Policy Statement;
- be responsible for the ongoing due diligence required to monitor the individual Investment Managers and to provide a periodic review of Investment Manager's performance considering among other factors, historical composite investment performance, investment risk, investment process and investment personnel.

The Investment Manager(s)

The Investment Managers have discretion to make all investment decisions for the assets placed under its jurisdiction by the Investment Advisor. The UST Trustees and the Investment Advisor desire to permit the Investment Managers flexibility to maximize investment opportunities and practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. Further responsibilities include:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Reporting, on a timely basis, periodic investment performance results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
- Informing the Investment Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
- Voting proxies on behalf of UST and communicating such voting records to the Finance Committee on a timely basis.

To the extent the UST Trustees and Investment Advisor in recognition of the diversification benefits, intend to use mutual funds, exchanged traded funds or commingled vehicles; the UST Trustees and Investment Advisor understand that the guidelines outlined in this Investment Policy Statement will not be directly applied to the management of such commingled vehicles. However, the Investment Advisor will utilize mutual funds, exchange traded funds and other commingled vehicles that generally comply with the investment guidelines stated in this Investment Policy Statement.

Proxy Voting

The Investment Manager is responsible for and empowered to exercise all rights, including proxy-voting rights.

ADOPTION

Adopted by the below signed:

Date: December 4, 2015



Chairman, UST Board of Trustees