



UNIVERSITY OF HAWAI'I FOUNDATION

2008 ENDOWMENT REPORT

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UNIVERSITY OF HAWAII FOUNDATION

2008 ENDOWMENT REPORT

CHAIRMAN'S MESSAGE:

Aloha Donors and Friends of UH

At the UH Foundation, one of our key priorities is growing the endowment so we can help UH fulfill its mission to help students reach their full potential, today and in the future. Our success rests on two components: investment returns and donor contributions. While donors did a spectacular job this past year, the investment results were disappointing due to a range of economic trends. Although the macro-economic trends are beyond our control, the Investment Committee does what it can to maximize returns while taking a careful and conservative approach to minimize risks.

The perfect storm of the sub-prime crisis, escalating oil prices and the weakening of the U.S. dollar took a significant toll on world stock and financial markets. Our asset allocation program kept our returns positive through the first three quarters of the year but the last quarter ended

with negative returns for the year. We continue to monitor our investments very closely and expect to return to positive results in the coming year. Our track record is impressive and our fiscal 2007 return was 15.4% after averaging 12% for the past few years. We will do everything we can to ensure a return to this positive performance.

I look forward to reporting our progress next year and promise we will continue to do our best to invest our endowed funds wisely during these unpredictable economic times.



Barry Weinman

Chairman, Investment Committee, UH Foundation

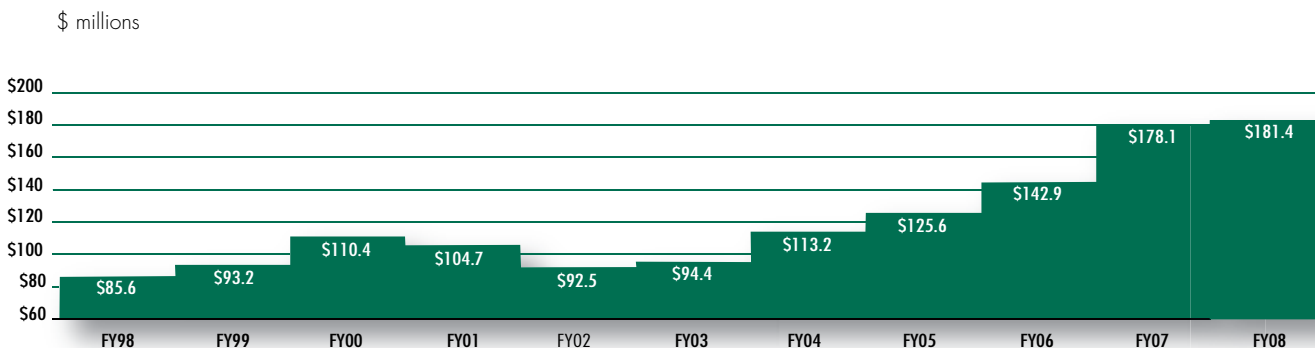
UH FOUNDATION

NAVIGATING CHALLENGING ECONOMIC TIMES

In fiscal year 2008, equity markets declined as a result of the historic crisis occurring in the financial sector stemming from a drop in residential real estate values; performance was further impacted by skyrocketing energy prices. As economic pressures spread abroad, many international markets in developed and emerging countries also declined, further impacting the UHF endowment return on investment. While the S & P 500 index dropped 13.1%, UHF experienced a rate of return decline of 1.7% for our investment pool last year. Many other endowment and foundation returns have been similarly impacted.

The asset allocation UHF has developed helped protect the endowment and has positioned us well for the future. Additionally, the double-digit returns generated by UHF from fiscal year 2004 through 2007 helps provide a cushion for the fiscal year 2008 results. Please note in the chart below that between new gifts to the endowment, continued payouts to support the university programs and investment losses, our overall endowment value increased \$3.3 million last year.

Endowment Investment Pool Market Values — Fiscal Year-end



Between new gifts to the endowment, continued payouts to support the university programs and investment losses, our overall endowment value increased \$3.3 million last year.

FREQUENTLY ASKED QUESTIONS

- **What is an endowment, and what does it support?**

An endowment is a financial gift that provides income in perpetuity for a specified use. The principal of the gift is invested, and a portion of the return is used each year to support the school, college, or program designated by the donor.

Endowments may be established for a wide variety of purposes, including faculty chairs and professorships, graduate fellowships, undergraduate scholarships and program support, visiting scholars/lectureships, and research support. Endowment gifts may be named for the donor or someone the donor wishes to honor or memorialize.

- **How does the Foundation's endowment strengthen the University?**

The endowment is an enduring gift to future generations that helps provide the funding necessary to maintain the university's pre-eminence in an ever-changing and increasingly demanding world. The endowment provides a margin of excellence – allowing students and faculty to engage in innovative programs and advanced research that distinguish the university.

With funds invested prudently, the Foundation's endowment provides a reliable, long-term financial resource that can be used to attract and retain world-renowned scholars, launch exciting research endeavors, and make it possible for the best and brightest students to join the student body, regardless of their financial situations.

Through careful investment and new gifts, the growth of the endowment can help to protect the University of Hawai'i from fluctuations in the business cycle and changes in government funding.

- **Who manages the Foundation's endowment investments?**

Decisions regarding the investment of the endowment are made by the Investment Committee of the Foundation's

Board of Trustees. The Investment Committee seeks superior investment returns through a diversified, professionally managed portfolio.

To achieve its objective, the Foundation retains an independent consulting firm, Cambridge Associates, with expertise in investment policy development, spending policy analysis, manager evaluation, and selection and performance evaluation.

- **How is the Foundation's endowment invested, and what investment principles are followed?**

Endowment gifts are placed in a pooled fund for investment and oversight purposes. A pool of assets provides more options for investment, stronger diversification, superior returns and lower management fees. The market performance of the pool is allocated between all the accounts proportionately so they all share equitably in the gains or losses.

A key goal of the endowment investment program is to preserve the real value or purchasing power of endowment assets — and the annual support the assets provide — in perpetuity.

The funds in the endowment are managed based on Modern Portfolio Theory. The basic principle of this theory is that risk is reduced by investing in non-correlated assets. The Foundation's endowment asset allocation policies therefore allow for diversification among broad asset classes (e.g. domestic and international equities, fixed income) and among the various styles within individual asset classes (e.g. "growth" and "value" within domestic equity).

To achieve this objective, Cambridge Associates recommends the percentage allocation to each asset class. Cambridge Associates also recommends professional investment managers to manage each specific portfolio management strategy of the endowment pool. Based on its assessment of the consultant's recommendations, the Investment Committee determines the appropriate allocation and selects the investment managers.

ENCOURAGING YOUNG PEOPLE TO "GO FOR BROKE"

After Japanese bombs rained down on Pearl Harbor on December 7, 1941, the U.S. government began to question the loyalty and patriotism of Japanese-Americans. Before long, more than 100,000 Japanese-Americans on the mainland were forced from their homes and relocated to internment camps.

In Hawai'i, where nearly 40 percent of the population was of Japanese descent, Japanese-American soldiers in the Hawai'i National Guard were stripped of arms. Others in the Hawai'i Territorial Guard were summarily discharged. These

AJA soldiers who had been in the UH ROTC program refused to abandon the war effort and petitioned General Delos Emmons, commander of the U.S. Army in Hawai'i, to let them assist in any way they could. The petition was granted and the Varsity Victory Volunteers was born.

In June 1942 the AJAs in the Hawai'i National Guard, which was reorganized into the Hawaiian Provisional Infantry Battalion, traveled to Wisconsin for training. Ten days later, they were designated the 100th Infantry Battalion — the "One Puka Puka."



The 442nd Veterans Club of Honolulu has established an endowed scholarship fund. L-R: Moriso Teraoka, William Y. Thompson (President), Ronald Oba, Harry Tokushige, Eileen Sakai and Mitsuo Honda.

Because of the battalion's admirable performance, and growing pressure to allow citizens of Japanese ancestry to serve, the government approved the formation of a Japanese-American combat unit. The 442nd Regimental Combat Team assembled in Mississippi, comprising 2,645 volunteers from Hawai'i, and 1,300 from the mainland. President Roosevelt authorized the formation of the 442nd Infantry Regimental Combat Team, the "Go For Broke" regiment, saying, "Americanism is not, and never was, a matter of race

or ancestry." Despite this, family members of the mainland AJA soldiers still remained behind barbed wire.

In June of 1944, the 442nd was joined by the 100th Battalion in Italy; the 100th by this time had become known as the "Purple Heart Battalion" due to its casualty rate. The combined unit, now known as the 442nd Regimental Combat Team began its bloody fight north toward central Europe.

The 442nd distinguished itself as a top fighting unit. During the battle in northeastern France, the high casualty rate resulted in the loss of nearly half its members. Returning to Italy, the 442nd breached the Gothic Line that had withstood the allied Army for six months in a few days. The 100th/442nd became the most decorated unit of its size and length of service in the Army, earning 18,000 awards including 21 Medals of Honor; 9,486 Purple Hearts and 7 Presidential Unit Citations.

To encourage today's young people to "go for broke" and make the most of their lives, the 442nd Veterans Club of Honolulu established an endowed scholarship fund last year for Hawai'i's young adults pursuing their academic dreams. This fund is part of the 442nd's legacy and a vehicle for veterans and their family and friends to continue to build the scholarship to reach even more young people with financial support and perpetuate the patriotic story of the heroic 442nd.

GLADYS KAMAKAKŪOKALANI 'AINOA BRANDT ENDOWED CHAIR



"She was a lady of great nobility, a woman of unlimited wisdom, one who was destined to lead, and one who was constantly called on for advice," U.S. Sen. Daniel Inouye said of revered Hawaiian kupuna, Gladys Kamakakūokalani 'Ainoa Brandt. And as an advocate for the Native Hawaiian people, "Education was the key she emphasized, not

anger, fear or ignorance," he said.

As a vanguard educator Mrs. Brandt became Hawai'i's first woman public school principal in 1943 and, in 1962, the first woman to be named district superintendent of schools. In 1963, she became the first Native Hawaiian principal of the Kamehameha School for Girls, and was later promoted to director of the high school division. As an educator, she helped revive Hawaiian traditions such as standing hula, and assisted countless Hawaiians to further their education.

After a 44-year career in education, Brandt retired from Kamehameha Schools, but continued her charitable work and involvement in civic projects. She served as a UH Foundation

trustee from 1980 to 1988 and was a lifetime President's Club member. From 1983 to 1989, Brandt was a member of the UH Board of Regents, serving as chairwoman for four of those years.

Gladys Brandt, respected for making things happen, helped shepherd the creation of the UH-Mānoa Center for Hawaiian Studies. In her honor, the center and the program was later renamed "Kamakakūokalani – Gladys K. 'Ainoa Brandt Center for Hawaiian Studies". Kamakakūokalani was not only Mrs. Brandt's Hawaiian name, but the name of her maternal grandmother. The naming of the program, therefore honors her Hawaiian ancestors as well. Kamakakūokalani also means upright eye of heaven and is therefore a fitting metaphor for the Hawaiian Studies program's higher mission of seeking truth and knowledge.

Through Gladys Brandt's leadership, vision, and wisdom, an endowed Chair in Comparative Polynesian Studies at the Kamakakūokalani Center for Hawaiian Studies at the University of Hawai'i at Mānoa Hawai'i inuiakea ("School of Hawaiian Knowledge") was established. The goal of this fund is to maximize the center's interchanges with visiting scholars and support visiting experts, e.g. Native academics, artists and cultural practitioners who are teaching courses and seminars.

Continued on next page.

GLADYS KAMAKAKŪOKALANI 'AINOA BRANDT (continued)

The Center for Hawaiian Studies is among the world's leading institutions of Indigenous knowledge. It facilitates research and dialogue crucial to understanding many issues that face Hawai'i and how these issues can be resolved through the use of principles and practices gleaned from Hawaiian culture. The establishment of the endowed chair greatly enhances research at the Center, attracts students and scholars from throughout Polynesia, encourages positive

dialogue between academic disciplines, as well as between the university and the wider community.

Through the Gladys Kamakakūokalani 'Ainoa Brandt Endowed Chair, Mrs. Brandt's vision remains strong and continues to enhance the Center for Hawaiian Studies' roles as historian, interpreter, and researcher to bring greater understanding about the issues facing indigenous peoples.

INOUE CHAIRS PERPETUATE DEMOCRATIC IDEALS

"The Senator's career and life have served as a catalyst for democratic ideals, as have the Inouye Chairs."

WALTER A. DODS, JR., WHO WITH JEFFREY WATANABE AND DAVID MCCLAIN LED THE EFFORT TO ESTABLISH THIS CHAIR.

Perhaps no one has done more to ensure the economic, educational and cultural vitality of Hawai'i than U.S. Senator Daniel Inouye. A decorated war hero of the famed 442nd Battalion in World War II, he returned to graduate from the University of Hawai'i in 1950. In 1959, he became Hawai'i's first congressman and today, he is serving his seventh consecutive term in the U.S. Senate.

In 2005, Senator Inouye and his beloved wife, the late Maggie Inouye, established the Dan and Maggie Inouye Distinguished Chair in Democratic Ideals at UH Mānoa. To date, more than 100 donors have contributed to the fund, creating an impressive \$3 million endowment.

The Chair holders are selected based on their commitment to democratic ideals and the importance of public life and the position is shared by the William S. Richardson School of Law and the Department of American Studies. The role of the Dan and Maggie Inouye Distinguished Chair is to educate and inspire students and the broader community through courses, lectures and seminars.

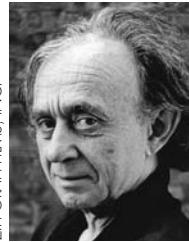


Dr. John Hope Franklin

served as the first chair holder in 2007. Dr. Franklin, celebrated historian of American history and the African American experience, was born in 1915, just 50 years after the abolition of slavery. He learned the power of words, ideas and the value of hard

work from his father, who practiced law and his mother, an elementary school teacher. Dr. Franklin is world renowned for his published masterpiece, *From Slavery to Freedom: A History of African Americans*, widely considered to be the definitive work on the subject. In addition, Dr. Franklin served on the team that developed the 1954 Supreme

Court decision ending the legal segregation of black and white children in public schools and has taught and lectured all over the world, fostering political and social change. He has inspired his many students and colleagues to delve deeper into the causes and remedies of inequality, bigotry and oppression.



ZIPPORAH FILMS, INC.

Frederick Wiseman

often described as one of the world's greatest documentary filmmakers was the second person to hold this academic position. A Yale Law School graduate, he has been awarded six honorary doctorates in fine arts and humane letters. Among

his awards are the Lifetime Achievement Award at The Chicago International Documentary Festival, 2007; and the American Society of Cinematographers Distinguished Achievement Award, 2006. His documentaries have featured schools, psychiatric hospitals and legislatures.



Ngugi wa Thiong'o

of Kenya, whom UH Mānoa American Studies professor David Stannard described as "a freedom fighter whose chosen weapon is words." He is a leading novelist whose popular *Weep Not, Child* (1964) was the first major

novel in English by an East African. As a teenager, he and his family were imprisoned, along with more than a million of Kenya's Kikuyu people during the uprising against British colonial rule. Somehow, he was able to acquire a high school and later, a college and postgraduate education. During his time as a professor at the University of Nairobi, he wrote a scathing account of the post-colonial regime entitled *Petals of Blood*. He was arrested, and spent nearly a year in solitary confinement. On his release, he left his home, and Africa. In the years that followed, he has lectured throughout Europe and the United States. Despite all he has endured, Ngugi remains an optimist in the struggle for justice.

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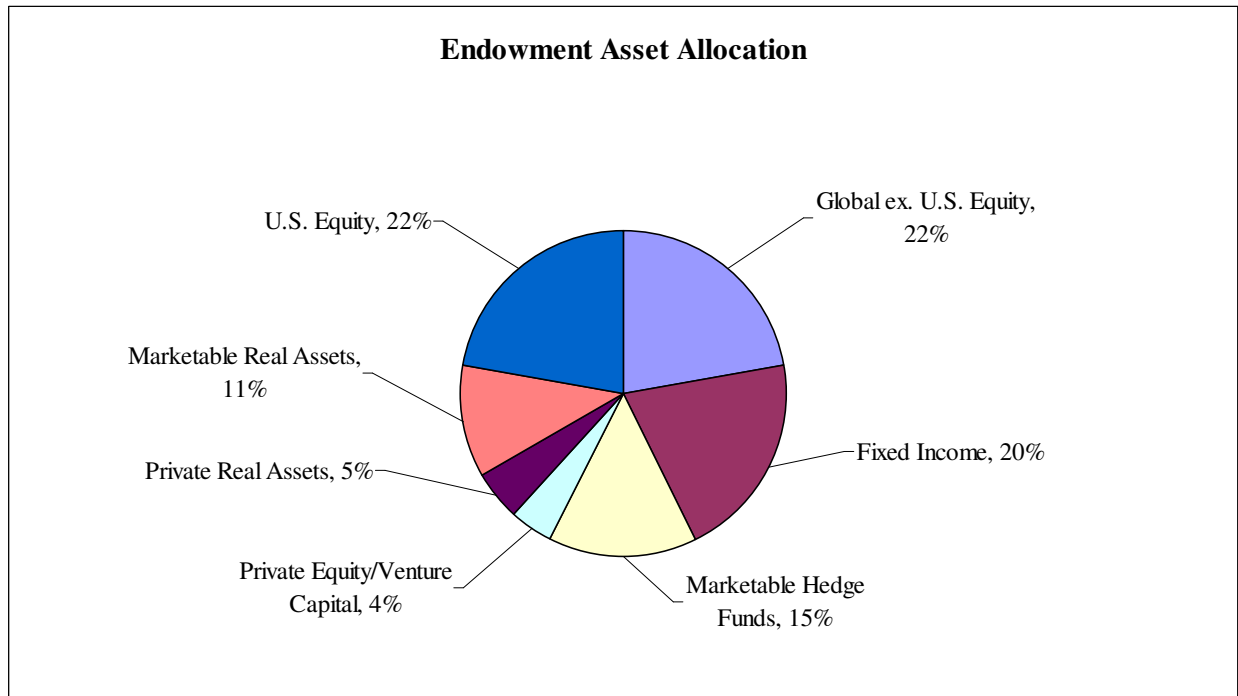
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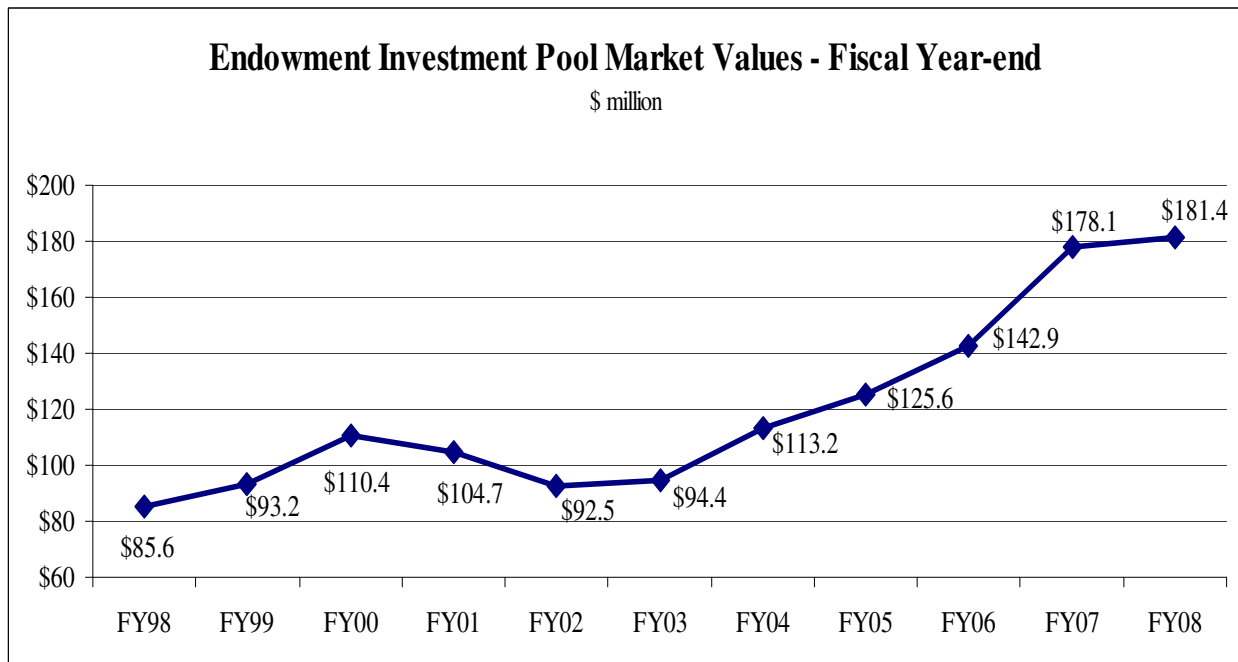
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UH Foundation Endowment Investments

The Foundation's asset allocation at 6/30/08 is displayed in the following chart:



The Foundation's fiscal year-end endowment values are displayed in the following chart:



The following chart summarizes the endowment rate of return compared to the benchmark:

Annual Rate of Return	Fiscal Year 2008	Annualized Trailing Three Years	Annualized Since 4/1/96
Actual	-1.7%	8.5%	8.0%
Benchmark	-1.3%	7.8%	7.9%
S&P 500	-13.1%	4.4%	7.5%

The current benchmark reflects a blend of Russell 3000 (30%), MSCI EAFE (26%), HFRI Diversified FOF Benchmark (15%), Inflation Protection Benchmark (12%), Lehman Brothers Aggregate Index (9%), Lehman Brothers Government Bond Index (9%), Citigroup World Government Bond Index (4%).

The investment managers currently employed by the Foundation are as follows:

Investment Manager/Fund	Investment Style
U.S. Equity (22% of total)	
State Street Global Advisors – S&P 500 Fund	S&P 500 Index Fund
Gardner Russo - Semper Vic Partners Fund	Large Cap Value
Delaware - Pooled Trust Large Cap Growth Fund	Large Cap Growth
Southeastern - Longleaf Partners Fund	Mid and Large Cap Value
Adage Capital Partners	130% Long & 30% Short
Global ex. U.S. Equity (22% of total)	
Brandes Investment Partners - Non-U.S. Equity	Large Cap International
Silchester International Investors	Large and Mid Cap International
Aberdeen Asset Management	Pacific and Asia excluding Japan
Private Equity Venture Capital (4% of total)	
Park Street Capital - Private Equity - Three Funds	New Non-public Companies
HRJ Fund	Distressed Opportunities
Marketable Hedge Funds (15% of total)	
HBK Investments	Diversified Arbitrage
Satellite Asset Management	Diversified Arbitrage
Shepherd Investments	Diversified Arbitrage
KS Capital Management	Event Driven Arbitrage
Mason Capital Management	Event Driven Arbitrage
Taconic Capital Partners	Event Driven Arbitrage
Contrarian Capital Management	Distressed
Indus Capital Partners	Global Long/Short
Sansar Capital	Global Long/Short
Shumway Capital Partners	Global Long/Short
Brahman Capital Corporation	U.S. Long/Short
Bay Resources Partners	U.S. Long/Short
Glenview Capital	U.S. Long/Short
Hawkeye Capital Management	Opportunistic
King Street Capital	Opportunistic
Marketable Real Assets (11% of total)	
Wellington Trust Company – Real Asset Fund & Diversified Inflation Hedges Fund	Natural Resources, Real Estate, Commodities, Inflation-linked Bonds
Private Real Assets (5% of total)	
Park Street Capital - Natural Resources - Two Funds	Natural Resources
TIFF - Real Estate Partners	Real Estate
TIFF - Realty and Resources - Two Funds	Real Estate and Natural Resources
Madison International	Real Estate
Fixed Income (20% of total)	
State Street - US Gov. Bond Index Fund	Intermediate Government
PIMCO - Total Return Fund	Full Range of Securities and Market Sectors
Mondrian Investment Partners – Global Fixed Income Fund	Foreign Sovereign Debt

UH Foundation

Guide to Understanding Your Endowment Fund

Endowment Account and Expendable Account

An endowment account is established when a gift instrument conveying funds to the Foundation intends for those funds to support a university program in perpetuity. For each endowment account there is a separate account, called an expendable account, which is maintained to receive quarterly distributions from the endowment as well as to record and disburse expenditures in accordance with the terms of the endowment.

Endowment Pool

The Endowment Pool is similar to a mutual fund. Each participating endowment account is assigned a number of units in the pool at the time the endowment is established. The number of units is based on the latest market value per unit. This process takes place at the end of the calendar quarter in which funds are received.

Book Value

The book value consists of the original donation plus any other additions to the fund, less a one-time gift assessment at the time the gift was received. The book value will also include the reinvested payout for accounts that are not yet fully funded. (This occurs when the total of the gifts received does not yet meet the minimum required for the account; this is usually due to pledge payments outstanding.)

Market Value

Market Value is the total of the book value plus investment earnings and realized and unrealized gains and losses, less payout.

Payout

A payout is the movement of cash from an endowment account to an expendable account. The funds in the expendable account are available to the university program to be used in accordance with the terms of the agreement with the donor.

For fiscal year 2008-09, the payout will be computed based on 4.6% applied to the twelve-quarter average market value ending June 30, 2008. An additional 1.5% of the June 30, 2008 market value of the endowment is designated as an administrative fee to support Foundation operations. (The Foundation's fiscal year ends on June 30.)

Account Management

Based on the market value of the account versus the book value of the account, donors have one of two options for the Foundation's management of their endowment. Option 1: the payout continues even if the market value falls below the book value. Option 2: the payout is suspended if the market value falls below the book value. If Option 2 is selected, the account is reviewed at June 30 of each fiscal year; the payout will commence in the following fiscal year if the market value exceeds the book value by 6% or more. (The 6% threshold is utilized to help avoid potential whipsaws of the market value swinging above and below the book value.)

Endowment Growth

When current income and market appreciation exceed the amount required for the quarterly payout and administrative fee, the excess is retained in the endowment pool for future growth and to offset periods of bear market performance.