



UNIVERSITY OF HAWAI'I
FOUNDATION

2011 ENDOWMENT REPORT



2011 ENDOWMENT REPORT

MESSAGE FROM OUR CHAIR



Aloha donors and friends of UH,

In this report we are happy to share stories about the impact gifts like yours are making on our students, our campuses and our state, as well as keep you informed about our investment strategy and returns.

For the fiscal year ending June 30, 2011, we are glad to report that our endowment performed well, and produced an 18.6% return. Thanks to more than \$15 million in new gifts coupled with the endowment's strong performance, the overall endowment grew to \$207.3 million.

In addition to growing in size, the endowment has also provided immediate support to the University via the endowment payout. These funds were, and continue to be, crucial to our University in these times of diminishing state funding for public higher education.

Thank you for partnering with us.

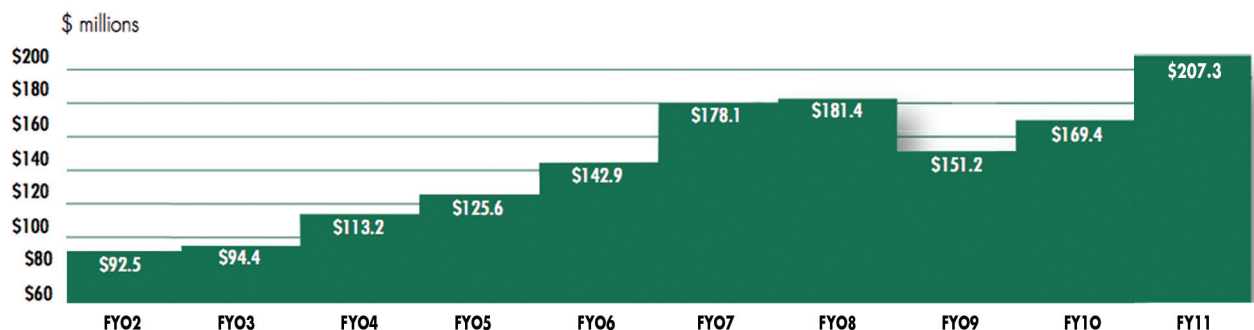
C. Scott Wo, Chair, Investment Committee, UH Foundation

WEATHERING CHALLENGES, LOOKING AHEAD

At the beginning of the fiscal year the Foundation modified its asset allocation. This included an increase in the allocation to emerging markets, marketable alternative assets, and inflation hedge assets. The allocations to fixed income, U.S. equities and non-U.S. equities were reduced.

The changes were implemented throughout the year. Several new managers were added to the portfolio. The net impact of the changes was an increase in the diversification of the portfolio. This should serve us well as the financial markets remain volatile and unpredictable.

Endowment Investment Pool Market Values — Fiscal Year-end

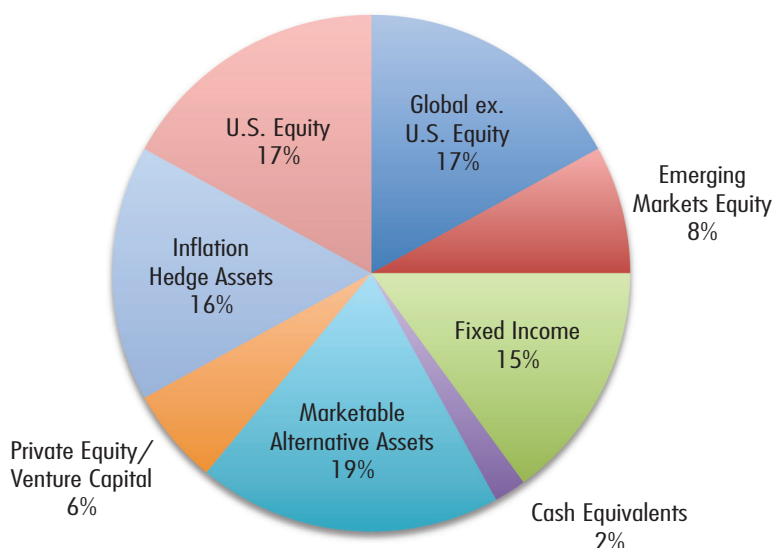


With a carefully managed portfolio we achieved a 18.6% gain for the FY 2011, closing with an endowment that stood at \$207.3 million.

The endowment reached new heights as of June 30, 2011. However macro risks remain and the financial markets were challenged subsequent to the end of the fiscal year. Nevertheless, the endowment has weathered significant challenges in the past decade and has returned stronger each time. The Investment Committee will continue to keep a close watch as events unfold.

UH FOUNDATION ENDOWMENT INVESTMENTS

ENDOWMENT ASSET ALLOCATION AT 6/30/11



ENDOWMENT RATE OF RETURN

	Fiscal Year 2011	Annualized Trailing Three Years	Annualized Since 4/1/96
Actual	+18.6%	+2.8%	+6.9%
Benchmark	+19.3%	+0.3%	+6.4%

The current benchmark reflects a blend of Russell 3000 (17%), MSCI EAFE (17%), MSCI Emerging Markets Index (9%), HFRI Diversified FOF Index (20%), Russell 3000 Index +3% (lagged one quarter) (5%), Marketable Real Assets Benchmark (5%), CPI-U +6% (lagged one quarter) (12%), Fixed Income Benchmark (14%) BofA ML 91-Day T-Bills (1%).

VISIONARY EDUCATOR CHAIR ATTRACTS BRILLIANT MINDS

The *Dai Ho Chun Distinguished Chair in the Colleges of Arts and Sciences Endowment* was created with a generous estate gift from the late **Dr. Dai Ho Chun**. Dr. Chun designed the chair to support interdisciplinary collaboration by bringing excellent researchers and teachers with the ability to integrate theory with creative applications to the UH Mānoa campus.

Past Dai Ho Chun Distinguished Chairs include:



Dr. Greg Grandin, (Ph.D., Yale, 1999) a prominent historian of Latin America, U.S. foreign relations, and American politics. Grandin's accomplishments include History News Network's "Top Young Historian" in 2006, a Charles Ryskamp Fellowship, and a Bryce Wood Award. In addition, he wrote the book *Fordlandia: The Rise and Fall of Henry Ford's Forgotten Jungle City* (Metropolitan 2009).

A finalist for the 2010 Pulitzer Prize, and 2009 National Book Award and National Book Critics Circle Award, "*Fordlandia*" was picked by the *New York Times*, *New Yorker*, *Boston Globe*, and *Chicago Tribune* for their "best of" lists.

While at UH Mānoa, Grandin worked with the departments of History and American Studies, teaching both undergraduate and graduate students. He also presented public lectures including the controversial lecture entitled "Facing South: The Metaphysics of Tea Party Nationalism, or the Strange Afterlives of American Exceptionalism." The talk drew a large audience of faculty, students and community members.

The Dai Ho Chun Endowed Chair provided a valuable opportunity for our campus and broader community to learn from and interact with a prominent historian in residence.

This year, **Amy Ku'uleialoha Stillman** (Ph.D., Harvard, 1991) returned to Hawai'i to serve as the Dai Ho Chun Distinguished Chair in Arts and Sciences. Stillman is an Associate Professor of American Culture and Music at the University of Michigan, and is one of the leading scholars and practitioners of hula and

Hawaiian music. Highly respected nationally and internationally, she played an important role in building understanding and appreciation of Hawaiian music and dance through her scholarly publications, and through her advocacy for the resurrection of archival repertoire in communities across the U.S. She has produced or co-produced eight CDs, including the Grammy Award-winning albums 'Ikena (2008) and Huana Ke Aloha (2010), and the Grammy-nominated He Nani (2009).



As Dai Ho Chun Chair, Stillman taught undergraduate and graduate classes at the departments of American Studies and Music. She also convened a series of public gatherings entitled "Aia I Ka Wai: Dialogues on the Present & Future of Hawaiian Music." This series brought together leaders from the music industry and across UH campuses to celebrate accomplishments and envision future endeavors in the study, teaching and production of Hawaiian music. These gatherings have engaged education and industry leaders in assessing the state of research and study on Hawaiian music, and in collectively brainstorming roadmaps for future endeavors for Hawaiian music studies as the music industry rapidly changes.

During her stay at UH Mānoa, Professor Stillman skillfully brought together various organizations within the UH Mānoa Colleges of Arts & Humanities, Hawai'i inuiākea School of Hawaiian Knowledge, Kamakākūokalani Center for Hawaiian Studies, and the Gladys Brandt Chair in Polynesian Studies to put together this ambitious and valuable series, thus significantly contributing to promoting interdisciplinary dialogue about the past, present and future of Hawaiian music studies.

Alison Rieser, (LL.M., Yale Law School, 1990) came to Hawai'i to serve in a joint appointment in the departments of economics and geography from the University of Maine School of Law. In Maine, she taught and oversaw legal and policy research on fisheries, ocean pollution, coastal

land use, and international maritime relations.

Rieser is a specialist in marine conservation law and policy with a particular interest in ecological jurisprudence, environmental federalism, and marine environmental history. In addition to her scholarly publications, she has advised state and national governments on such issues as fishing rights and governance, marine pollution, whale conservation, and the role of science in marine management.

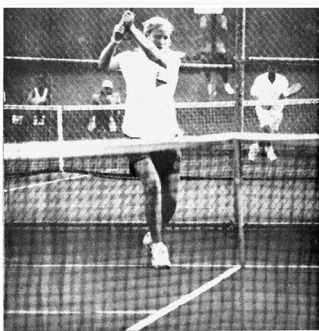
While serving as the Dai Ho Chun Chair Rieser launched new programs, educated and mentored both undergraduate and graduate students and gave public lectures including "Beauty, Boundaries, and Baselines: An Environmental History of Papahānaumokuākea, Hawai'i's Marine National Monument." In this talk she discussed the challenges of protecting large marine areas of special cultural and scientific value.

While her Dai Ho Chun chair ended in 2008, Rieser has continued her work at UH Mānoa as the director of the Graduate Ocean Policy Program and a professor in the Geography department. In this capacity she enjoys watching the projects she started come to fruition including the UH@SEA program which brings students to the Northwestern Hawaiian Islands to study marine conservation. She also developed the Graduate Ocean Policy Certificate Program as an interdisciplinary College of Social Sciences certificate program which combines ocean policy with the science of the sea.

Thanks to Dr. Dai Ho Chun, our campus and community continue to benefit from this world-class scholar's expertise in marine law and ocean policy as she shares her talents and knowledge both in the classroom and beyond.



HAWAI'I ISLAND CHAMBER OF COMMERCE GROWING BUSINESS LEADERS FOR HAWAI'I AND THE WORLD



Tough lady with a racket
 UH's Britta Kehrhahn returns a shot during recent NCAA Division II women's tennis action at the UH courts. Kehrhahn, an outstanding player on ocean Blue Lum's squad, and her teammates as well as the Vulcan men will host Hawaii Intercollegiate Athletic Conference top Hawaii Pacific University this spring Saturday and Sunday at UH. Matches begin at 10:30 a.m. For more information, call 933-3520.

The Hawai'i Island Chamber of Commerce was founded in 1898. Based in Hilo, the Chamber serves members from East Hawai'i as well as member businesses from all over the Island, statewide and some national and international organizations.

Over the years, their relationship and support of UH has grown and today they have two endowments: The Hawai'i Island Chamber of Commerce Endowed Scholarship at the University of Hawai'i at Hilo and the Hawai'i Island Chamber of Commerce Endowed Scholarship Program at Hawai'i Community College.

Together, these endowments have supported 71 students with awards and scholarships. One of these students was Britta Kehrhahn (now Silva) who came to Hawai'i in 1995 as a young tennis star.

Britta grew up in the small, historic town of Ganderkesee in northwestern Germany. Ever since she was a teenager, she had the dream of broadening her horizons and attending a university in the U.S. Thanks to her proven track record as a skillful tennis player, she was able to come to the University of Hawai'i at Hilo on a full scholarship. Here, she majored in Business Administration, offered her many Hawai'i friends

“THANKS TO SCHOLARSHIPS I WAS ABLE TO FOCUS ON MY STUDIES, MAKE CONNECTIONS WITH THE BUSINESS WORLD BY GETTING TO KNOW THE CHAMBER OF COMMERCE MEMBERS AND BE ATHLETICALLY SUCCESSFUL.

I THANK THE MANY DONORS WHOSE GENEROSITY HELPED ME SUCCEED, AND GRADUATE WITH HONORS IN 1998.” BRITTA SILVA

insight into a European culture, and helped build their global understanding.

After graduation, Britta embarked on an internship at the Hilton Waikoloa Village. This opportunity grew and over the next ten years Britta’s hard work was rewarded with a series of promotions. Her last position at the Hilton Waikoloa Village was Director of Restaurants where she oversaw a \$40 million

food and beverage operation. Building on this experience, Britta then worked at the Sheraton Keauhou and later joined the Fairmont Orchid as Director of Outlets.

Britta and her husband Alberto, also a UH Hilo alumnus, are now living in Los Angeles where they continue to work in the hotel industry and bring the spirit of aloha to all they do.



LOOKING AHEAD - ISAMU SHINSHIRO

Late last year the UH Foundation received a \$1,634,218 realized bequest from the estate of the late Isamu Shinshiro to create the endowed Isamu Shinshiro Scholarship for Sustainable Technology Education and Training Fund.

Income from this endowment will provide University of Hawai‘i community college students around the state financial assistance to complete two-year degrees or certificates in a broad range of sustainable technology programs throughout the community college campuses.



Mr. Shinshiro was a retired sewage treatment plant operator who lived a quiet life and rarely drew attention to himself. In his later years, he decided to leave a legacy for future generations of Hawai‘i, and enlisted the help of a close friend in making a bequest. He wanted to help lower or eliminate financial barriers that prevent students from accessing a good education and training in industries that sustain Hawai‘i’s natural environment, ecosystems and resources.

“Mr. Shinshiro cried when he heard what his estate would do. Although he knew he would not be alive to see this happen, he was happy to know he was going to be able to help the youth of Hawai‘i,” says his close friend. “He knew that community colleges help a great number of students and that

they even nurture those who need that extra boost. The action of this quiet and unassuming gentleman will touch the lives of so many and will definitely make Hawai‘i a better place.”

Mr. Shinshiro died last October at 96 years old. Thanks to his foresight, his legacy lives on and will support generations of students.

We look forward to sharing the impact of his endowment in the future!



“MANY OF OUR STUDENTS WANT TO BE PART OF THE SOLUTION TO HAWAI‘I’S SUSTAINABLE FUTURE. THESE STUDENTS WILL NOW BENEFIT FROM MR. SHINSHIRO’S FORESIGHT AND GENEROSITY. WE WILL ALL BENEFIT FROM HAVING A SKILLED WORKFORCE FOCUSED ON SUSTAINABILITY.”

JOHN MORTON, VICE PRESIDENT FOR COMMUNITY COLLEGES



UNIVERSITY OF HAWAI'I
FOUNDATION

ENDOWMENT FUND LEADERSHIP

UNIVERSITY OF HAWAI'I FOUNDATION • JULY 1, 2010 – JUNE 30, 2011

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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 2011-12, the payout will be computed based on 4.9% applied to the twelve-quarter average market value ending June 30, 2011. An additional 1.5% of the June 30, 2011 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

Accounts initiated after July 1, 2009 are managed in accordance with the latest Hawaii Revised Statutes regarding institutional funds, the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

In discussing the payout, the UPMIFA statute says:

"In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

- 1) the duration and preservation of the endowment fund
- 2) the purpose of the institution in the endowment fund
- 3) general economic conditions
- 4) the possible effect of inflation or deflation
- 5) other resources of the institution
- 6) the investment policy of the institution"

Guide to Understanding Your Endowment Fund (continued)

UPMIFA was designed to provide for immediate and continued ongoing uninterrupted support for the University programs.

Each year, the Foundation's Investment Committee reviews the accounts that are subject to UPMIFA, considers the relevant factors and determines the appropriate payout for these accounts.

Older endowment accounts, accounts initiated prior to July 1, 2009, are managed in either one of two ways. Based on the market value of the account versus the book value of the account, the options are as follows... 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.

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.

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

Investment Manager/Fund	Investment Style
U.S. Equity (17% of total)	
State Street Global Advisors – S&P 500 Index Fund	S&P 500 Index Fund
Gardner Russo - Semper Vic Partners Fund	Large Cap Value
Southeastern - Longleaf Partners Fund	Mid and Large Cap Value
Adage Capital Partners	130% Long & 30% Short
Global ex. U.S. Equity (17% of total)	
Brandes Investment Partners - Non-U.S. Equity	Large Cap International
Silchester International Investors	Large and Mid Cap International
1607 Capital International Equity Fund	Closed End Funds
Emerging Market Equity (8% of total)	
Aberdeen Asset Management	Asia Pacific ex. Japan
Aberdeen Emerging Markets Fund	Mid and Large Cap Value
Artisan Emerging Markets Fund	All Cap Growth
Capital International emerging Markets Growth Fund	All Cap, All Styles
Private Equity Venture Capital (6% of total)	
Park Street Capital - Private Equity - Three Funds	New Non-public Companies
HRJ Fund	Distressed Opportunities
Northgate Capital Partners VI	New Non-public Companies
Inflation Hedge Assets (16% 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
Commonfund Capital Natural Resources Fund	Natural Resources
Madison International – Two Funds	Real Estate
EnCap Energy Fund	Private Oil and Gas
Van Eck Global Hard Assets	Natural Resources
Colchester Real return Bond Fund	Global Inflation-linked Bonds
Wellington Global Natural Resources Fund	Natural Resources
Fixed Income (15% of total)	
State Street - US Gov. Bond Index Fund	Intermediate Government
Vanguard Intermediate Term Treasury Fund	Treasuries
PIMCO - Total Return Fund	Full Range of Securities and Sectors

Investment Manager/Fund (continued)	Investment Style (continued)
PIMCO Developing Local Markets Fund	Emerging Markets Local Debt Securities
Mondrian Investment Partners – Global Fixed Income	Foreign Sovereign Debt
Marketable Alternative Assets (19% of total)	
HBK Investments	Multi-Strategy
Davidson Kempner	Multi Strategy
Gross Global Investors	Multi-Strategy
Luxor Capital Offshore, Ltd.	Multi-Strategy
KS Capital Management	Event Driven Arbitrage
Mason Capital Management	Event Driven Arbitrage
Taconic Capital Partners	Event Driven Arbitrage
Contrarian Capital Management	Distressed Credit
Knighthood Offshore	Distressed Credit
Anchorage Capital Partners	Distressed Credit
Indus Capital Partners	Global Long/Short
AKO Fund	Global Long/Short
Scout Capital Fund	Global Long/Short
Bay Resources Partners	U.S. Long/Short
Glenview Capital	U.S. Long/Short
Eminence	U.S. Long/Short
Hawkeye Capital Management	Opportunistic
King Street Capital	Opportunistic
Goshen Global Equity	Opportunistic
Owl Creek Overseas Fund	Opportunistic
Pershing Square	Opportunistic
Dialectic Antithesis	Opportunistic