

Management of the Endowment Pool

Overview

Endowments, of all private giving, offer perhaps the most influential of investments in higher education, creating living legacies that span generations. An endowment is a financial gift that provides income in perpetuity for a specified use.

Endowments are needed to provide funding for faculty chairs and professorships, graduate fellowships, undergraduate scholarships, program support, visiting scholars/lectureships, research support and student internships. Among the top priorities of the University of Hawai'i is to increase the Foundation's endowment.

Endowment gifts to the University of Hawai'i Foundation are placed in a pooled fund for investment and oversight purposes. Decisions regarding the investment of the endowment are made by the Investment Committee of the Foundation's Board of Trustees.

Endowment Pool Policies

The purpose of the endowment pool investment program is to preserve the real value or purchasing power of investment pool assets – and the annual support the assets provide – over an infinite time horizon. The investment program attempts to balance current need and future support so that any university program supported by an endowment will receive the same or greater financial support in the future as it relies on today.

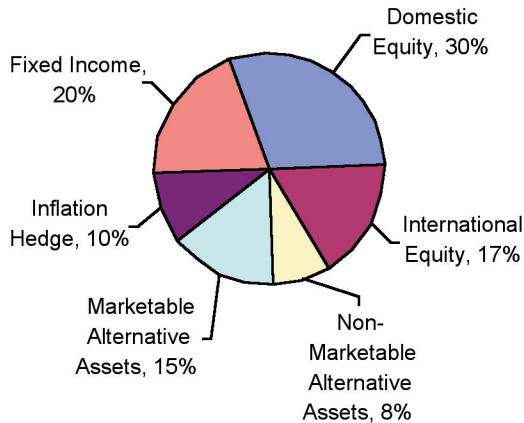
The Foundation's endowment is a single pool of assets in which nearly all endowment funds established through private gifts are invested. Each endowment account owns a number of units in the pool. The value of each unit at the time the funds are invested in the pool determines how many units an individual account owns. In other words, the funds in an endowed account buy units in the pool much as one buys shares in a mutual fund. The market performance is allocated between all the accounts proportionately so they all share equitably in the gains or losses. In addition to permanent endowment accounts, the endowment pool includes quasi endowment accounts and donor annuity accounts.

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, who was selected in mid-2003 to provide input on such items as investment monitoring and asset allocation. Cambridge's experience includes services to 182 colleges and universities.

Asset Allocation

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. To achieve this objective the consultant recommends the percentage allocation to each asset class. The consultant also recommends professional investment managers to manage each specific portfolio management strategy of the endowment pool. The consultant provides the due diligence to screen investment manager candidates. The Investment Committee determines the appropriate allocation and selects the investment managers. These firms are selected based on a number of factors, including the asset class in which they have expertise and the investment style they utilize.

Endowment Long-term Allocation



In the last year, the Foundation's asset allocation has changed significantly and is much more diverse than in previous years. Some new managers have been selected for existing asset classes and several new asset classes have been established.

Historically, there were 7 investment managers for the endowment pool. Today there are 14 managers. The Committee has changed two domestic large cap value managers and a small/mid cap domestic value manager. They also added a mid cap international manager, two absolute return fund-of-fund managers, a real asset fund manager, a real estate fund manager, a natural resources manager and a private equity fund manager.

Endowment Pool investment managers selected by the Investment committee include:

Domestic Equity:

- State Street (S&P 500)
- PFR
- Southeastern
- Hotchkis & Wiley

International Equity

- Brandes Investment Management
- Arnhold & Bleichroeder

Non-Marketable Alternative Assets

- Park Street Capital Private Equity
- Park Street Capital Natural Resources

Marketable Alternative Assets

- Pine Grove Absolute Return
- Common Sense Absolute Return

Inflation Hedge

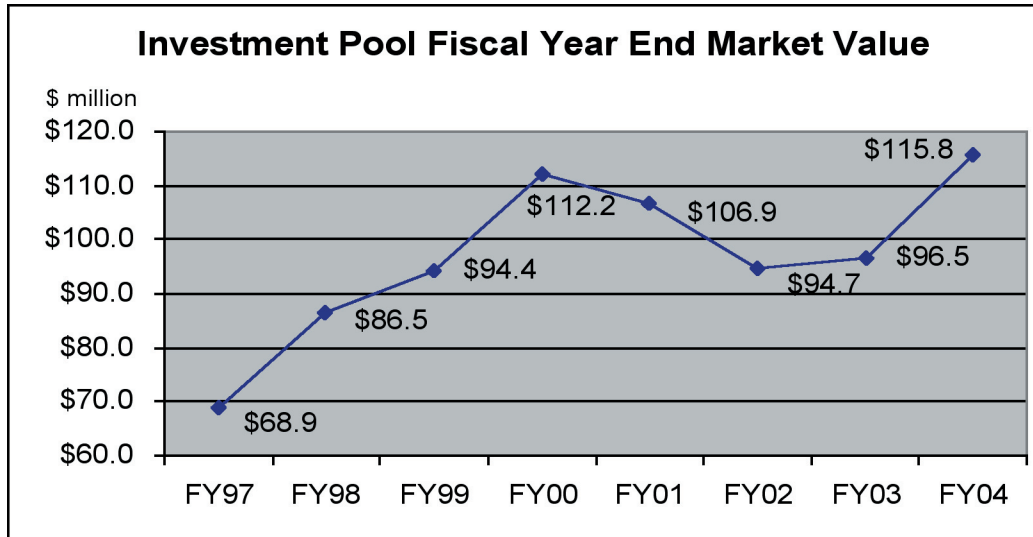
- Wellington Real Assets
- TIFF Real Estate Partners

Fixed Income

- Bank of Hawaii
- Payden & Rygel

Endowment Investment Pool Performance

The chart below provides the historical results of the endowment investment pool. The decline of the stock market values in 2001 and 2002 had a significant impact on the total value of our investment portfolio. As discussed above, numerous changes have been made and our investment team continues to work hard to bring long-term growth to our endowment investment pool.



The following chart summarizes the rate of returns compared to the benchmark as of June 30, 2004.

Annual Rate of Return	One Year	Three Years	Since Inception
Actual	17.7%	1.0%	7.7%
Benchmark	15.7%	2.5%	8.0%