

UNIVERSITY OF HAWAI‘I FOUNDATION

2009 ENDOWMENT REPORT

CHAIRMAN’S MESSAGE:

Aloha Donors and Friends of UH

As you are aware, these are unpredictable economic times, posing both challenges and opportunities. While some positive economic indicators have been recently reported, we still do not know how long the recession will continue or how deeply it will challenge individuals and institutions.

The UH Foundation endowment posted a loss of 16.8% for the fiscal year ended June 30, 2009. The endowment significantly outperformed the S&P 500 Index (which was down 26.2%). We have benefitted from a well diversified portfolio and an emphasis on risk management. Our endowment performance also reflects a decision in the early part of the fiscal year to reduce equity exposure. Additionally, the endowment has the necessary liquidity to meet our endowment payouts into the foreseeable future.

Thanks to the support of generous donors like you, we now manage over 860 individual endowed accounts with a combined market value of \$151.2 million. In addition to increasing the cash allocation within the endowment pool, new cash gifts for the endowment have been held separately

until the markets stabilize. At that time we will be in a strong position to make the most out of the opportunities that emerge.

We recognize and value the trust you have placed in us with your philanthropic investments and we will continue to do everything we can to respond to the fluctuations in the market.

With our highly diversified and carefully managed portfolio, coupled with our cash reserves standing by for strategic investment, we feel confident that the overall performance of the UHF endowment in the years ahead will be one that leads to significant positive impact on our students and campuses.

Best wishes,



Barry Weinman

Chairman, Investment Committee, UH Foundation

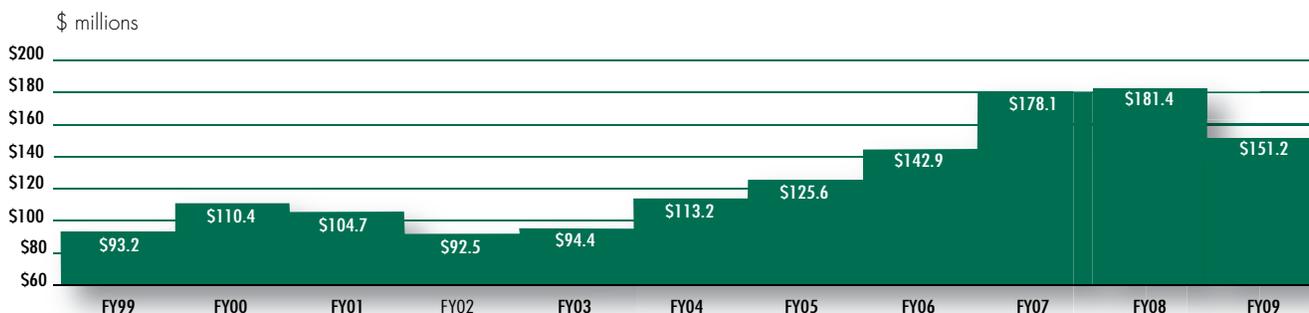
POSITIONED FOR SUCCESS

The peak-to-trough decline in the S&P 500 to its March 9, 2009 low was -56.8%; the steepest slide since the Great Depression. Fortunately the markets rallied through mid-June before retrenching for several weeks. Markets throughout the world continue to fluctuate, affecting the endowment performance across all sectors. On the one hand, there are indications that economic activity is leveling out, financial markets are improving and consumer spending is showing signs of stabilizing. On the other hand, job losses continue,

credit remains tight and consumers lost much wealth over the last year and a half.

In times like these, The UH Foundation has learned to rely on the asset allocation it has developed. This helps weather the storms and protects the endowment from the worst the market has to offer. At the same time it is positioned for future success as the economy works its way through and out of this situation.

Endowment Investment Pool Market Values — Fiscal Year-end



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 to maximize investment returns over the long-run 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, real assets and 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 investment within the endowment pool. Based on its assessment of the consultant's recommendations, the Investment Committee determines the appropriate allocation and selects the investment managers.

DISTINGUISHED VISITORS PROGRAM — WHIPS UP WORLD FAMOUS CHEF



Guslander visiting chefs also visit neighbor island UH campuses to inspire faculty and students. Here, Ziegler is warmly thanked for his demonstration at Maui Community College.

"Chef Ziegler's ability to transform a simple idea into a masterpiece of shape, texture and color is not something you would find in a textbook.

This is a once in a lifetime opportunity to learn from such a dedicated and talented chef. The knowledge I have learned from him will help me to become a better culinarian and set a solid grounding for my professional career."

LISA PATRICIA PAULING,
KAPĪ'OLANI CC CULINARY STUDENT

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Grace Buscher Guslander, one of the visionary hospitality leaders who helped build Hawai'i's image as a tropical paradise, had a gift for weaving together fantasy, mystery and Polynesian culture. As the manager of Coco Palms hotel, she created a palm tree wonderland so vibrant Hollywood filmed "Blue Hawaii" with Elvis Presley there. She and her husband Lyle Guslander were among the first inductees into the Hawai'i Hospitality Hall of Fame.

While the legendary Coco Palms was severely damaged by hurricane Iniki in 1992 and has never re-opened, Grace and Lyle's legacy lives on through their investment in education. The Guslanders, who did not have children of their own, adopted the children of Hawai'i and sought ways to bring world-class educational opportunities to our campuses.

They recognized that while Hawai'i was geographically isolated, it offered a richness of culinary and hospitality delights. They also knew that nurturing these assets would make them flourish.

In 1989, Grace chose to perpetuate her husband's memory and fulfill his desire "to give back to the community." With a generous gift to Kapi'olani Community College she created "The Lyle L. Guslander Distinguished Visitors Program in Advanced Food Service and Hospitality Education" fund and created scholarships to support Native Hawaiian

students in the food and hospitality industry. The Guslander program brings world-renowned culinary arts and hospitality leaders to Hawai'i to train students and faculty, preparing them to be global players in a fast-paced, rapidly changing industry.

One of this year's visiting Guslander chefs was **Franz Ziegler**, a Swiss patisserie/confiserie chef, consultant and author. Ziegler has been the coach of the Swiss National Pastry Team since 2001, and is the head judge of the National and World Pastry Team championships.

Past Guslander Visiting Chefs include:

- *Chef Chai Chaowasaree*, owner of award winning Chai's Island Bistro and Singha Thai Cuisine.
- *Stanton Ho*, former executive pastry chef at the Las Vegas Hilton and present corporate executive chef at Chocolates a la Carte. At the time of his visit he was listed among the top 10 chefs in America.
- *Tony Liu*, now the executive chef at August Restaurant in New York.
- *Andre Soltner*, dean of classic studies at the French Culinary Institute.
- *Richard Han*, Kapi'olani CC graduate who became executive chef at Pechanga Resort and Casino, California.

EXTRAORDINARY ENTOMOLOGIST REMEMBERED



Ilse Hardy and William Haines at the 2009 UH Mānoa Scholarship Celebration dinner.

When the soft-spoken, engaging graduate student named **William Haines** took to the podium at this year's UH Mānoa Scholarship Celebration dinner, a Dipterist extraordinaire was remembered, and our appreciation of "true flies" grew.

Ilse H. Hardy established the D. Elmo Hardy Student Assistance Endowment in 2008 to honor in perpetuity her late husband Dr. D. Elmo Hardy (1914-2002). Known as "one of

"I always kept some sort of insect as a pet: crickets, praying mantids, dragonflies, beetles. In retrospect, my mom was surprisingly tolerant. Studying insects was something I always wanted to do, but it wasn't until I went to college that I realized it was possible to actually do it for a living.

Hawai'i can be a difficult place to make ends meet, especially for students. I've had a hard time finding affordable housing, and I think this goes for UH students across the board. So donors are doing a real service to the academic community, recognizing students who are passionate about what they do, and giving them some extra support."

WILLIAM P. HAINES, RECIPIENT OF THE
D. ELMO HARDY GRADUATE STUDENT AWARD

the last polymaths of Diptera Systematics", Elmo, as he was known to most who knew him personally, was a teacher and mentor to students of entomology throughout the Asia-Pacific Region. Over the nearly seven decades of active research, Dr. Hardy named and described nearly 2,000 species in 34 different families of Diptera or flies which were published in 437 articles and notes. Dr. Hardy may be considered the "father of Hawaiian Dipterology" and has inspired the research of many students of Diptera Systematics.

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EXTRAORDINARY ENTOMOLOGIST REMEMBERED (continued)

Through the D. Elmo Hardy Student Assistance Endowment, Dr. Hardy's profound academic legacy will ripple outward through the success of our future entomologists extraordinaire. Today, these students are busy conducting

research in the Department of Plant and Environmental Protection Sciences in the UH Mānoa College of Tropical Agriculture in the same lab where Dr. Hardy once worked.

KOICHI AND TANIYO TANIGUCHI MEMORIAL ENDOWMENT FUND



Koichi and Taniyo Taniguchi

"Our family believes that an investment in UH Hilo's teaching faculty represents an investment in the future that my grandparents dreamed about for Hawai'i."

BARRY TANIGUCHI, PRESIDENT AND CEO,
KTA SUPER STORES

When young, hardworking Koichi and Taniyo Taniguchi immigrated to the Big Island from Japan in 1916, their brave act of searching for a better future ultimately left an enduring impact and helped to create the vibrant Big Island community of today. The little store they opened in Hilo grew into the island-wide KTA Super Stores chain and became a major contributor to the local economy. In addition, their lives have inspired philanthropic investments that are enhancing the student experience and encouraging faculty excellence at the University of Hawai'i at Hilo.

In 2007, KTA Super Stores and K. Taniguchi, Ltd. of Hilo created a memorial endowment fund in honor of Koichi and Taniyo. The impact has been immediate. For the past three years, outstanding faculty members have received the prestigious Taniguchi Award for Excellence and Innovation.

"KTA was the first supermarket in the state to use UPC barcode scanners at checkouts, the first store on the Big

Island to offer customers a 'supermarket' format, a self-service Meat Department and full-scale Deli Department," commented Dean Randy Hirokawa. "It is wonderfully fitting for the award established in Koichi and Taniyo Taniguchi's names to be one honoring innovation and excellence in education."

Recent Taniguchi Award for Excellence and Innovation Recipients:

UH Hilo faculty members Dr. Errol Yudko, Psychology; Dr. Cheryl Ramos, Psychology; and Dr. H. Keith Edwards, Computer Science, have each received the Taniguchi Award in recognition of their integration and continuous testing of technology-mediated instruction (TMI) in their undergraduate and graduate courses.

By using nearly all available modes of online technology to develop their programs, Yudko and Ramos were able to deliver courses of the highest quality. Edwards too is using technology to deliver outstanding programs, and has been instrumental in garnering funds to purchase computer equipment for student use in the classroom as well as on research projects.

An endowed award that recognizes special promise in the areas of teaching and scholarship is an investment that helps build a strong foundation of high caliber faculty and enhances UH Hilo's reputation as a top quality educational destination.

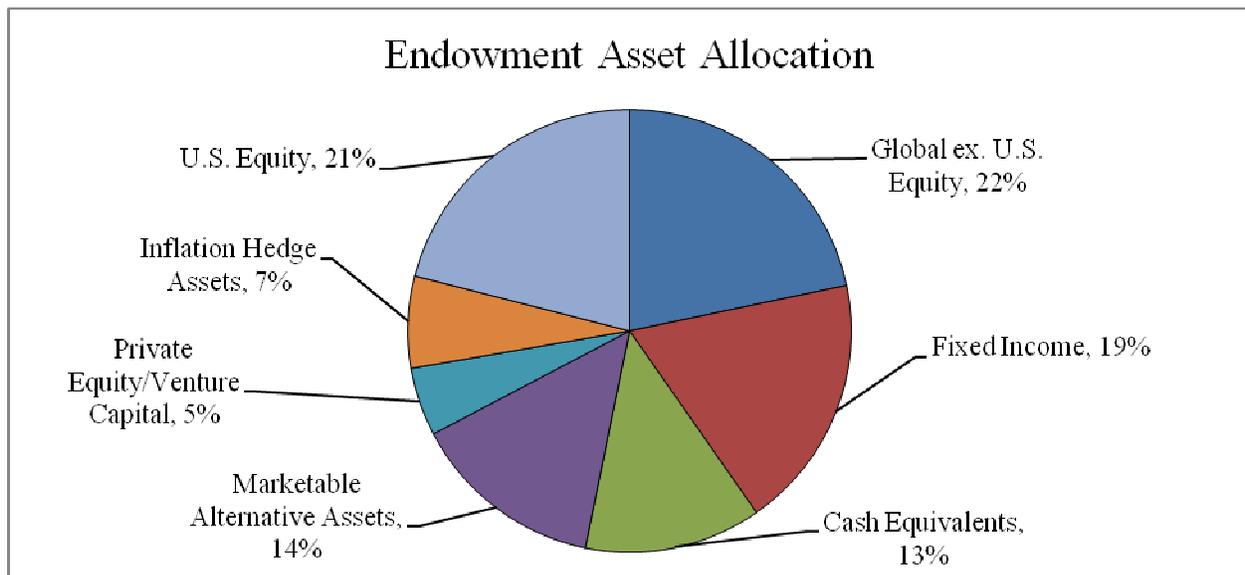
"Endowed awards like the Taniguchi Award make it possible for us to encourage and reward our faculty's innovative use of technology in teaching and research, year after year, regardless of economic conditions."

"Equally important is the symbolic message implicit in the creation of the Taniguchi Award for Excellence and Innovation — our donors recognize the University of Hawai'i at Hilo as a 'happening' university, where faculty members engage in the innovative use of technology to deliver high-quality education."

RANDY HIROKAWA, DEAN, ARTS AND SCIENCES,
UNIVERSITY OF HAWAII AT HILO

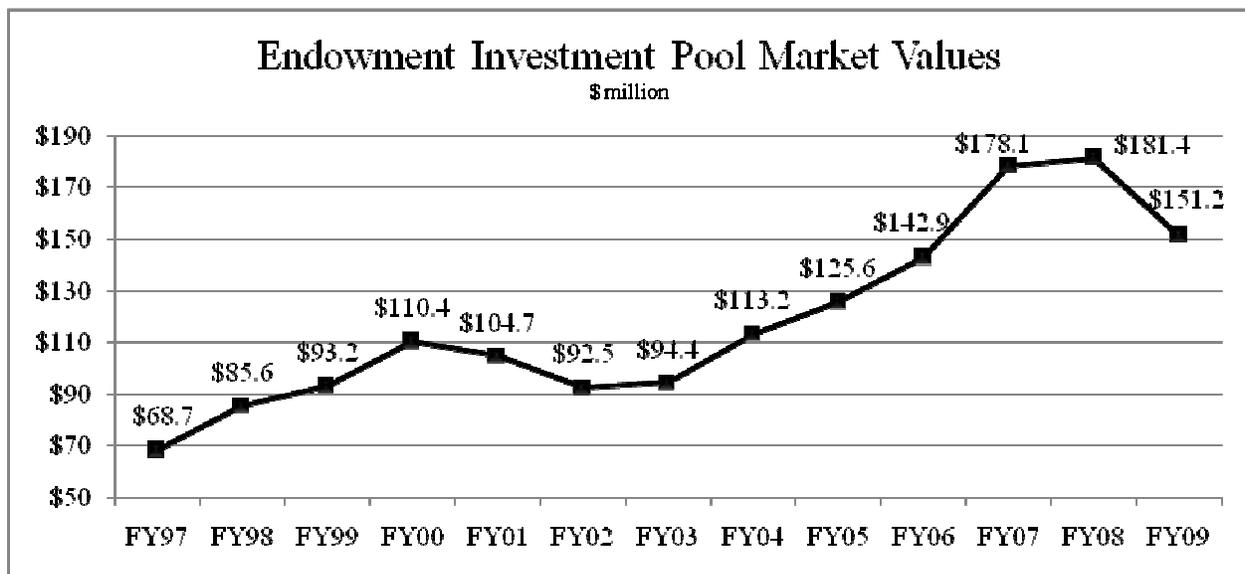
UH Foundation Endowment Investments

The Foundation's asset allocation at 6/30/09 is displayed in the following chart:



Note: In addition to the cash equivalents held in the endowment pool, an additional \$10 million of endowment gifts is being held in cash. The timing of the investment of these funds will be determined by the Investment Committee.

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 2009	Annualized Trailing Three Years	Annualized Since 4/1/96
Actual	-16.8%	-1.9%	5.9%
Benchmark	-21.1%	-3.6%	5.4%
S&P 500	-26.2%	-8.2%	3.4%

The current benchmark reflects a blend of Russell 3000 (25%), MSCI EAFE (26%), HFRI Diversified FOF Benchmark (15%), Inflation Protection Benchmark – CPI +5% (12%), BC Gov't Bond Index (9%), BC Aggregate Bond Index (7%), Citigroup World Government Bond Index (4%), JPM Emerging Local Markets Index (2%).

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

Investment Manager/Fund	Investment Style
U.S. Equity (21% 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 (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 (5% of total)	
Park Street Capital - Private Equity - Three Funds	New Non-public Companies
HRJ Fund	Distressed Opportunities
Marketable Hedge Funds (14% 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
Bay Resources Partners	U.S. Long/Short
Glenview Capital	U.S. Long/Short
Hawkeye Capital Management	Opportunistic
King Street Capital	Opportunistic
Goshen Global Equity	Opportunistic
Owl Creek Overseas Fund	Opportunistic
Inflation Hedge Assets (7% 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	Real Estate
Fixed Income (19% of total)	
State Street - US Gov. Bond Index Fund	Intermediate Government
PIMCO - Total Return Fund	Full Range of Securities and Market Sectors
PIMCO Developing Local Markets Fund	Emerging Markets Local Debt Securities
Mondrian Investment Partners – Global Fixed Income	Foreign Sovereign Debt