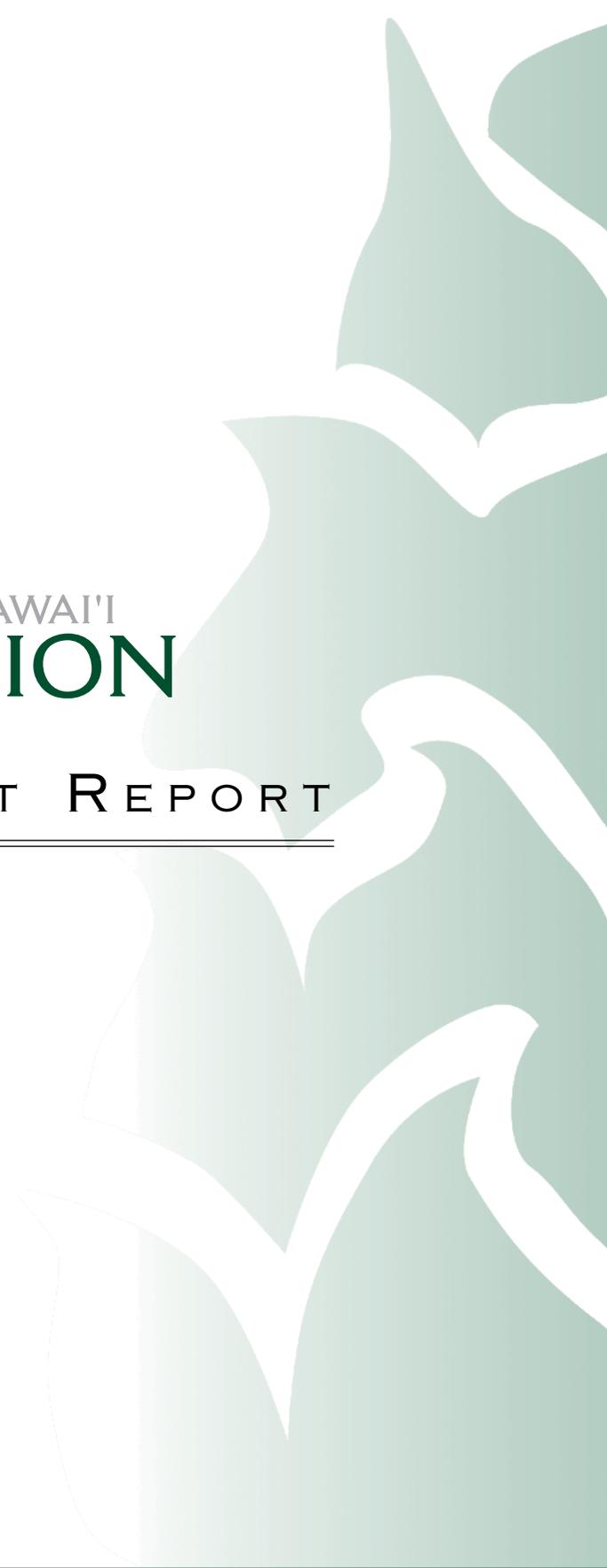




UNIVERSITY OF HAWAI'I
FOUNDATION

2010 ENDOWMENT REPORT



UNIVERSITY OF HAWAI‘I FOUNDATION

2010 ENDOWMENT REPORT

CHAIRMAN’S MESSAGE:

Aloha Donors and Friends of UH

We are grateful to our generous donors who have remained loyal to our programs throughout the challenging economy of last year. New gifts to the endowment totaled more than \$9.2 million in FY10.

To maximize return while minimizing risk for these funds, we implemented asset allocation changes approved by the board. This increased diversity positioned the endowed funds to better weather continued economic uncertainty and to produce investment income for UH students and campuses for years to come.

With a highly diversified and carefully managed portfolio, we achieved a 10.4% gain for the year ended June 30, 2010. At that date, the endowment stood at \$169.4 million.

Best wishes,
C. Scott Wo
Chairman, Investment Committee
UH Foundation

NAVIGATING THROUGH TURBULENT TIMES

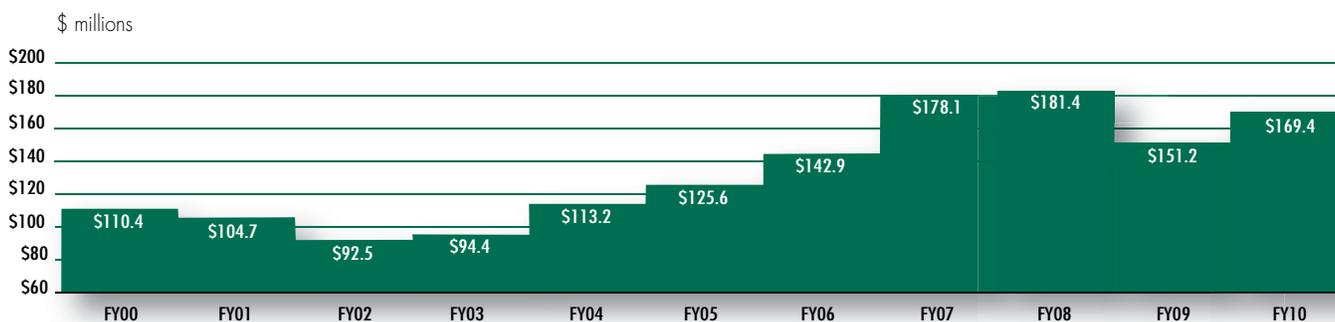
The endowment, along with the market, recovered well after the March 2009 lows. However, with a variety of potential worries including the jobless recovery, economic crisis in Europe, monetary tightening in the emerging markets, the tragic oil spill in the Gulf, and extreme market volatility, the fiscal year closed with a reversal and much uncertainty about the future.

When news is dire and markets move against us it's important to remember our long term goals. The

endowment is designed to last into perpetuity and an appropriate asset allocation is needed to make the endowment grow and keep up with inflation.

The revised asset allocation includes an increased percentage to hedge funds and emerging markets. The hedge funds provide good returns with lower volatility. Emerging markets have the potential to lead the way when the recovery returns. These changes should position us well as we move forward.

Endowment Investment Pool Market Values — Fiscal Year-end



With a carefully managed portfolio we achieved a 10.4% gain for the FY 2010, closing with an endowment that stood at \$169.4 million.

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.

PERPETUATING AN EDUCATIONAL LEGACY

FREDERICK K.T. TOM MEMORIAL SCHOLARSHIP

"Scholarships helped me dedicate myself to my studies. With scholarships, I was able to embrace the opportunity to educate myself. I am forever grateful."

NICOLE FUJIE
2004 RECIPIENT OF THE FREDERICK K.T. TOM MEMORIAL
SCHOLARSHIP



**Nicole graduating
from the University of
Hawai'i at Hilo**

Nicole Fujie grew up on the remote island of Lāna'i, during a time when people routinely left their front doors unlocked. When asked about her childhood, Nicole smiles as she thinks back on those somewhat idyllic days, "Sometimes, when we didn't have school, my sister and I would spend all day running around playing in the pineapple fields, and only come home for dinner!"

However, for the Fujie family, life was not all play. Their mother, a single parent, worked long hours at a local hotel as a cook, to keep the family afloat. From an early age, Nicole saw firsthand the rewards of hard work and the value of a quality education.

Commitment to education is a priority in the Fujie family. Nicole's grandmother Helen Fujie, was a teacher and an educational pillar in the community. During her career, she was often troubled by what she saw taking place in the lives around her.

Continued on next page.

Sadly, in this small community, there were a disproportionate number of teen pregnancies, and many of the students who graduated from high school did not go on to attend college. She also noticed that many of the students who did go to college failed to graduate, largely because of their difficult financial situations. Helen routinely reminded her granddaughters that higher education is the key to securing a successful career and a better quality of life.

In 2000 Nicole made her family very proud when she graduated valedictorian from Lānaʻi High School. Because of her love of science and compassion for animals, Nicole's grandmother suggested, "Do your education and become a vet." This was good advice and Nicole applied herself wholeheartedly to fulfilling this dream. Excited and focused, Nicole moved to the Big Island and enrolled in the College of Agriculture, Forestry and Natural Resource Management at the University of Hawaiʻi at Hilo to pursue her degree in animal science.

While at UH Hilo, Nicole joined a group of fortunate students selected to receive the prestigious **Frederick K.T. Tom Memorial Scholarship**. This endowed scholarship was created by family and friends to honor the memory of Dr. Fred Tom, the College of Agriculture's first dean. Thanks to their foresight in perpetuating the educational legacy of this beloved academic leader, every year promising students receive the financial help they need to fulfill their potential and follow in his footsteps.

For Nicole, having scholarship support made all the difference and she ultimately graduated from UH Hilo with honors. "I knew that in order to get into veterinary school I needed to have the best grades," Nicole continued, "Scholarships, financial aid and my family's support made it possible for me to study all the time without having to work multiple jobs to make ends meet." She added, "I also felt I had a responsibility to the donors who invested in me - I didn't want to let them down."

Donors to the Frederick K.T. Tom Memorial Scholarship can be proud! Today, Nicole is a practicing veterinarian in a busy Tacoma, Washington clinic, with a dream to one day return home to Hawaiʻi and help animals on the remote island of Lānaʻi.



Nicole enjoying a typical day, taking care of animals

MAKING HAWAIʻI A BETTER PLACE FOR FUTURE GENERATIONS FRED STONE ENDOWED SCHOLARSHIP



Jaime Enoka, 2006 recipient of the Fred Stone Endowed Scholarship

When **Dr. Fred Stone** realized that many of Hawaiʻi's young people yearned for careers that involve working in the natural sciences, he founded the Tropical Forest Ecosystem and Agroforestry Management (Forest TEAM) Program in the Math and Natural Sciences Department at Hawaiʻi Community College. However, he knew there was more to be done in order to help students fulfill their dreams and increase program accessibility.

As one of five children who received scholarships to attend college, Stone has a profound appreciation for the important role donors play in creating opportunities for others. With this in mind, he established the Fred Stone Endowed Scholarship to support students in the Forest TEAM Program. One of these students was **Jaime Enoka**.

Jaime was born and raised in Kurtistown on the Big Island of Hawaiʻi. Her mother, Marsha Pacheco, enjoyed her career working fulltime as a nurse, and her father, a self-employed woodworker and taro farmer, took pleasure in being a stay-at-home dad to his three young children. Money was limited, but the family was happy.

Tragically, when Jaime was in the 10th grade, Marsha was seriously injured in a horse riding accident that left her disabled and unable to work. Money was tight and Jaime began working evenings at the local pet store to help support her family. Seeing her family struggle fueled her determination to work hard and carve out a different future for herself – one with more financial security and a better quality of life.

After graduating from Waiakea High School, Jaime earned her associate of liberal arts degree from Hawaiʻi Community College and her bachelors of science degree in horticulture from the University of Hawaiʻi at Hilo. Armed with these credentials, Jaime was ready to immerse herself in the career of her choice. However, there were limited opportunities in the horticulture field and she was unable to find a job. Fortunately she was accepted into the Forest TEAM Program, and returned to school to study the cultivation of native plants.

This was a very busy and challenging time in Jaime's life. She had her hands full juggling the responsibilities of raising a young child, attending school and working part-time at the Research Corporation of the University of Hawaiʻi (RCUH). With all the competing demands she faced, scholarship support

Continued on next page.

MAKING HAWAI‘I A BETTER PLACE FOR FUTURE GENERATIONS (continued)

couldn't have come at a better time. Thanks to Dr. Stone, she received the help she needed.

Jaime is forever grateful for the Fred Stone Scholarship. Her UH education opened many doors of opportunity including one to her dream job at the Volcano Rare Plant Facility. "We propagate and outplant rare plants to protected sites on the Big Island," she said. "I do this for the next generation. If we don't

do something now and protect the habitat, these plants will be gone forever."

Thanks to the University of Hawai'i and scholarship support, Jaime has meaningful work that pays a living wage. This allows her to give her family an improved quality of life while making Hawai'i a better place for future generations.

FUELING RESEARCH TO BENEFIT OUR WORLD

COLONEL WILLYS E. LORD, DVM AND SANDINA L. LORD SCHOLARSHIP



Karen, bringing new ideas and determination to her work in behavioral neuroscience

"I believe that knowledge and education provide you with lots of opportunities in the world, and ultimately allow you to pursue your goals and dreams, whatever they may be, on both a personal and career level."

KAREN P. MARUSKA, 2006 RECIPIENT OF THE COLONEL WILLYS E. LORD, DVM AND SANDINA L. LORD SCHOLARSHIP

Karen Maruska is the first in her family to obtain a PhD. From the very beginning of her academic journey, her family encouraged her to follow her passions. Today, thanks to their dedication to her pursuits, scholarship support and years of hard work, Karen is a postdoctoral scholar in the biology department at Stanford University. It is here that she continues her research, and seeks to unravel the mysteries of the brain.

The journey to Stanford involved many years of studying in schools across the nation. One learning destination was the University of Hawai'i at Mānoa. "I started my PhD in Florida in the lab of Tim Tricas. When he accepted a faculty position in the Zoology Department at UH Mānoa, I had the option of remaining in Florida to finish my degree, or accompanying him and getting my PhD at UH Mānoa." She continues, "I couldn't pass up the opportunity to live and conduct research on the reefs of Hawai'i." She adds, "Even though the transfer added considerable time to my degree completion, the experiences I had in Hawai'i and working at the Hawai'i Institute of Marine Biology (HIMB) were well worth it."

While studying at UH Mānoa, Karen was awarded the **Colonel Willys E. Lord, DVM and Sandina L. Lord Scholarship**. This endowed scholarship fund was established by Sandina Lord to provide financial support to undergraduate and graduate students at HIMB. Scholarship support made it possible for Karen to focus on her studies and conduct meaningful research.

Karen has always been curious about nature, animals and plants and knew from an early age that she wanted to be a scientist. Of particular interest to her is the brain. "The brain controls almost everything we do, but remarkably we still know relatively little about how the brain works," she said. "Understanding how the brain processes information to control normal behaviors will ultimately lead us to understand the causes and consequences of abnormal brain function and neurological disorders." Karen continued, "I'm drawn to neuroscience because it has so many interesting but unanswered questions, and the research has wide implications for many animals, including humans."

Today her research is in the field of behavioral neuroscience or neuroethology. She uses many different tools from behavioral analyses to molecular biology to understand the neural basis of behaviors. In other words, Karen seeks to understand how the brain controls complex behaviors such as reproduction, and alternatively, how social interactions influence the brain.

Karen hopes to get a faculty/assistant professor position at a university where she can pursue her own research and mentor a new generation of scientists interested in behavioral neuroscience. "I have been fortunate during my academic career to have excellent mentors, all of whom have taught me how to conduct good science, with a few life lessons thrown in here and there," she continued with a smile. "I have seen how good mentorship can make the difference in a person's life, and I hope to pass on what I've learned to my own students in the near future."

Scholarships support ambitious, promising students like Karen whose research, or that of her students, may one day unlock the mysteries of brain processes, and lead to better understanding and treatment of abnormal brain function and neurological disorders.

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 2010-11, the payout will be computed based on 4.6% applied to the twelve-quarter average market value ending June 30, 2010. An additional 1.5% of the June 30, 2010 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 Hawai'i 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.

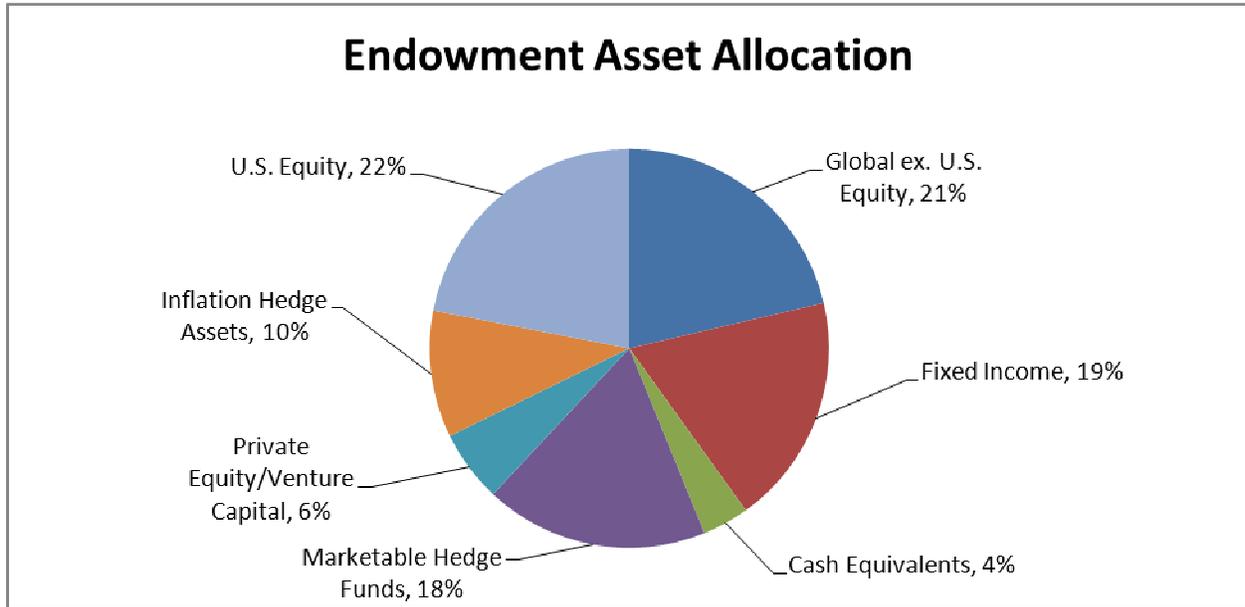
Older endowment accounts, accounts initiated prior to July 1, 2009, are managed in either one of two ways. Based on the market value of the account versus the book value of the account, the options are as follows... Option 1: the payout continues even if the market value falls below the book value. Option 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

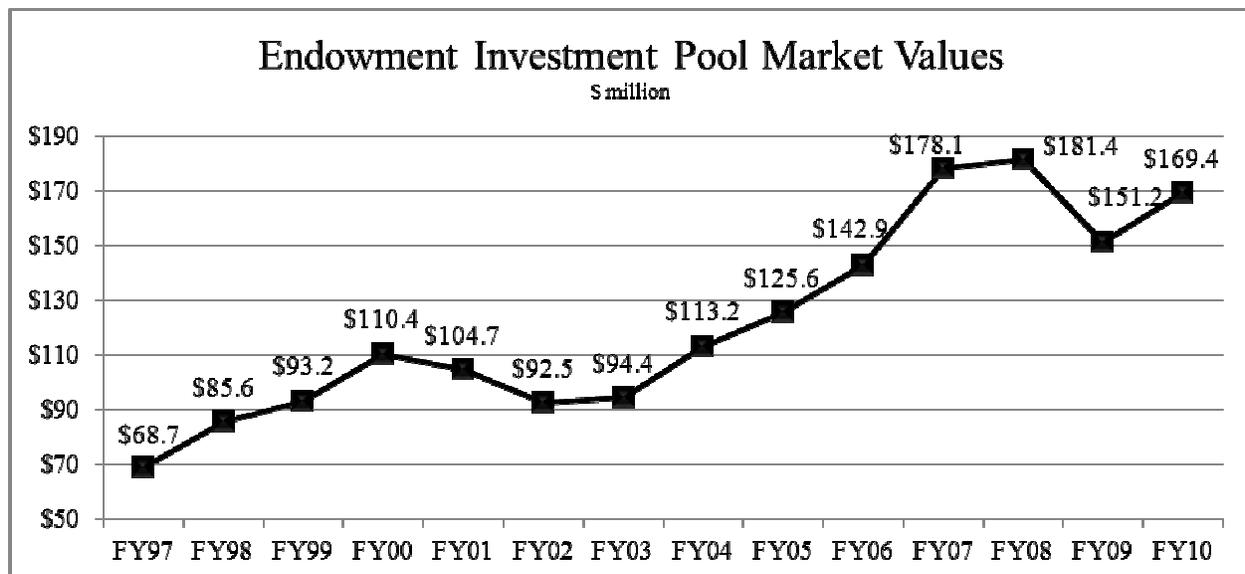
When current income and market appreciation exceed the amount required for the quarterly payout and administrative fee, the excess is retained in the endowment pool for future growth and to offset periods of bear market performance.

UH Foundation Endowment Investments

The Foundation's asset allocation at 6/30/10 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 2010	Annualized Trailing Three Years	Annualized Since 4/1/96
Actual	+10.4%	-3.4%	+6.2%
Benchmark	+7.9%	-5.6%	+5.6%

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 (22% 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 (21% 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 (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
Marketable Hedge Funds (18% of total)	
HBK Investments	Multi-Strategy
Davidson Kempner	Multi-Strategy
Gruss Global Investors	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
Knighthead Offshore	Distressed Credit
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
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
Inflation Hedge Assets (10% 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
Commodfund Capital Natural Resources Fund	Natural Resources
Madison International	Real Estate
Fixed Income (19% 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 Market Sectors
PIMCO Developing Local Markets Fund	Emerging Markets Local Debt Securities
Mondrian Investment Partners – Global Fixed Income	Foreign Sovereign Debt

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UNIVERSITY OF HAWAII FOUNDATION
JULY 1, 2009 – JUNE 30, 2010

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