

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 2013-14, the payout will be computed based on 4.6% applied to the twelve-quarter average market value ending June 30, 2013. An additional 1.5% of the June 30, 2013 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 (20% 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
Convexity Capital Offshore	Portable Alpha
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
MFS Financial	Large Cap Growth
Emerging Market Equity (8% of total)	
Aberdeen Asset Management	Asia Pacific ex. Japan
Aberdeen Emerging Markets Fund	Mid and Large Cap Value
Capital Guardian Total Opportunity Fund	Emerging Markets Equity and Debt
Vanguard Emerging Markets	Emerging Markets Index
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
Permit Capital Mortgage – Two Funds	Distressed Debt
CommonFund Capital Venture Partners Fund	Venture Capital
Real Assets (13% 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
Lone Star Real Estate Fund	Distressed Mortgage Backed Securities
Van Eck Global Hard Assets	Natural Resources

Investment Manager/Fund	Investment Style
Real Assets (continued)	
Colchester Real return Bond Fund	Global Inflation-linked Bonds
Wellington Global Natural Resources Fund	Natural Resources
Fixed Income and Cash (17% of total)	
DoubleLine Total Return Bond Fund	Full Range of Securities and Sectors
Vanguard Intermediate Term Treasury Fund	Treasuries
PIMCO - Total Return Fund	Full Range of Securities and Sectors
Global Tactical Asset Allocation (4% of total)	
PIMCO All Asset All Authority Fund	Undervalue Asset Classes
Standard Life Global Absolute Return Strategies	Low Volatility /Controlled Risk Positions
Marketable Alternative Assets (15% of total)	
HBK Offshore Fund	Multi-Strategy
Davidson Kempner	Multi Strategy
Bain Absolute Return Capital	Multi-Strategy
Element Capital	Multi-Strategy
York European Opportunities	Multi-Strategy
Mason Capital Management	Multi-Strategy
Taconic Opportunity	Multi-Strategy
King Street Capital	Distressed Credit
Knighthead	Distressed Credit
Anchorage Capital Partners	Distressed Credit
Indus Asia Pacific Fund	Global Long/Short
AKO Fund	Global Long/Short
Scout Capital Fund	Global Long/Short
Scopia PX International	Global Long/Short
Discovery Global Opportunity	Global Long/Short
Greenlight Capital	Global Long/Short
Bay Resources Partners	Global Long/Short
Dialectic	Global Long/Short
Luxor	Opportunistic
Third Point	Opportunistic
Owl Creek	Opportunistic