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2016 Endowment Report



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A message from our chair

Aloha Donors and Friends of the University of Hawai'i,

Last year, the University of Hawai'i Foundation celebrated its 60th anniversary. This year we crossed the \$1 billion mark in our fundraising to support the University of Hawai'i over the course of our 60-year history. We'd like to celebrate you, our donors, for helping us to reach this important milestone.

In fiscal year 2016, the University of Hawai'i Foundation's endowment received \$11.4 million in new gifts and distributed more than \$10.8 million in private support for scholarships, professorships and program enhancements across all 10 campuses of the University of Hawai'i System. However, as a result of renewed volatility in the marketplace, the endowment market value declined from \$269.5 million to \$260.7 million for the fiscal year ended June 30, 2016, net of payout and other withdrawals and a loss on investments of 2.0 percent.

Over the past five years, the endowment has produced an annualized return of 4.7 percent. In these challenging times, our Investment Committee continues to diligently steward the investment program. We believe a well-diversified portfolio will serve the university's best interest over the long term.

We value the trust you have placed in us with your philanthropic investments. Donors like you have generously invested your financial resources in the future of UH, making a difference in the lives of our students, faculty and the entire UH community. For this reason, we want to report our endowment investment strategy and returns as well as share stories about the impact of these funds. Your continued partnership and support is essential in building a stronger university for the next 60 years and beyond.

Mahalo for your vision and generosity!

Elizabeth S. Hokada

Chair

UH Foundation Investment Committee

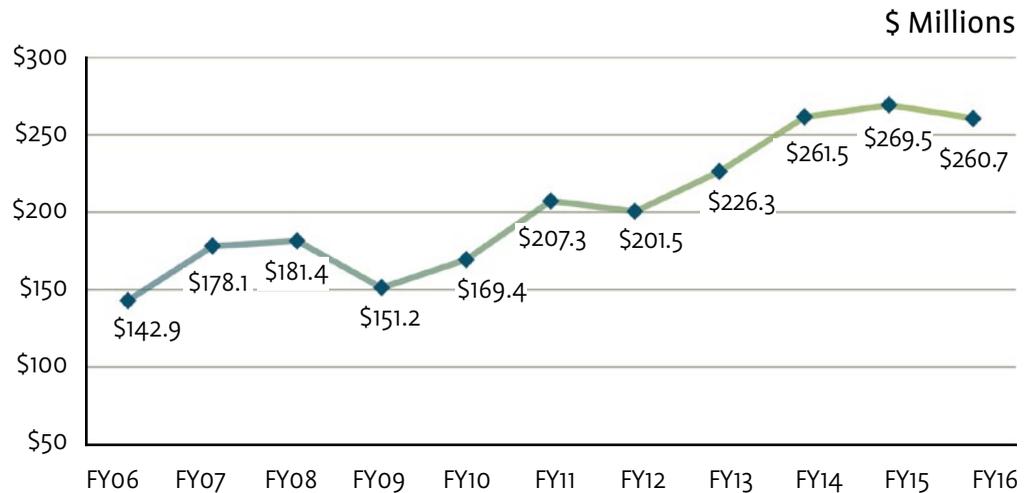


UH Foundation Endowment Investments

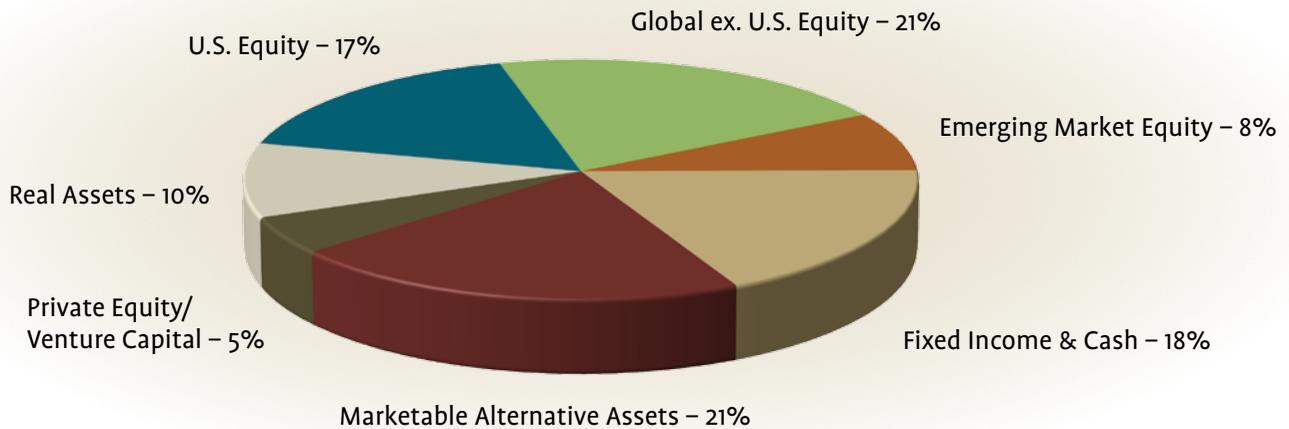
The Endowment Fund seeks future long-term growth of investments, at an acceptable risk level, sufficient to offset reasonable spending plus normal inflation, thereby preserving the purchasing power of the fund for future generations. It also seeks partial protection from potentially severe adverse effects of extended deflationary environments. Generous gifts from donors and a continued, disciplined focus on investment strategies and opportunities will help the endowment grow over the long term, thereby providing support for University of Hawai'i programs and priorities into the future.

Endowment investment pool market values

The UH Foundation has consistently produced competitive investment returns when compared to portfolio benchmarks and peer institutions. In fiscal year 2016, U.S. equity and fixed income held modest returns for the year with detraction from global ex. U.S. equity, emerging market equity and marketable real assets in keeping with general decline in the commodities markets. A diversified portfolio continues to serve the University of Hawai'i's best interest over the long term.



Endowment asset allocation



Annual rate of return compared to benchmark

Annual Rate of Return	Fiscal Year 2016	Annualized Trailing 3 Years	Annualized Since 12/31/04
Actual	-2.0%	4.7%	5.6%
Benchmark	-1.7%	4.9%	5.2%

The current benchmark reflects a blend of Russell 3000 Index (18%), MSCI EAFE Index (18%), MSCI Emerging Markets Index (9%), HFRI Diversified FOF Index (20%), Russell 3000 Index + 3% (lagged one quarter) (10%), Marketable Real Asset Benchmark (3%), CPI-U + 5% (lagged one quarter) (7%), Fixed Income Benchmark (13%), and BofA ML 91 Day T-Bills (2%).

FREQUENTLY ASKED QUESTIONS ABOUT THE UHF ENDOWMENT

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.

Who manages UH Foundation endowment investments?

Decisions regarding the investment of the endowment are made by the Investment Committee of the UH 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 UH 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 UH 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 the assessment of the consultant's recommendations, the Investment Committee determines the appropriate allocation and selects the investment managers.

FAQ

How does UH 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 UH 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.

Grace, grit and gratitude

Well into her 70s, the late Ivanelle Hoe – a UH alumna, former Olympic-qualifying swimmer and retired physical education teacher – could be found doing laps at her local public swimming pool, a living manifestation of the modern-day proverb, “Just keep swimming.”

Hoe was a trailblazer in the early days of Hawai‘i girl’s and women’s sports, setting her first record in the 100-meter butterfly as a senior at Roosevelt High School. She went on to join the University of Hawai‘i

swimming team under Coach Soichi Sakamoto. According to Sakamoto, Hoe did not have a natural talent for swimming, lacking both coordination and technique. But she was dedicated to her training, swimming for hours every day and never once showing the slightest sign of discouragement.

“She was the sweetheart of the UH swimming team during her college years,” said close friend Gauhar Nguyen. “To represent UH and Hawai‘i at the international level, she worked really hard.”



Ivanelle Hoe with former student, Davis M.K. Kane, at the 2010 UH Foundation Scholarship Celebration. At the time, Kane was a senior at UH Mānoa and was captain of the swim team.



Ivanelle Hoe at the Waikiki Natatorium War Memorial, during her record-setting swimming career at UH. She set her first record in the 100-meter butterfly at Roosevelt High.



IVANELLE HOE BENEFITTED FROM SCHOLARSHIPS AT UH, SO SHE WANTED TO RETURN THE FAVOR.



Hoe later earned seven Hawai'i swimming records before qualifying for the Olympics. Although she was not selected to compete in her event, it was her drive and determination that made her the celebrated athlete so many people remember – qualities she would later come to encourage in students through the establishment of three scholarships.

“She really cared about education,” added Nguyen. “She wanted everyone to have an equal chance, to have a shot at all the opportunities that they may not have had otherwise.”

Herself a scholarship recipient, Hoe aimed to support students in the same way she received support while in school. The first of her scholarships, the Sakamoto-Hoe Scholarship Endowment, honors Coach Sakamoto for his steadfast commitment to her training.

Her second scholarship, the Ching-Hoe Endowed Culinary Arts Scholarship for Kapi'olani Community College culinary arts students, honors her mother

Grace Ching Hoe and aunt Arline Ching Hoe. Coming from a family rooted in food and culinary tradition, Hoe is remembered fondly for her ability to bring people together through food.

The third of her scholarships, the Ivanelle Hoe Endowed Nursing Scholarship for Kapi'olani CC nursing students, honors the nurses who cared for her as she battled an aggressive cancer since 2007.

Hoe suffered a rare form of cancer that typically never results in remission, despite advanced treatments. But ever a model of strength and determination, Hoe underwent several rounds of treatment and still managed to exercise every day. She died in June 2016.

A vast number of family, friends and community members remember Hoe for her strength and resolve, and dozens of students have benefitted as a result of her generosity. Her spirit of determination lives on through the lives she has touched and the many students who, like her, will persevere through obstacles in order to reach their highest goals.

Shedding light on black holes

Despite having a mass more than 100 times that of the sun, it may come as a surprise to learn that you'll never see a black hole when you look up at the night sky. These mysterious chasms have a gravitational pull so strong that light can neither come in nor go out, making them almost impossible to spot even with the most advanced optics.

IfA researchers are hoping to shed some light on the origin of black holes, and they've already made some significant observations. This bold endeavor, a collaborative research project involving both IfA faculty and graduate students, would not be possible without the support of the Victor and Peggy Brandstrom Pavel Director's Chair in Astronomy.

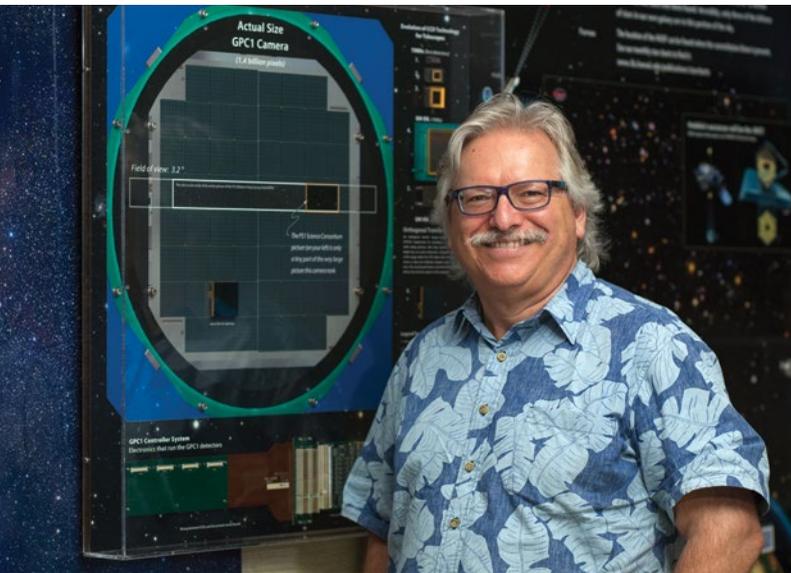
"We've discovered a very interesting fingerprint of what may be the first generation of black holes," said Hasinger. Findings are still speculative, but observations suggest that black holes may actually be the make-up of dark matter.

"It's very far-reaching work that could have universe-shaking results," added Hasinger.

Hyewon Suh, an IfA PhD student involved in the project, has focused her research on the growth of black holes and the formation of stars in their host galaxies.

"I've been able to take advantage of IfA's extensive observational opportunities, which have enabled me to further my understanding of the growth of black holes and galaxies," said Suh, who has also received aid from the Victor and Peggy Brandstrom Pavel Director's Chair in Astronomy.

Established in 2014, the Pavels' gift has helped support trailblazing research projects at IfA, projects that could one day prove the next scientific breakthrough. The Pavel funds have also helped IfA retain and support top-notch faculty, a challenge that many universities



Dr. Guenther Hasinger, Institute for Astronomy director

"Today we know that almost every galaxy has a black hole, and in fact, they were probably there before the galaxies themselves," said Guenther Hasinger, director of the University of Hawai'i at Mānoa's Institute for Astronomy (IfA). "But the real mystery is how black holes came to exist."

THE PAVELS' GIFT SUPPORTS ASTRONOMY RESEARCH
AND HELPS ATTRACT STELLAR FACULTY TO UH.

face as institutions across the globe vie for the best faculty candidates. Having adequate financial support is key, and the competition is tough.

“We have a very clear strategic goal that we only hire the very best,” said Hasinger. “This takes a lot of resources, but we really want to maintain a high standard when it comes to our faculty.”

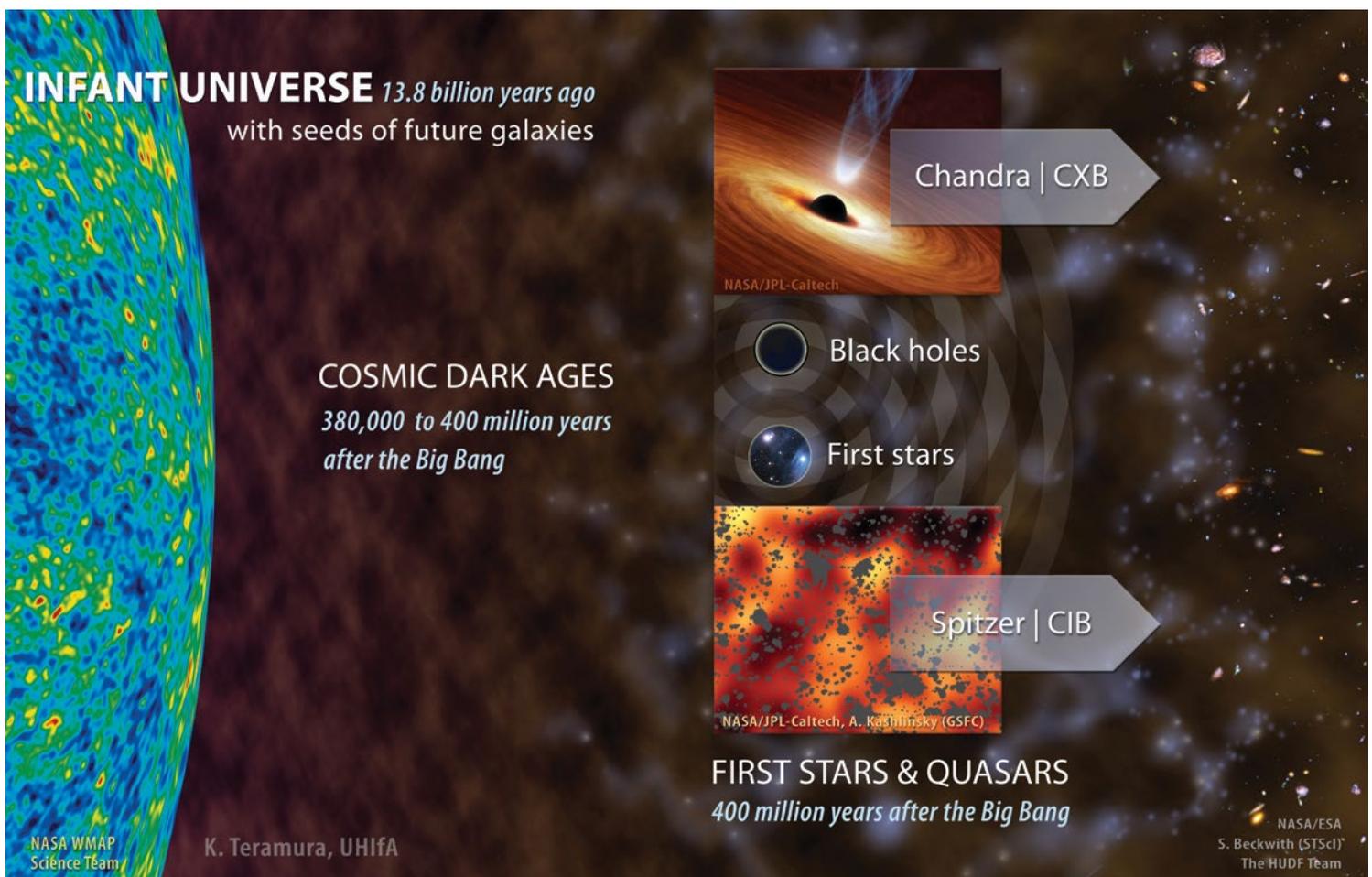
As a PhD student, Suh has had the opportunity to join forces with some of IfA’s esteemed researchers.

“I’m really happy to work with exceptionally competent faculty members and research groups at IfA,” said Suh. “The excellent academic environment

has increased my knowledge and broadened my research through collaboration.”

The Director’s Chair in Astronomy is just part of the Pavels’ \$10 million gift to UH aiming to strengthen science education and research. As for IfA’s budding astronomers, being availed to research opportunities and faculty mentorship proves that the sky is definitely not the limit.

“There are hundreds of thousands of astronomers out there, so discovering something new requires very careful detective work,” said Hasinger. “When a student has the time and resources to put pieces of the puzzle together, it’s truly amazing what they can find.”



The cosmic microwave background, shown at left, is a flash of light that occurred when the young universe cooled enough for electrons and protons to form the first atoms. It contains slight temperature fluctuations that correspond to regions of slightly different densities, representing the seeds of all cosmic structure we see around us today. The universe then went dark for hundreds of millions of years until the first stars shone and the first black holes began accreting gas. A portion of the infrared and X-ray signals from these sources is preserved in the cosmic infrared background, or CIB, and its X-ray equivalent, the CXB. At least 20 percent of the structure in these backgrounds changes in concert, indicating that black hole activity was hundreds of times more intense in the early universe than it is today.

Illustration by Karen Teramura, UHIfA. Inserted image credits: cosmic microwave background (left): NASA WMAP Science Team; black hole blow up, AGN (center, top): NASA/JPL-Caltech; first stars blow up (center, bottom): NASA/JPL-Caltech, A. Kashlinsky (GSFC); Hubble Ultra Deep Field (right): NASA/ESA, S. Beckwith(STScI) and the HUDF Team.

Saving Hawaiian language

ONE UH HILO STUDENT AT A TIME

An ancient Hawaiian proverb – *Nani Puna pō i ke 'ala* – speaks of the fragrance of Puna, an area once heavily laden with sweet-smelling maile. A sprawling shrub native to the state, maile is not easy to grow and requires great care to flourish. Similarly, Hawaiian language – at one time widely spoken, but having come to the brink of extinction – also requires great attention to thrive in today's modern society.

Just as they cared for their maile, Puna natives Daniel Makuakāne and Lydia Ah Hee Makuakāne also understood the importance of caring for the Hawaiian language. They created the Daniel and Lydia Makuakāne Endowed Scholarship to nurture the next generation of Hawaiian language speakers by supporting UH Hilo Ka Haka 'Ula o Ke'elikōlani College of Hawaiian Language students.

"Our parents lived at a time and in a place where Hawaiian language and culture were dominant," said their daughter, Dr. Teresa Makuakāne-Drechsel. "They knew that our experiences would be different and made sure that our core identity, values and practices were 'ohana-focused and kānaka Hawai'i."

Growing up in Kapa'ahu in Puna, Lydia Makuakāne was raised by her paternal grandmother in a household where Hawaiian language was standard. She and Daniel have continued to foster its use at home and in the community.

"They understood the need for us to learn from the diverse teachings of others outside of the 'ohana," added Makuakāne-Drechsel. "This endowment honors their vision of a culturally and linguistically dynamic Native Hawaiian community."

UH Hilo student Aiko Lepeka English, one of the inaugural recipients of the Makuakāne Endowed Scholarship, was also raised with a similar emphasis on the importance of preserving the Hawaiian language. Originally from Kaunakakai, Moloka'i,



Makuakāne scholarship recipient Aiko Lepeka English

her parents enrolled their daughters in Pūnana Leo after noticing the decline of native Hawaiian language speakers within the family.

English went on to be the first in her family to graduate from a Hawaiian language immersion program. Now pursuing her teacher's certificate from UH Hilo's Kahuawaiola Indigenous Teacher Education Graduate Program, she hopes to continue her education.

"It became very clear to me that I wanted to continue Hawaiian language for the upcoming generations, not only in my own family, but in the community," said English. "My plan is to hopefully attain a full-time teaching position in a Hawaiian language school with the hope of continuing to seek my master's degree while teaching."

English is currently working as a librarian for Ka Haka 'Ula o Ke'elikōlani and will also be interning at a Hawaiian language immersion school as part of her teacher's certification with Kahuawaiola.

"This scholarship from the Makuakāne 'ohana is an ease of mind and is definitely a big help in allowing me to achieve my educational goals," said English.

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L-R: Lawrence Taff, Elizabeth Hokada, William Richardson, UH Foundation Board Chair Michael May and Catherine Ngo

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The University of Hawai'i Foundation and its Board of Trustees are deeply grateful to all our donors who have contributed to our tremendous growth over the past 60 years.

Your gifts have made a difference

in the lives of thousands of University of Hawai'i students and faculty.

We are especially grateful to those generous donors who invest in an endowment.

The UH Foundation is devoted to making sure your gift is well-managed and working as hard as it can for the University of Hawai'i.

Your generosity has helped us create a legacy for generations to come.



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