

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.

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.

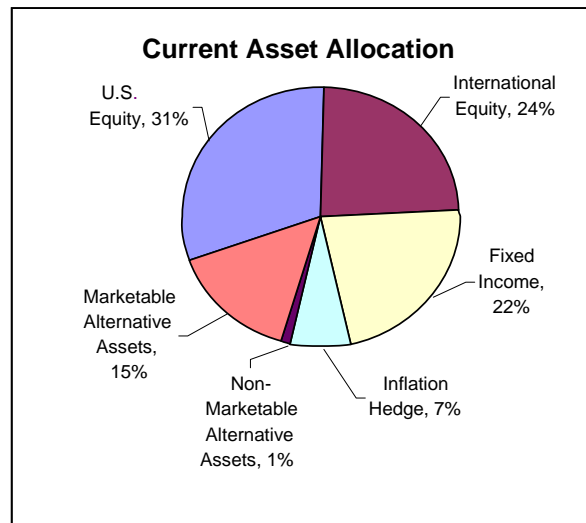
Endowment Pool Policies

Endowment gifts to the University of Hawai'i Foundation 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.

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. Cambridge Associates provides investment service to over 180 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. Based on their assessment of the consultant's recommendations the Investment Committee determines the appropriate allocation and selects the investment managers. The Foundation's asset allocation at 6/30/05 is displayed in the following chart:



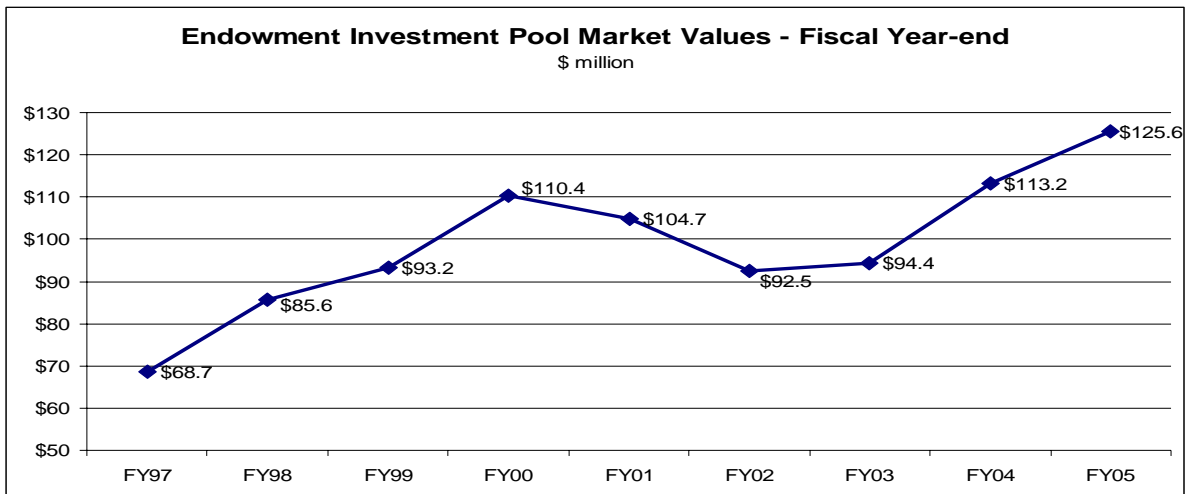
The non-marketable assets allocation is low since the managers only invest funds as opportunities are identified. Over time, this allocation will increase to 8%.

The Foundation currently utilizes 14 investment managers. The investment managers and styles for the asset categories are as follows:

Investment Manager	Investment Style
U.S. Equity	
State Street Global Advisors	S&P 500 Index Fund
PFR Clipper Fund	Large Cap Value
Southeastern Asset Mgmt Longleaf Partners Fund	Large Cap Value
Hotchkis & Wiley Capital Management	Mid and Small Cap Value
International Equity	
Brandes Investment Partners	Large Cap International
Arnhold & S. Bleichroeder First Eagle Overseas Fund	Mid Cap International
Non-Marketable Alternative Assets	
Park Street Capital Private Equity	New Non-public Companies
Marketable Alternative Assets	
Pine Grove Offshore Fund	Hedge Fund of Funds - Multiple Styles
Common Sense Investment Management	Hedge Fund of Funds - Equity Long/Short
Inflation Hedge	
Wellington Trust Company	Natural Resources, Real Estate, Inflation-linked Bonds, Commodities
TIFF Real Estate Partners	Real Estate
Park Street Capital Natural Resources	Natural Resources
Fixed Income	
Bank of Hawaii	Intermediate Government and Corporate
Payden & Rygel	Intermediate Government and Corporate

Endowment Investment Pool Performance

The chart below provides the historical results of the endowment investment pool. The values have been normalized to exclude Charitable Gift Annuities which by Hawai'i state law are now invested separately.



The following chart summarizes the rate of return compared to the benchmark.

Annual Rate of Return	Fiscal Year 2005	Fiscal Year 2004	Annualized Trailing Three Years	Annualized Since Inception (4/1/96)
Actual	8.9%	17.7%	8.2%	7.8%
Benchmark	8.8%	15.7%	8.5%	8.1%

The current benchmark reflects a blend of Russell 3000 (32%), MSCI EAFE (19%), 91 Day T-bills plus 5% (15%), CPI plus 5% (12%), Lehman Brothers Aggregate Index (22%). Prior period benchmarks reflect the target asset allocation at the time.