

UNIVERSITY OF HAWAI‘I FOUNDATION

2007 ENDOWMENT REPORT

CHAIRMAN’S MESSAGE:

Aloha Donors and Friends of UH

Everyone loves to receive a gift and we are grateful for those gifts you have given to UH over the years, especially because your gift has been added to the Endowment.

The Endowment provides chancellors and deans a permanent income stream they can rely on in their budget. They can recruit the best talent when hiring faculty or supporting programs. Endowed student aid allows us to compete with mainland institutions to keep our best and brightest students in Hawai‘i. Once something is endowed, it will be here forever and will provide UH a growing margin of excellence.

The Investment Committee manages the Endowment to maximize the returns on your gifts while taking a careful approach to minimize risks. Our fiscal year 2007 return

was 15.3 % and we have been averaging about 12% for the last 3 years. This has enabled us to distribute funds to support the programs you have chosen and to help grow the Endowment from about \$100 million in 2000 to almost \$180 million today.

As UH celebrates its 100th anniversary, a gift to the Endowment will still be helping students, faculty and programs when it celebrates its second centennial.



Barry Weinman

Chairman

Investment Committee, UH Foundation

UH FOUNDATION

INVESTING IN THE FUTURE: THE FOUNDATION’S ENDOWMENT

The University of Hawai‘i is a great system of higher education, internationally renowned for its achievement in teaching and research across many disciplines. Financing a public university system of UH’s size and caliber requires a strong public-private partnership.

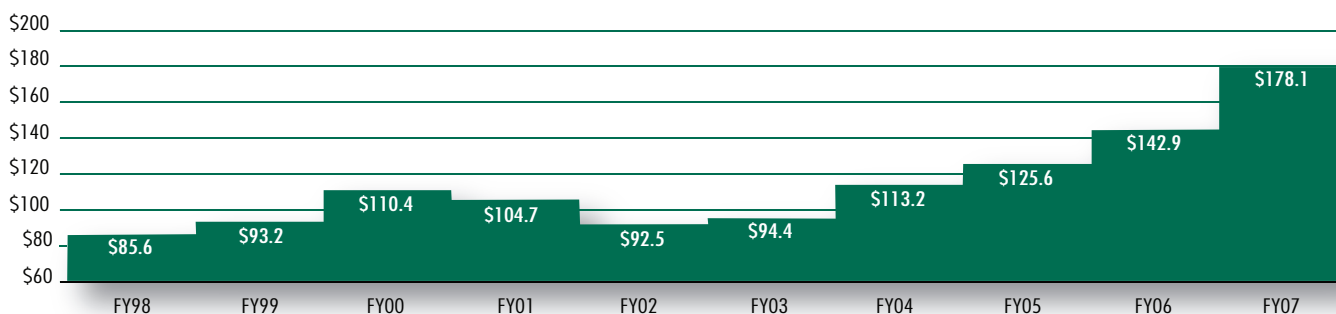
No form of investment is more important to a university’s long-term success than its endowment. Endowments create living legacies that span generations. Since 1976

the Foundation’s endowment pool has provided support to the UH system. Alumni, faculty, parents and friends have stepped forward to give generous endowed gifts to increase the university’s stature and ensure its legacy for future generations.

Increasing the endowment is among the top priorities of the University of Hawai‘i Foundation.

Endowment Investment Pool Market Values — Fiscal Year-end

\$ millions



Prudent investment resulted in a 15.3% return on the Foundation’s investment in FY2007.

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 preeminence 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.

SOWING THE SEEDS FOR TOMORROW



"I cannot fully express the gratitude I have for the generosity of the many donors who willingly contribute their own hard earned money each year to form these scholarships so that students like myself can continue to attend school with fewer burdensome financial worries."

Kainana Francisco, Hawai'i Florists & Shippers Association Scholarship recipient 2006-2007

The agricultural industry is central to Hawai'i's history, and its health is critical for a sustainable future. Education in the field of agriculture is also at the heart of the University of Hawai'i, which was founded in 1907 under the auspices of the Morrill Act as a land-grant college of agriculture and mechanic arts. Today, others join UH in their work to create strong agricultural industry leaders for tomorrow.

The Hawai'i Florists and Shippers Association's (HFSA) dream to invest in agricultural leaders stems back to their late president Raymond Suefuji, who had a strong desire to

see industry leaders work to strengthen Hawai'i's agricultural industry by investing in future leaders.

HFSA was founded in 1948 and is an organization of florists, growers, and shippers, nurseries, and support industries directly connected to the horticultural industry. The combined generosity of its 400 plus members statewide, resulted in their first endowment check in 2003, of \$50,000, which they presented to Dean Andrew Hashimoto who received the funds on behalf of UH Mānoa College of Tropical Agriculture and Human Resources, UH Hilo's College of Agriculture, Forestry and Natural Resource Management, and the community colleges. This was followed by an additional gift of \$25,000 in 2005. Last year, HFSA gave an additional \$25,000, which brought the total endowment up to \$100,000.

The Hawai'i Florists and Shippers Association Endowed Scholarship is one of the few industry scholarships that the UH Foundation manages. This gift assists agriculture students at UH Mānoa, UH Hilo and UH community colleges. To date this scholarship has been awarded to six students committed to careers in this dynamic field. Statewide, this gift is making a difference, and attracting talented students to rewarding careers in Hawai'i's agricultural field.

BRIDGING NATIONS, CHANGING LIVES

“My attitudes and values have been affected by this experience. Since I went to Japan, I am more open-minded and knowledgeable concerning the world, life, and people in general.”

Kuri-Chan Marshall, Paul S. Honda International Opportunities Scholarship recipient 2006–2007



Heian Shrine, Kyoto, Japan

Paul S. Honda’s life story is one of survival, strength and seizing opportunities. Honda was born in Manchuria, lived through World War II, and graduated from high school in Tokyo. At the end of World War II, while an exchange student at the National University of Manchuria, his studies were interrupted by a Russian order to attend Moscow University. Sent to a labor camp when he refused, he worked until he fled to the Chinese port of Dalian.

After his repatriation to Japan in 1947, he completed his bachelor’s degree at Nagoya University’s College of Economics and completed his MBA studies at the University of Denver. While in Denver, Honda met Mitsuko, who later became his wife.

While still a student, Honda explored every contiguous state of the U.S. Short on funds, he sold the seven strands of precious pearls his mother had given him for such a purpose and started Honda & Company, beginning a highly successful career in international gems trading. Though his career ended more than three decades later, the vision has not, and the Honda Foundation he and Mitsuko established has helped more than 50 non-profit organizations throughout the years.

In 1985 the Hondas retired to Hawai‘i and continued dedicating themselves to charitable causes. Experiencing the world from East to West, and gaining profound experience of diverse cultures and histories had been Mr. Honda’s greatest education.

In 1997, the Honda Foundation established the **Paul S. Honda International Opportunities Endowment for Community College Students**, which provides funding, in perpetuity, for scholarships and other activities that support international education for students of the University of Hawai‘i Community Colleges.

With this gift, students with dreams of incorporating an international experience into their academic program, can experience the invaluable education that a global perspective offers. To date, this visionary endowment has impacted the lives of 38 deserving students.

“For many of our community college students, an international experience is beyond their financial means. With this fund, deserving students experience exchange opportunities that transform their world view and bring value to their education that lasts a lifetime.”

Dr. John Morton, Vice President for Community Colleges

• **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.

2007 ENDOWMENT FUND LEADERSHIP

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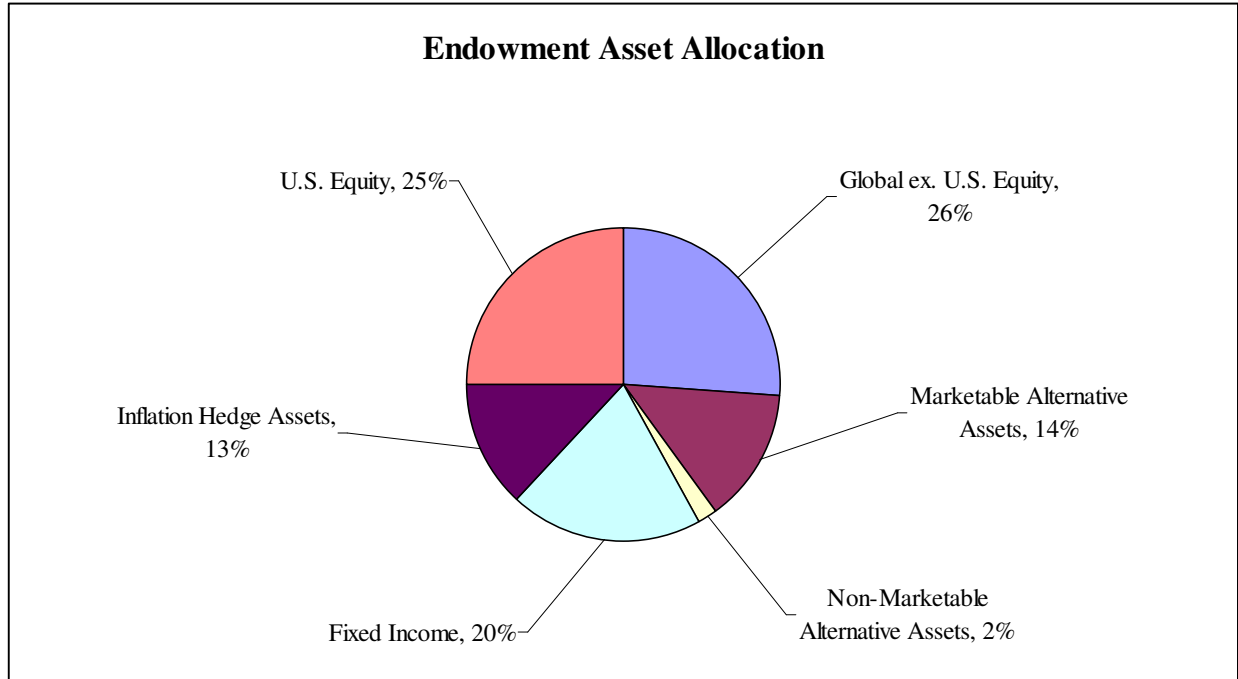
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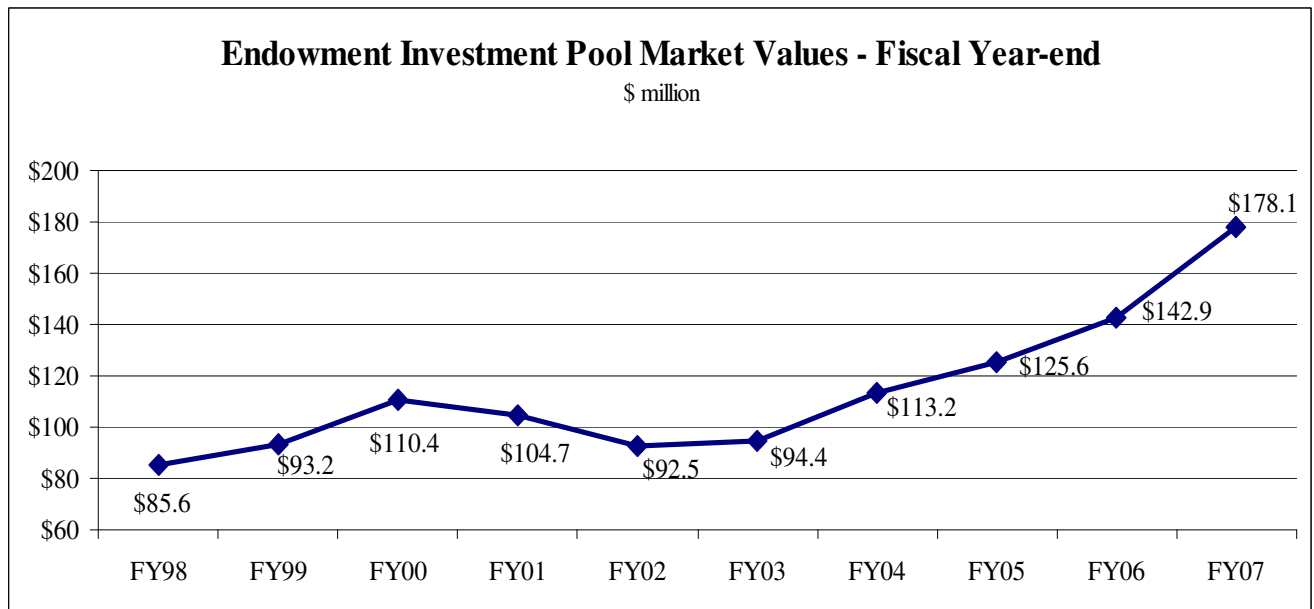
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UH Foundation Endowment Investments

The Foundation's asset allocation at 6/30/07 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 2007	Annualized Trailing Three Years	Annualized Since 4/1/96
Actual	15.3%	12.2%	8.9%
Benchmark	15.0%	11.3%	8.9%

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 (8%), Lehman Brothers Government Bond Index (8.8%), Citigroup World Government Bond Index (4.4%).

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

Investment Manager/Fund	Investment Style
U.S. Equity	
State Street Global Advisors – S&P 500 Fund	S&P 500 Index Fund
Gardner Russo - Semper Vic Partners Fund	Large Cap Value
Delaware - Pooled Trust Large Cap Growth Fund	Large Cap Growth
Southeastern - Longleaf Partners Fund	Mid and Large Cap Value
Hotchkis & Wiley Fund	Mid and Small Cap Value
Global ex. U.S. Equity	
Brandes Investment Partners - Non-U.S. Equity	Large Cap International
Arnhold & S. Bleichroeder - First Eagle Overseas Fund	Mid Cap International
Non-Marketable Alternative Assets	
Park Street Capital - Private Equity (Three Funds)	New Non-public Companies
Marketable Alternative Assets	
HBK Investments	Diversified Arbitrage
Satellite Asset Management	Diversified Arbitrage
Stark 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
Savannah-Baltimore Partners	Global Long/Short
Shumway Capital Partners	Global Long/Short
Brahman Capital Corporation	U.S. Long/Short
GMT Capital Corporation	U.S. Long/Short
Sonar Capital Management	U.S. Long/Short
Hawkeye Capital Management	Opportunistic
King Street Advisors	Opportunistic
Inflation Hedge Assets	
Wellington Trust Company – Real Asset Fund & Diversified Inflation Hedges Fund	Natural Resources, Real Estate, Commodities, Inflation-linked Bonds
Park Street Capital - Natural Resources Fund	Natural Resources
TIFF - Real Estate Partners	Real Estate
TIFF - Realty and Resources Fund	Real Estate and Natural Resources
Fixed Income	
State Street - US Gov. Bond Index Fund	Intermediate Government
PIMCO - Total Return Fund	Full Range of Securities and Market Sectors
Mondrian Investment Partners – Global Fixed Income Fund	Foreign Sovereign Debt