Notice of Meeting
UNIVERSITY OF HAWAI’I
BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE
Members: Regents Moore (Chair), Higaki (Vice-Chair), Acoba, McEnerney, and Tagorda

Date: Thursday, April 4, 2019
Time: 10:30 a.m.
Place: University of Hawai’i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai’i 96822

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the February 14, 2019 Meeting

III. Public Comment Period for Agenda Items: All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting written testimony are not automatically signed up for oral testimony. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Oral testimony is limited to three (3) minutes. All written testimony submitted are public documents. Therefore, any testimony that is submitted verbally or in writing, electronically or in person, for use in the public meeting process is public information and will be posted on the board’s website.

IV. Agenda Items

A. Discussion on Legacy Endowment Fund Benchmarks

B. Discussion on Regents Policy (RP) 8.207, Investments; RP 8.211, Resolution on Use of New Income, Principal, and Investment of ASUH-Mānoa Stadium Stock Fund dated January 18, 1979; and RP 8.212, Guidelines on Use of Income from the University of Hawai‘i at Mānoa Stadium Stock Fund, Proceeds from the Sale of the Kaimuki Observatory Lot and from the Rental of University Property

C. Discussion on RP 8.204, University Budget (Operating and Capital Improvements)

D. Report on the Newly Created Office of Strategic Development and Partnerships

V. Adjournment
Item IV.A.

Discussion on Legacy Endowment Benchmarks

ITEM TO BE DISCUSSED AT MEETING
Building better benchmarks
Navigating the journey requires a constant compass
It all begins with the benchmark. In our work with thousands of advisors, we have found that benchmarks are understood to be important, yet are troublingly underutilized. While 72% of advisors we surveyed acknowledged that benchmarks are important in client performance reviews, 44% confessed that they do not use a benchmark when building client portfolios. In other words, advisors are much more likely to use benchmarks at the end of their process, to evaluate a portfolio’s performance, than in either constructing or making changes to the portfolio.

We believe using the right benchmark is crucial throughout the portfolio management process. Benchmarking acts as the risk guardrail for the portfolio, but it also sets the foundation and serves as a constant compass throughout a given investing journey. The benchmark offers a means for translating a portfolio’s objective to a concrete allocation, ensuring that the client’s goals are considered in conjunction with his or her expectations for market returns. Proper benchmarking plays a role in each of the subsequent steps of the portfolio construction process. Establishing risk targets, creating tilts and selecting securities should not be done without it.
The portfolio construction process has four core steps:

1. **Benchmark**  
   Translate objectives to allocation

2. **Budget**  
   Evaluate risks and costs

3. **Invest**  
   Explore and select strategies

4. **Monitor**  
   Measure and rebalance with discipline

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The role of the benchmark

Arriving at a client’s financial goals requires first arriving at a benchmark. You might begin by considering investments from the broadest perspective (e.g., stocks vs. bonds) and then growing more specific from there: What assets or asset classes do you want the performance of this portfolio to be measured against? What timeframe is appropriate – the next five years, the next full market cycle or the entire investment horizon?

A key challenge of portfolio construction is that you cannot know with any certainty what returns the market may provide during the investing journey. One 10-year time frame may provide stock returns of 12% per year, while another 10-year period may see stocks return close to 0%. The benchmark acts as a tool to help project what returns your client can expect to receive at the start of any time period and evaluate what he or she actually did receive at the end of it. This allows the opportunity to reconcile the two while also serving as a mile marker along the journey.

For example, assume a portfolio was up 3% last year against a longer-term target return of 6%. Understanding why the portfolio’s return was below the target requires an evaluation of: 1) the return of the markets, 2) the amount of risk taken in the portfolio, 3) the diversification of the portfolio, 4) the tactical bets that were taken and 5) the performance of the products within the portfolio. The benchmark plays an integral role in the assessment of the portfolio’s returns across each of these dimensions.

But the benchmark is not only useful in periods of below-target returns. If that same portfolio were up 9%, your client may not concern himself or herself with the reasons why – but you should. Were your tilts properly scaled and simply all successful? That would be a terrific outcome. However, it’s also worth asking if the portfolio was taking on too much risk or making out-sized bets. If the latter, it’s better to find out now, because next year the results could easily flip.
The key is to ensure the portfolio can capture the returns the market is offering while limiting the decisions that could have a large negative impact on the portfolio’s ability to generate the target return. Investing history is littered with stories of clients tactically retreating to cash in anticipation of some negative event, only to miss out on returns as the event fails to materialize and markets grind higher. Equally detrimental: allowing a successful trade to run too long without proper diversification. This effectively allows concentrated risk to build up in the portfolio, damaging returns once the trade reverses.

This is not to imply a portfolio can’t evolve as circumstances inevitably change. It simply means each new investment idea should be evaluated by considering its ability to improve the risk-adjusted return of the portfolio over the chosen time horizon. The benchmark allows the ability to judge when the portfolio strays too far from its intended allocations. When it does, it’s generally prudent to sell what’s up, buy what’s down and bring the portfolio back into balance.

**Benchmarking permeates portfolio construction**

<table>
<thead>
<tr>
<th></th>
<th>Benchmark</th>
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<tr>
<td>1</td>
<td>The benchmark sets the foundation for the portfolio and assures that it’s closely aligned with the objectives. It also features prominently in the three steps that follow.</td>
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<table>
<thead>
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<th>Budget</th>
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<tr>
<td>2</td>
<td>In the budgeting phase, you decide where to incur costs and take risk and establish a process for evaluating both. You should be mindful of how much the portfolio costs and be able to contemplate risk in two dimensions: how much risk your client can afford to take and what types of risk your client intends to take. The benchmark provides you the simplest way to construct your client’s asset allocation and should, at least, represent the lowest-cost version of implementing your client’s strategy.</td>
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<th>Invest</th>
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<td>3</td>
<td>The investing step requires you to determine the most appropriate vehicles to implement your client’s strategy. What components will help you fulfill each need in the portfolio? Do you have an unbiased, thorough process for evaluating pooled vehicles, such as active mutual funds and exchange-traded funds (ETFs)? Everything you choose should ultimately be valued by its ability to enhance the portfolio’s return against the benchmark. If it isn’t additive in raising the level of risk-adjusted return, either by enhancing return or reducing risk, then it shouldn’t go into the portfolio.</td>
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<td>4</td>
<td>Finally, through monitoring, the portfolio is constantly evaluated against its goals, its risk profile and the market returns occurring around it. Re-allocating with discipline is the key to achieving successful portfolio results. Markets never move in a straight line; the benchmark is the constant that can objectively assess how much return and risk is being provided by the markets at any given moment.</td>
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The key is to ensure the portfolio can capture the returns the market is offering while limiting the decisions that could have a large negative impact on the portfolio’s ability to generate the target return. Investing history is littered with stories of clients tactically retreating to cash in anticipation of some negative event, only to miss out on returns as the event fails to materialize and markets grind higher. Equally detrimental: allowing a successful trade to run too long without proper diversification. This effectively allows concentrated risk to build up in the portfolio, damaging returns once the trade reverses.

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It’s all relative…or is it?

While benchmarking, and the statistical measures that accompany it, can provide advisors and their clients with insights into a portfolio’s risk/return profile, concentration levels and holdings tendencies, one consequence of the practice is that all measurements of a portfolio’s dimensions are evaluated in relative, rather than absolute, terms.

The key drawback to “relativism” is the implicit assumption that the chosen benchmark is actually appropriate for the client. In fact, the return performance of a particular stock or bond index does not determine whether a client is likely to achieve particular investment objectives. If the S&P 500 declines by 30%, but a 63-year-old client’s large-cap stock mutual fund “only” falls 20%, has that client somehow moved closer to his or her goal of enjoying a secure retirement?

This point is critical because, for most clients, hard-earned money is invested with a particular long-term goal in mind, not as an academic experiment to outperform an arbitrarily chosen index.

Said another way: The S&P 500 is not for everyone. Investment portfolios can obviously have very different objectives. When looking for a performance reference point, clients tend to gravitate toward some of the most popular market indexes, which may not be appropriate.

The S&P 500, for example, might be the most convenient, but advisors should encourage their clients to measure themselves against a more thoughtful benchmark that matches the client’s individual objectives and risk tolerances. A good benchmark should serve three purposes:

1. **Provide guidance for the appropriate amount of risk to be taken in the portfolio.** You can’t control how risky the stock market is, but you can make sure that your client’s 60/40 portfolio, for example, is taking on an appropriate amount of risk given the market’s current volatility profile.

2. **Put returns into context.** In 2008, a 10% return might indicate massive outperformance (and an extremely active portfolio), while in 2017 it may have felt a little lackluster. Without a benchmark, there’s no context for that performance and no way for a client to truly understand whether the portfolio has done well.

3. **Provide insight into the value of tactical decisions.** Understanding how your decisions are contributing to (or detracting from) your client’s performance would be impossible without the objectivity of the benchmark.
Notably, advisors and their clients need not choose a single broad market index as their portfolio’s benchmark. Most often, this is not the most effective foundation for a portfolio, or measure of its success. We’ve identified four main types of benchmarks: objective-driven, granular, broad and strategic.

Some portfolio management styles may benefit from a blend of multiple types of benchmarks, while others may require just one. The chart below evaluates each type against four important dimensions of a good benchmark—its breadth, neutrality, investability and representativeness.

<table>
<thead>
<tr>
<th>Types of benchmarks</th>
<th>Objective-driven</th>
<th>Granular</th>
<th>Broad</th>
<th>Strategic</th>
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<tr>
<td>A good benchmark is:</td>
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<tr>
<td>Broad</td>
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<td>Representative</td>
<td>X</td>
<td>✓</td>
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For illustrative purposes only.

**Objective-driven**

An objective-driven benchmark is not asset class-specific. Instead, it is linked to a goal. These tend to be return-focused (e.g., earn 3% over the Consumer Price Index) with constraints around the maximum acceptable level of risk or drawdown.

The typical client portfolio has return targets or minimum required returns to reach certain goals — for example, the cost of sending a child to college in 10 years — which have nothing to do with the returns of the S&P 500. In this sense, an objective-driven benchmark makes intuitive sense.

The challenge is that it is difficult to tell how efficiently the portfolio is meeting its goal. You may be taking on more risk than is needed or wanted, which could ultimately end up compromising return objectives.
Same objective, different risks
Hypothetical risks entailed in portfolios offering a 4% yield

As an example, there are many different ways to try and deliver a 4% income target (the exhibit above illustrates four of them). While each would have delivered the desired 4% yield, they would do so with meaningfully different levels and types of risk. The multi-asset portfolio delivered the income with less than half the risk of the real estate portfolio.

Thus, it is important to supplement an objective-driven benchmark with some sort of risk parameter, either a floating barometer based on the risk of a strategic benchmark or a fixed measure.

Granular
A granular benchmark is determined by the current asset allocation and the product mix. It allows you to isolate the incremental risk and return from product selection versus asset allocation. If the portfolio has a 20% allocation to domestic large caps, 10% to domestic mid caps, 10% to domestic small caps, 15% to international developed, 5% to emerging market stocks and 40% to domestic bonds, a granular benchmark would reflect that level of detail.

This benchmark may be best suited for advisors who are heavy users of active managers and have no intention of making asset class tilts. The value of a decision to
overweight U.S. large cap, for example, will not be captured by using this benchmark type. Only those who avoid asset class tilts and who solely want to determine whether their active managers are adding value beyond that of a matching asset allocation will derive benefit from this type of benchmark. Since it has the potential to change as the portfolio changes, this benchmark type will reflect any tactical asset allocation bets made within the portfolio. As a result, it loses its ability to serve as a neutral, unbiased measure of risk and thus does not fulfill the most important requirement of the benchmark. In addition, the benchmark would lose efficacy every time the portfolio made an asset allocation shift; it would either cease to match the allocations exactly or change at the same time. Thus, in our view, a granular benchmark should only be used in concert with a broad or strategic benchmark.

**Broad**

A broad benchmark represents the entire investable universe; if you were to simply buy a proportionate share of the global market, what would that portfolio look like? Generally, that has meant a broad stock index and a broad bond index, weighted in line with the portfolio’s target asset allocation; for example, 60% stocks and 40% bonds. A broad benchmark allows you to measure the benefit of tilts away from that universe. However, many client portfolios have long-term deviations in a variety of asset classes: a home-country bias in both stocks and bonds or perhaps more small cap than the market. This can make a broad benchmark unrepresentative of a portfolio’s typical holdings. This might look favorable in some periods—for example, benchmarking a U.S.-tilted portfolio to a broad global stock index with a meaningful allocation to international stocks over the last three to five years would have indicated significant outperformance. However, you should be mindful of times when the tables are turned. In periods where international stocks are outperforming U.S. stocks, would you remain as comfortable with your benchmark? A benchmark should be evergreen, so if the answer is no, a broad benchmark may not be the best solution.

**Strategic**

A strategic benchmark should represent a more refined version of your broad, long-term neutral allocation. If you start your portfolio asset allocation by portioning 40% to domestic stocks, 20% to international stocks and 40% to domestic bonds, a strategic benchmark would mirror those allocations.

If you occasionally express tactical tilts to specific asset classes, however, those would not appear within a strategic benchmark. This benchmark style allows you to measure the efficacy of any active tilts away from that neutral allocation, whether they be asset allocation bets, factor tilts or security selection decisions. It provides a reasonable reference point for the assessment of how those tilts are altering the risk profile of the portfolio and offers the ability to measure their success.
A strategic benchmark should be used when you are making asset allocation calls (as with a broad benchmark), but your client’s strategic long-term asset allocation is different than the global cap-weighted benchmark. Examples of this would be a portfolio built with a specific bias to U.S. stocks or portfolios that will have a perpetual overweight or underweight to parts of the broad market. In other words, you may never invest in emerging markets or might always have an allocation to U.S. small caps. In those instances where words like “always” or “never” apply, the benchmark should be altered appropriately to reflect that preference.

A strategic benchmark offers similar benefits to the broad benchmark with one critical enhancement — it accounts for any perpetual preferences the advisor or client may have. It provides a reference point to measure tactical tilts against, while screening out the performance and risk differentials that may exist from a broad benchmark due to those perpetual preferences.
Benefits of a strategic benchmark

We’ve found that the strategic benchmark has been the most realistic and useful benchmark in practice, providing the right amount of specificity to set risk and return expectations, and the right amount of breadth to provide a comparison point for measuring the value of tactical bets. Advisors interested in evaluating their manager selection may find value in supplementing the strategic benchmark with a more specific granular benchmark. Similarly, advisors interested in evaluating the impact of their strategic tilts in isolation may find value in comparing their strategic benchmark versus a broad benchmark.

Lastly, and perhaps most importantly, benchmarking also keeps a portfolio true to its objectives. If a tactical bet, or more likely a series of bets, knocks the portfolio’s risk level out of line, the benchmark provides a signal to make adjustments before it is too late.

Building a strategic benchmark

Building a long-term strategic benchmark is similar to building an asset allocation model and can be done in a similar manner. First, think about the realistic level of return you are targeting for the portfolio. Using long-term capital market assumptions, determine a mix of stocks and bonds that allows you to target this goal. Beware of changing capital market assumptions – these can alter the portfolio’s expected return considerably relative to returns generated in the past. Next, examine the expected risk level of that mix and verify that you are comfortable with it. If not, iterate to find a combination of stocks and bonds that offers a comfortable level of risk/return.

In completing this first step, you have essentially created a broad benchmark. But with a little more effort, a more detailed strategic benchmark can be developed that incorporates your portfolio’s preferences. For example, how much home country bias would you prefer? One way to land on a proper benchmark weighting for international stocks is to consider the extremes. That is, if you were extremely bullish on international and emerging market stocks, what is the largest allocation you could tolerate? Conversely, if you were quite bearish on the same, what is the smallest allocation you would hold? The midpoint of those two answers is a good neutral benchmark allocation, allowing for both overweighting and underweighting of that asset over a full market cycle.

Benchmarking keeps a portfolio true to its objectives.
Alternatives are trickier. Putting portfolio considerations aside, many alternative investments are challenging to benchmark even in isolation. Whether you call them asset classes or strategies, investments that are less liquid, less transparent or more diverse across a particular category tend to be more difficult to benchmark. Choosing a benchmark for private equity, unlisted real estate and hedge funds will involve tradeoffs around representativeness and investability. For example, a broad private equity index may not fairly reflect the strategy, quality or vintage year of your client’s holdings, and for most illiquid investments, any broad benchmark is typically not investable. The indexes themselves often also come with caveats including lagged results, survivorship bias and selection bias.

There are also difficulties in analyzing the risk in illiquid alternatives that apply equally to the investments themselves and their benchmarks. One of the key benefits of illiquid strategies is their ability to mute the short-term, sentiment-driven swings in price that more tradeable instruments experience. However, the price volatility that is experienced in illiquid investments can underestimate the true level of economic exposure and, therefore, underestimate potential returns as well as the risk of loss.

For the bond sleeve, in most cases, a good starting point is “core” bonds, typically described as U.S. investment-grade bonds. However, that may not be robust enough given your objectives. The type of minimum/maximum line of questioning explained above can help you evaluate benchmarking for exposures such as non-U.S. bonds or high yield. Think about why you are using bonds. Do you plan for your bonds to serve as a diversifier, helping to balance overall portfolio risk? If so, then perhaps an aggregate bond index or an investment-grade municipal bond index can serve your purpose. If you require the bond allocation to generate an above-average level of income, some exposure to high yield or other “yieldy” asset class may make sense, in combination with investment-grade bonds. If you plan to consistently include a certain percent of cash in the portfolio, then you can include this in the benchmark as well, sourced from bonds.

In each of these cases, the question of whether an asset class should be represented in the benchmark is best answered by evaluating the intended exposure to that asset through a full market cycle—and should never be contemplated with only current views in mind. Also, the “always/never” rule, described above, should be applied here. If you suspect a certain asset type may appear in the portfolio occasionally, and disappear at other times, then it is likely not well suited for representation in the benchmark.

Investments that are less liquid, less transparent or more diverse tend to be more difficult to benchmark.
Private equity, for instance, should keep pace with, if not magnify, the results of listed stock investments in upswings and downturns driven by macroeconomic fundamentals. Given this, is the observed volatility of an infrequently revalued benchmark a reliable indicator of risk? It depends on what is being measured – and it is essential to keep in mind when holding illiquid investments that the overall level of risk is usually comparable to that of similar listed investments, but observed volatility is traded for liquidity risk. On this basis, when including illiquid alternatives in the benchmark, you should be mindful of which elements of risk could be obscured, and it might be worth evaluating a portfolio relative to a benchmark both with and without illiquid alternatives to highlight this contrast.

Liquid alternatives such as commodities, listed real estate investment trusts (REITs) and master limited partnerships (MLPs) are a little more straightforward. You should consider including an allocation to liquid alternatives in the benchmark if your neutral holding is something different than zero. That said, in portfolios with more modest allocations to liquid alternatives that are highly correlated with stocks, like REITs and certain MLPs, it is fine to consider these allocations as stocks for the purpose of benchmarking the overall portfolio. When the neutral allocation becomes larger or the asset class behaves quite differently from stocks (e.g., gold and most commodities), a benchmark allocation becomes more appropriate. One final word on liquid hedge fund strategies: Many of the same issues apply to illiquid hedge funds, as the same peer group benchmarks are typically used as a yardstick.

Proper benchmarking plays a critical role throughout the full investing journey. In the early stages, the benchmark allows you and your clients to contemplate what returns are possible and what risks may be necessary to achieve them. It provides a reference point for the potential cost of the portfolio and a way to implement tilts. Without a benchmark, it is impossible to overweight or underweight anything. It allows you to evaluate your client’s investment path and manage how far off course your client is comfortable going while expressing preferences or selecting securities. And finally, proper benchmarking provides a point of reference for monitoring progress, giving you and your clients the ability to:

1) evaluate results during the journey, 2) ask critical questions about the portfolio’s recent behavior and 3) ensure the portfolio’s ongoing proper alignment with both the return target and the market’s return patterns.

Ultimately, benchmarking should be the first step in the investing journey and remain a compass as your clients venture toward their financial goals.
Item IV.B.
Discussion on RP 8.207, RP 8.211, RP 8.212

ITEM TO BE DISCUSSED AT MEETING
I. Purpose

To set forth an investment policy that is aligned with the university’s sustainability goals and policies.

II. Definitions:

As used in this policy, sustainability means serving the needs of the present without jeopardizing the needs of the future.

III. Policy:

A. General

1. The investment of funds and the purchases and sales of bonds, stocks, and other securities and properties from trust or investment funds shall be made with the approval or on the direction of the board. The president or president’s designee is authorized to take any action and to execute and deliver on behalf of the board such documents and certificates as may be necessary or desirable in connection with the acceptance, sale or transfer of investment securities issued to the university. This policy sets forth procedures and guidelines for the day-to-day administration of all university endowment investment activities.

B. Investment Management

1. The board has the basic responsibility of preserving institutional resources, including the endowment in perpetuity. The board oversees the policies and processes concerning investments and asset management and is subject to
certain legal duties including acting prudently and in the interest of the participants and beneficiaries, and the duty to correct or report improprieties of other fiduciaries.

2. The board’s committee on budget and finance (“Committee”) is charged with the responsibility to review matters related to endowment funds. The committee shall recommend to the board for approval the engagement, evaluation, and termination of investment consultants, managers, custodial firms, and other investment professionals; policies and guidelines concerning the management of the endowment fund including but not limited to performance objectives, investment guideline, and performance goals for investment managers; and changes and rebalancing of asset allocations.

3. The vice president for budget and finance/chief financial officer (“VP/CFO”) is charged with carrying out the university’s investment policy and coordinates investment monitoring. The VP/CFO shall also serve as the administrative representative on investment subcommittees of the board, and provides staffing to the committee and subcommittees on matters concerning the endowment fund.

4. The investment manager assists the board in achieving optimal long-term returns consistent with the endowment’s acceptable level of risk. The investment manager shall be selected through a formal competitive process coordinated by the VP/CFO in consultation with the committee. The responsibilities of the consultant shall include:

a. Assist in defining the investment objectives of the fund and in establishing investment policy guidelines;

b. Assist in the selection of the appropriate asset classes and percentages to invest in each class based on return expectations and risk;

c. Implement short-term asset allocation shifts;

d. Selection, appointment, and replacement of fund of managers;

e. Provide the evaluation of fund managers with quarterly reports on performance implemented; and

f. Provide other services as specified by the board and/or committee.

C. Investment Goals and Guidelines
1. The board shall adopt investment goals and comprehensive guidelines to ensure the preservation of capital and adequate growth and income. The long-range investment objective of the university is to achieve an optimal rate of return on assets based on the asset allocation policy to produce current income to meet spending needs of 6% while preserving the real value of the endowment principal.

a. University of Hawai‘i endowment fund investment goals and guidelines

(1) Goals

(a) The investment goal of the University of Hawai‘i endowment fund ("Fund") is to seek the highest expected total return$^1$ within reasonable levels of annual volatility to ensure the long-term growth of the Fund and the continued annual payout$^2$ of not more than 5% of market value.

(b) The university shall provide the investment manager with a schedule of payouts to be made during the year. The payouts will be scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested.

(c) The board also requires that actual investment results be placed in the median bracket or higher of a universe comprised of endowment funds nationwide. This yardstick shall apply to at least a three-year period in order to avoid short-term fluctuations that may reflect temporary out-of-phase investment philosophies of the money managers. The board expects this goal to be fulfilled within the levels of risk that a prudent person would take under various economic conditions.

(2) Guidelines

(a) The "prudent man rule" shall be followed in the investment of the Fund.

i. Securities in new and untried enterprises should not be purchased. This basically applies to companies with no public ownership if its stock or those that have only recently gone

$^1$ Resulting from income from dividends, interest and option writing, and from realized and unrealized appreciation in securities and other investments.

$^2$ The payout rate shall not exceed 5% based on a five-year moving average of market values at fiscal year end without prior approval by the board.
public. An exception to this rule would be where prudence has been exercised through the use of investment vehicles that dramatically reduce the risk factors involved or where special expertise warrants the risk be taken. Therefore, if the investment manager, as a professionally informed and prudent person, recommends purchase of specific securities within an atmosphere of discretion and intelligence, and without speculative intent, then the standard of prudence is upheld.

(b) Equity investments

i. Equity investments shall be made in quality common stocks, convertible preferred stocks and convertible bonds, with an emphasis on total return. Investment managers should invest for the longer term; however, this should not preclude the investment manager from making interim changes to meet the investment goal of the Fund.

(c) Cash and cash equivalent investments

i. All cash, wherever and whenever possible, should be invested in savings accounts or liquid interest bearing securities, including shares of money market funds.

(3) Asset-allocation

(a) A balanced portfolio will be maintained with a minimum of 30% and a maximum of 70% in either the equity or fixed income investments and a maximum of 40% in cash and equivalents.

(b) This guideline is intended to insure that the portfolio will not be heavily skewed towards one type of investment. The principle of prudence requires that the portfolio be well balanced with respect to fixed income investments such as intermediate and long-term corporate and utility bonds, short-term instruments such as treasury bills and notes, commercial paper, certificates of deposit and savings accounts on one hand and equity investments represented primarily by common stocks on the other. (Existing mortgages may be retained in the portfolio until paid up; however, no new mortgage investments will be made.)
(c) Asset allocation table

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<tr>
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<th>Minimum</th>
<th>Maximum</th>
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<tbody>
<tr>
<td>Equities</td>
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</tr>
<tr>
<td>Fixed Income</td>
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<tr>
<td>High Yield Bonds</td>
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<td>20%</td>
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<tr>
<td>Cash</td>
<td>0%</td>
<td>40%</td>
</tr>
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</table>

(d) While the foregoing establishes minimum and maximum allocation for different asset classes, an investment manager is not precluded from establishing lower invested levels while raising cash during adverse market conditions if such action is prudent and protects the principal of the Fund. Within the minimum and maximum asset allocation guidelines the board authorizes the committee to implement short-term tactical asset allocation changes to address the changing market outlook.

(e) The committee will review the Fund's asset allocation and investment manager performance at least annually and shall determine whether the amounts invested with managers should be rebalanced toward the policy allocation targets.

i. Preservation of principal

The investment managers shall make reasonable efforts to preserve the principal of funds provided them, but preservation of the principal shall not be imposed on each individual investment.

ii. Liquidity

The board will be responsible for providing the investment manager with as much advance notice as possible or practical in the event that changes in income payout or principal withdrawals are required.

iii. Diversification

To avoid the risk of concentration of assets, individual bond positions, other than obligations of the U.S. government, should
not comprise more than %5 of the total fixed income portion of the portfolio. Individual equities should comprise no more than 5% of the total market value of the stock portfolio. In addition, investments in any one stock are not to exceed 5% of the corporation’s outstanding common stock.

The investment manager will not be required to invest in equity securities representing a cross section of the economy. However, the investment manager will be allowed to choose the degree of concentration in any industry up to a maximum limit of 15% of total equities in any one industry at market value and a maximum limit of 10% in any one company.

iv. Permitted investments

The use of the following investment vehicles is permitted.\(^3\)

Savings accounts
Commercial paper with A-1 or P-1 rating
Certificate of deposit
Floating rate securities
High yield bonds
Municipal bonds
Money market funds/common trust cash equivalent funds
U.S. government, its agencies, or its instrumentalities
Securities guaranteed by or collateralized by securities guaranteed by the U.S. government, its agencies, or its instrumentalities
Debt securities and convertible securities of U.S. corporations and supranational organizations
Preferred stocks
Common stocks
Publicly-trade foreign securities
Mutual funds, exchange traded funds and common trust or commingled funds
American depository receipts/shares

\(^3\) Investment in mutual funds, limited partnerships or pooled funds may be done so on an exception basis to fully comply with policies established for the fund. However should the university choose to make such investments, the guidelines established by the mutual fund’s prospectus or the pooled fund’s guidelines will take precedence, and may not fully comply with policies established for the fund. The university, through its monitor, shall periodically review the guidelines of any mutual fund or pooled fund investment in order to determine if they remain appropriate for the fund.
Global depository receipts/shares
The writing (selling) of covered call options
Real estate, real estate investment trusts, and real estate mortgages
Forward foreign exchange contracts, and bond/currency options
and futures may be used for the defensive hedging of foreign currency exposure
Limited partnerships

All investment vehicles selected for the portfolio must have a readily ascertainable market value.

v. Prohibited investments/transactions

Investments in companies which, including predecessors, have a record of less than three years of continuous operation
Commodities
Lettered stock and private placements
Selling “naked” puts and/or calls
Derivative securities not covered under permitted investments
Adjustable rate issues with coupons which move inversely to an index
Securities issues by the managers, their parents or subsidiaries
Assets of the Fund in their own interest or for their own account
Transactions involving fund assets on behalf of a party whose interests are adverse to the interests of the Fund or its beneficiaries
Transactions involving third party compensation for their own account from any party in connection with a transaction involving Fund assets

vi. Investment markets for equities

The investment manager is authorized to invest in equity securities listed on the New York Stock Exchange, principal regional exchanges, and over-the-counter securities for which there is a strong market providing ready saleability of the specific security. All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.
The investment manager is also authorized to invest in equity securities traded on foreign exchanges for which there are readily ascertainable market prices and ample trading liquidity.

2. The board also desires to align its investment goals and guidelines with Chapter 4.208, the board’s sustainability policy. As such, the investment manager shall hereby divest the Fund from companies that produce fossil fuels, and shall maintain a portfolio that is substantially divested of fossil fuels (0-1% holdings). While moving toward the divestment of fossil fuels, the investment manager shall also include investments that will provide alternative energy substitutes, where feasible. Divestment shall occur in a responsible manner that will consider investment and management fees, while meeting the investment goals and guidelines set forth in this chapter. Divestment should begin as soon as possible, with the outside date for completion to be on or before June 30, 2018. Progress towards this objective and any monetary impacts to the Fund should be reviewed along with the investment manager’s quarterly report to the board.

D. Monitoring and Evaluation

1. Performance measurement

   a. Investment performance and management of the Fund and the separately managed portfolio will be evaluated over a three year investment horizon. Evaluation will be conducted based on the quantitative and qualitative standards which are applicable to the Fund and the separately managed portfolios.

   (1) Quantitative standards

      (a) The extent to which the compounded annual rate of return of the total Fund equals or exceeds the Fund’s performance objective.

      (b) The extent to which the compounded annual rate of return of the separately managed portfolio equals or exceeds the portfolio’s performance objectives.

      (c) Performance will be measured on a time-weighted basis which recognizes the changes in market value, as well as income received; any appreciation or depreciation that occurs during the period examined, whether realized through the sale of securities or left unrealized by holding the securities; and eliminates the influence of cash flow or asset transfers that are essentially beyond the control of the investment manager.
(2) Qualitative standards

(a) The investment manager’s adherence to the investment policies and guidelines of the Fund.

(b) The investment manager’s consistency in the application of their own investment philosophy.

2. The evaluation and monitoring of the Fund will be accomplished as follows:

a. Semi-annual meetings of the board’s committee responsible for the governance of the university’s financial matters with the investment manager to review the following:

(1) Review the past investment policy and examine the current investment policy.

(2) Develop an understanding of the strategy being used by the policy investment manager to carry out the current investment policy.

(3) Review the present and prospective economic climate.

(4) Permit the board to understand the risk levels of securities represented in the portfolio.

(5) Review the performance of the portfolios with respect to the investment objectives at least annually, and possibly more often. While the board recognizes that performance for an interval as short as one year or less normally is not a fair basis for evaluation of the performance of the investment manager, they do reserve the right to change the investment manager.

b. An annual review meeting of the entire board with the investment manager to review the performance of the portfolios, and the goals and objectives of the Fund.

c. Quarterly reviews based on reports prepared by the board’s selected third-party monitoring service.

d. Comparisons of Fund results and a universe comprised of other endowment funds nationwide to make certain the Fund results are in the top 50% as required by the guideline goals.
e. The investment manager shall be relied on and expected to provide advice whenever appropriate on the composition, performance, and governance (e.g.: policies) of the Fund.

3. Guidelines for probation/termination of an investment manager (Note: These guidelines are also applicable to the Associated Students of the University of Hawai‘i at Mānoa (“ASUH”) investment managers). The committee may recommend the termination of any manager and/or consultant(s) at any time if it determines that the manager is no longer appropriate for the Fund.

a. When the investment manager is in violation of the fund’s investment guidelines, the violations should be reviewed with the manager. Consideration may be given to re-establish appropriate guidelines. The manager may be placed on probation for one year. If further violations occur, the manager may be terminated.

b. The investment manager must immediately notify the board of any pending changes in ownership. This notification places the investment manager on probation. If the change is expected to have a detrimental effect on performance, the manager may be terminated.

c. Upon hiring of the investment manager, a list of key personnel will be provided by the manager to the board. This will be ordered according to authority. This manager is responsible for updating the list on an as needed basis. If 60% of the key personnel or two of the three top personnel listed have departed from the firm, the manager may be terminated.

d. The investment manager must immediately notify the board of any pending litigation. Based on the gravity of the suit the possible impact on the investment process, the manager may be placed on probation or terminated.

e. The investment manager may be terminated should it fail to adhere to stated investment philosophy and style, or when that style is no longer compatible with the endowment Fund’s investment approach.

f. While the board reserves the right to terminate a manager at any time, it intends to evaluate the manager’s investment performance on a trailing 3-year basis. The specific performance tests to determine whether a manager should be placed on probation or terminated will be based on a comparison of the annualized time-weighted total rate of return of the
manager’s total portfolio on a trailing 3-year basis against the following standards:

(1) Equity/balanced managers: Annualized return no lower than 30% below the return of the Policy Index, gross of fees or ranking no lower than the 65th percentile of a universe of peers.

(2) Fixed income managers: Annualized return no lower than 10% below the return of the Policy Index, gross of fees or ranking no lower than the 65th percentile of a universe of peers.

g. If a manager fails either of the applicable performance tests described above, the manager may be placed on probation for 6 months. For this 6-month period, the manager’s performance is expected to rank at the 50th percentile or better, or be equal or better than the policy index. If this objective is not met, the manager may be determined. If this objective is achieved, the manager’s probationary period may be extended for an additional 6 months. After the second 6-month period, the manager’s trailing 12 months performance is expected to rank at the 50th percentile or better, or equal or better than the policy index.

(1) If the 12-month objective is not attained, the manager may be terminated.

(2) If the 12-month objective is achieved and the Fund’s trailing 3 year performance has been met, probationary status may be removed.

(3) If the 12-month objective is achieved, but the Fund’s investment objective over 3 years has not been met, the manager’s probationary period may be extended for an additional 12 months. After this 12-month extension, the Fund’s last 24-month performance is expected to rank at the 50th percentile or better, or be equal or better than the policy index. If these objectives are met, the probationary status will be removed. If it is not attained, the manager may be terminated.

h. The manager is allowed only one 12-month probationary period over any 6-year period. Any subsequent failure of the specific performance tests stated in Section II.A. within a 6-year period after a 1-year probation is considered reason for termination.

i. Four quarters of consecutive under-performance relative to any or all of the above referenced benchmarks will trigger a review with the offending
investment managers. All of the qualitative criteria should be reviewed along with an explanation of the underperformance from the manager.

E. Associated Students of the University of Hawai‘i at Mānoa, ASUH Stadium Stock and Investment Policy Objectives and Guidelines

1. Purpose of the investment policy statement

   a. The purpose of this policy as recommended by the Associated Students of the University of Hawai‘i at Mānoa (“ASUH”) and adopted by the board is to establish goals and guidelines for the investment of the ASUH Stadium Stock Fund (hereinafter referred to as the “ASUH Mānoa Stadium Stock Fund”). This policy is promulgated pursuant to and in accordance with the resolution on the use of new income, principal and investment of the ASUH Mānoa stadium stock fund which is attached and incorporated herein as RP 8.211.

   It is the intent of this document to state general attitudes, guidelines, and a philosophy which will guide the investment manager toward the performance desired. It is intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practical.

   b. The ASUH Mānoa Stadium Stock Fund shall be managed at all times in accordance with all applicable laws and regulations, including the Hawai‘i Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 517E, Hawai‘i Revised Statutes.

   The investment of the ASUH Mānoa Stadium Stock Fund’s asset shall be for the exclusive purpose of providing benefits to ASUH and defraying reasonable expenses of administering the ASUH Mānoa Stadium Stock Fund.

   c. Investment philosophy of the board and the ASUH

      (1) The board and the ASUH recognize that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values) and the possibility of loss in purchasing power (due to inflation are present to some degree with all types of investment vehicles). While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the professional investment manager the opportunity to achieve
satisfactory long-term results consistent with the objectives and the fiduciary character of the ASUH Mānoa Stadium Stock Fund.

(2) The board and the ASUH believe that the ASUH Mānoa Stadium Stock Fund’s assets should be managed in a way which reflects the following statement:

(3) The board and the ASUH feel that bonds and other fixed income securities should be actively managed.

(4) Risks in individual securities, particularly in stocks, shall be acceptable, but the overall Fund should be managed in a well-diversified manner so that significant impairment of capital is avoided.

2. Responsibilities of the board and the ASUH

a. The specific responsibilities of the ASUH and the board in the investment process include and are limited to:

(1) Acting in accordance with the guidelines under all applicable laws and regulations, including UPMIFA, Chapter 517E, Hawai‘i Revised Statutes;

(2) Determining the ASUH Mānoa Stadium Stock Fund’s projected financial needs and communicating it to the investment consultant/financial advisor on a timely basis;

(3) Expressing the ASUH Mānoa Stadium Stock Fund’s risk tolerance level;

(4) Developing sound and consistent investment policy objectives and guidelines, which the investment consultant/financial advisor can use in formulating corresponding investment decisions;

(5) Monitoring and evaluating performance results through the investment consultant/financial advisor to assure that policy guidelines are being adhered to, that objectives are being met, and taking appropriate action to replace an investment manager for failure to perform as mutually expected.

3. Responsibilities of the investment manager or fund manager and the investment consultant/financial advisor
a. Adherence to investment policy objectives and guidelines.

b. Discretionary authority.

c. The investment manager will be responsible for making all investment decisions on a discretionary basis regarding all assets placed under its jurisdiction and will be held accountable for achieving the investment objectives indicated herein. Such “discretion” includes decisions to buy, hold and sell securities (including cash equivalents) in amounts and proportions that are reflective of the manager’s current investment strategy and compatible with the ASUH Mānoa Stadium Stock Fund’s investment guidelines.

d. The investment consultant/financial advisor will assist the ASUH Mānoa Senate in achieving optimal long-term returns consistent with the endowment’s acceptable level of risk and shall perform responsibilities generally comparable to those of the investment consultant for the board as described herein RP 8.206(B)(4).

4. Assets excluded from investment manager’s responsibility

a. Any securities of the ASUH Mānoa Stadium Stock Fund not constituting a part of the ASUH Mānoa Stadium Stock Fund or any other securities or assets which are not entrusted to the investment manager’s “discretionary” investment authority will not be deemed managed by the investment managers and, therefore, such assets will not be its responsibility.

5. Compliance with UPMIFA rules and appropriate legislation

a. The investment managers are responsible for compliance with the UPMIFA rules, as it pertains to their duties and responsibilities as fiduciaries.

b. The investment manager(s) shall:

(1) Acknowledge in writing his recognition and acceptance of full responsibility as fiduciary in accordance with applicable federal and state legislation; and

(2) Be registered under the Investment Advisory Act of 1940 or be exempt from the 1940 Act.
6. Communication and reporting

a. The investment consultant/financial advisor shall communicate on a timely basis with the board and the ASUH Investments Committee:

(1) Major changes of investment strategy, asset allocation and other investment philosophy related matters;

(2) Significant changes in the ownership, organizational structure, financial conditions or senior personnel staffing;

(3) Recommendations that any particular guideline be amended;

(4) Notices of transaction activity and quarterly performance reports;

(5) Information requested by the board and/or the ASUH in the conduct of their own evaluation of portfolio management.

7. Performance objectives and guidelines

a. The performance objectives stated herein will be sought over a three-year moving average which will be construed as a market cycle, ending three years following the appointment of the investment manager.

(1) Absolute performance objectives

(a) The ASUH Mānoa Stadium Stock Fund primarily seeks consistency of investment return through a growth and income objective with emphasis on total return.

(2) Relative performance guidelines

(a) Relative performance guidelines are stated only as an indication of the investment climate within which this ASUH Mānoa Stadium Stock Fund is managed and a guide in evaluating how the manager is performing relative to the investment climate.

i. The ASUH Mānoa Stadium Stock Fund hopes that the plan’s equity portion of the portfolio will outperform the Standard and Poor’s 500 over the market cycle.
ii. The ASUH Mānoa Stadium Stock Fund would expect the portfolio’s fixed income portion will perform in line with the Barclays Aggregate Bond Index.

8. General investment guidelines

a. Safety of principal

(1) The criterion of safety of principal should not be imposed on each commitment. However, the portfolio taken as a whole, must be structured primarily to protect it against long-term erosion of capital.

b. Liquidity needs

(1) The investment consultant/financial advisor shall arrange to have sufficient funds on hand in the form of cash equivalents to meet anticipated disbursements from the ASUH Mānoa Stadium Stock Fund. A minimum of $50,000 should be retained in cash equivalents at all times to meet the operation needs of the ASUH.

c. Funding policy

(1) The ASUH Investments Committee shall have the responsibility for:

(a) Recommending and carrying out a funding policy and method which is consistent with the objectives of the plan and the operating fund requirements of the ASUH. Consideration should be given to the plan’s short-term and long-term needs.

(b) Establishing the desired net payout from the portfolio and providing the investment consultant/financial advisor with an estimate of cash flows and cash withdrawal needs for the coming year.

(c) Establishing the maximum payout which should not exceed 5% of the total portfolio.

d. Types of assets

(1) All assets selected for the portfolio must have a readily ascertainable market value and must be readily marketable. In order to provide the investment manager with freedom to invest in various types of assets,
the following list of types of assets is among those approved for investment:\textsuperscript{4}

Savings accounts
Commercial paper with A-1 or P-1 rating
Certificate of deposit
Money market funds/common trust cash equivalent funds
U.S. government or its agencies
Securities guaranteed by or collateralized by securities guaranteed by the U.S. government, its agencies, or its instrumentalities
Debt securities and convertible securities of U.S. corporations and supranational organizations
Preferred stocks
Common stocks
Publicly trade foreign securities
Mutual funds and common trust or commingled funds
American depository receipts/shares
Global depository receipts/shares
The writing (selling) of covered call options
Real estate, real estate investment trusts, and real estate mortgages
Forward foreign exchange contracts, and bond/currency options and futures may be used for the defensive hedging of foreign currency exposure
Limited partnerships
Securities on margin, short sale of securities, and short positions

The following types of assets or transactions are expressly prohibited:

Investments in companies which, including predecessors, have a record of less than three years of continuous operation
Commodities
Lettered stock and private placements
Selling "naked" puts and/or calls

\textsuperscript{4} Investment in mutual funds, limited partnerships or pooled funds may be done so on an exception basis to fully comply with policies established for the ASUH Mānoa Stadium Stock Fund. However should the ASUH choose to make such investments, the guidelines established by the mutual fund’s prospectus or the pooled fund’s guidelines will take precedence, and may not fully comply with policies established for the ASUH Mānoa Stadium Stock Fund. The ASUH, through its investment consultant/financial advisor, shall periodically review the guidelines of any mutual fund or pooled fund investment in order to determine if they remain appropriate for the ASUH Mānoa Stadium Stock Fund.
The use of adjustable rate issues with coupons which move inversely to an index

Tax exempt securities
Securities issued by the managers, their parents or subsidiaries
Assets of the Fund in their own interest or for their own account
Transactions involving Fund assets on behalf of a party whose interests are adverse to the interests of the Fund or its beneficiaries
Transactions involving third party compensation for their own account from any party in connection with a transaction involving Fund assets

e. Risk management guidelines

(1) The board and the ASUH recognize that the capital markets can be unpredictable at times and that any investment posture could result in periods whereby the market values of the ASUH Mānoa Stadium Stock Fund can decline in the account values. In the desire to limit risk, adherence to the asset allocation guidelines is paramount.

f. Minimum criteria for selection

(1) Equities

(a) Equity investments will be made primarily in quality common stocks, convertible preferred stocks and convertible bonds, with an emphasis on total return. Investment managers should invest for longer term; however, this should not preclude the investment manager from making interim changes to meet the investment goal of the Fund.

(2) Fixed income

(a) Fixed income will be made up primarily of investment grade securities with the objective of total return.

g. Diversification

(1) Equities

(a) The investment manager will not be required to invest in equity securities representing a cross section of the economy. However, the investment manager will be allowed to choose the degree of
concentration in any industry up to a maximum limit of 15% of total equities in any one industry at cost and a maximum limit of 10% in any one company.

(2) Fixed income

(a) To avoid the risk of concentration of assets, individual bond positions other than obligations of the U.S. Government should not compromise more than 5% of the total fixed income portion of the portfolio. In addition, no more than 15% of the fixed income investment may be lower than investment grade.

9. Asset distribution

a. The board and the ASUH wish to set the following asset mix guidelines which should be rigidly observed.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>70%</td>
<td>20%</td>
</tr>
<tr>
<td>Bonds</td>
<td>70%</td>
<td>20%</td>
</tr>
<tr>
<td>Cash or Cash Equivalents</td>
<td>60%</td>
<td>5%</td>
</tr>
</tbody>
</table>

10. Evaluation and review

a. Portfolio management performance will be measured on a year-to-year basis and will be evaluated over a three-year moving average. The following factors will be evaluated:

(1) The time weighted return of the total portfolio vs. the ASUH Mānoa Stadium Stock Fund’s stated investment objectives.

(2) The relative performance of the equities vs. the Standard and Poor’s 500 Index.

(3) The relative performance of the fixed income investments vs. the Barclays Aggregate Bond Index.

(4) The manager’s initiation of communication expressing its view and recommendations regarding the investment philosophy.

(5) The manager’s consistency in the application of its own investment philosophy, such as its criteria of security selection and investment strategy.
b. Any large deviation from expected results or performance guidelines may require the consideration to alter and amend the investment policies of the ASUH Mānoa Stadium Stock Fund.

c. While the ASUH intends to fairly evaluate the portfolio performance over the agreed upon period of evaluation, they reserve the right to change the investment manager if there is unacceptable justification for poor results. The two most serious threats to the confidence regarding any investment manager are:

(1) Inconsistency of approach—having no visible philosophy or not adhering to a stated investment strategy.

(2) Poor supervision of individual stock investments.

d. Fund and/or manager selection process

(1) Classification

(a) Classification of a fund into the proper asset class type (i.e. U.S. large-cap value) should be used when analyzing the funds/manager by peer group. Consider the consistency of return. Understand and compare the risk a fund or manager has taken in order to generate its returns. The quantitative process should be initiated by screening for all funds/managers in the same classification.

(2) Peer performance

(a) The second step in the process is looking for the top performers over a 3-, 5- and 10-year period. A top performing fund/manager would have its historical performance ranked in the top 33% percentile relative to its peer group or fund classification for each period of time (3, 5 and 10 years).

(3) Consistency of performance

(a) The third step is determining the consistency of the returns. The same manager(s) should be in place during the performance period being evaluated.

(4) Risk
(a) The fourth step is determining the risk a manager has taken in order to achieve the returns.

e. Guidelines for probation/termination of an investment manager will follow RP 8.206(D)(3).

11. Reporting requirements

a. ASUH shall meet with the investment consultant/financial advisor at least quarterly, unless otherwise mutually agreed upon, but no less than four times a year, on the following:

(1) To discuss current portfolio structure and asset allocation policy.

(2) To review specific investments and their appropriateness to the portfolio.

(3) To gain insight into the manager's investment strategy as it relates to their outlook on the economy and stock market.

(4) To evaluate comparative performance figures.

(5) To review long-range philosophy/strategy vis-à-vis the fund's ongoing needs or objectives.

b. The ASUH shall obtain the following information from their investment consultant/financial advisor to assist in their evaluation of the ASUH Mānoa Stadium Stock Fund’s performance and management on a quarterly basis.

(1) Account information

(a) Summary of investment portfolio

(b) Common stock summary

(c) Portfolio holdings–by industry diversification

(d) Schedule of additions and disbursements

(e) Schedule of interest and dividends received

(f) Schedule of purchases
(g) Schedule of sales

(h) Schedule of realized gains and losses

(2) Performance evaluation

(a) The investment consultant/financial advisor shall provide an evaluation of the investment manager’s performance based on the investment policy objectives and guidelines.

(3) Communications

(a) The investment consultant/financial advisor shall make recommendations in writing as to changes the investment consultant/financial advisor believes will be prudently beneficial to the ASUH Mānoa Stadium Stock Fund, such as changes in the ASUH Mānoa Stadium Stock Fund’s investment guidelines when appropriate.

F. Name

1. All securities held by the university shall be registered in the name “University of Hawai‘i.”

G. Investment Responsibility

1. Statement. The primary fiduciary responsibility of the board in managing the university’s endowment funds is to attain an adequate financial return on those resources, taking into account the amount of risk appropriate for university investment policy. However, when the board adjudges that corporate policies or practices cause substantial social injury, the board, as a responsible and ethical investor, shall give independent weight to this factor in its investment policies and in voting proxies on corporate securities.

2. Policy guidelines. The board shall normally not vote on any shareholder resolution involving social issues unless they conclude that a company’s activities cause substantial social injury and such activities are the subject of a shareholder proposal which would eliminate or materially reduce the substantial social injury. The board will vote on the proposal, provided such action is not inconsistent with the board’s fiduciary obligations. In cases where the proposed remedy is deemed unreasonable, the board may abstain.
Where the board concludes that a company’s activities or policies cause substantial social injury, and the board concludes that: (a) a desired change in the company’s activities would have a direct and material effect in alleviating such injury; (b) the board has exhausted its practicable shareholder rights in seeking to modify the company’s activities to eliminate or reduce the substantial social injury thereby caused; (c) the company has been afforded the maximum reasonable opportunity to alter its activities; and (d) no alleviation of the substantial social injury by the company is likely within a reasonable time, the board will consider the alternative of not continuing to exercise its shareholder rights under the previous paragraph, and may instead, when such an action is consistent with its fiduciary obligations, direct its investment managers to sell the securities in question within a reasonable period of time and in a prudent manner. Failure to meet the above guidelines presumes that no new investments will be made in such companies provided such action is consistent with the fiduciary duties of the board.

If the board concludes that a specific board action otherwise indicated under these guidelines is likely to impair the capacity of the university to carry out its educational mission and/or meet its financial obligations, then the board need not take such action.

H. Short-term Investments

1. It is the policy of the board to invest its funds in excess of immediate requirements in investments permitted under section 36-21, short-term investment of state moneys, Hawai‘i Revised Statutes.

   a. The objectives of the university’s short-term investment policy are:

      (1) Safety—To safeguard university funds by minimizing risk through collateralization, diversification and by depositing funds into federally-insured banks and savings and loan associations.

      (2) Liquidity—To insure the availability of funds to meet university payments by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk of loss in principal.

      (3) Yield—To maximize interest earnings on university investments by investing idle funds to the maximum extent possible.

   b. The guidelines for short-term investments are:
(1) Banks and savings and loan associations without collateral agreements with the university and insured by the Federal Deposit Insurance Corporation “FDIC” of the Federal Savings and Loan Insurance Corporation “FSLIC”: The maximum amount of the investment is not to exceed the maximum insurance coverage provided by the FDIC or FSLIC.

(2) Banks and savings and loan associations with collateral agreements with the university and insured by the FDIC and FSLIC: The amount invested will be on the basis of the highest interest rate available for such maturity at the time the investment is placed.

c. Other investments shall observe the objectives of safety, liquidity and yield. Prudent risk control shall be of paramount importance in investment decisions with emphasis placed on the probable safety of capital rather than the probable income to be derived.

d. Investments with local depositories are to be made at bank branches which service university checking accounts or the main office of banks and savings and loan associations or at branches designated by the main office.

e. Collateralization of short-term investments is required under this policy for all deposits exceeding the maximum amount of federal deposit insurance.

f. The president or his/her designees are authorized to manage the university’s short-term investment program. The board will review the performance of the short-term investment program at least annually.

IV. Delegation of Authority:

The president or his/her designees are authorized to manage the university’s short-term investment program and to promulgate executive policy and shall report annually to the Board of Regents on progress made.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu
VI. **References:**

- [http://www.hawaii.edu/offices/bor/](http://www.hawaii.edu/offices/bor/)
- [Hawai’i Uniform Prudent Management of Institutional Funds Act (UPMIFA)](http://www.capitol.hawaii.gov/hrscurrent/Vol12_Ch0501-0588/HRS0517E/HRS_0517E-.htm)

**Approved as to Form:**

____________________________________          ___________
Cynthia Quinn                             Date
Executive Administrator and
Secretary of the Board of Regents
I. Purpose:


II. Definitions:

No policy specific or unique definitions apply.

III. Policy:

A. WHEREAS, 1,481 shares of stock of Honolulu Stadium, Ltd., were held in the name of the Associated Students of the University of Hawai‘i-Mānoa (herein after referred to as the “ASUH”); and

B. WHEREAS, upon liquidation of said Honolulu Stadium, Ltd., proceeds of $839,258.77 was paid in respect of said 1,481 shares; and

C. WHEREAS, said proceeds of the redemption of said 1,481 shares shall be used to constitute the “ASUH Stadium Stock Fund” (herein after referred to as the “Fund”); and

D. WHEREAS, the Board of Regents of the University of Hawai‘i (herein after referred to as the “Board”) and the ASUH have agreed upon procedures set forth herein below for the use of the net income, principal, and investment of the Fund;

E. NOW, THEREFORE, be it resolved that the following procedures shall govern with respect to the Fund:

1. Annual Payout.
   a. Annual payout, as defined and established in the below-mentioned “Investment Goals and Guidelines,” shall be included as revenues in the annual ASUH budget for the exclusive use of the ASUH.

2. Principal.
a. The Board, only upon the recommendation of the ASUH Senate, may authorize the invasion of the principal, or any portion thereof, of the Fund for capital projects or other specific activities for the benefit of the ASUH.

3. Establishment of Investment Goals and Guidelines. (Amended April 12, 2012)

a. The Board, upon the recommendation of the ASUH Senate, shall establish investment goals and guidelines which shall govern the investment of the Fund.

4. Selection of Investment Managers.

a. The Board, upon the recommendation of the ASUH Senate, shall select an investment manager(s) who shall be responsible for the management of the Fund and shall be delegated limited (buy-sell decisions) investment authority.


a. The Board, upon the recommendation of the ASUH Senate, shall select an investment consultant/financial advisor to monitor the performance of the investment manager(s).

6. Action of the Board of Regents.

a. All matters in connection with the Fund shall be referred to the appropriate committee of the Board. Except when such committee meets in executive meetings, as provided by law, a duly appointed representative of the ASUH Senate shall be entitled to participate in such committee meetings when the committee considered any matter in connection with the Fund and shall be notified of all such committee meetings.

b. All recommendations of the ASUH Senate with respect to the Fund shall be submitted to the University of Hawai‘i administration which shall have 45 calendar days upon receipt of such recommendations to accept, modify or reject such recommendations and submit its recommendations to the Secretary of the Board of Regents. The 45-day period shall commence upon receipt of the ASUH recommendations by the Chancellor of the University of Hawai‘i at Mānoa.

Upon mutual agreement in writing between the ASUH Senate and the University of Hawai‘i administration, the deadline of 45 calendar days may be extended.

Upon receipt of the University of Hawai‘i administration’s recommendation by the Secretary of the Board, the Board shall have 45
calendar days to approve, modify or reject the administration’s recommendation, which deadline may be extended by the Secretary of the Board for periods of 15 calendar days for reasonable cause upon notice of such extension(s) to the ASUH Senate.

7. Responsibility of the Board of Regents.
   
a. The Board of Regents shall have the authority and responsibility for the Fund as set forth herein and may take whatever action it deems appropriate and prudent with respect to said Fund.

   The Board shall, however, consult with and solicit the recommendations of the ASUH Senate prior to acting on any Board initiated proposal with respect to the Fund except in emergency situations.

IV. Delegation of Authority:

   There is no policy specific delegation of authority.

V. Contact Information:

   Office of the Vice President for Academic Affairs, 956-7075, risad@hawaii.edu

VI. References:

   • http://www.hawaii.edu/offices/bor/

Approved as to Form:

_________________________________________ ___________
Cynthia Quinn                Date
Executive Administrator and
Secretary of the Board of Regents
I. Purpose

To set forth policies and guidelines on use of income from the University of Hawai‘i Mānoa Stadium Stock Fund, proceeds from the sale of the Kaimuki Observatory Lot and from the rental of university property.

II. Definitions:

No policy specific or unique definitions apply.

III. Policy:

A. The payout of income earned from (a) the Mānoa Stadium Stock Fund, (b) the proceeds of the sale of the Kaimuki Observatory Lot, and (c) the rental of the university property herein called the Fund, shall not exceed 6% of the market value of the Fund on June 30 of the preceding year and shall be allocated in accordance with the following guidelines:

1. The annual payout from the investment of proceeds from the liquidation of donated shares of the Honolulu Stadium, Ltd., supplemented as needed by the payout from the balance of the Mānoa Stadium Stock Fund shall be allocated as follows:

   a. A maximum of fifty percent of the potential payout from the Mānoa Stadium Stock Fund, as calculated above, on an annual basis, or so much thereof as may be needed as determined by the president, for scholarships for student athletes and student support services at the University of Hawai‘i at Mānoa.
b. A maximum of fifteen percent of the potential payout from the Mānoa Stadium Stock Fund, as calculated above, on an annual basis, or so much thereof as may be needed as determined by the president, for scholarships for student athletes and student support services at the University of Hawai‘i at Hilo.

c. A maximum of $50,000 from the balance of the Mānoa Stadium Stock Fund for projects authorized by the president in consultation with the board that would assist the university in meeting its different obligations and opportunities and such other projects that would further the interest of the university. Grants for individual projects are limited to $15,000. Requirements in excess of the maximum limitations notes above require specific board approval.

d. A maximum of $25,000 from the balance of the Mānoa Stadium Stock Fund for cash awards authorized by the board or by the president in consultation with the board, including the Board of Regents; Medal of Excellence in Teaching, Board of Regents’ Medal of Excellence in Research, Willard Wilson Distinguished Service Award, and Excellence in Building and Grounds Maintenance Award.

2. The balance of annual payout from the Mānoa Stadium Stock Fund, or so much thereof as may be required, may be allocated annually by the board based on proposals submitted by the president for the following purposes:

a. Student financial aid programs available to students on all campuses, including scholarships, grants-in-aid, loans and student employment.

b. Other student-related needs not normally provided by legislative appropriations. Such allocations shall be on a “one-shot” basis, and shall not be provided for continuing programs other than for initial development and “start-up” purposes, with future funding to come from other sources.

3. The president may set aside any unused balance of the Mānoa Stadium Stock Fund to support the Regents’ and Presidential Scholarships Programs.

4. The president shall provide an annual report to the board regarding the payout of income from the Mānoa Stadium Stock Fund and from the proceeds of the sale of the Kaimuki Observatory Lot.

IV. Delegation of Authority:

There is no policy specific delegation of authority.
V. **Contact Information:**

Office of the Vice President for Academic Affairs, 956-7075, risad@hawaii.edu

VI. **References:**

- http://www.hawaii.edu/offices/bor/

**Approved as to Form:**

______________________________________     ___________
Cynthia Quinn         Date
Executive Administrator and
Secretary of the Board of Regents
Item IV.C.
Discussion on RP 8.204

ITEM TO BE DISCUSSED AT MEETING
I. Purpose:

To set forth policy on the university's fiscal management, budget process, and legislative budget proposal and preparation process.

II. Definitions:

No policy specific or unique definitions apply.

III. Policy:

A. The board recognizes its fiduciary obligation to ensure that the university is managing its resources in a fiscally responsible manner. Leading practices encourage boards to establish policies and practices to ensure that institutional priorities and budget expenditures are aligned and to ensure that resources are strategically invested in the university’s mission, vision, and plans.

B. The administration shall support the board to ensure that it can properly fulfill its fiduciary responsibilities. To this end, the president and administration shall:

1. Provide the necessary information to keep the board informed on key fiscal indicators, including through a dashboard with relevant metrics that allow high level tracking of progress against key financial performance indicators;

2. Institute best practices in financial management in concert with the board;

3. Establish uniform reports that shall be utilized for financial management and reporting across the university; and

4. Establish operational and management processes and policies to ensure uniformity in budget building and financial reporting across the university.

C. Budgets are one component of a comprehensive system of planning, programming and financing the programs of the university. The system shall consist of:

1. The articulation of overall articulation of overall university and campus missions; the development, coordination and review of long-range goals, objectives and
directions to achieve these missions; and the development of programs and plans to implement these goals, objectives and directions;

2. An integrated, orderly system for the continuous review and evaluation of programs and needs that results in the establishment, modification and termination of programs as appropriate. This review shall include the regular appraisal and reporting of program performance across both qualitative and quantitative dimensions. It shall also include the evaluation of alternatives to existing, policies, plans, practices and procedures that offer more efficient and effective use of university resources to achieve the institution’s highest priority goals and objectives;

3. The preparation and implementation of a comprehensive budget organized to focus available resources required to undertake programs and program changes necessary to implement the long-range goals and objectives of the university. The development of the university’s budget shall include consideration of non-general funds and operating reserves; and

4. This comprehensive system shall be characterized as much as possible by openness and collaboration among students, faculty, administrators and policymakers.

D. The board shall, at a minimum, conduct the following:

1. Annual review and approval of budgets.
   a. The board shall approve an annual operating budget for all campuses, the system and the board office. The operating budget shall account for all sources of funds, as well as all major categories of expenditures.
   b. The board shall approve an annual capital improvement project budget for the university. The capital improvement budget shall account for all major projects that will be in the planning, design or construction stages. The budget shall be presented in the context of a rolling 6-year capital improvement plan and budget, which shall be approved and updated by the board on an as-needed basis.
   c. The operating and capital improvement budgets shall be transmitted to the board for review and approval following each legislative session and shall incorporate the most recent legislative appropriations and actions.

2. Quarterly reviews.

The administration shall provide reports to the board on a quarterly basis. The reports shall include:

   a. A financial report that is based upon the board approved operating budget and that shows budget to actual performance, along with explanations for
significant deviations from the approved budget. The financial report shall provide initial balances, revenues, expenditures and any updates to projected year-end balances based on activity in the previous quarter. It shall also include an explanation of significant trends or events that are reflected. The report shall show board-established reserve targets for the major units, along with actual reserves for the quarterly period.

b. A capital improvement report that is based upon the board approved capital improvement plan and that shows progress against the board approved CIP budget. The report shall also indicate projects that are significantly deviating from the approved budget or schedule and give an explanation for the deviation.

c. A financial dashboard report to indicate progress and status against agreed-upon metrics.

3. Annual reports.

The administration shall provide reports to the board on an annual basis that includes balance sheets, income statements, and records of cash flow.

Policy and Governing Principles for the Biennial and Supplemental Budget Proposals to the Legislature

A. Each year, the president, upon approval by the board, shall submit to the governor and the legislature, the university’s proposed biennial or supplemental budget, as applicable, which shall be designated the “Board of Regents’ Budget.” This budget proposal shall comply with applicable statutes and directives from the governor and legislature.

1. The major activities of the legislative budget preparation process shall consist of the following:

a. Preparation of budget policy paper

(1) Using input from key stakeholders at the state and the university, as well as a review of university and campus planning goals and plans, the president shall direct the preparation of a budget policy paper and approve its submittal for review and approval by the board. The paper shall set forth the environmental context for budget building, as well as general program, policy and management objectives, and institutional priorities to guide the preparation of the budget request.

b. Preparation and issuance of budget instructions

(1) Upon board approval of the budget policy paper, the president shall issue formal instructions and directions for the preparation of the legislative budget request. The instructions and directions shall include,
as a minimum, the budget objectives included in the board approved budget policy paper.

c. Administrative and executive approval of budgets

(1) The president shall review and approve for submittal to the board, the operational and capital improvement budget requests for the major units of the university based on the submittals from senior executives for their respective units, the budget policy paper including the environmental context for the state and higher education.

d. To the extent possible, the budget information that is provided to the board accompanying the budget proposal shall include context for the request that would affect or complement the legislative budget request. Upon board approval, the proposed budget shall be referred to as the “Board of Regents’ Budget” and shall be transmitted to the governor and the legislature in accordance with applicable statute.

IV. Delegation of Authority:

There is no policy specific delegation of authority.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

A. http://www.hawaii.edu/offices/bor/

Approved as to Form:

_______________________________ ________
Cynthia Quinn Date
Executive Administrator and Secretary of the Board of Regents
Office of Strategic Development & Partnerships
Status (March 2019)

Charge: Establish an office to lead and coordinate development transactions with an aim to foster non-academic revenue generation from under-utilized university real estate.

Structure:
- Organized under VP-Budget & Finance
- $90,000, 1.0 FTE, General Funds, appropriated in 2018
- 3.0 FTE
  - Director of Strategic Development & Partnerships (recruiting)
  - Director of Land Development (Carleton Ching)
  - Program Planning Officer (recruiting)
- Further restructuring possible

Milestones:
- February 2019: Delegation of authority to VP-B&F for interests in real property, RP 10.201
- February through June 2019: Operational transition of functions between VP-A/OPRPM and VP-B&F/OSD&P
- Office of General Counsel consultation to ensure sufficient compliance to/with processes and procedures for approval for acquisition and/or conveyance by the University of interests in real property
- Anticipate establishment of the office and 50% functionality before end of FY2019.