Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.207, Investments
Effective Date: ~~March 19, 2020~~ __________, 2021
Prior Dates Amended: Sept. 23, 1960; Jan. 11, 1962; Jan. 13, 1966; May 12, 1966; May 16, 1977; June 22, 1978; Oct. 20, 1978; June 14, 1979; Oct. 17, 1980; Apr. 22, 1983; July 22, 1983; Sept. 30, 1983; Dec. 13, 1985; Dec. 12, 1986; June 17, 1988; Nov. 18, 1988; Apr. 21, 1995; Aug. 23, 1996; May 16, 1997; Nov. 19, 1999; Feb. 21, 2003; Oct. 31, 2014 (recodified); May 21, 2015; March 19, 2020
Review Date: August ~~2023~~2024

I. Purpose

To set forth an investment policy.

II. Definitions:

As used in this policy:

1. "ASUH Stadium Stock Fund" refers to the Associated Students of the University of Hawaiʻi (ASUH) at Mānoa Stadium Stock Fund established by the board with $839,258.77 of proceeds received from the sale of 1,481 shares of Honolulu Stadium, Ltd. held in the name of ASUH.

2. "Committee" refers to the Board of Regents' Committee on Budget and Finance.

3. "Legacy endowment" refers to the endowment established prior to the University of Hawaiʻi Foundation.

4. "The Funds" refers to the legacy endowment and ASUH Stadium Stock Fund collectively, unless otherwise identified.

5. "VP/CFO" means the Vice President of Budget and Finance/Chief Financial Officer of the University of Hawaiʻi.

III. Policy:

A. General

1. The investment of monies, including the purchases and sales of bonds, stocks, and other securities and properties for the Funds, shall be made in alignment with this investment policy. 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.

2. This policy sets forth procedures and guidelines for the day-to-day administration of the Funds.

3. Proceeds from future real estate sales or future real estate lease income may be added to the legacy endowment upon approval by the board. Contributions from donors shall not be added to the legacy endowment in order to avoid compromising University of Hawai‘i Foundation fundraising efforts.

4. This policy also sets forth objectives and guidelines that provide distinct guidance for short term investments of temporary surplus funds of the university.

B. Investment Management

1. The board has the basic responsibility of preserving institutional resources, including the Funds 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. In performing their fiduciary roles, it is understood that the board members have been afforded statutory immunity and indemnification from civil liability pursuant to Section 26-35.5, Hawai‘i Revised Statutes (HRS), as long as they are not acting with malicious or improper purpose, except when the plaintiff in a civil action is the State.

2. The Committee is charged with the responsibility of reviewing matters related to the Funds. The Committee shall:

   a. Recommend to the board for approval the engagement of investment advisors; provided that the recommendation for the engagement of the advisor for the ASUH stadium stock fund will consider any recommendation by the ASUH board;

   b. Recommend to the board for approval the directed investment of legacy endowment funds in real estate;

~~b~~c. Establish and periodically review the policies and guidelines concerning the management of the Funds set forth herein; and

~~c~~d. On a quarterly basis for the legacy endowment and semi-annually for the ASUH Stadium Stock Fund, monitor the investment results and confirm that the investment advisors' decisions and outcomes are in accordance with this policy.

3. The VP/CFO in consultation with the president is charged with the responsibility to:

   a. Recommend to the board the approval of the selection of investment advisors to the board for the legacy fund;

   b. Recommend to the board the approval of directed investment of legacy endowment funds in real estate;

   ~~b~~c. Manage and implement the contracts with the investment advisors;

   ~~c~~d. Review investment results monthly; and

   ~~d~~e. Review conformance of investments with this investment policy on a quarterly basis or immediately upon notification by an investment advisor of any non-conformance with the investment policy.

4. The VP/CFO, or designee, shall also:

   a. Serve as the administrative liaison to the Committee and provide staffing to the Committee on matters concerning the Funds; and

   b. On an annual basis, provide a broad category report on the expenditure of the annual distribution from the endowment fund for the most recent five years.

5. The investment advisors will serve as both advisors and monitors and assist the board in achieving optimal long-term returns consistent with the Fund's acceptable level of risk. The investment advisors shall be selected through a formal competitive process coordinated by the VP/CFO in consultation with the Committee. The responsibilities of the investment advisors shall include:

   a. Determining the asset allocation within the parameters of the investment policy;

b. Selecting individual portfolio managers, mutual funds, and/or exchange-traded funds within the allowable categories as defined in the investment policy;

c. Implementing asset allocation shifts;

d. Reporting investment results monthly to the VP/CFO, or designee;

e. Reporting conformance of investments with the investment policy quarterly or sooner upon discovery of any non-conformance with the investment policy to the VP/CFO, or designee, for both of the Funds, and ASUH board or its investment committee for ASUH Stadium Stock Funds;

f. Disclosing total expenses annually;

g. Reporting investment results and conformance of investments with the investment policy for the legacy endowment quarterly to the Committee and, for the ASUH Stadium Stock Fund, to the ASUH board or its investment committee quarterly and to the Committee semi-annually; and

h. Providing other services as specified by the VP/CFO, board, and/or Committee.

6. The specific responsibilities of ASUH in the investment process include:

a. Reporting annually to the board the amounts distributed by the ASUH;

b. Recommending to the board the selection of an investment advisor; and

c. Reviewing investment results and conformance of investments with the investment policy quarterly.

C. Investment Goals and Guidelines for Investments Directed by Investment Advisors

1. ~~The board shall adopt~~This section of the policy sets forth the 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 the highest risk-adjusted total return, maintain the purchasing power of the corpus over five- and ten-year periods to meet spending needs of 4.25% while preserving the real value of the endowment principal.

a. Funds investment goals and guidelines:

(1) Goals:

(a) The investment goal of the Funds are: (i) to seek the highest risk-adjusted total return[1] within reasonable levels of annual volatility to ensure the long-term growth of the Funds; and (ii) to generate an annual distribution of up to 4.25% of a rolling 20-quarter average value of the Funds, with the value determined at the end of each calendar quarter and the actual distribution to be determined by the university administration for the legacy endowment and by the ASUH board for the ASUH Stadium Stock Fund.

(b) The university for the legacy endowment and ASUH for the ASUH Stadium Stock Fund shall provide the investment advisors with their respective schedules 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 with the Funds.

(c) In the event that the amount available for distribution from either of the Funds in any year decreases by more than 5% from the previous year, due to ~~dimunition~~ diminution of the value of the corpus, the board may for extenuating circumstances authorize a distribution greater than the amount set forth in this policy, up to 95% of the distribution authorized in the immediate preceding year.

(2) Guidelines

(a) The "prudent investor rule" shall be followed in the investment of the Funds.

(3) Asset-allocation

(a) A balanced portfolio should be maintained within the risk profile outlined in the asset allocation model below:

	Maximum	Minimum
Listed stocks	80%	40%
S&P 500	60%	15%

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

	Maximum	Minimum
Russell midcap (bottom 800 of largest 1000)	15%	*
Russell 2000 (smallest 2000 in the Russell 3000)	15%	*
MSCI EAFE	40%	*
MSCI emerging markets	15%	*
Fixed Income	60%	20%
US Treasuries, agencies, and US corporate bonds rating Baa or higher	60%	20%
High-yield US corporate bonds	10%	0%
Municipal bonds rated Baa or higher	10%	0%
~~Alternative investments (only if the specific non-marketable investments are authorized in advance by the board)~~	~~10%~~	~~0%~~
Cash and equivalents	10%	0%

*In the aggregate, the minimum for these four asset classes is 15%

(b) 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 Funds.

(c) The Committee will review the Fund's asset allocation annually as set forth in the table above.

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 advisors 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 4% of the total market value of the stock portfolio. In addition, investments in any one stock are not to exceed 1% of the corporation's outstanding common stock.

The investment advisors will not be required to invest in equity securities representing a cross section of the economy. The investment advisors may choose the degree of concentration in any industry that is within four percentage points of the percentage that such industry is represented in the MSCI All Cap World Index at market value and a maximum limit of 4% in any one company.

iv. Permitted investments

The use of the following investment vehicles is permitted:

- 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, including such funds that use leverage

- American depository receipts/shares
- Global depository receipts/shares
- The selling of covered call options
- The buying of protected put options
- Real estate investment trusts
- Forward foreign exchange contracts, and bond/currency options and futures used for the defensive hedging of foreign currency exposure
- Publicly traded limited partnerships

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

v. Permitted investments with prior board approval:
- Limited partnerships not publicly traded
- Hedge funds
- Private equity

vi. Prohibited investments/transactions

- Direct investments in entities 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 issued by the managers, their parents or subsidiaries
- Assets of the Funds 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 their beneficiaries
- Transactions involving third party compensation for their own account from any party in connection with a transaction involving the Funds’ assets

- Any securities of the top 200 fossil fuel companies[2]

vii. Investment markets for equities

The investment advisor 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 advisor 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. Custody of securities:

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.

3. Name:

All securities held by the university shall be registered in the name, "University of Hawai'i."

D. Monitoring and Evaluation of Investments Directed by Investment Advisors

1. Performance measurement

a. Investment performance and management of the Fund and the separately managed portfolios will be measured net of fees on a time-weighted basis (which eliminates the influence of cash flows that are beyond the control of

[2] As identified in an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. This list is produced and maintained by Fossil Free Indexes, LLC and can be accessed at https://gofossilfree.org/top-200/. Because of the small size of its corpus, the prohibition against investment in the securities of companies with fossil fuel reserves shall not apply to the ASUH stadium stock fund.

the investment manager) and evaluated using benchmark data as a tool to assess the performance of the investment advisors. The benchmarks are not a floor for expected returns.

(1) Quantitative benchmark standards to evaluate the performance of the Funds as a whole, and specific asset classes

(a) A benchmark constructed from this allocation model, reviewed quarterly and annually, over five years:

S&P 500 stock index	40%
Russell midcap index (bottom 800 of the largest 1000)	5%
Russell 2000 index (smallest 2000 in the Russell 3000)	5%
MSCI EAFE-NR index (net of foreign withholding taxes)	15%
MSCI emerging markets index	5%
Bloomberg Barclay's US aggregate bond index	30%
Total	100%

(b) The total of 4.5% plus the rate of inflation, reviewed annually and measured over ten and twenty years.

(c) Performance of college endowments of a similar size, reviewed annually and measured over five and ten years.

(2) Qualitative standards

(a) The investment advisor's adherence to the investment policies and guidelines of the Funds.

(b) The investment advisor's consistency in the application of its own investment philosophy.

(c) The investment advisors shall be relied on and expected to provide advice whenever appropriate on the composition, performance, and governance, <u>e.g.,</u> policies, of the Funds.

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

a. Quarterly review as related to the legacy endowment funds and semi-annual review of the ASUH Stadium Stock Funds by the Committee with the investment advisors to review the following:

(1) Rate of return of the Funds on a rolling basis and compared to the last review period, one, three, and five fiscal years, and its component parts.

(2) Current asset allocation with rationale.

(3) Investment outlook for the near-, intermediate-, and long-term future, and how that outlook affects the advisor's actions.

(4) Current level of risk, with rationale, and explanation of how it is measured.

(5) Explanation of deviation of performance from benchmarks.

(6) Compliance of the investment advisors with the investment policy. While the board recognizes that performance for an interval as short as one year or less is not a fair basis for evaluation of the performance of the investment advisors, it reserves the right to change the investment advisors.

3. The Committee may recommend to the board the termination of any advisor. The board may terminate any advisor at any time if it determines in its sole discretion that the advisor is no longer appropriate for the Funds. The following are illustrative examples only and do not limit the board's sole discretion to determine that termination is appropriate.

   a. Termination may be appropriate if an investment advisor's performance is not comparing favorably to the benchmarks as defined in this policy.

   b. Upon hiring of the investment advisor, a list of key personnel will be provided by the advisor to the VP/CFO and the board. The list will be ordered according to authority. The advisor is responsible for updating the list on an as needed basis. If two of the three top personnel listed have departed from the firm, the advisor may be terminated.

   c. An investment advisor must immediately notify the VP/CFO, or designee, of any pending litigation. Based on the gravity of the suit and the possible impact on the investment process, the advisor may be terminated.

   d. An investment advisor may be terminated should it fail to adhere to stated investment philosophy and style, or when that style is no longer compatible with the Funds' investment approach.

E. Investment Responsibility

1. Statement. The primary fiduciary responsibility of the board in managing the 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 determines 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. Normally, the board shall not vote on any shareholder resolution involving social issues unless it concludes 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.

F. Directed Investments in Real Estate

1. This section of the policy is applicable to the directed investment of legacy endowment funds in real estate.

2. With the concurrence of the investment advisor, t~~T~~he board may authorize the direct investment of legacy endowment funds in real estate, for an amount not to exceed ~~up~~ to 10% of the legacy endowment ~~corpus directly in real estate~~as determined based on a rolling 20-quarter average value of all investments, with the value determined at the end of each calendar quarter. This limit shall not be interpreted to require the sale of any fund-owned real estate in the event a decline in the market value of the fund or an increase in the market value of the real estate causes the ~~direct~~fund's real estate component to exceed 10% of the market value of the fund.

3. The president will establish a real estate advisory committee chaired by the VP/CFO, including the investment advisor and members with real estate investment expertise, to formulate any recommendations for directed investment of legacy endowment funds in real estate. No committee members shall have any direct or indirect interest in the real estate investments being considered. The VP/CFO will present any recommendations for directed investment to the Budget and Finance Committee, prior to seeking full board authorization.

~~1. The VP/CFO or designee is authorized to execute any documents necessary or desirable to accomplish the direct investment of legacy endowment funds in real estate approved by the board.~~

4. The guidelines for the directed investment in real estate are:

    a. Control of the property is academically or financially strategic to the university, as determined by the board.

    b. The property is projected to earn a rate of return for the fund that is not lower than the current rate on 10-year U.S. Treasury securities.

    c. No subsequent or repeat investment of legacy endowment funds shall be made in any real estate or real property.

5. Board members must comply with Article X of the board bylaws regarding conflicts of interest, as well as Chapter 84, HRS (State Ethics Code), must disclose any direct or indirect interest in any real estate investment decisions brought before the board; must recuse himself/herself from participating in consideration of the proposed matter; and must not vote on the matter or be present during the board's deliberation and at the time of the vote.

6. The VP/CFO or designee is authorized to execute any documents necessary or desirable to accomplish the directed investment of legacy endowment funds in real estate approved by the board.

~~F.~~G. Short-term Investments

1. This section of the policy is applicable to the investment of temporary surplus funds of the university (not to funds within the university legacy endowment or the ASUH Stadium Stock Fund).

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

   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) For 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) For 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 Committee will review the performance of the short-term investment program at least annually.

IV. Delegation of Authority:

The board delegates to the president certain authority as specified above. Authority delegated to the president may at the president's discretion be further delegated unless the board specifically limits the delegation of authority to the president. See RP 2.202(G).

V. Contact Information:

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

VI. References:

None

Approved as to Form:

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Kendra Oishi Date
Executive Administrator and
Secretary of the Board of Regents