Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.207, Investments
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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 insure 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 Hawaiʻi endowment fund investment goals and guidelines

      (1) Goals

         (a) The investment goal of the University of Hawaiʻi 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

	Minimum	Maximum
Equities	30%	70%
Fixed Income	30%	70%
Floating Rate Securities	0%	20%
Municipal Bonds	0%	10%
High Yield Bonds	0%	20%
Cash	0%	40%

(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 Hawaiʻi 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 feesor 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 feesor 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 Hawaiʻi 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 Hawaiʻi 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 Hawaiʻi Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 517E, Hawaiʻi 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:[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

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[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.

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/

- 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:

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Cynthia Quinn Date
Executive Administrator and
Secretary of the Board of Regents