

COMMITTEE ON RESOURCE MANAGEMENT
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 Colette Y. Machado, Moloka'i/Lāna'i
 John Waihe'e IV, At-Large



**STATE OF HAWAII
 OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE COMMITTEE ON
 RESOURCE MANAGEMENT**

DATE: Wednesday, September 4, 2019
TIME: 10:00 am
PLACE: OHA Board Room, Nā Lama Kukui
 560 N. Nimitz Hwy., Suite 200
 Honolulu, HI 96817

AGENDA

- I. Call to Order
- II. Public Testimony*
- III. New Business
 - A. Action Item: RM #19-13, Approval of and authorization to amend page 1 of the Investment Policy Statement and Sections 4 ("Delegation of Authority"), Section 13 ("Procedure for Selecting and Reviewing Investment Advisors") and Section 16 ("Adding new Asset Classes")
 - B. Action Item: RM #19-16, Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy
 - C. Workshop: Budget Realignment
 - D. Review of CLA Status Report #4 – Kama Hopkins
- IV. Executive Session†
 - A. Approval of Minutes – April 10, 2019
 - B. Consultation with Acting Board Counsel Kurt W. Klein, Esq. and Corporate Counsel Raina Gushiken re: questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities relating to CLA Status Report #4, Pursuant to HRS 92-5(a)(4).
- V. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting.

*Notice: Persons wishing to provide testimony are requested to submit 13 copies of their testimony to the Chief Executive Officer at 560 N. Nimitz, Suite 200, Honolulu, HI, 96817 or fax to 594-1868, or email BOTmeetings@oha.org 48 hours prior to the scheduled meeting. Persons wishing to testify orally may do so at the meeting, provided that oral testimony shall be limited to five minutes.

† Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.

* Notice: This portion of the meeting will be closed pursuant to HRS § 92-5.

Trustee Dan Ahuna
 Chairperson, Committee on Resource Management

Date

OFFICE OF HAWAIIAN AFFAIRS
Action Item

Committee on Resource Management
September 4, 2019

RM - # 19-13

Action Item Issue: Approval of and authorization to amend page 1 of the Investment Policy Statement and Sections 4 ("Delegation of Authority"), Section 13 ("Procedure for Selecting and Reviewing Investment Advisors") and Section 16 ("Adding New Asset Classes").

Prepared by:


Raymond Matsuura, CFA
Pou Kako'o Mahele Kumupa'a, Investment Manager

8/28/19

Date

Reviewed by:


Gloria Li,
Ka Pou Kihi Kanaloa Wai Kūikawā, Interim CFO

8/28/19

Date

Reviewed by:


Raina P.B. Gushiken,
Ka Paepae Puka, Senior Corporate Counsel

8/28/19

Date


Reviewed by:


Lisa Watkins-Victorino, PH.D
Ka Pou Nui Kūikawā, Interim COO

8/28/19

Date

Reviewed by:


Sylvia M. Hussey, ED.D
Ka Pouhana Kūikawā, Interim CEO

8/28/19

Date

Approved by:


Trustee Dan Ahuna,
Luna Ho'omalu Komike, RM Chairperson

8/29/19

Date

I. Proposed Action:

The Board of Trustees (BOT) approves the amendments to the Native Hawaiian Trust Fund (NHTF) Investment Policy Statement (IPS) as described in **Exhibit A** (OHA IPS Revisions table and redline copy of IPS).

II. Issue:

Whether or not the Board of Trustees should approve the proposed changes to the Investment Policy Statement (IPS), as described in **Exhibit A**. The proposed changes to the IPS primarily relate to the selection process for Investment Advisors. Minor textual and grammatical changes will also be made to the IPS. By effecting the changes, the NHTF will be better positioned to achieve its long-term goals by streamlining, with the Investment Consultant, the manager selection/hiring process.

III. Background:

The Board of Trustees adopted the current NHTF IPS on September 27, 2017. The IPS serves as the foundation as to how the NHTF is to be managed. It specifies the responsibilities, procedures, guidelines, and constraints for decision making and management. It is reviewed on an annual basis and proposed changes are brought before the Board for approval. .

IV. Discussion:

The recommended changes are to update and clarify the language within the IPS, specifically to Page 1, and Sections 4 (“Delegation of Authority”), 13 (“Procedure for Selecting and Reviewing Investment Advisors”) & 16 (“Adding New Asset Classes”). The removal of some of the language on Page 1 specifically addresses the word “predominately”. The NHTF is strategically moving away from the Manager-of-Managers approach to hiring Investment Advisors directly; thus gaining greater transparency and reducing costs. The minor changes to Sections 4 and 16 are to improve clarity.

Section 13 outlines the specific process for the selection of Investment Advisors for approval by the BOT. The initial screening and recommendations will be made by the Investment Consultant; see background information in **Exhibit C** (Segal Marco Advisors “Manager Research Process”). This task had been previously assigned to the in-house Investment staff following State procurement procedures which required issuing a “Request for Proposal” (RFP). This process proved to be difficult because the staff did not have the resources for a broad advisor search nor the expertise in all investment markets. Clarification of HRS 103D-102(b)(2)(F), specifically identifies Investments as exempt from State procurement.

The proposed changes will streamline the investment manager selection process by allowing the Consultant, Segal Marco Advisors, to perform the initial search and screening of the candidates. Segal, as a fiduciary to OHA, does not receive any commissions or fees for

their work in the selection process. As part of their regular duties, Segal monitors not only performance but also any changes within the firms they recommend as part of their due diligence (**Exhibit C**).

Please see **Exhibit A** for the proposed changes to the Investment Policy Statement.

V. Recommended Action:

To approve and authorize the changes to the IPS as described in **Exhibit A**.

VI. Alternative Action:

A. To approve the NHTF IPS amendments as described in **Exhibit A**.

B. Decline to approve the amendments to the NHTF IPS.

C. Take no action.

VII. Time Frame: Immediate action is recommended. If approved, the changes will become effective on November 1, 2019.

VIII. Attachments:

Exhibit A: OHA IPS Revisions Table and Redline Document

Exhibit B: OHA IPS Updated Final Version

Exhibit C: Segal Marco Advisors “Manager Research Process”

OHA IPS Revisions

Section and Page	Change	Old Text	New Text
Pg. 1	Remove	predominantly utilizing the Manager-of-Managers (MoM) approach	None
4.2b, Pg. 7	Replace	Select	Approve
4.2f, Pg. 7	Replace	Annual	Quarterly
4.3m, Pg. 8	Insert	None	Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;
13.1, Pg. 17	Replace	the OHA staff will select four finalists to make an oral presentation. Evaluation factors will include three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company. A contract will be executed pursuant to the Fund's Operational Procedures.	it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102F specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:



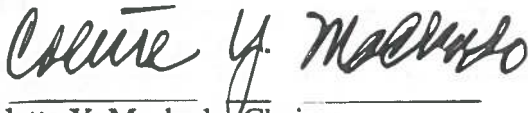
OHA IPS Revisions (cont.)

Section and Page	Change	Old Text	New Text
13.1a, Pg. 17	Insert	None	The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
13.1b, Pg. 17	Insert	None	The initial list will consist of eight to ten Advisors, but may be fewer depending on the investment approach.
13.1c, Pg. 17	Insert	None	OHA Procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
13.1d, Pg. 17	Insert	None	The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
13.1e, Pg. 17	Insert	None	OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
13.1f, Pg. 17	Insert	None	The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.

NATIVE HAWAIIAN TRUST FUND

INVESTMENT POLICY STATEMENT

The following Investment Policy Statement (IPS) has been duly adopted,
~~predominantly utilizing the Manager of Managers (MoM) approach,~~ by the Office
of Hawaiian Affairs, Board of Trustees at its meeting held on August 24, 2017 and
is in full force and effect on October 1, 2017.



Colette Y. Machado, Chairperson
Board of Trustees

9/27 / 17
Date

First Reading: August 1, 2017
Second Reading: August 24, 2017

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Section 12. Trades, Exchanges & Valuation	<u>16+6</u>
Section 13. Procedures for Selecting and Reviewing Investment Advisors	<u>17+7</u>
Section 14. Liquidity Policy	<u>19+8</u>
Section 15. Errors & Omissions	<u>19+8</u>
Section 16. Adding New Asset Classes	<u>19+8</u>
Section 17. Interpretation	<u>19+9</u>
Section 18. Hawai'i Direct Investment Policy (HDIP)	<u>19+9</u>
Section 19. Enhanced Liquidity Account Investments	<u>20+20</u>
Section 20. Investment Risk Management Policy	<u>21+21</u>

Distribution:

- 9- Each OHA Trustee via Asset & Resource Management Committee
- 1- OHA BOT Secretary
- 1- OHA Chief Executive Officer
- 1- OHA Chief Operating Officer
- 1- OHA Chief Financial Officer
- 1- OHA Controller
- 1- OHA Chief Investment Officer
- 1- OHA Investment Consultant
- 5- Each Investment Advisor / Non-Marketable Alternatives Provider
- 1- Custodian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

OBJECTIVES AND POLICY GUIDELINES

Section 1. Introduction and Scope

1.1 Introduction. This statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Fund").

This Policy Statement is set forth so that the Board of Trustees ("BOT") of the Office of Hawaiian Affairs ("OHA"), OHA Staff, Investment Consultant, Investment Advisors and Investment Managers (where appropriate), and beneficiaries may be made aware of the investment policy with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund's assets.

1.2 The Trust. OHA's mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the Fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement. In keeping with the fiduciary requirements and obligations of all parties involved in managing the Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") are to provide the:

- a) BOT, OHA staff, Consultant and Advisors with a clear and mutual understanding of the Fund's philosophy, investment objectives and policies;
- b) Advisors with guidance, objectives and limitations in investing the Fund's assets; and
- c) BOT with a meaningful basis to evaluate the Advisors' performance in order to meet the BOT's fiduciary responsibility to monitor prudently the Fund's investments.

This Statement represents the BOT's philosophy regarding the investment of the Fund's assets. The BOT will review and revise the Statement as needed to ensure that it continues to reflect the BOT's expectations and objectives. All of the BOT's modifications or amendments to the Statement shall be made in writing and will be provided to all Investment Advisors and Consultants.

It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable. It is further understood that all performance standards and return objectives in this Statement are intended as evaluation tools for determining whether to continue to retain the Advisors. The parties understand that the Advisors cannot give assurance of actual investment results and that the Advisors understand that the BOT will terminate its relationship with an Advisor based on a determination that the Advisor is not achieving the performance standards.

1.4 Manager-of-Managers Approach. The BOT has elected to employ Advisors in an outsourced manager-of-managers investment approach, without necessarily bundling custodial services. There is a preference for a full discretionary approach to invest across multiple asset classes. When necessary to achieve the Fund's objectives, the BOT may hire an Advisor with a non-Manager-of-Managers approach or to manage assets with a specific asset class mandate. Under the outsourcing agreement, the Advisors will assume certain BOT fiduciary responsibilities as set forth in the applicable agreement(s) between the Advisors and the BOT. The Advisors are accountable for the prudent management of all assets subject to their oversight and, where applicable, will make all key investment decisions, such as tactical asset allocation and manager selection, within the context set by this Statement and in adherence to the duties and powers set forth in the applicable management, advisory, or trust agreements. The BOT

still maintains responsibility for imposing guidelines, targets and asset allocation constraints as set forth in this Statement, and for monitoring the Advisors to ensure they act prudently and adhere to all aspects of the Statement.

1.5 Spending Policy. The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Fund's market value, excluding any Fiscal Reserve spending, using the methodology specified in the OHA Native Hawaiian Trust Fund Spending Policy. The calculation of the maximum withdrawal amounts are set forth in the Native Hawaiian Trust Fund Spending Policy and Fiscal Reserve Withdrawal Guidelines.

Section 2. General Objectives

2.1 Prioritized Investment Objectives. The overall objectives of the Fund are in the following order of priority:

- a) To grow the Fund's assets consistently by at least inflation plus five percent annually (Consistent Capital Growth);
- b) To invest in a manner that seeks to ensure the continuous preservation of purchasing power of the overall portfolio (Capital Preservation);
- c) To achieve a portfolio return that meets or exceeds the return of the Fund's Policy Portfolio Benchmark on a net of fee basis over a long time horizon (Benchmark Outperformance); and
- d) To diversify the portfolio by asset type, security (issuer) and Investment Manager to reduce the volatility of returns (Adequate Diversification).

2.2 Long-Term Objective. Consistent capital growth is the primary objective of the Fund. The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements. Consistent capital growth is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility. Since the Advisors will focus on long-term capital appreciation, the Fund may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

All parties named in this Statement shall carry out their business in compliance to all existing and future applicable state and federal regulations (Regulatory Compliance Requirement) and for assets subject to their discretion maintain adequate liquidity to meet all anticipated expenditures after sufficient notice (Adequate Liquidity Requirement).

2.3 Definition of Market Cycle. Throughout this Statement the term "market cycle" is used. Market cycles include both a rising and a declining market. Generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices. Therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

2.4 Definition of Investment Consultant, Investment Advisor and Investment Manager. Throughout this Statement the terms Investment "Consultant", Investment "Advisor" and Investment "Manager" are used. Consultant shall refer to the entity hired by the OHA Chief Executive Officer ("CEO") to assist OHA staff and BOT in overseeing the Fund and to monitor and evaluate the Advisors; "Advisor" shall refer to each Fiduciary (typically utilizing the "manager-of-managers" approach) hired by the BOT to exercise investment discretion over a portion of the Fund's assets within the parameters set forth in the Statement; and "Manager" shall refer to any portfolio manager selected by the Advisors to invest the Fund's assets.

Section 3. Standards of Care

3.1 Board of Trustees and OHA Staff. The standard of care applied to the BOT and OHA internal staff assigned to the Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

3.2 External Providers. The standard of care applied to all external providers (i.e., Consultant, Advisors (indirectly Investment Managers hired by the Advisors), and Custodian) shall be as set forth in the agreement between the BOT or CEO, as appropriate, and each external provider. The BOT will negotiate a standard for the Investment Advisors that is similar in effect to the "prudent expert" standard, defined as: "Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

3.3 Code of Ethics. OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions. OHA Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. OHA employees and officers shall refrain from undertaking personal investment transactions with entities that conduct business with the Fund. Should any Trustees have personal involvement with any direct investment transaction or any perceived conflicts of interest, the Trustee should disclose the involvement immediately and be recused from discussions and votes on said investment. OHA Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual.

Section 4. Delegation of Authority

The Office of Hawaiian Affairs Native Hawaiian Trust Fund maintains a structured and organized process in implementing its investment program. To accomplish the mission, objectives and desired investment returns of the Fund, the Board of Trustees has delegated authority to various individuals and organizations.

4.1 BOT Composition. The BOT currently consists of representatives from:

- a) O'ahu
- b) Kaua'i and Ni'ihau
- c) Moloka'i and Lana'i
- d) Hawai'i
- e) Maui
- f) At large (4)

4.2 BOT Responsibilities. The BOT recognizes that it may not possess sufficient expertise to manage directly the assets of the Fund. The BOT, therefore, employs the services of various external experts to act as Fiduciaries--Consultants, Advisors and/or Custodians and seeks advice from independent parties. The BOT does rely on this expertise in carrying out its responsibility to oversee the overall management of the Fund's assets, and will meet quarterly to review the performance of the Fund and the activities of the external providers for reasonable consistency with the objectives of the Fund as set forth in this Statement. When necessary, the BOT will provide

guidance to the investment process. BOT may delegate certain of its responsibilities to the CEO to assist with the implementation of this Statement. BOT responsibilities include, but are not limited to:

- a) Approve the Investment Policy Statement and all modifications to the Statement;
- b) ~~Select~~ Approve Advisors and Non-Marketable Alternatives Providers. The BOT delegates authority to the CEO to select the Custodian, Consultant and Investment Advisory Committee (IAC) members;
- c) Monitor results of all Fund assets as a whole and those assigned to each Advisor. The BOT shall include in its quarterly assessment such topics as: economic outlook, portfolio diversification, asset allocation and structure, Advisors' strategies, potential risks, and the performance of the overall portfolio as well as each of the Fund's asset classes versus its benchmark rate of return and peer institutions;
- d) Review quarterly reports regarding the activities of Advisors, Consultant, Investment Advisory Committee and OHA staff overseeing the Fund;
- e) Review quarterly reports from the Custodian and Advisors regarding the composition of each Advisor's assets under management versus the Fund's strategic target and the asset class strategies of each Advisor;
- f) Review the ~~annual~~ quarterly report of the Consultant regarding the performance of the Fund and the Advisors;
- g) As necessary, review the Fund's strategic direction or significant issues impacting the Fund or Fiduciaries, and take action as appropriate;
- h) Attend a minimum of two investment educational events held in Hawai'i per year; and
- i) Attend out-of-State training, educational or due diligence events that are recommended by the CEO and approved by the Chairperson of the BOT.

4.3 Duties of the Consultant, Investment Advisory Committee, CEO and OHA Staff. The duties of the Consultant will be as set forth in the agreement entered into between the CEO and the Consultant. The duties of the Investment Advisory Committee are as outlined in the Committee's Charter. This Committee has no authority to make decisions, but only serves to provide independent comments to the Consultant, the CEO and staff, and BOT representatives regarding the economic outlook and the Fund's assets, strategies, performance, risks and Fiduciaries. The duties of the CEO, OHA staff, Investment Advisory Committee and Consultant will be set forth in the OHA Native Hawaiian Trust Fund Operational Procedures. The CEO is responsible for approving these Operational Procedures and for reviewing and approving all investment decisions not made by an Advisor, except those reserved for the BOT. The Consultant and OHA staff are responsible for assisting the CEO and the BOT in the execution of their responsibilities. Duties of the Consultant and OHA staff jointly include, but are not limited to:

- a) Monitor the performance of each Advisor's portfolio as frequently as market conditions dictate, including review of the Advisor's monthly reports;
- b) Aggregate as necessary and monitor the performance of the Fund's investment portfolios monthly and prepare quarterly performance and Advisor activity reports for review by the CEO and BOT;
- c) Monitor the monthly reconciliation of the portfolio positions and valuations among the Custodian and Advisors (OHA staff only);
- d) Seek to ensure that assets are invested in accordance with the requirements specified in this Statement;
- e) Recommend to the CEO and implement operational procedures that will enhance the investment program of the Fund and ensure that proper internal controls are implemented to safeguard the assets of the Fund, including preparing Investment Guideline Summaries for each of the Advisors;
- f) Recommend benchmarks for approval to the CEO;
- g) Prepare periodic market-cycle and annual reviews of the Fund's investments and the Advisors' performance, including findings from annual due diligence visits for presentation to the BOT;
- h) Conduct onsite annual due diligence of the Advisors and Custodian;
- i) Coordinate and vet changes to the Investment Policy Statement and serve as chair (Consultant) and secretary (OHA staff) to the Investment Advisory Committee;
- j) Evaluate the reasonableness of recommendations of Advisors and Non-Marketable Alternatives Providers regarding investment decisions and policies requiring the approval of the CEO.
- k) Evaluate and recommend Direct Investments in Hawaii for the approval of the CEO and BOT, as appropriate;

- l) Manage the Fund's Enhanced Liquidity Account assets awaiting disbursement to OHA consistent with the Operational Procedures reviewed by the CFO and approved by the CEO; and

m) Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;

- m)n) Maintain knowledge of current trends and conditions with respect to investment management through continuing education.

4.4 Duties of the Advisors. The duties of the Advisors shall be as set forth in the agreements entered into between the BOT and the Advisors, and will explicitly include this Statement as an addendum. The Advisors act as Fiduciaries of the Fund for the assets they have under management. Duties of the Advisors include, but are not limited to:

- a) Invest the assets of the Fund within the constraints of the Statement while adhering to the investment management style, concepts and principles for which they were retained by the BOT. Advisors are responsible for tactical asset allocation and manager selection unless otherwise stated in the management and/or trust agreement with OHA;
- b) Where applicable per the Advisor management agreement, for all investment decisions requiring the CEO's approval, recommend specific investments and provide strategic and/or tactical investment advice to the BOT, CEO, OHA staff, and Consultant as appropriate to render a decision that will achieve the Fund's investment objectives;
- c) Seek to achieve best execution and price for all transactions effected on behalf of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis and if appropriate, facilitate the recapture of commissions on behalf of the Fund;
- d) Reconcile within tolerance limits monthly accounting, transaction, valuation and asset summary data with the Custodian's transactions, valuations and holdings, including resolving any discrepancies with the Custodian;
- e) For investments where a market value is not available, assist the Custodian as necessary in finding appropriate pricing sources or establishing fair value procedures.
- f) Report to the BOT on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel and performance relevant to the management of the Fund. Items relevant to the Fund include those that would have a direct or indirect impact on the ability of the Advisor to continue to provide a high level of service;
- g) Vote the proxies of invested companies (or delegate the vote to Managers), as they deem appropriate, although the BOT reserves the right to vote proxies in separately managed accounts if it so chooses;
- h) Periodically conduct capital market studies and make recommendations to the BOT regarding changes to the Statement and strategic asset allocation targets and ranges based on the risk/return objectives of the Fund and the economic and market outlook. The timing of these analyses, and either reaffirmation or recommendation of modifications to this Statement, shall be as agreed upon with the BOT, but normally every two to five years, but no less frequently than every six years;
- i) Select qualified Investment Managers, and monitor existing Managers' style consistency and performance at least monthly, including due diligence of those Managers regarding personnel, ownership, risk management and the investment process;
- j) Negotiate fee arrangements and other contract terms with the investment Managers on behalf of the Fund;
- k) Communicate with the Consultant and/or OHA staff on at least a monthly basis regarding actions taken, or any material changes, issues or circumstances warranting attention including performance of the Fund, market conditions and outlook, manager-turnover, Managers' or Advisor's staff turnover, etc;
- l) Prepare and present a quarterly executive summary report to the BOT as requested by the Consultant or OHA staff including performance versus benchmarks, asset allocation, economic outlook, fees, Manager summary, and any other significant issues impacting the Fund;
- m) Assist the Consultant and OHA staff in preparing Investment Guideline Summaries for the approval of the CEO covering the assets under their management and annually prepare a compliance and derivatives usage report (Each Advisor's Investment Guideline Summary will govern the assets under their management in conjunction with the Investment Policy Statement and the Investment Management Agreement between the

- Advisor and OHA);
- n) Host an annual onsite comprehensive and/or topical due diligence for the Consultant and OHA staff and officials and as requested provide portfolio analytics and style consistency adherence at the manager-level for the Advisor's commingled vehicles;
 - o) Negotiate and arrange for brokerage and any applicable recordkeeping services;
 - p) Render special projects at the request of the BOT, the Consultant or OHA staff; and
 - q) Provide certain other services, as described elsewhere in this Statement, such as investment training, market research, educational programs, analytical tools, etc.

4.5 Duties of the Custodian. The duties of the Custodian shall be as set forth in the agreement between the BOT and the Custodian. In addition to other responsibilities contained in that agreement the Custodian will:

- a) Provide complete custody and depository services for the Fund's assets including obtaining market values or fair values for all assets on at least a monthly basis;
- b) Provide a monthly report of transactions by the Advisors and, where applicable, by OHA (Enhanced Liquidity Account) as set forth in the Custody agreement;
- c) Provide audited monthly and annual accounting statements for all the Fund's assets and transactions;
- d) Collect all interest income, dividends and principal realization and properly report them in all accounting statements;
- e) Disperse funds to cover expenses, accept funds from OHA or the Advisors, and disperse funds to OHA or the Advisors as properly instructed by CEO or OHA staff, and properly report these transactions in all accounting statements; and
- f) Reconcile monthly accounting, transaction and asset summary data and communicate and resolve any discrepancies with the Advisors.

Section 5. Asset Allocation Guidelines and Long Term Targets

The BOT prefers Advisors who can construct and manage a portfolio encompassing multiple strategic asset classes using a Manager-of-Manager approach and utilize the Fund's strategic target index as their primary benchmark (strategic target weight times strategic benchmark index return for each strategic asset class). The purpose of the strategic target asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. The minimum and maximum levels listed below are targeting guidelines as opposed to absolute barriers; Advisors should bring asset allocations which are outside of their approved targeting range back to the range per their rebalancing policy unless granted a written exception by the CEO. The Traditional and Alternative Assets Advisors are not responsible for Hawai'i Direct Investments and the Enhanced Liquidity Account. OHA staff may hedge the allocation to Hawai'i Direct Investments in a traditional asset class managed by one or more Advisors until such investments are made. The Alternatives Advisor may hedge the under or over exposure to asset classes with barriers to entry and exit (Non-Marketable Alternatives) with similar liquid (marketable) asset classes (e.g. hedge underexposure to targeted private equity using traditional equity or marketable equity alternatives).

5.1 Asset Allocation.

Asset Class Portfolios	Maximum	Minimum	Strategic Target	Benchmark Index	Primary Objective
Traditional Asset Classes					
Traditional Global Equities	55%	22%	40%	MSCI ACWI	Growth
Traditional Global Fixed Income	22%	11%	17%	Bloomberg US Aggregate	Income
Traditional Global Real Assets	11%	0%	5%	US TIPS +3%	Inflation Hedge
Total Traditional Assets	88%	33%	62%		
Alternative Asset Classes					
Hedge Funds	19.2%	6.4%	12%	3-Month T-Bills +4%	Volatility Management
Private Markets*	25.6%	0%	18%	MSCI ACWI +3%	Growth
Total Alternative Assets	44.8%	6.4%	30%		
Enhanced Liquidity Account					
Enhanced Liquidity	10%	0%	3%	1-3 Year Treasury	Liquidity
Hawai'i Direct Investments					
Hawai'i Direct Investments	10%	0%	5%	US TIPS +3%	Inflation Hedge
*The Private Market allocation will consist of the previous Non-Marketable Equity, Credit, and Real Assets & Opportunistic portfolios					

The Strategic Targets for the Asset Classes listed in the table above multiplied by the benchmarks recommended by the Consultant and approved by the CEO constitute the Policy Portfolio. The table below regroups the Asset Classes by their primary objective.

Asset Class Portfolios	Maximum	Minimum	Strategic Target
Growth			
Traditional Global Equities	55%	22%	40%
Private Markets	25.6%	0%	18%
Total Growth	80.6%	22%	58%
Income			
Traditional Global Fixed Income	22%	11%	17%
Total Income	22%	11%	17%
Volatility Management			
Hedge Funds	19.2%	6.4%	12%
Inflation Hedge			
Traditional Global Real Assets	11%	0%	5%
Hawai'i Direct Investments	10%	0%	5%
Total Inflation Hedge	21%	0%	10%
Liquidity			
Enhanced Liquidity	10%	0%	3%

The CEO has the delegated power to allocate up to \$25 million from the Fund for a Direct Investment Program. Direct investments made from the Fund shall follow the guidelines set forth in the Hawai'i Direct Investment Policy section of this Statement. All Hawai'i-based Direct Investments are excluded from the discretionary Manager-of-Managers framework. The OHA staff with the assistance of the Consultant will be responsible for the due diligence, performance monitoring and reporting of such investments.

Private Market investments are accomplished outside of the discretionary Advisor framework as the Advisors do not have investment discretion over these assets. Approved Non-Marketable Alternatives Providers will provide OHA staff and the Consultant with sufficient information and analyses to evaluate their investment recommendations. The information may include Manager due diligence reports and portfolio analytics so that the CEO can make an informed decision relating to the investment. It is recognized that there may be underinvestment or overinvestment in these illiquid asset classes due to the timing of capital calls and distributions.

5.2 Benchmarks. Each Advisor will use the primary strategic benchmark index listed in their Investment Guideline

Summary as a guide in managing assets under their control. The strategic asset allocation targets and ranges, performance benchmarks, and additional investment guidelines are also set forth in each Advisor's Investment Guideline Summary or Investment Management Agreement. As necessary, the Consultant will recommend changes to the strategic targets, ranges, performance benchmarks, and any additional guidelines and the CEO must approve those changes before they become effective. The CEO will notify the BOT of Investment Guideline changes in writing.

Every new product of an Advisor must be assigned to one of the above asset classes as agreed upon between the Advisor and OHA Staff and/or the Consultant, with notification of the CEO. In addition, each investment may have a custom benchmark different from that of the asset class as agreed upon with the Consultant. The secondary benchmark is the Consumer Price Index (CPI) plus 5.0% annually for the Fund as a whole. The Consultant will also recommend, in consultation with each Advisor, peer manager and peer institution benchmarks and these will be approved by the CEO. Besides reporting portfolio performance versus these portfolio benchmarks, the Advisors shall report investment results on individual funds or portfolios versus their custom benchmarks.

The BOT recognizes that the actual asset allocation of the Fund may vary between or even outside of the minimum and maximum in the short term depending on market conditions and/or tactical asset allocation shifts. Asset classes not contemplated above or elsewhere in this Policy may be added to the Fund upon approval in writing by the BOT. The Advisors will only be responsible for meeting the investment objectives applicable to the portion of the Fund entrusted to such Advisors.

5.3 Rebalancing Policy. The primary purposes of rebalancing are to (1) ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation; and (2) improve the performance of the Fund. The CEO will ensure that any agreement entered into with an Investment Advisor sets forth a rebalancing policy satisfactory to the BOT.

Section 6. Cash Holdings

It is the policy of the Fund that the Advisors fully invest the assets of the Fund under their control except to accommodate large cash flows. Unhedged cash and equivalents may be held in the Fund for defensive purposes at the Advisor's discretion during abnormal market conditions. The equity portion of the Advisor's portfolio should strive to maintain less than 5% of the portfolio in cash equivalents, unless the cash is hedged to achieve the appropriate asset class exposure. The fixed income portion of the Advisor's portfolio may maintain higher cash balances (e.g., as barbell strategies necessitate this exposure to cash).

Cash equivalents maximize liquidity and safety of principal. Maturities should be short enough that cash equivalents can be liquidated with a limited loss of principal. The following types of cash equivalents are eligible for investment:

- a) Money market mutual funds (2a7) which invest solely in U.S. Treasury and government agency securities;
- b) Deposits which are 100% federally insured or collateralized with U.S. government or agency securities with a market value of at least 100% of the face amount of the certificate;
- c) U.S. Treasury bills and short-term U.S. government agency securities;
- d) Overnight repurchase agreements collateralized with U.S. government or agency securities with a market value of at least 102% of the face amount; and
- e) Commercial paper of the highest two grades as rated by a nationally recognized rating agency.

Section 7. Pooled/Commingled Investments/Mutual Funds

Commingled investment vehicles where there is a pooling of securities owned by multiple clients for diversification, risk reduction, or cost benefits, include mutual funds, trust funds, private placements, and limited

partnerships, and are explicitly permissible. Although private placements and limited partnerships are exempt from both federal and state securities registration, they are considered appropriate vehicles for the Fund.

Section 8. Permissible Investments

8.1 Asset Class Definitions, Objectives, Permissible Instruments, Strategies, & Requirements. Investments in each asset class listed in Section 5, except for those investments excluded from the Advisors' responsibility, must be well diversified as defined below and in the Investment Guideline Summary or Investment Management Agreement of each Advisor. Advisors, as Fiduciaries, must exercise prudence in all matters and invest solely for the benefit of the Fund. For each asset class, the Advisors will retain Managers who invest in separate accounts or in commingled vehicles. An Advisor may select itself, an affiliated Manager, or an external Manager. Advisors may also retain Managers to provide "active overlay" strategies that use securities, currencies and derivative instruments, including but not limited to forwards, options, futures contracts, options, currency forwards, futures contracts and swaps (e.g. interest rate, credit default and total return) to replicate an index or combination of indexes. These overlay strategies will seek to (a) manage Fund exposure to various asset classes, (b) manage overall Fund risk, and (c) under certain conditions, enhance total return with tightly controlled leverage constraints.

Each Advisor must demonstrate that it has the capability to manage the risks involved in each asset class. Key to controlling risks is the ability to conduct robust ongoing due diligence on the Managers it selects and the ability to measure, manage and report portfolio risks, including issuer concentration, market, credit, duration, liquidity, leverage, currency and other major risks. The Consultant, with the assistance of OHA staff and the Advisors, must document the investment restrictions and risk controls for the portfolio of each Advisor in the Investment Guideline Summaries. The Advisors are not allowed to leverage the Fund's assets at the portfolio level without prior written approval of the BOT, although individual managers or commingled vehicles in certain asset classes and strategies may employ leverage under controlled conditions. Risk hedging in each asset class is explicitly permitted, including currency risks relative to the benchmark index and temporarily hedging the exposure in an illiquid asset class with a similar liquid asset class.

a) **Traditional Global Equity - Common & Preferred Stocks and Un-levered Equity Derivatives.** The primary role of traditional global equity is to seek to provide total return in excess of inflation, consistent with the appropriate benchmark index. Traditional equity may be actively managed in diversified portfolios of long only positions and/or long and short positions netting to approximately 100% long, be passively managed, utilize active overlay strategies, or be managed in any combination of active, passive and overlay strategies. The goal of an actively managed stock portfolio will be to achieve a net return after fees in excess of its benchmark index with comparable risk. Securities should be publicly owned and traded actively enough to insure liquidity without significantly adverse effects on price due to rapid sale. The Advisor should diversify the portfolio by geography—domestic and international, both developed and emerging markets, by investment style—value and growth, by manager, by approach—quantitative versus fundamental, by sector and industry, and capitalization—small, mid and large. An Advisor may select itself or an affiliated Manager in this asset class.

b) **Traditional Global Fixed Income – Cash Equivalents, Bonds, Loans and Un-levered Fixed Income Derivatives.** The primary role of Global Fixed Income is to seek to: 1) generate income while diversifying the investment assets, 2) provide a safe, stable return, and 3) provide a deflationary hedge. The fixed income asset class may include, but is not limited to the following components:

- a) Cash equivalents;
- b) US core credit including investment grade corporate, asset-backed, municipals and mortgage securities;
- c) High-yield securities and liquid loans; and
- d) Foreign government securities, investment grade foreign corporate debt denominated in US dollars or foreign currencies from both emerging markets and developed countries.

Advisors should ensure that managers are carefully managing portfolio duration, convexity, yield curve structure, sector exposure, issuer concentration, credit quality, non-U.S. securities, and currency risk to achieve a balanced and

reasonable risk budget relative to the benchmark index for the fixed income portfolio. An Advisor may select itself or an affiliated Manager in this asset class.

c) Global Real Assets – Real Estate Investment Trusts (REITs) and Treasury Inflation Protected Securities (TIPS).

The primary role of global real estate is to seek to provide total return in excess of inflation, consistent with an appropriate real estate benchmark index. The Managers selected by the Advisors must have demonstrated a favorable record in managing real estate portfolios. The public real estate asset portfolio of the Fund may be comprised of commingled pools and/or a portfolio of real estate investment trusts (REITs), which are well diversified by property type and geographic location. Advisors shall invest in instruments which comprise a portfolio well diversified by the four main property types, including office, retail, industrial, and multifamily residential, as well as by geographic region, and tenancy/leasing structure. If a real estate investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle will serve as the operative policy. The Advisors are responsible for ensuring that the selected vehicle or portfolio has adequate risk controls in place and that the Manager is investing according to the operative policy. The Advisors may also invest in TIPS as a diversifier, or if they believe that they provide a better value than REITs, as an inflation hedge. An Advisor may select itself or an affiliated Manager in this asset class.

d) Low Volatility Marketable Alternatives – Funds of Hedge Funds, Individual Hedge Funds, Commodity Funds, and Mutual and Exchange Traded Funds employing alternative strategies.

The primary role of this asset class is to seek to provide a consistently positive return source above the risk free rate that has low volatility and low correlation to the other asset classes, and the secondary role is to provide an inflation hedge through a commodity allocation. This asset class consists of a diversified portfolio of hedge fund strategies deemed appropriate by the Advisor for this role, including but not limited to macro, commodity trading advisors, relative value, opportunistic, global tactical asset allocation, distressed, and opportunistic. The Alternatives Advisor may utilize funds of hedge funds, a portfolio of individual hedge funds, mutual funds or market neutral overlay strategies designed to achieve a consistently positive return above the risk free rate. The Alternatives Advisor may select itself or an affiliate as the fund-of-funds Manager or as one or more of the hedge fund Managers. The Alternatives Advisor is responsible for ensuring that the selected vehicle has adequate risk controls in place. The Alternatives Advisor will seek to ensure that Managers invest according to the offering memorandum or partnership agreement. The Alternatives Advisor may select Managers that utilize reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their individual hedge funds. The liquidity requirements for individual hedge funds or hedge fund-of-funds will be defined in the Advisor's Investment Guideline Summary. Advisors should seek to avoid direct or indirect investments in funds with redemption gates or side pockets, as well as funds which lack reasonable transparency consistent with the investment strategy. Advisors should also avoid any funds with excessive fees in relation to market practice and/or expected returns, or terms which do not align the interests of the Manager with the client, as well as those that have the majority of assets in illiquid investments.

The primary role of the commodities allocation is to seek to provide a consistently positive return above inflation with a low or negative correlation to the other asset classes. Commodities provide an inflation hedge and should consist of a diversified portfolio of energy, metal, agricultural and other commodities, including but not limited to oil, natural gas, grains, metals, and livestock. The Alternatives Advisor may utilize separate accounts or commingled funds using a single Manager or a multi-manager approach. The Alternatives Advisor should utilize strategies that have at least monthly liquidity under normal conditions and further liquidity guidelines will be specified in the Advisor's Investment Guideline Summary. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one of the Managers. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor will seek to ensure that Managers utilizing funds invest according to the offering memorandum or partnership agreement.

e) Non-Marketable Equity Alternatives – Private Equity Funds, Funds of Private Equity Funds, Equity Hedge Funds, and Cash Equivalents & Overlay Strategies.

The primary role of Non-Marketable Equity Alternatives is to seek to provide enhanced total return to traditional equity through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but employ strategies which go beyond the long only equity portfolio. Equity Alternatives include, but are not limited to, investments in private equity, venture capital, portable alpha, and long-biased equity hedge funds. The Alternatives Advisor may utilize hedge funds that correlate to the equity markets or

overlay strategies such as portable alpha to hedge an underexposure to the targeted level of Non-Marketable Equity Alternatives, and hold cash temporarily to meet capital calls. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class. The CEO may approve funds of private equity funds, which consist of funds making primary and/or secondary investments in underlying private equity funds as well as some direct investments. These funds are managed for returns with low correlation to returns in the traditional equity markets, and with very little liquidity. Assets invested in these private funds are generally illiquid for five to ten or more years. The CEO needs to invest the Fund's assets in a consistent long-term approach so as to limit the vintage year risk where there is a wide range of performance depending on the year the fund is launched. The Non-Marketable Alternatives Providers will seek to ensure that general partners invest according to the offering memorandum or partnership agreement. The Providers are responsible for ensuring that the selected vehicle has adequate risk controls in place and invests within the stated style and the scope of its offering memorandum or partnership agreement. Due to the long-term nature of a private equity investment, the measurement period for complete evaluation will be over a ten-year period. A ten-year return is intended to cover at least one complete market cycle, and is consistent with the average term of private equity fund-of-funds investments. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

f) Non-Marketable Credit Alternatives — Mezzanine Debt Funds, Specialty Loan Funds, Distressed Debt Funds, and Credit Hedge Funds. The primary role of Non-Marketable Credit Alternatives is to seek to provide enhanced total return to traditional credit through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but provide access to fixed income strategies with higher return potential. Credit alternatives include, but are not limited to mezzanine debt, bank loans, distressed debt, special situations, portable alpha, and hedge funds utilizing credit strategies. These strategies should have returns with moderate correlation to traditional fixed income returns and low correlation to the other asset classes. The Non-Marketable Alternatives Providers are responsible for ensuring that their selected vehicles have adequate risk controls in place and that their selected vehicles conform to the offering memorandum or partnership agreement. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class using credit hedge funds, overlay strategies, or traditional credit strategies. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

g) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLP's) and unique investments that do not fit into another Asset Class. The primary role of Non-Marketable Real Assets & Opportunistic Alternative investments is to seek to provide an inflation hedge, and the secondary role is to provide enhanced total return above Traditional Real Assets by committing capital for ten years or more to private market real asset strategies. Real assets include, but are not limited to real estate, TIPS, commodities, and natural resources. The OHA Staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class. The Alternatives Advisor may hedge target exposure using such marketable assets as MLP's, CTA's, REITs, TIPS, overlay strategies, or mutual and exchange-traded funds utilizing real asset strategies. The Alternatives Advisor may select itself or an affiliated Manager to hedge underexposure in this asset class.

h) Hawaii Direct Investments. The primary role of Hawaii Direct Investments is to seek a total return of five percent in excess of inflation from real property that provides office space to OHA in Hawaii. This asset class includes the legacy investment in Russell Investments Private Real Estate Fund. All direct real estate investments must be made within the context of the Direct Investment Policy Statement.

Section 9. Prohibited Investments

The following investments are prohibited. Should a prohibited transaction occur, the Advisor must report it immediately after discovery to the Consultant and OHA staff, who will report it at the next BOT meeting.

9.1 Self-Dealing Transactions. Managers cannot purchase or hold any security of the Advisor who selected them, unless permitted by law.

9.2 Financial Institution Deposits including CDs. Direct deposits may not exceed the Federal Deposit Insurance Corporation insurance limit unless they are 100% collateralized by eligible U.S. government securities or fully covered by a surety bond.

9.3 Letter Stock. Letter stock and other unregistered equity securities are prohibited except in the alternative asset classes.

Section 10. Derivatives Policy

This Derivatives Policy applies to all investments with the exception of those permitted in funds in the alternative asset classes. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in. Structured securities, futures, forwards, total return swaps, interest rate swaps, credit default swaps, options and other derivatives are permitted only if they are used in a defensive hedging manner (e.g. to hedge a currency, equitize cash, or to create an overlay strategy or structured fixed income portfolio). Advisors will be required to report on a periodic basis (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

Section 11. Voting of Proxies

The BOT has delegated the authority to Advisors and Managers to vote proxies. For separately managed accounts (not pooled vehicles), the BOT reserves its right to exercise its proxy rights when it so chooses and to vote the proxies of invested companies as it deems appropriate. The proxy voting review process and guidelines are set forth in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 12. Trades, Exchanges & Valuation

12.1 Selling or Exchanging Securities. Investment Managers may sell or exchange securities in the course of daily management of specific funds. The goal of all such trades is to maximize portfolio performance while maintaining an appropriate risk profile.

12.2 Marking to Market. To account for market fluctuations and volatility, the Custodian or its agent (independent pricing agent) will mark to market all securities at least monthly. When market values are not available, the Custodian will follow the prevailing best practices regarding fair valuation. If a significant market event takes place during the month that impacts the value of the portfolio, the Custodian or its agent will determine the impact on the portfolio.

Section 13. Procedures for Selecting and Reviewing Investment Advisors

13.1 Review Process. Fund investments will be managed by professional Advisors and Managers except to the extent the BOT specifically delegates investment authority for other strategies for which the Fund's Advisors do not have specific expertise under the Manager-of-Managers' approach or for OHA's Enhanced Liquidity Account. When the BOT elects to retain a new Investment Advisor(s), ~~the OHA staff will select four finalists to make an oral presentation. Evaluation factors will include three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.~~ A contract will be executed pursuant to the Fund's Operational Procedures. it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102(b)(2)(F) specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:

- a) The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
- b) The initial list will consist of either eight to ten Advisors, but may be fewer depending on the investment approach.
- c) OHA procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
- d) The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
- e) OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
- f) The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year, and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.
- g) OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
- h) Final selection will be approved by the BOT.
- i) Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
- j) OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.

13.2 Selection Criteria for Advisors. Criteria will be established for each Advisor search undertaken by the BOT and will be tailored to the BOT's needs. These criteria are applicable to discretionary Manager-of-Managers and may not necessarily be applicable for the Enhanced Liquidity Account Manager. In general, eligible Advisors will possess attributes including, but not limited to, the following:

- a) For Manager-of- Manager searches, the firm must exhibit capabilities to offer Manager-of-Manager programs across a variety of asset classes and are capable of utilizing qualified Hawaii-based Managers;
- b) For specific asset class searches, the firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the BOT;
- c) The firm must have a minimum five-year history with managing institutional assets, demonstrate continuity of key personnel, ~~and offer a reasonable fee schedule~~; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms;
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- e) The firm must have an asset base sufficient to accommodate the Fund's portfolio: Manager of Managers should have at least \$20 billion of discretionary institutional assets under management; the Fund's portfolio

- should represent no more than 5% of the firm's total asset base for any Advisor;
- f) The firm must demonstrate adherence to the investment style sought by the BOT, and adherence to the firm's stated investment discipline;
- g) The firm should promote good governance in its proxy voting policy and adhere to best practice standards regarding transparency, manager fee structure, leverage, and liquidity in the alternative asset classes;
- h) The firm's fees should be competitive with industry standards for each product category and overall;
- i) The firm must comply with the "Duties of the Investment Advisors" outlined in this Statement and should conform to GIPS (Global Investment Performance Standards) for performance reporting;
- j) The firm must be able to offer investment education programs to the BOT and OHA staff at least once a year; and
- k) The firm must be able to provide analytics tools and/or reports necessary for OHA staff and Consultant to monitor and analyze asset allocation, risk, and manager performance.

13.3 Criteria for Advisor Review and Monitoring. The BOT reserves the right to terminate an Investment Advisor at any time with reasonable notice as defined in the contract between the BOT and the Investment Advisor. Grounds for termination may include, but are not limited to:

- a) Failure to comply with the guidelines agreed upon for the management of the Fund's assets; including holding restricted securities and conducting prohibited transactions;
- b) Failure to achieve performance objectives specified in this Statement or the Advisor's contractual guidelines;
- c) Significant deviation from the Advisor's stated investment philosophy/style and/or process.
- d) Loss of key personnel or significant ownership changes that create instability in the organization;
- e) Evidence of illegal or unethical behavior by the Investment Advisor;
- f) Lack of willingness to cooperate with reasonable requests by the BOT, Investment Consultant or OHA staff for information, meetings or other material;
- g) Loss of confidence by the BOT; and
- h) A change in the Fund's asset allocation program which necessitates a shift of assets to another process or style.

The presence of any one, or a combination of these, factors will be carefully reviewed by the BOT, but will not necessarily result in an automatic termination.

13.4 Performance Monitoring. The OHA staff and Consultant shall monitor monthly statements and receive quarterly performance reports from the Advisors. The Advisors shall monitor, at least monthly, the investment results of each Manager under contract to determine whether or not that Manager is performing up to the standard required by the benchmark of performance specified in the Manager's contract.

13.5 Advisors Total Return Comparison. The BOT expects that each Advisor's total portfolio performance over a market cycle will meet or exceed the benchmark index established for that Advisor.

13.6 Total Portfolio Returns. The BOT expects that the Fund's combined investment results over a market cycle will be in the top 50% of a nationally recognized universe of foundations and endowments with similar sized portfolios.

13.7 Asset Class Returns. Specific asset class investment results shall be measured against benchmarks as detailed in the Advisor's Investment Guideline Summary.

13.8 Advisor Alerts. Advisors are expected to keep the BOT, OHA staff and Consultant informed of any material changes in their respective firms (i.e. change in personnel, ownership, policy, etc.).

13.9 Termination. If at any time the standard required is not being met by an Advisor, the BOT will determine what action will be taken toward the Investment Advisor. The decision to terminate an Investment Advisor shall be by majority vote of the BOT present at the meeting subject to the contractual agreement.

Section 14. Liquidity Policy

The Redemption liquidity of the total Trust Fund will be maintained with a minimum 65% of the Fund's assets able to be liquidated at market value under normal conditions on at least a quarterly basis (advance notification and some restrictions may apply). Investments with liquidity less than quarterly require the approval of the CEO. At least 50% of the total Trust Fund's assets must be liquid on at least a monthly basis at market value without restriction or advance notice longer than five business days under normal conditions. The Liquidity requirements for each Advisor and the assets under their management will be specified in their Investment Guideline Summaries and/or Investment Management Agreements.

Section 15. Errors & Omissions

The Advisor is to correct any material violation of the provisions of this Statement within a reasonable time period upon discovery. The Advisor will reimburse the Fund for a realized loss resulting from a material violation as agreed in the contract between the BOT and the Advisor.

Section 16. Adding New Asset Classes

The Investment Consultant with the assistance of OHA staff will work with the Advisors to assign each investment (e.g. fund) to an asset class portfolio, a custom benchmark index, and a peer manager universe. If the Advisor proposes an investment that does not fit into one of the approved asset classes listed in Section 5, the Advisor will prepare a written recommendation to the OHA staff / Consultant justifying the investment. The recommendation must include a description, of the new asset class, rationale for including the new investment, historical returns and risk statistics, liquidity, analysis of impact on the risk/return of the Fund, the benchmark index and manager peer universe. —OHA staff and the Consultant will provide a recommendation to the BOT. Adding a new asset class will require the approval of the CEO and the BOT.

Section 17. Interpretation

This Statement will be incorporated as an addendum in the agreements between the OHA BOT and each Advisor. In the event of any conflict or inconsistency between the terms of the agreement and this Statement, other than the Section 4.4 Duties of the Investment Advisors and anything designated as a Fundamental Investment Policy, the terms of the agreement with the Advisor shall govern.

Section 18. Hawai'i Direct Investment Policy (HDIP)

The CEO has the delegated power to allocate up to \$25 million, but not to exceed 10% of the market value of the Fund at the time of investment, on a cost basis for Hawai'i Direct Investments, including real estate and equity positions in companies based in Hawaii or with significant operations in Hawaii. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding BOT-approved lending programs for Native Hawaiians. This allocation may not be used for any other purpose until the acquisition of OHA's first corporate headquarter real estate property is complete. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT. The combined cost of all direct investments, less any return of capital to the Fund from these direct investments, cannot exceed the \$25 million allocation.

18.2 Delegation of Authority. All final acquisition, development, and/or disposition decisions of Hawai'i direct investments must be approved by the BOT. The BOT delegates to the CEO the authority to:

- a) Administer the HDIP and approve and implement procedures to carry it out;
- b) Delegate duties to OHA staff as necessary to fulfill and implement this policy;
- c) Deny opportunities that do not satisfy current policy, guidelines, and/or criteria approved by the BOT;
- d) Execute contract and agreements;
- e) Conduct investment due diligence, negotiations, and on-going performance monitoring;
- f) Structure real estate financing terms for approval by the BOT;
- g) As necessary, oversee and manage the operational functions associated with each investment, including selecting and terminating service providers, negotiating leases and setting fee schedules (including market-based lease terms for OHA occupied space), obtaining and approving permits, licensing, and leasing, approving tenant improvements, sub-leases, evictions, use and service agreements, and making all other operational decisions associated with the investment; and
- h) Determine when to segregate assets to fund acquisitions and to place those assets with OHA staff to invest in the Enhanced Liquidity Account (ELA) until acquisitions are closed. These funds do not count toward the spending limit on annual transfers to the ELA

The BOT reserves the right to approve all other decisions not listed above.

18.3 Permissible Investment. For OHA's headquarter corporate real estate acquisition, OHA is to invest in real estate located on the island of O'ahu. OHA may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or vice versa, during the course of the holding period of the investment. Realized gains generated from real estate dispositions should credit the cost of the investment allocated to the direct investment program.

All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.

18.4 Leverage. OHA may finance the acquisition of corporate real estate with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be counted toward the \$25 million allocation.

18.5 Market Valuation. Market valuation of corporate real estate is determined by biennial appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Section 19. Enhanced Liquidity Account Investments

The BOT has authorized the use of an Enhanced Liquidity Account (ELA) utilizing primarily short-term and intermediate-term U.S. government and agency securities, TIPS, MLP's, liquid alternative risk premia strategies, and passive beta strategies to manage OHA's short-term (less than 18 months) cash flow. The ELA may be managed internally by OHA staff or externally by a registered investment advisor. The primary objectives of the ELA are to expedite the ability to meet fiscal obligations and efficiently manage short-term cash needs; a secondary objective is to provide a highly liquid, low volatility, low or anti-correlating asset to the Fund. As such, OHA may hold up to 10% of the net assets of the Fund in the ELA. The custody of short-term investment assets shall remain with OHA's Fund Custodian.

19.1 Permissible Investments. Assets held within the ELA must have no less than monthly liquidity under normal conditions. Passive index mutual funds, passive exchange-traded funds, passive institutional commingled funds, liquid alternative risk premia strategies, short-term U.S. government and agency securities, cash, and cash equivalents are permitted. A list of allowable investment vehicles for each asset class must be reviewed by the CFO

and Consultant, approved by the CEO, and presented to the BOT for review. OHA staff or its external Manager may only select from this Approved List of investments vehicles in the ELA.

19.2 Asset Allocation and Rebalancing. The investments should be highly liquid with low volatility. Under normal conditions, the ELA's assets should be targeted no more than 2.0 percentage points (absolute) away from the strategic target allocation set forth in the ELA Manager's Investment Guideline Summary or Investment Management Agreement. OHA staff and the Consultant will devise a targeting and rebalancing process with a maximum tolerance approved by the CEO. If managed internally, OHA staff will execute the process; otherwise the external Manager will execute the process. Decisions to target the asset allocation outside of the maximum 2.0% tolerance shall be reviewed by the Investment Advisory Committee and/or CFO, approved by the CEO, and reported to the BOT prior to implementation.

19.3 Internal Controls. Internal operational controls and procedures relating to short-term investments shall be outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

19.4 Advisor and Manager Selection. The BOT will approve OHA staff under the supervision of the CFO and CEO as the Advisor and an external Manager to manage the ELA. The external Manager may not have full investment discretion; therefore, provisions relating to discretionary Advisors in this Statement may not necessarily apply to the ELA Manager. The duties of the ELA Manager shall be established based on the Investment Management Agreement between the Manager and the BOT. BOT presentations by four finalists are not necessary for ELA Manager selection.

19.5 ELA Policy Benchmark & Investment Guidelines. The Policy performance benchmark for the ELA shall be the combination of market indexes and the risk free rate as set forth in the Manager's Investment Guideline Summary or Investment Management Agreement, which will also establish investment guidelines for managing the account.

Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund ("NHTF") Investment Risk Management Policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the NHTF investment portfolio. The OHA Board of Trustees ("BOT") recognizes that the undertaking of risks is generally unavoidable in investment management. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures. Risk control measures include continuous monitoring and timely reporting by OHA staff to ensure the effectiveness of OHA's investment risk management system. This Policy is not intended to provide an exhaustive list of risks or provide a comprehensive list of process and procedures to identify and mitigate risks. Rather, this policy provides generally accepted approaches to risk management that can be implemented through investment guidelines and operational policies and procedures.

Risk Management

Key risk factors may stem from internal or external sources. The assessment of risk may be both qualitative and quantitative. The OHA staff and Consultant shall conduct an annual qualitative risk assessment identifying key risk factors, sources of risk, risk mitigants, and remediation plan, if necessary, to manage these risks. OHA staff shall also provide quantitative risk reporting to the BOT using commonly accepted quantitative risk reporting measures on a quarterly basis. Risk management measures may include the following:

- 1) Establish internal policies and procedures to minimize operational and legal risks;
- 2) Establish investment guidelines for eligible investments, diversification, rebalancing, liquidity, leverage, and use of derivatives;

- 3) Annual reporting of portfolio volatility (measured using standard deviation of returns) and expected volatility and return provided by the Investment Advisors;
- 4) Annual reporting of tracking error for OHA's liquid assets;
- 5) Annual reporting of leverage, currency risk, concentration risk, and liquidity risk;
- 6) Annual external financial audit by a reputable independent audit firm; and
- 7) Periodic review of the Investment Policy Statement and Risk Management Policy as necessary to assess the relevance and effectiveness of these policies.

Implementation

It is the responsibility of OHA's Chief Executive Officer to ensure that risk management policies and procedures are in place to identify, monitor, and manage investment risk. It is the OHA staff's responsibility to implement internal procedures and continuously monitor the investment portfolio and Advisor activities to ensure policy and guideline compliance. OHA staff shall rely on most recent data available provided by the Custodian and Advisors to analyze risk statistics and provide risk reporting. A risk management review shall be provided to the BOT by the Investment Consultant on an annual basis, or more frequently as needed.

OHA IPS Revisions (cont.)

Section and Page	Change	Old Text	New Text
13.1g, Pg. 17	Insert	None	OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
13.1h, Pg. 17	Insert	None	Final selection will be approved by the BOT.
13.1i, Pg. 17	Insert	None	Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
13.1j, Pg. 17	Insert	None	OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.
13.2c, Pg. 17	Remove	and offer a reasonable fee schedule	None
16, Pg. 19	Insert	None	OHA staff and the consultant will provide a recommendation to the BOT.

NATIVE HAWAIIAN TRUST FUND

INVESTMENT POLICY STATEMENT

The following Investment Policy Statement (IPS) has been duly adopted, by the Office of Hawaiian Affairs, Board of Trustees at its meeting held on October 3, 2019 and is in full force and effect on November 1, 2019.

Colette Y. Machado, Chairperson
Board of Trustees

Date

First Reading: September 5, 2019
Second Reading: October 3, 2019

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Distribution:

- 9- Each OHA Trustee via Asset & Resource Management Committee
- 1- OHA BOT Secretary
- 1- OHA Chief Executive Officer
- 1- OHA Chief Operating Officer
- 1- OHA Chief Financial Officer
- 1- OHA Controller
- 1- OHA Chief Investment Officer
- 1- OHA Investment Consultant
- 5- Each Investment Advisor / Non-Marketable Alternatives Provider
- 1- Custodian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

OBJECTIVES AND POLICY GUIDELINES

Section 1. Introduction and Scope

1.1 Introduction. This statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Fund").

This Policy Statement is set forth so that the Board of Trustees ("BOT") of the Office of Hawaiian Affairs ("OHA"), OHA Staff, Investment Consultant, Investment Advisors and Investment Managers (where appropriate), and beneficiaries may be made aware of the investment policy with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund's assets.

1.2 The Trust. OHA's mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the Fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement. In keeping with the fiduciary requirements and obligations of all parties involved in managing the Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") are to provide the:

- a) BOT, OHA staff, Consultant and Advisors with a clear and mutual understanding of the Fund's philosophy, investment objectives and policies;
- b) Advisors with guidance, objectives and limitations in investing the Fund's assets; and
- c) BOT with a meaningful basis to evaluate the Advisors' performance in order to meet the BOT's fiduciary responsibility to monitor prudently the Fund's investments.

This Statement represents the BOT's philosophy regarding the investment of the Fund's assets. The BOT will review and revise the Statement as needed to ensure that it continues to reflect the BOT's expectations and objectives. All of the BOT's modifications or amendments to the Statement shall be made in writing and will be provided to all Investment Advisors and Consultants.

It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable. It is further understood that all performance standards and return objectives in this Statement are intended as evaluation tools for determining whether to continue to retain the Advisors. The parties understand that the Advisors cannot give assurance of actual investment results and that the Advisors understand that the BOT will terminate its relationship with an Advisor based on a determination that the Advisor is not achieving the performance standards.

1.4 Manager-of-Managers Approach. The BOT has elected to employ Advisors in an outsourced manager-of-managers investment approach, without necessarily bundling custodial services. There is a preference for a full discretionary approach to invest across multiple asset classes. When necessary to achieve the Fund's objectives, the BOT may hire an Advisor with a non-Manager-of-Managers approach or to manage assets with a specific asset class mandate. Under the outsourcing agreement, the Advisors will assume certain BOT fiduciary responsibilities as set forth in the applicable agreement(s) between the Advisors and the BOT. The Advisors are accountable for the prudent management of all assets subject to their oversight and, where applicable, will make all key investment decisions, such as tactical asset allocation and manager selection, within the context set by this Statement and in adherence to the duties and powers set forth in the applicable management, advisory, or trust agreements. The BOT

still maintains responsibility for imposing guidelines, targets and asset allocation constraints as set forth in this Statement, and for monitoring the Advisors to ensure they act prudently and adhere to all aspects of the Statement.

1.5 Spending Policy. The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Fund's market value, excluding any Fiscal Reserve spending, using the methodology specified in the OHA Native Hawaiian Trust Fund Spending Policy. The calculation of the maximum withdrawal amounts are set forth in the Native Hawaiian Trust Fund Spending Policy and Fiscal Reserve Withdrawal Guidelines.

Section 2. General Objectives

2.1 Prioritized Investment Objectives. The overall objectives of the Fund are in the following order of priority:

- a) To grow the Fund's assets consistently by at least inflation plus five percent annually (Consistent Capital Growth);
- b) To invest in a manner that seeks to ensure the continuous preservation of purchasing power of the overall portfolio (Capital Preservation);
- c) To achieve a portfolio return that meets or exceeds the return of the Fund's Policy Portfolio Benchmark on a net of fee basis over a long time horizon (Benchmark Outperformance); and
- d) To diversify the portfolio by asset type, security (issuer) and Investment Manager to reduce the volatility of returns (Adequate Diversification).

2.2 Long-Term Objective. Consistent capital growth is the primary objective of the Fund. The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements. Consistent capital growth is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility. Since the Advisors will focus on long-term capital appreciation, the Fund may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

All parties named in this Statement shall carry out their business in compliance to all existing and future applicable state and federal regulations (Regulatory Compliance Requirement) and for assets subject to their discretion maintain adequate liquidity to meet all anticipated expenditures after sufficient notice (Adequate Liquidity Requirement).

2.3 Definition of Market Cycle. Throughout this Statement the term "market cycle" is used. Market cycles include both a rising and a declining market. Generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices. Therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

2.4 Definition of Investment Consultant, Investment Advisor and Investment Manager. Throughout this Statement the terms Investment "Consultant", Investment "Advisor" and Investment "Manager" are used. Consultant shall refer to the entity hired by the OHA Chief Executive Officer ("CEO") to assist OHA staff and BOT in overseeing the Fund and to monitor and evaluate the Advisors; "Advisor" shall refer to each Fiduciary (typically utilizing the "manager-of-managers" approach) hired by the BOT to exercise investment discretion over a portion of the Fund's assets within the parameters set forth in the Statement; and "Manager" shall refer to any portfolio manager selected by the Advisors to invest the Fund's assets.

Section 3. Standards of Care

3.1 Board of Trustees and OHA Staff. The standard of care applied to the BOT and OHA internal staff assigned to the Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

3.2 External Providers. The standard of care applied to all external providers (i.e., Consultant, Advisors (indirectly Investment Managers hired by the Advisors), and Custodian) shall be as set forth in the agreement between the BOT or CEO, as appropriate, and each external provider. The BOT will negotiate a standard for the Investment Advisors that is similar in effect to the "prudent expert" standard, defined as: "Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

3.3 Code of Ethics. OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions. OHA Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. OHA employees and officers shall refrain from undertaking personal investment transactions with entities that conduct business with the Fund. Should any Trustees have personal involvement with any direct investment transaction or any perceived conflicts of interest, the Trustee should disclose the involvement immediately and be recused from discussions and votes on said investment. OHA Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual.

Section 4. Delegation of Authority

The Office of Hawaiian Affairs Native Hawaiian Trust Fund maintains a structured and organized process in implementing its investment program. To accomplish the mission, objectives and desired investment returns of the Fund, the Board of Trustees has delegated authority to various individuals and organizations.

4.1 BOT Composition. The BOT currently consists of representatives from:

- a) O'ahu
- b) Kaua'i and Ni'ihau
- c) Moloka'i and Lana'i
- d) Hawai'i
- e) Maui
- f) At large (4)

4.2 BOT Responsibilities. The BOT recognizes that it may not possess sufficient expertise to manage directly the assets of the Fund. The BOT, therefore, employs the services of various external experts to act as Fiduciaries--Consultants, Advisors and/or Custodians and seeks advice from independent parties. The BOT does rely on this expertise in carrying out its responsibility to oversee the overall management of the Fund's assets, and will meet quarterly to review the performance of the Fund and the activities of the external providers for reasonable consistency with the objectives of the Fund as set forth in this Statement. When necessary, the BOT will provide

guidance to the investment process. BOT may delegate certain of its responsibilities to the CEO to assist with the implementation of this Statement. BOT responsibilities include, but are not limited to:

- a) Approve the Investment Policy Statement and all modifications to the Statement;
- b) Approve Advisors and Non-Marketable Alternatives Providers. The BOT delegates authority to the CEO to select the Custodian, Consultant and Investment Advisory Committee (IAC) members;
- c) Monitor results of all Fund assets as a whole and those assigned to each Advisor. The BOT shall include in its quarterly assessment such topics as: economic outlook, portfolio diversification, asset allocation and structure, Advisors' strategies, potential risks, and the performance of the overall portfolio as well as each of the Fund's asset classes versus its benchmark rate of return and peer institutions;
- d) Review quarterly reports regarding the activities of Advisors, Consultant, Investment Advisory Committee and OHA staff overseeing the Fund;
- e) Review quarterly reports from the Custodian and Advisors regarding the composition of each Advisor's assets under management versus the Fund's strategic target and the asset class strategies of each Advisor;
- f) Review the quarterly report of the Consultant regarding the performance of the Fund and the Advisors;
- g) As necessary, review the Fund's strategic direction or significant issues impacting the Fund or Fiduciaries, and take action as appropriate;
- h) Attend a minimum of two investment educational events held in Hawai'i per year; and
- i) Attend out-of-State training, educational or due diligence events that are recommended by the CEO and approved by the Chairperson of the BOT.

4.3 Duties of the Consultant, Investment Advisory Committee, CEO and OHA Staff. The duties of the Consultant will be as set forth in the agreement entered into between the CEO and the Consultant. The duties of the Investment Advisory Committee are as outlined in the Committee's Charter. This Committee has no authority to make decisions, but only serves to provide independent comments to the Consultant, the CEO and staff, and BOT representatives regarding the economic outlook and the Fund's assets, strategies, performance, risks and Fiduciaries. The duties of the CEO, OHA staff, Investment Advisory Committee and Consultant will be set forth in the OHA Native Hawaiian Trust Fund Operational Procedures. The CEO is responsible for approving these Operational Procedures and for reviewing and approving all investment decisions not made by an Advisor, except those reserved for the BOT. The Consultant and OHA staff are responsible for assisting the CEO and the BOT in the execution of their responsibilities. Duties of the Consultant and OHA staff jointly include, but are not limited to:

- a) Monitor the performance of each Advisor's portfolio as frequently as market conditions dictate, including review of the Advisor's monthly reports;
- b) Aggregate as necessary and monitor the performance of the Fund's investment portfolios monthly and prepare quarterly performance and Advisor activity reports for review by the CEO and BOT;
- c) Monitor the monthly reconciliation of the portfolio positions and valuations among the Custodian and Advisors (OHA staff only);
- d) Seek to ensure that assets are invested in accordance with the requirements specified in this Statement;
- e) Recommend to the CEO and implement operational procedures that will enhance the investment program of the Fund and ensure that proper internal controls are implemented to safeguard the assets of the Fund, including preparing Investment Guideline Summaries for each of the Advisors;
- f) Recommend benchmarks for approval to the CEO;
- g) Prepare periodic market-cycle and annual reviews of the Fund's investments and the Advisors' performance, including findings from annual due diligence visits for presentation to the BOT;
- h) Conduct onsite annual due diligence of the Advisors and Custodian;
- i) Coordinate and vet changes to the Investment Policy Statement and serve as chair (Consultant) and secretary (OHA staff) to the Investment Advisory Committee;
- j) Evaluate the reasonableness of recommendations of Advisors and Non-Marketable Alternatives Providers regarding investment decisions and policies requiring the approval of the CEO.
- k) Evaluate and recommend Direct Investments in Hawaii for the approval of the CEO and BOT, as appropriate;
- l) Manage the Fund's Enhanced Liquidity Account assets awaiting disbursement to OHA consistent with the

Operational Procedures reviewed by the CFO and approved by the CEO; and

- m) Evaluate and recommend (OHA staff and Consultant) new Advisors for the approval by the CEO and BOT;
- n) Maintain knowledge of current trends and conditions with respect to investment management through continuing education.

4.4 Duties of the Advisors. The duties of the Advisors shall be as set forth in the agreements entered into between the BOT and the Advisors, and will explicitly include this Statement as an addendum. The Advisors act as Fiduciaries of the Fund for the assets they have under management. Duties of the Advisors include, but are not limited to:

- a) Invest the assets of the Fund within the constraints of the Statement while adhering to the investment management style, concepts and principles for which they were retained by the BOT. Advisors are responsible for tactical asset allocation and manager selection unless otherwise stated in the management and/or trust agreement with OHA;
- b) Where applicable per the Advisor management agreement, for all investment decisions requiring the CEO's approval, recommend specific investments and provide strategic and/or tactical investment advice to the BOT, CEO, OHA staff, and Consultant as appropriate to render a decision that will achieve the Fund's investment objectives;
- c) Seek to achieve best execution and price for all transactions effected on behalf of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis and if appropriate, facilitate the recapture of commissions on behalf of the Fund;
- d) Reconcile within tolerance limits monthly accounting, transaction, valuation and asset summary data with the Custodian's transactions, valuations and holdings, including resolving any discrepancies with the Custodian;
- e) For investments where a market value is not available, assist the Custodian as necessary in finding appropriate pricing sources or establishing fair value procedures.
- f) Report to the BOT on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel and performance relevant to the management of the Fund. Items relevant to the Fund include those that would have a direct or indirect impact on the ability of the Advisor to continue to provide a high level of service;
- g) Vote the proxies of invested companies (or delegate the vote to Managers), as they deem appropriate, although the BOT reserves the right to vote proxies in separately managed accounts if it so chooses;
- h) Periodically conduct capital market studies and make recommendations to the BOT regarding changes to the Statement and strategic asset allocation targets and ranges based on the risk/return objectives of the Fund and the economic and market outlook. The timing of these analyses, and either reaffirmation or recommendation of modifications to this Statement, shall be as agreed upon with the BOT, but normally every two to five years, but no less frequently than every six years;
- i) Select qualified Investment Managers, and monitor existing Managers' style consistency and performance at least monthly, including due diligence of those Managers regarding personnel, ownership, risk management and the investment process;
- j) Negotiate fee arrangements and other contract terms with the investment Managers on behalf of the Fund;
- k) Communicate with the Consultant and/or OHA staff on at least a monthly basis regarding actions taken, or any material changes, issues or circumstances warranting attention including performance of the Fund, market conditions and outlook, manager-turnover, Managers' or Advisor's staff turnover, etc;
- l) Prepare and present a quarterly executive summary report to the BOT as requested by the Consultant or OHA staff including performance versus benchmarks, asset allocation, economic outlook, fees, Manager summary, and any other significant issues impacting the Fund;
- m) Assist the Consultant and OHA staff in preparing Investment Guideline Summaries for the approval of the CEO covering the assets under their management and annually prepare a compliance and derivatives usage report (Each Advisor's Investment Guideline Summary will govern the assets under their management in conjunction with the Investment Policy Statement and the Investment Management Agreement between the

- Advisor and OHA);
- n) Host an annual onsite comprehensive and/or topical due diligence for the Consultant and OHA staff and officials and as requested provide portfolio analytics and style consistency adherence at the manager-level for the Advisor's commingled vehicles;
 - o) Negotiate and arrange for brokerage and any applicable recordkeeping services;
 - p) Render special projects at the request of the BOT, the Consultant or OHA staff; and
 - q) Provide certain other services, as described elsewhere in this Statement, such as investment training, market research, educational programs, analytical tools, etc.

4.5 Duties of the Custodian. The duties of the Custodian shall be as set forth in the agreement between the BOT and the Custodian. In addition to other responsibilities contained in that agreement the Custodian will:

- a) Provide complete custody and depository services for the Fund's assets including obtaining market values or fair values for all assets on at least a monthly basis;
- b) Provide a monthly report of transactions by the Advisors and, where applicable, by OHA (Enhanced Liquidity Account) as set forth in the Custody agreement;
- c) Provide audited monthly and annual accounting statements for all the Fund's assets and transactions;
- d) Collect all interest income, dividends and principal realization and properly report them in all accounting statements;
- e) Disperse funds to cover expenses, accept funds from OHA or the Advisors, and disperse funds to OHA or the Advisors as properly instructed by CEO or OHA staff, and properly report these transactions in all accounting statements; and
- f) Reconcile monthly accounting, transaction and asset summary data and communicate and resolve any discrepancies with the Advisors.

Section 5. Asset Allocation Guidelines and Long Term Targets

The BOT prefers Advisors who can construct and manage a portfolio encompassing multiple strategic asset classes using a Manager-of-Manager approach and utilize the Fund's strategic target index as their primary benchmark (strategic target weight times strategic benchmark index return for each strategic asset class). The purpose of the strategic target asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. The minimum and maximum levels listed below are targeting guidelines as opposed to absolute barriers; Advisors should bring asset allocations which are outside of their approved targeting range back to the range per their rebalancing policy unless granted a written exception by the CEO. The Traditional and Alternative Assets Advisors are not responsible for Hawai'i Direct Investments and the Enhanced Liquidity Account. OHA staff may hedge the allocation to Hawai'i Direct Investments in a traditional asset class managed by one or more Advisors until such investments are made. The Alternatives Advisor may hedge the under or over exposure to asset classes with barriers to entry and exit (Non-Marketable Alternatives) with similar liquid (marketable) asset classes (e.g. hedge underexposure to targeted private equity using traditional equity or marketable equity alternatives).

5.1 Asset Allocation.

Asset Class Portfolios	Maximum	Minimum	Strategic Target	Benchmark Index	Primary Objective
Traditional Asset Classes					
Traditional Global Equities	55%	22%	40%	MSCI ACWI	Growth
Traditional Global Fixed Income	22%	11%	17%	Bloomberg US Aggregate	Income
Traditional Global Real Assets	11%	0%	5%	US TIPS +3%	Inflation Hedge
Total Traditional Assets	88%	33%	62%		
Alternative Asset Classes					
Hedge Funds	19.2%	6.4%	12%	3-Month T-Bills +4%	Volatility Management
Private Markets*	25.6%	0%	18%	MSCI ACWI +3%	Growth
Total Alternative Assets	44.8%	6.4%	30%		
Enhanced Liquidity Account					
Enhanced Liquidity	10%	0%	3%	1-3 Year Treasury	Liquidity
Hawai'i Direct Investments					
Hawai'i Direct Investments	10%	0%	5%	US TIPS +3%	Inflation Hedge
*The Private Market allocation will consist of the previous Non-Marketable Equity, Credit, and Real Assets & Opportunistic portfolios					

The Strategic Targets for the Asset Classes listed in the table above multiplied by the benchmarks recommended by the Consultant and approved by the CEO constitute the Policy Portfolio. The table below regroups the Asset Classes by their primary objective.

Asset Class Portfolios	Maximum	Minimum	Strategic Target
Growth			
Traditional Global Equities	55%	22%	40%
Private Markets	25.6%	0%	18%
Total Growth	80.6%	22%	58%
Income			
Traditional Global Fixed Income	22%	11%	17%
Total Income	22%	11%	17%
Volatility Management			
Hedge Funds	19.2%	6.4%	12%
Inflation Hedge			
Traditional Global Real Assets	11%	0%	5%
Hawai'i Direct Investments	10%	0%	5%
Total Inflation Hedge	21%	0%	10%
Liquidity			
Enhanced Liquidity	10%	0%	3%

The CEO has the delegated power to allocate up to \$25 million from the Fund for a Direct Investment Program. Direct investments made from the Fund shall follow the guidelines set forth in the Hawai'i Direct Investment Policy section of this Statement. All Hawai'i-based Direct Investments are excluded from the discretionary Manager-of-Managers framework. The OHA staff with the assistance of the Consultant will be responsible for the due diligence, performance monitoring and reporting of such investments.

Private Market investments are accomplished outside of the discretionary Advisor framework as the Advisors do not have investment discretion over these assets. Approved Non-Marketable Alternatives Providers will provide OHA staff and the Consultant with sufficient information and analyses to evaluate their investment recommendations. The information may include Manager due diligence reports and portfolio analytics so that the CEO can make an informed decision relating to the investment. It is recognized that there may be underinvestment or overinvestment in these illiquid asset classes due to the timing of capital calls and distributions.

5.2 Benchmarks. Each Advisor will use the primary strategic benchmark index listed in their Investment Guideline

Summary as a guide in managing assets under their control. The strategic asset allocation targets and ranges, performance benchmarks, and additional investment guidelines are also set forth in each Advisor's Investment Guideline Summary or Investment Management Agreement. As necessary, the Consultant will recommend changes to the strategic targets, ranges, performance benchmarks, and any additional guidelines and the CEO must approve those changes before they become effective. The CEO will notify the BOT of Investment Guideline changes in writing.

Every new product of an Advisor must be assigned to one of the above asset classes as agreed upon between the Advisor and OHA Staff and/or the Consultant, with notification of the CEO. In addition, each investment may have a custom benchmark different from that of the asset class as agreed upon with the Consultant. The secondary benchmark is the Consumer Price Index (CPI) plus 5.0% annually for the Fund as a whole. The Consultant will also recommend, in consultation with each Advisor, peer manager and peer institution benchmarks and these will be approved by the CEO. Besides reporting portfolio performance versus these portfolio benchmarks, the Advisors shall report investment results on individual funds or portfolios versus their custom benchmarks.

The BOT recognizes that the actual asset allocation of the Fund may vary between or even outside of the minimum and maximum in the short term depending on market conditions and/or tactical asset allocation shifts. Asset classes not contemplated above or elsewhere in this Policy may be added to the Fund upon approval in writing by the BOT. The Advisors will only be responsible for meeting the investment objectives applicable to the portion of the Fund entrusted to such Advisors.

5.3 Rebalancing Policy. The primary purposes of rebalancing are to (1) ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation; and (2) improve the performance of the Fund. The CEO will ensure that any agreement entered into with an Investment Advisor sets forth a rebalancing policy satisfactory to the BOT.

Section 6: Cash Holdings

It is the policy of the Fund that the Advisors fully invest the assets of the Fund under their control except to accommodate large cash flows. Unhedged cash and equivalents may be held in the Fund for defensive purposes at the Advisor's discretion during abnormal market conditions. The equity portion of the Advisor's portfolio should strive to maintain less than 5% of the portfolio in cash equivalents, unless the cash is hedged to achieve the appropriate asset class exposure. The fixed income portion of the Advisor's portfolio may maintain higher cash balances (e.g., as barbell strategies necessitate this exposure to cash).

Cash equivalents maximize liquidity and safety of principal. Maturities should be short enough that cash equivalents can be liquidated with a limited loss of principal. The following types of cash equivalents are eligible for investment:

- a) Money market mutual funds (2a7) which invest solely in U.S. Treasury and government agency securities;
- b) Deposits which are 100% federally insured or collateralized with U.S. government or agency securities with a market value of at least 100% of the face amount of the certificate;
- c) U.S. Treasury bills and short-term U.S. government agency securities;
- d) Overnight repurchase agreements collateralized with U.S. government or agency securities with a market value of at least 102% of the face amount; and
- e) Commercial paper of the highest two grades as rated by a nationally recognized rating agency.

Section 7. Pooled/Commingled Investments/Mutual Funds

Commingled investment vehicles where there is a pooling of securities owned by multiple clients for diversification, risk reduction, or cost benefits, include mutual funds, trust funds, private placements, and limited

partnerships, and are explicitly permissible. Although private placements and limited partnerships are exempt from both federal and state securities registration, they are considered appropriate vehicles for the Fund.

Section 8. Permissible Investments

8.1 Asset Class Definitions, Objectives, Permissible Instruments, Strategies, & Requirements. Investments in each asset class listed in Section 5, except for those investments excluded from the Advisors' responsibility, must be well diversified as defined below and in the Investment Guideline Summary or Investment Management Agreement of each Advisor. Advisors, as Fiduciaries, must exercise prudence in all matters and invest solely for the benefit of the Fund. For each asset class, the Advisors will retain Managers who invest in separate accounts or in commingled vehicles. An Advisor may select itself, an affiliated Manager, or an external Manager. Advisors may also retain Managers to provide "active overlay" strategies that use securities, currencies and derivative instruments, including but not limited to forwards, options, futures contracts, options, currency forwards, futures contracts and swaps (e.g. interest rate, credit default and total return) to replicate an index or combination of indexes. These overlay strategies will seek to (a) manage Fund exposure to various asset classes, (b) manage overall Fund risk, and (c) under certain conditions, enhance total return with tightly controlled leverage constraints.

Each Advisor must demonstrate that it has the capability to manage the risks involved in each asset class. Key to controlling risks is the ability to conduct robust ongoing due diligence on the Managers it selects and the ability to measure, manage and report portfolio risks, including issuer concentration, market, credit, duration, liquidity, leverage, currency and other major risks. The Consultant, with the assistance of OHA staff and the Advisors, must document the investment restrictions and risk controls for the portfolio of each Advisor in the Investment Guideline Summaries. The Advisors are not allowed to leverage the Fund's assets at the portfolio level without prior written approval of the BOT, although individual managers or commingled vehicles in certain asset classes and strategies may employ leverage under controlled conditions. Risk hedging in each asset class is explicitly permitted, including currency risks relative to the benchmark index and temporarily hedging the exposure in an illiquid asset class with a similar liquid asset class.

a) **Traditional Global Equity - Common & Preferred Stocks and Un-levered Equity Derivatives.** The primary role of traditional global equity is to seek to provide total return in excess of inflation, consistent with the appropriate benchmark index. Traditional equity may be actively managed in diversified portfolios of long only positions and/or long and short positions netting to approximately 100% long, be passively managed, utilize active overlay strategies, or be managed in any combination of active, passive and overlay strategies. The goal of an actively managed stock portfolio will be to achieve a net return after fees in excess of its benchmark index with comparable risk. Securities should be publicly owned and traded actively enough to insure liquidity without significantly adverse effects on price due to rapid sale. The Advisor should diversify the portfolio by geography—domestic and international, both developed and emerging markets, by investment style—value and growth, by manager, by approach—quantitative versus fundamental, by sector and industry, and capitalization—small, mid and large. An Advisor may select itself or an affiliated Manager in this asset class.

b) **Traditional Global Fixed Income – Cash Equivalents, Bonds, Loans and Un-levered Fixed Income Derivatives.** The primary role of Global Fixed Income is to seek to: 1) generate income while diversifying the investment assets, 2) provide a safe, stable return, and 3) provide a deflationary hedge. The fixed income asset class may include, but is not limited to the following components:

- a) Cash equivalents;
- b) US core credit including investment grade corporate, asset-backed, municipals and mortgage securities;
- c) High-yield securities and liquid loans; and
- d) Foreign government securities, investment grade foreign corporate debt denominated in US dollars or foreign currencies from both emerging markets and developed countries.

Advisors should ensure that managers are carefully managing portfolio duration, convexity, yield curve structure, sector exposure, issuer concentration, credit quality, non-U.S. securities, and currency risk to achieve a balanced and

reasonable risk budget relative to the benchmark index for the fixed income portfolio. An Advisor may select itself or an affiliated Manager in this asset class.

c) Global Real Assets – Real Estate Investment Trusts (REITs) and Treasury Inflation Protected Securities (TIPS).

The primary role of global real estate is to seek to provide total return in excess of inflation, consistent with an appropriate real estate benchmark index. The Managers selected by the Advisors must have demonstrated a favorable record in managing real estate portfolios. The public real estate asset portfolio of the Fund may be comprised of commingled pools and/or a portfolio of real estate investment trusts (REITs), which are well diversified by property type and geographic location. Advisors shall invest in instruments which comprise a portfolio well diversified by the four main property types, including office, retail, industrial, and multifamily residential, as well as by geographic region, and tenancy/leasing structure. If a real estate investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle will serve as the operative policy. The Advisors are responsible for ensuring that the selected vehicle or portfolio has adequate risk controls in place and that the Manager is investing according to the operative policy. The Advisors may also invest in TIPS as a diversifier, or if they believe that they provide a better value than REITs, as an inflation hedge. An Advisor may select itself or an affiliated Manager in this asset class.

d) Low Volatility Marketable Alternatives – Funds of Hedge Funds, Individual Hedge Funds, Commodity Funds, and Mutual and Exchange Traded Funds employing alternative strategies.

The primary role of this asset class is to seek to provide a consistently positive return source above the risk free rate that has low volatility and low correlation to the other asset classes, and the secondary role is to provide an inflation hedge through a commodity allocation. This asset class consists of a diversified portfolio of hedge fund strategies deemed appropriate by the Advisor for this role, including but not limited to macro, commodity trading advisors, relative value, opportunistic, global tactical asset allocation, distressed, and opportunistic. The Alternatives Advisor may utilize funds of hedge funds, a portfolio of individual hedge funds, mutual funds or market neutral overlay strategies designed to achieve a consistently positive return above the risk free rate. The Alternatives Advisor may select itself or an affiliate as the fund-of-funds Manager or as one or more of the hedge fund Managers. The Alternatives Advisor is responsible for ensuring that the selected vehicle has adequate risk controls in place. The Alternatives Advisor will seek to ensure that Managers invest according to the offering memorandum or partnership agreement. The Alternatives Advisor may select Managers that utilize reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their individual hedge funds. The liquidity requirements for individual hedge funds or hedge fund-of-funds will be defined in the Advisor's Investment Guideline Summary. Advisors should seek to avoid direct or indirect investments in funds with redemption gates or side pockets, as well as funds which lack reasonable transparency consistent with the investment strategy. Advisors should also avoid any funds with excessive fees in relation to market practice and/or expected returns, or terms which do not align the interests of the Manager with the client, as well as those that have the majority of assets in illiquid investments.

The primary role of the commodities allocation is to seek to provide a consistently positive return above inflation with a low or negative correlation to the other asset classes. Commodities provide an inflation hedge and should consist of a diversified portfolio of energy, metal, agricultural and other commodities, including but not limited to oil, natural gas, grains, metals, and livestock. The Alternatives Advisor may utilize separate accounts or commingled funds using a single Manager or a multi-manager approach. The Alternatives Advisor should utilize strategies that have at least monthly liquidity under normal conditions and further liquidity guidelines will be specified in the Advisor's Investment Guideline Summary. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one of the Managers. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor will seek to ensure that Managers utilizing funds invest according to the offering memorandum or partnership agreement.

e) Non-Marketable Equity Alternatives – Private Equity Funds, Funds of Private Equity Funds, Equity Hedge Funds, and Cash Equivalents & Overlay Strategies.

The primary role of Non-Marketable Equity Alternatives is to seek to provide enhanced total return to traditional equity through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but employ strategies which go beyond the long only equity portfolio. Equity Alternatives include, but are not limited to, investments in private equity, venture capital, portable alpha, and long-biased equity hedge funds. The Alternatives Advisor may utilize hedge funds that correlate to the equity markets or

overlay strategies such as portable alpha to hedge an underexposure to the targeted level of Non-Marketable Equity Alternatives, and hold cash temporarily to meet capital calls. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class. The CEO may approve funds of private equity funds, which consist of funds making primary and/or secondary investments in underlying private equity funds as well as some direct investments. These funds are managed for returns with low correlation to returns in the traditional equity markets, and with very little liquidity. Assets invested in these private funds are generally illiquid for five to ten or more years. The CEO needs to invest the Fund's assets in a consistent long-term approach so as to limit the vintage year risk where there is a wide range of performance depending on the year the fund is launched. The Non-Marketable Alternatives Providers will seek to ensure that general partners invest according to the offering memorandum or partnership agreement. The Providers are responsible for ensuring that the selected vehicle has adequate risk controls in place and invests within the stated style and the scope of its offering memorandum or partnership agreement. Due to the long-term nature of a private equity investment, the measurement period for complete evaluation will be over a ten-year period. A ten-year return is intended to cover at least one complete market cycle, and is consistent with the average term of private equity fund-of-funds investments. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

f) Non-Marketable Credit Alternatives — Mezzanine Debt Funds, Specialty Loan Funds, Distressed Debt Funds, and Credit Hedge Funds. The primary role of Non-Marketable Credit Alternatives is to seek to provide enhanced total return to traditional credit through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but provide access to fixed income strategies with higher return potential. Credit alternatives include, but are not limited to mezzanine debt, bank loans, distressed debt, special situations, portable alpha, and hedge funds utilizing credit strategies. These strategies should have returns with moderate correlation to traditional fixed income returns and low correlation to the other asset classes. The Non-Marketable Alternatives Providers are responsible for ensuring that their selected vehicles have adequate risk controls in place and that their selected vehicles conform to the offering memorandum or partnership agreement. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class using credit hedge funds, overlay strategies, or traditional credit strategies. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

g) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLP's) and unique investments that do not fit into another Asset Class. The primary role of Non-Marketable Real Assets & Opportunistic Alternative investments is to seek to provide an inflation hedge, and the secondary role is to provide enhanced total return above Traditional Real Assets by committing capital for ten years or more to private market real asset strategies. Real assets include, but are not limited to real estate, TIPS, commodities, and natural resources. The OHA Staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class. The Alternatives Advisor may hedge target exposure using such marketable assets as MLP's, CTA's, REITs, TIPS, overlay strategies, or mutual and exchange-traded funds utilizing real asset strategies. The Alternatives Advisor may select itself or an affiliated Manager to hedge underexposure in this asset class.

h) Hawaii Direct Investments. The primary role of Hawaii Direct Investments is to seek a total return of five percent in excess of inflation from real property that provides office space to OHA in Hawaii. This asset class includes the legacy investment in Russell Investments Private Real Estate Fund. All direct real estate investments must be made within the context of the Direct Investment Policy Statement.

Section 9. Prohibited Investments

The following investments are prohibited. Should a prohibited transaction occur, the Advisor must report it immediately after discovery to the Consultant and OHA staff, who will report it at the next BOT meeting.

9.1 Self-Dealing Transactions. Managers cannot purchase or hold any security of the Advisor who selected them, unless permitted by law.

9.2 Financial Institution Deposits including CDs. Direct deposits may not exceed the Federal Deposit Insurance Corporation insurance limit unless they are 100% collateralized by eligible U.S. government securities or fully covered by a surety bond.

9.3 Letter Stock. Letter stock and other unregistered equity securities are prohibited except in the alternative asset classes.

Section 10. Derivatives Policy

This Derivatives Policy applies to all investments with the exception of those permitted in funds in the alternative asset classes. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in. Structured securities, futures, forwards, total return swaps, interest rate swaps, credit default swaps, options and other derivatives are permitted only if they are used in a defensive hedging manner (e.g. to hedge a currency, equitize cash, or to create an overlay strategy or structured fixed income portfolio). Advisors will be required to report on a periodic basis (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

Section 11. Voting of Proxies

The BOT has delegated the authority to Advisors and Managers to vote proxies. For separately managed accounts (not pooled vehicles), the BOT reserves its right to exercise its proxy rights when it so chooses and to vote the proxies of invested companies as it deems appropriate. The proxy voting review process and guidelines are set forth in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 12. Trades, Exchanges & Valuation

12.1 Selling or Exchanging Securities. Investment Managers may sell or exchange securities in the course of daily management of specific funds. The goal of all such trades is to maximize portfolio performance while maintaining an appropriate risk profile.

12.2 Marking to Market. To account for market fluctuations and volatility, the Custodian or its agent (independent pricing agent) will mark to market all securities at least monthly. When market values are not available, the Custodian will follow the prevailing best practices regarding fair valuation. If a significant market event takes place during the month that impacts the value of the portfolio, the Custodian or its agent will determine the impact on the portfolio.

Section 13. Procedures for Selecting and Reviewing Investment Advisors

13.1 Review Process. Fund investments will be managed by professional Advisors and Managers except to the extent the BOT specifically delegates investment authority for other strategies for which the Fund's Advisors do not have specific expertise under the Manager-of-Managers' approach or for OHA's Enhanced Liquidity Account. When the BOT elects to retain a new Investment Advisor(s), it will instruct OHA staff and the Consultant to conduct a search for the Advisor and issue a public notice on OHA's website. HRS §103D-102(b)(2)(F) specifically exempts investment from the State procurement process. The selection process will include, but not be limited to, the following:

- a) The Consultant will perform a review of the universe of available candidates for the specific assignment and provide a list of best-in-class Advisors to OHA staff from a formal screening process of qualified candidates.
- b) The initial list will consist of either eight to ten Advisors, but may be fewer depending on the investment approach.
- c) OHA procurement will review the list of candidates ensuring that they meet OHA's compliance standards.
- d) The Consultant will provide OHA staff performance and risk statistics as available and applicable as well as a summary of each Advisor.
- e) OHA staff and the Consultant will evaluate the Advisors and shorten the list to four candidates.
- f) The Consultant will request each qualifying candidate to provide information which will include but is not limited to three-year, five-year, and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.
- g) OHA staff and the Consultant will provide a summary of the responses received, which will include a list of evaluation criteria to be approved by the CEO for the BOT. At least two finalists will be selected to make an oral presentation to the BOT.
- h) Final selection will be approved by the BOT.
- i) Timing of funds to Advisors will be based on the asset allocation, availability of funds, and structure of the investment.
- j) OHA staff will be responsible for coordinating the contract execution with any external Advisor or Manager approved by the BOT.

13.2 Selection Criteria for Advisors. Criteria will be established for each Advisor search undertaken by the BOT and will be tailored to the BOT's needs. These criteria are applicable to discretionary Manager-of-Managers and may not necessarily be applicable for the Enhanced Liquidity Account Manager. In general, eligible Advisors will possess attributes including, but not limited to, the following:

- a) For Manager-of-Manager searches, the firm must exhibit capabilities to offer Manager-of-Manager programs across a variety of asset classes and are capable of utilizing qualified Hawaii-based Managers;
- b) For specific asset class searches, the firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the BOT;
- c) The firm must have a minimum five-year history with managing institutional assets, demonstrate continuity of key personnel; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms;
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- e) The firm must have an asset base sufficient to accommodate the Fund's portfolio: Manager of Managers should have at least \$20 billion of discretionary institutional assets under management; the Fund's portfolio should represent no more than 5% of the firm's total asset base for any Advisor;
- f) The firm must demonstrate adherence to the investment style sought by the BOT, and adherence to the firm's stated investment discipline;
- g) The firm should promote good governance in its proxy voting policy and adhere to best practice standards regarding transparency, manager fee structure, leverage, and liquidity in the alternative asset classes;

- h) The firm's fees should be competitive with industry standards for each product category and overall;
- i) The firm must comply with the "Duties of the Investment Advisors" outlined in this Statement and should conform to GIPS (Global Investment Performance Standards) for performance reporting;
- j) The firm must be able to offer investment education programs to the BOT and OHA staff at least once a year; and
- k) The firm must be able to provide analytics tools and/or reports necessary for OHA staff and Consultant to monitor and analyze asset allocation, risk, and manager performance.

13.3 Criteria for Advisor Review and Monitoring. The BOT reserves the right to terminate an Investment Advisor at any time with reasonable notice as defined in the contract between the BOT and the Investment Advisor. Grounds for termination may include, but are not limited to:

- a) Failure to comply with the guidelines agreed upon for the management of the Fund's assets; including holding restricted securities and conducting prohibited transactions;
- b) Failure to achieve performance objectives specified in this Statement or the Advisor's contractual guidelines;
- c) Significant deviation from the Advisor's stated investment philosophy/style and/or process.
- d) Loss of key personnel or significant ownership changes that create instability in the organization;
- e) Evidence of illegal or unethical behavior by the Investment Advisor;
- f) Lack of willingness to cooperate with reasonable requests by the BOT, Investment Consultant or OHA staff for information, meetings or other material;
- g) Loss of confidence by the BOT; and
- h) A change in the Fund's asset allocation program which necessitates a shift of assets to another process or style.

The presence of any one, or a combination of these, factors will be carefully reviewed by the BOT, but will not necessarily result in an automatic termination.

13.4 Performance Monitoring. The OHA staff and Consultant shall monitor monthly statements and receive quarterly performance reports from the Advisors. The Advisors shall monitor, at least monthly, the investment results of each Manager under contract to determine whether or not that Manager is performing up to the standard required by the benchmark of performance specified in the Manager's contract.

13.5 Advisors Total Return Comparison. The BOT expects that each Advisor's total portfolio performance over a market cycle will meet or exceed the benchmark index established for that Advisor.

13.6 Total Portfolio Returns. The BOT expects that the Fund's combined investment results over a market cycle will be in the top 50% of a nationally recognized universe of foundations and endowments with similar sized portfolios.

13.7 Asset Class Returns. Specific asset class investment results shall be measured against benchmarks as detailed in the Advisor's Investment Guideline Summary.

13.8 Advisor Alerts. Advisors are expected to keep the BOT, OHA staff and Consultant informed of any material changes in their respective firms (i.e. change in personnel, ownership, policy, etc.).

13.9 Termination. If at any time the standard required is not being met by an Advisor, the BOT will determine what action will be taken toward the Investment Advisor. The decision to terminate an Investment Advisor shall be by majority vote of the BOT present at the meeting subject to the contractual agreement.

Section 14. Liquidity Policy

The Redemption liquidity of the total Trust Fund will be maintained with a minimum 65% of the Fund's assets able to be liquidated at market value under normal conditions on at least a quarterly basis (advance notification and some

restrictions may apply). Investments with liquidity less than quarterly require the approval of the CEO. At least 50% of the total Trust Fund's assets must be liquid on at least a monthly basis at market value without restriction or advance notice longer than five business days under normal conditions. The Liquidity requirements for each Advisor and the assets under their management will be specified in their Investment Guideline Summaries and/or Investment Management Agreements.

Section 15. Errors & Omissions

The Advisor is to correct any material violation of the provisions of this Statement within a reasonable time period upon discovery. The Advisor will reimburse the Fund for a realized loss resulting from a material violation as agreed in the contract between the BOT and the Advisor.

Section 16. Adding New Asset Classes

The Investment Consultant with the assistance of OHA staff will work with the Advisors to assign each investment (e.g. fund) to an asset class portfolio, a custom benchmark index, and a peer manager universe. If the Advisor proposes an investment that does not fit into one of the approved asset classes listed in Section 5, the Advisor will prepare a written recommendation to the OHA staff / Consultant justifying the investment. The recommendation must include a description, of the new asset class, rationale for including the new investment, historical returns and risk statistics, liquidity, analysis of impact on the risk/return of the Fund, the benchmark index and manager peer universe. OHA staff and the consultant will provide a recommendation to the BOT. Adding a new asset class will require the approval of the CEO and the BOT.

Section 17. Interpretation

This Statement will be incorporated as an addendum in the agreements between the OHA BOT and each Advisor. In the event of any conflict or inconsistency between the terms of the agreement and this Statement, other than the Section 4.4 Duties of the Investment Advisors and anything designated as a Fundamental Investment Policy, the terms of the agreement with the Advisor shall govern.

Section 18. Hawai'i Direct Investment Policy (HDIP)

The CEO has the delegated power to allocate up to \$25 million, but not to exceed 10% of the market value of the Fund at the time of investment, on a cost basis for Hawai'i Direct Investments, including real estate and equity positions in companies based in Hawaii or with significant operations in Hawaii. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding BOT-approved lending programs for Native Hawaiians. This allocation may not be used for any other purpose until the acquisition of OHA's first corporate headquarter real estate property is complete. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT. The combined cost of all direct investments, less any return of capital to the Fund from these direct investments, cannot exceed the \$25 million allocation.

18.2 Delegation of Authority. All final acquisition, development, and/or disposition decisions of Hawai'i direct investments must be approved by the BOT. The BOT delegates to the CEO the authority to:

- a) Administer the HDIP and approve and implement procedures to carry it out;
- b) Delegate duties to OHA staff as necessary to fulfill and implement this policy;

- c) Deny opportunities that do not satisfy current policy, guidelines, and/or criteria approved by the BOT;
- d) Execute contract and agreements;
- e) Conduct investment due diligence, negotiations, and on-going performance monitoring;
- f) Structure real estate financing terms for approval by the BOT;
- g) As necessary, oversee and manage the operational functions associated with each investment, including selecting and terminating service providers, negotiating leases and setting fee schedules (including market-based lease terms for OHA occupied space), obtaining and approving permits, licensing, and leasing, approving tenant improvements, sub-leases, evictions, use and service agreements, and making all other operational decisions associated with the investment; and
- h) Determine when to segregate assets to fund acquisitions and to place those assets with OHA staff to invest in the Enhanced Liquidity Account (ELA) until acquisitions are closed. These funds do not count toward the spending limit on annual transfers to the ELA

The BOT reserves the right to approve all other decisions not listed above.

18.3 Permissible Investment. For OHA's headquarter corporate real estate acquisition, OHA is to invest in real estate located on the island of O'ahu. OHA may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or vice versa, during the course of the holding period of the investment. Realized gains generated from real estate dispositions should credit the cost of the investment allocated to the direct investment program.

All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.

18.4 Leverage. OHA may finance the acquisition of corporate real estate with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be counted toward the \$25 million allocation.

18.5 Market Valuation. Market valuation of corporate real estate is determined by biennial appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Section 19. Enhanced Liquidity Account Investments

The BOT has authorized the use of an Enhanced Liquidity Account (ELA) utilizing primarily short-term and intermediate-term U.S. government and agency securities, TIPS, MLP's, liquid alternative risk premia strategies, and passive beta strategies to manage OHA's short-term (less than 18 months) cash flow. The ELA may be managed internally by OHA staff or externally by a registered investment advisor. The primary objectives of the ELA are to expedite the ability to meet fiscal obligations and efficiently manage short-term cash needs; a secondary objective is to provide a highly liquid, low volatility, low or anti-correlating asset to the Fund. As such, OHA may hold up to 10% of the net assets of the Fund in the ELA. The custody of short-term investment assets shall remain with OHA's Fund Custodian.

19.1 Permissible Investments. Assets held within the ELA must have no less than monthly liquidity under normal conditions. Passive index mutual funds, passive exchange-traded funds, passive institutional commingled funds, liquid alternative risk premia strategies, short-term U.S. government and agency securities, cash, and cash equivalents are permitted. A list of allowable investment vehicles for each asset class must be reviewed by the CFO and Consultant, approved by the CEO, and presented to the BOT for review. OHA staff or its external Manager may only select from this Approved List of investments vehicles in the ELA.

19.2 Asset Allocation and Rebalancing. The investments should be highly liquid with low volatility. Under normal conditions, the ELA's assets should be targeted no more than 2.0 percentage points (absolute) away from the

strategic target allocation set forth in the ELA Manager's Investment Guideline Summary or Investment Management Agreement. OHA staff and the Consultant will devise a targeting and rebalancing process with a maximum tolerance approved by the CEO. If managed internally, OHA staff will execute the process; otherwise the external Manager will execute the process. Decisions to target the asset allocation outside of the maximum 2.0% tolerance shall be reviewed by the Investment Advisory Committee and/or CFO, approved by the CEO, and reported to the BOT prior to implementation.

19.3 Internal Controls. Internal operational controls and procedures relating to short-term investments shall be outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

19.4 Advisor and Manager Selection. The BOT will approve OHA staff under the supervision of the CFO and CEO as the Advisor and an external Manager to manage the ELA. The external Manager may not have full investment discretion; therefore, provisions relating to discretionary Advisors in this Statement may not necessarily apply to the ELA Manager. The duties of the ELA Manager shall be established based on the Investment Management Agreement between the Manager and the BOT. BOT presentations by four finalists are not necessary for ELA Manager selection.

19.5 ELA Policy Benchmark & Investment Guidelines. The Policy performance benchmark for the ELA shall be the combination of market indexes and the risk free rate as set forth in the Manager's Investment Guideline Summary or Investment Management Agreement, which will also establish investment guidelines for managing the account.

Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund ("NHTF") Investment Risk Management Policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the NHTF investment portfolio. The OHA Board of Trustees ("BOT") recognizes that the undertaking of risks is generally unavoidable in investment management. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures. Risk control measures include continuous monitoring and timely reporting by OHA staff to ensure the effectiveness of OHA's investment risk management system. This Policy is not intended to provide an exhaustive list of risks or provide a comprehensive list of process and procedures to identify and mitigate risks. Rather, this policy provides generally accepted approaches to risk management that can be implemented through investment guidelines and operational policies and procedures.

Risk Management

Key risk factors may stem from internal or external sources. The assessment of risk may be both qualitative and quantitative. The OHA staff and Consultant shall conduct an annual qualitative risk assessment identifying key risk factors, sources of risk, risk mitigants, and remediation plan, if necessary, to manage these risks. OHA staff shall also provide quantitative risk reporting to the BOT using commonly accepted quantitative risk reporting measures on a quarterly basis. Risk management measures may include the following:

- 1) Establish internal policies and procedures to minimize operational and legal risks;
- 2) Establish investment guidelines for eligible investments, diversification, rebalancing, liquidity, leverage, and use of derivatives;
- 3) Annual reporting of portfolio volatility (measured using standard deviation of returns) and expected volatility and return provided by the Investment Advisors;
- 4) Annual reporting of tracking error for OHA's liquid assets;
- 5) Annual reporting of leverage, currency risk, concentration risk, and liquidity risk;
- 6) Annual external financial audit by a reputable independent audit firm; and

- 7) Periodic review of the Investment Policy Statement and Risk Management Policy as necessary to assess the relevance and effectiveness of these policies.

Implementation

It is the responsibility of OHA's Chief Executive Officer to ensure that risk management policies and procedures are in place to identify, monitor, and manage investment risk. It is the OHA staff's responsibility to implement internal procedures and continuously monitor the investment portfolio and Advisor activities to ensure policy and guideline compliance. OHA staff shall rely on most recent data available provided by the Custodian and Advisors to analyze risk statistics and provide risk reporting. A risk management review shall be provided to the BOT by the Investment Consultant on an annual basis, or more frequently as needed.



Manager Research Process

July 24, 2019

John Marco

Senior Vice President

★ Segal Marco Advisors

In-Depth Research = Success in Your Portfolio

Segal Marco's three-part research team is what sets us apart:

Risk Management

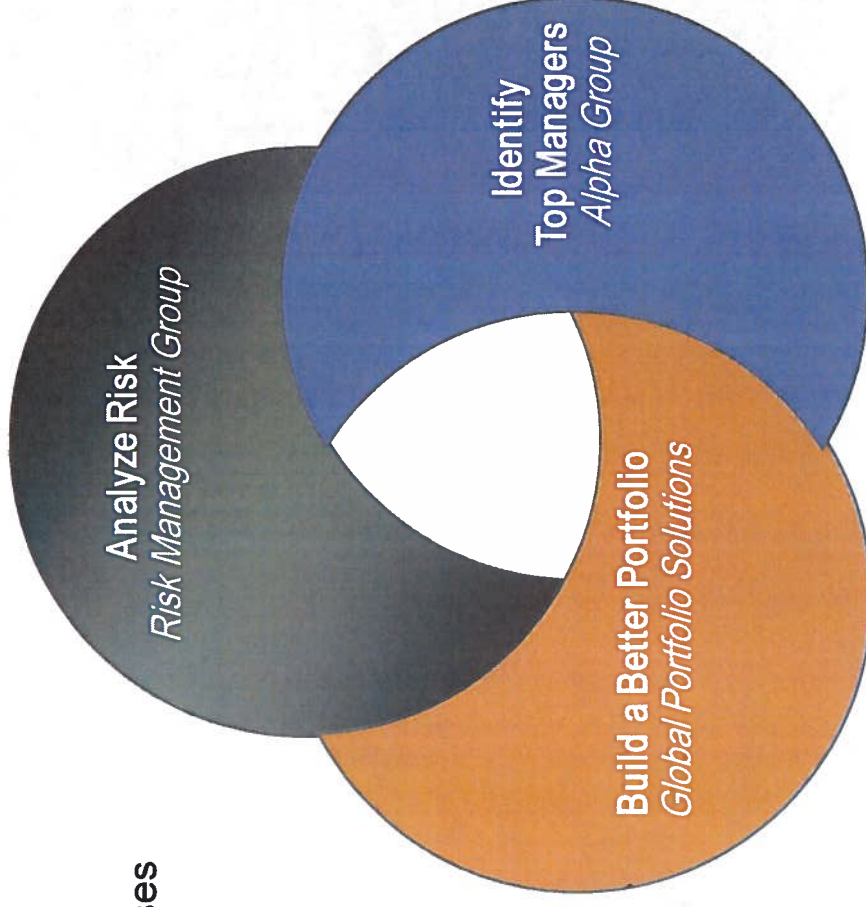
- Define strategic asset classes
- Formulate views on strategic asset classes
- Anticipate macro investment themes
- Formulate capital markets assumptions
- Formulate objective-driven investing
- Develop annual research agenda

Alpha Research

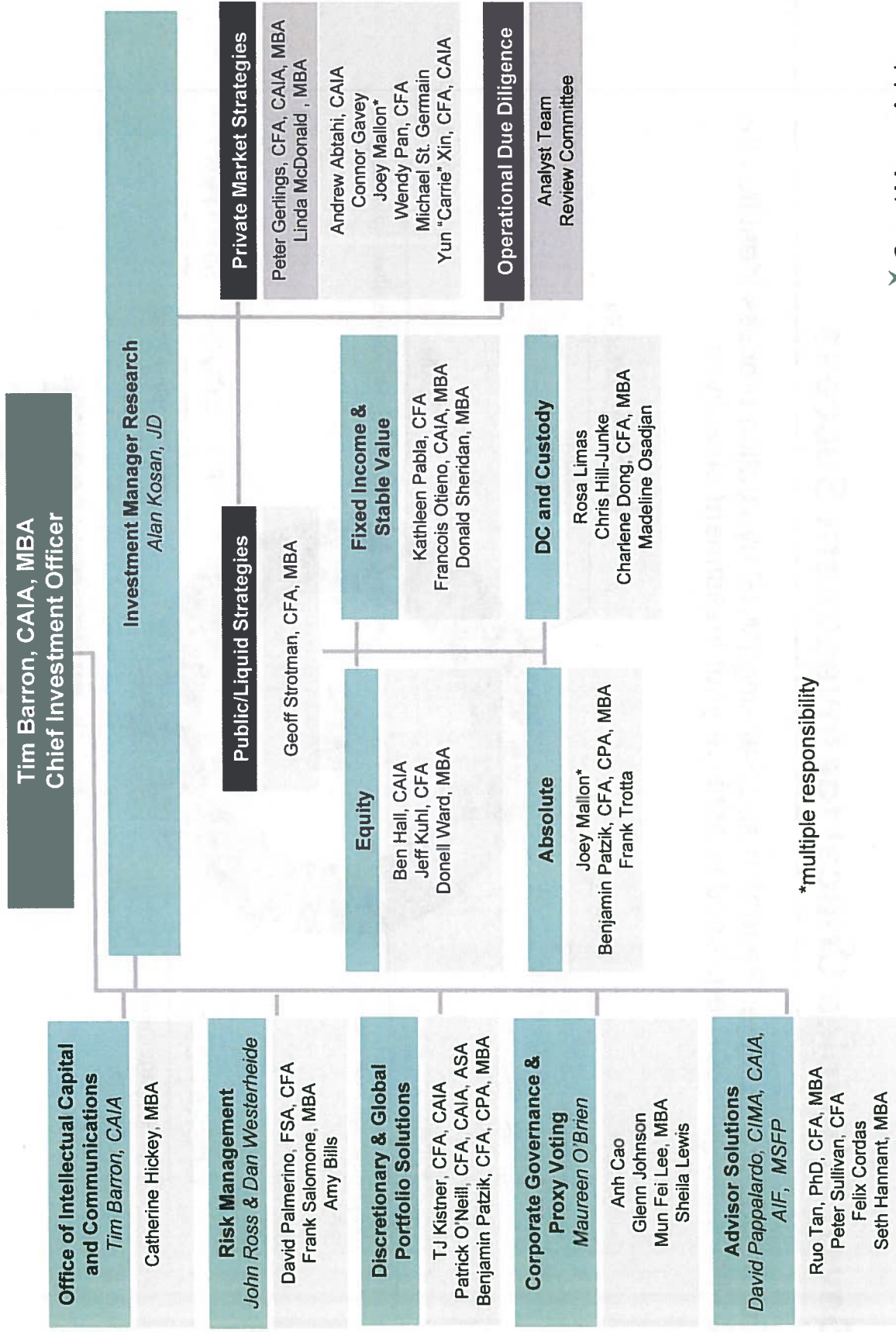
- Define investment strategy coverage
- Generate/document due diligence
- Source/monitor best-in-class investment strategies
- Seek new alpha sources
- Develop annual research agenda

Global Portfolio Solutions

- Portfolio structure
- Synthesize top-down views with bottom-up research to generate optimal portfolios for clients
- Through education, communicate optimal strategies to clients
- Develop annual research agenda

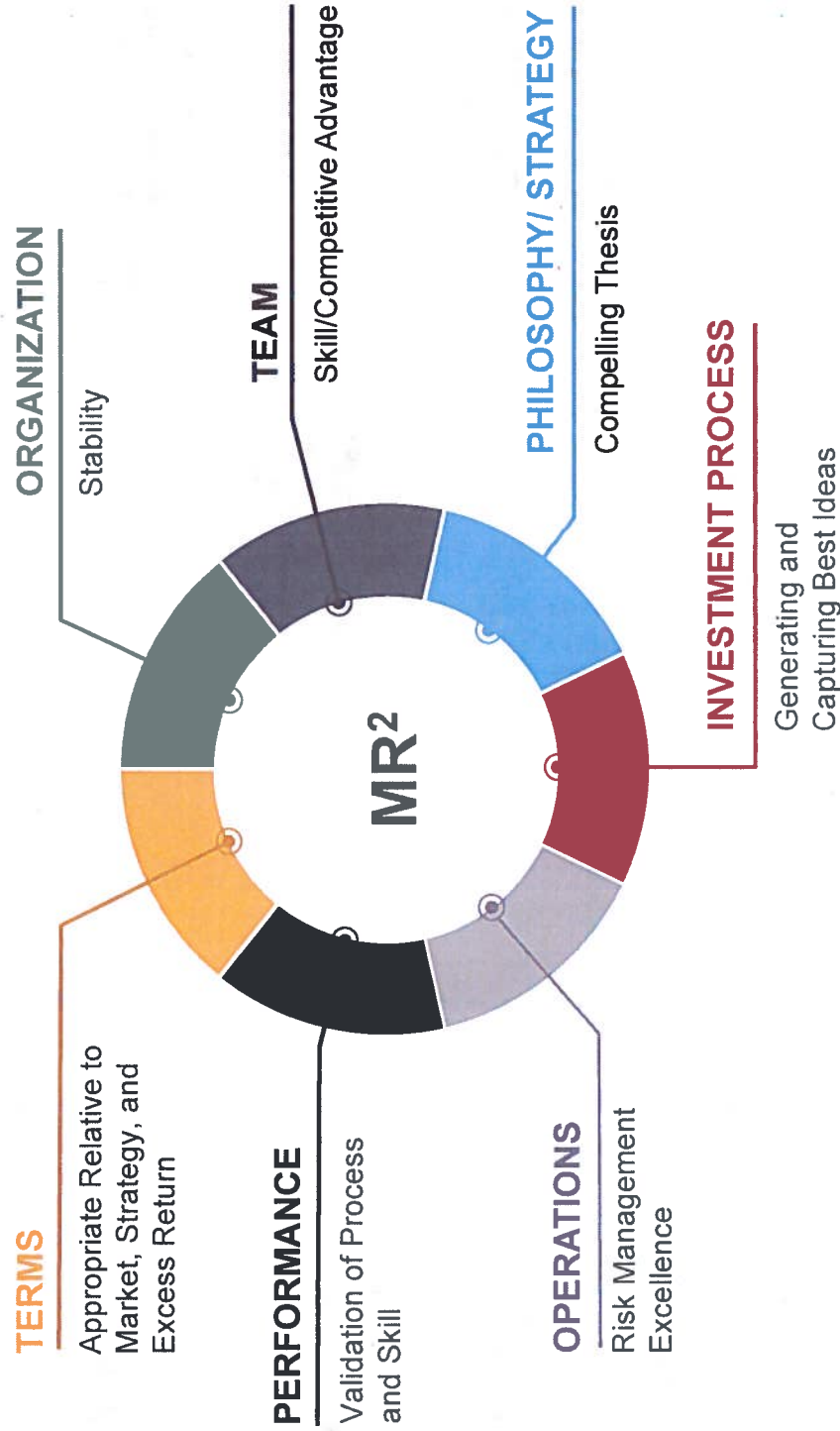


Specialized Research Capabilities



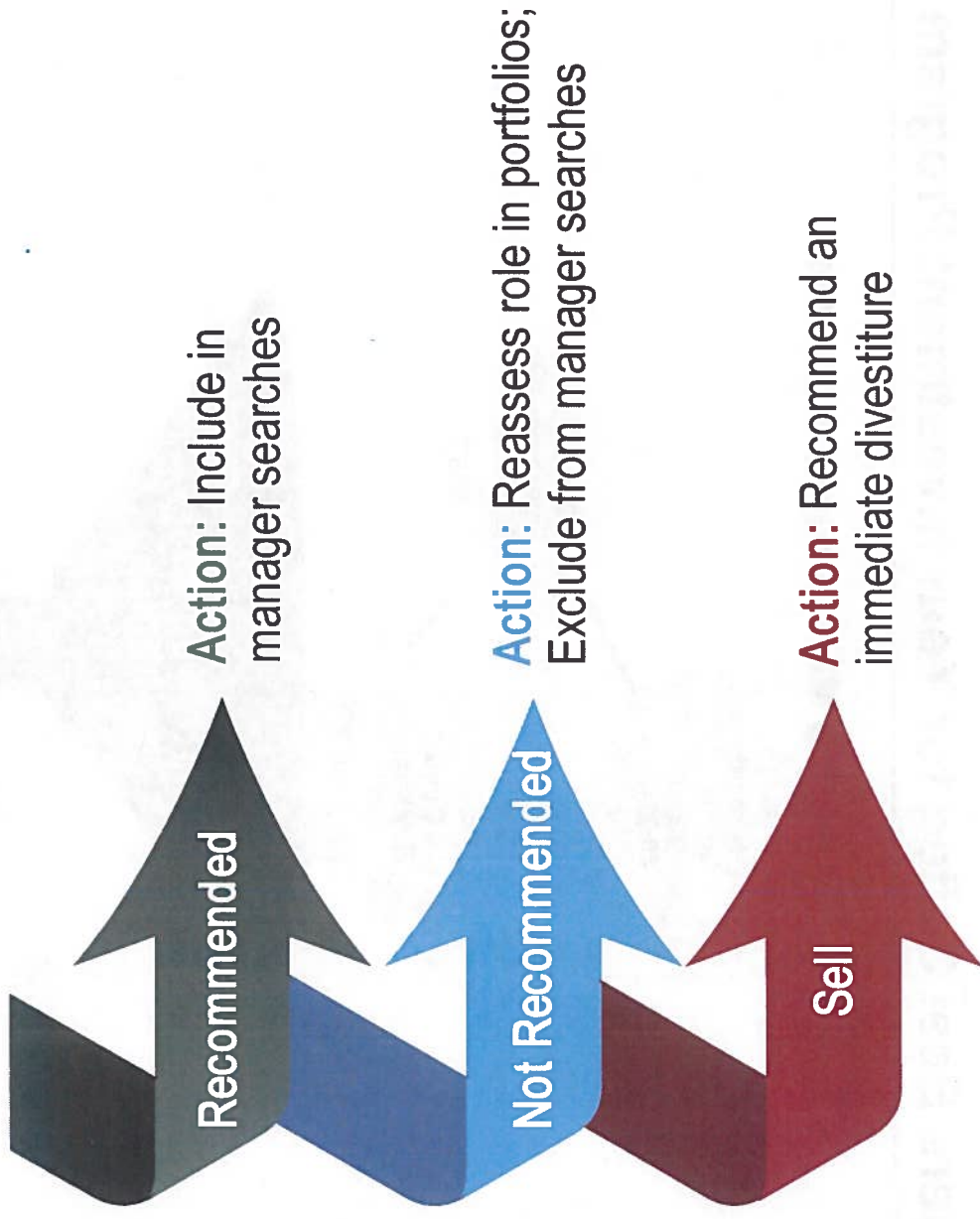
Seven Principles Critical for Investment Success

Our proprietary Manager Research and Ranking (MR²) evaluation process identifies the top-tier managers best-equipped to achieve your investment objectives.



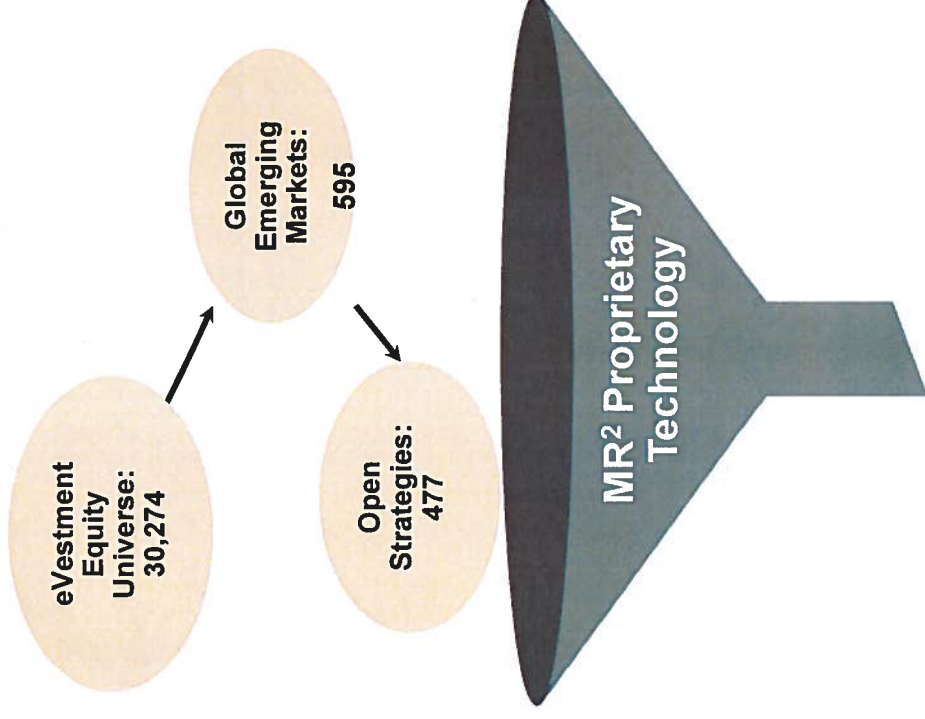
Manager Due Diligence Enhances Your Investment Lineup

Actionable ratings for managers are the result of our quantitative and qualitative due diligence process that includes 1,300 meetings annually and intensive monitoring.



Find Managers Best Suited for Your Investment Program

Example: Emerging Market Equity Universe



**Our recommended manager
best suited for your plan**

Manager Research & Coverage

- Original and fundamental research of managers, their organizations and investment processes
- Quantitative and qualitative due diligence
- Focused on risk, attribution and style

Manager Universe and Rankings

Style	Segal Marco Database ¹	Products Broadly Covered ⁵	Recommended Products
U.S. Equity	3,606 ²	1,578	179
International/Global Equity	3,002 ²	725	122
U.S. Fixed Income	2,167	659	146
International/Global Fixed Income	1,039 ²	104	56
Hedge Funds	6,038 ²	150	84
Private Equity	5,526 ³	400	193
Hard Assets	6,115 ⁴	500	220
Totals	27,493	4,116	1,000

¹ Individual active products in database. In addition, Segal Marco has access to over 23,000 mutual fund and institutional products via Morningstar Direct & Lipper.

² eVestment Alliance data

³ Venture Economics and Segal Marco data

⁴ Includes eVestment Alliance, Preqin and Segal Marco data

⁵ Enhanced research familiarity

Introduction

Our Advantage

\$500+B
Assets
Under
Advisement

\$6.5B
Full
Discretion

\$5.0B
Partial
Discretion /
Alternative

100%
Institutional
Assets

**Over 50
Years**
Delivering
Results

100%
Employee
Owned /
Free of
Conflicts

An Industry Leader

- Unmatched expertise in both investment and actuarial consulting
- Industry leading global research platform
- One of the largest privately held investment consulting firms in North America with a diversified client base including Public, Union, Corporate, Endowments, Foundations and Health Care entities
- 100% employee ownership means our sole motivation is the success of our clients

Time-Tested Results

- Our discretionary portfolios have consistently **outperformed** the median Defined Benefit plan in the InvestorForce universe
- The scalability of our discretionary platform allows us to drive **fee savings** for our clients, **boosting total returns**
- Our deep and experienced research team provides us **access to top-tier and capacity constrained managers and opportunities**
- We specialize in creating **customized solutions** that are tailored to a client's specific liabilities and objectives

A Trusted Partner

- We were **ranked the No. 1 Large U.S. Investment Consultant** in the 2018 Greenwich Quality Awards
- We ranked No. 1 in a number of categories including **advising on long-term asset allocation, knowledge of investment managers, and credibility with the Board/Investment Committee**
- **Free of conflicts of interest** as we do not manage any assets internally

*Includes Master Manager program assets, which are not classified as either "Full Discretion" nor "Partial Discretion. Assets as of 3/31/19.

Portfolio Management

PORTFOLIO MANAGEMENT COMMITTEE

All investment and asset allocation decisions are made by a central governing committee comprised of a cross-section of the most senior investment professionals at the firm.

**TIM BARRON,
CAIA (CHAIR)**
Chief Investment
Officer

**GEOFF
STROTMAN,
CFA**
SVP / Head of
Traditional
Manager
Research

**AMY
FOREBAUGH**
SVP / Head of
Investment
Operations

**MICHAEL
JOYCE, ESQ.**
SVP / Senior
Consultant

**PETER
GERLINGS,
CFA, CAIA**
SVP / Head of
Private Equity

**LINDA
McDONALD**
SVP / Head of
Hard Assets

**T.J. KISTNER,
CFA, CAIA**
VP / Head of
Discretionary
Portfolio
Management &
Solutions

PORTFOLIO MANAGERS AND PARTICIPATING MEMBERS

**BENJI PATZIK,
CFA, CPA**
VP / Head of
Portfolio Strategy &
Solutions

**DONALD
SHERIDAN**
Director, Fixed
Income

**BENJAMIN
HALL, CAIA**
Director, Equity

**PATRICK
McDOWELL,
CPA, CAIA**
VP / Investment
Operations

**PATRICK
O'NEILL, CFA,
CAIA, ASA,
MAAA**
Director, Global
Portfolio Solutions

**CATHERINE
HICKEY**
VP / Global
Portfolio Solutions

FIRM-WIDE SUPPORTING RESOURCES

Alpha Manager
Research

Risk
Management/Beta

Investment
Operations

Legal/Compliance

Custody Solutions

Client Services

Performance

Information
Technology



Full-time Seasoned Investment Team

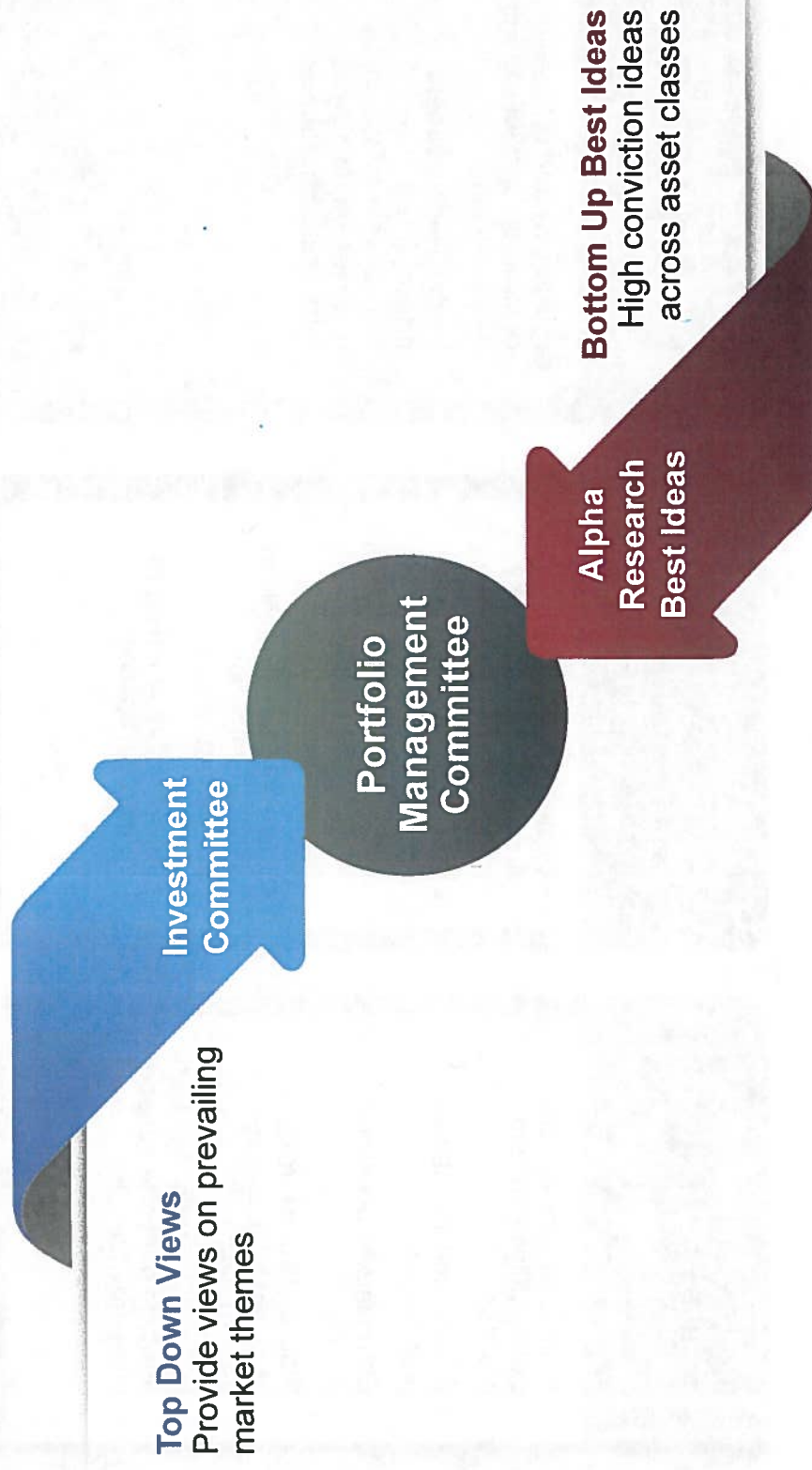
Research – A Global Approach

- The Global Investment Research Alliance allows us to leverage our global partners to share strategic investment ideas and have access to best in class managers outside the U.S.



Segal Marco Advisors has a global research platform

How Ideas Get Into Portfolios



Global Portfolio Solutions implements best ideas across high conviction themes within a risk, liquidity, and asset allocation framework

Manager Due Diligence Enhances Your Investment Lineup

- With MR², managers are ranked using a proprietary “7 Principle, 34 Factor” process
- Products are assigned actionable rankings: **Recommended, Not Recommended and Sell**

RECOMMENDED

Action: Include in manager searches

- Sound, convincing, and stable philosophy and process
- Exceptional investment professionals
- Emphasizes investment results
- Places client interests ahead of business and asset growth
- Full conviction in strategy's ability to generate superior investment results

NOT RECOMMENDED

Action: Develop an exit strategy; Exclude from manager searches

- Unstable and/or unconvincing philosophy and process
- Investment professionals have questionable investment acumen and/or limited investment experience
- Low conviction in ability to generate superior investment results
- Ineligible due to timing vs. an adverse opinion

SELL

Action: Recommend an immediate divestiture

- Philosophy and process considered unstable and/or unconvincing
- Ineffective investment professionals, high investment professional turnover and/or severe organizational distress


OFFICE OF HAWAIIAN AFFAIRS

Action Item
Committee on Resource Management
September 4, 2019

RM #19-16

Action Item: **Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy**

Prepared by:


Sylvia M. Hussey, Ed.D.

8/28/19

Date

Ka Pouhana Kūikawā, Interim Chief Executive Officer

Reviewed by:


Gloria Li

8/28/19

Date

Ka Pou Kihi Kanaloa Wai, Kūikawā, Interim Chief Financial Officer

Reviewed by:



Lisa Watkins-Victorino, Ph.D.

8/28/19

Date

Ka Pou Nui Kūikawā, Interim Chief Operating Officer

Reviewed by:


Sylvia M. Hussey, Ed.D.

8/28/19

Date

Ka Pouhana Kūikawā, Interim Chief Executive Officer

Reviewed by:


Ke Kua, Trustee Dan Ahuna

8/29/19

Date

Luna Ho'omalū o ke Kōmike RM

Chair of the Committee on Resource Management

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

I. Proposed Action

Administration recommends the Board of Trustees (BOT): 1) Approve the new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A; and 2) Eliminate the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

II. Issue

Whether or not a new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A should be approved; and/or 2) Should the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B be eliminated.

III. Background and Context

Fiscal Reserve Withdrawal Guidelines. The Fiscal Reserve Withdrawal Guidelines (FRWG) are embedded in the Native Hawaiian Trust Fund Spending Policy. The Office of Hawaiian Affairs two criteria for an effective Fiscal Reserve are the following: (1) the fund collects and dispense appropriate amounts of money at appropriate times; and (2) it is simple to operate.

The purpose of the FRWG is to describe the proposed operation of OHA's fiscal reserve as established by OHA's Spending Policy. These guidelines are not policy, rather it clarifies existing policy that exists and states, "...Any funds available but not spent in previous fiscal years (Fiscal Reserve) held within the Native Hawaiian Trust Fund.

The objective of the OHA's fiscal reserve fund is designed to provide money in certain situations. Money can be authorized under any of the 3 (three) permissible purposes: budget stabilization, unpredicted one-time payments, and capital acquisitions.

The maximum designation is limited to no more than \$3,000,000 annually. Special circumstances use requires a Board of Trustees (BOT) supermajority plus 2 votes (8 affirmative votes). Deposit calculations (into the Fiscal Reserve) "shall be subject to audited financial statements for the respective fiscal year¹. Estimated year-end budget surpluses based upon unaudited records are not permissible." Operations of the fiscal reserve fund is subject to two (2)



OFFICE OF HAWAIIAN AFFAIRS

NATIVE HAWAIIAN TRUST FUND SPENDING POLICY, AS AMENDED

Adopted by the Board of Trustees, September 15, 2004
Amended and adopted by the Board of Trustees on July 6, 2006
Amended and adopted by the Board of Trustees on May 21, 2009
Reviewed with no modifications by the Board of Trustees on April 18, 2012
Amended and adopted by the Board of Trustees on February 27, 2014

¹ Latest audited financial statements for the OHA is as of and for the fiscal year ended June 30, 2018. In addition, fiscal year ended June 30, 2019 audited financial statements are not anticipated to be issued until February 2020 as audit field work is not scheduled until October/November 2019.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

restrictions: the fund's balance cannot be negative after accounting for all designations; and there is no upper threshold or cap.

State Auditor, Report 18-03, February 2018. In February 2018, the State Auditor issued a report of an audit of the OHA based on the objectives at right.

The following findings

Objectives of the Audit

1. Evaluate OHA policies and actions regarding use of its Fiscal Reserve, Grants, CEO Sponsorships, and Trustee Allowances.
2. Review and report on the status of OHA's implementation of our 2013 audit recommendations.
3. Make recommendations as appropriate.

Fiscal Reserve

FUNDS THAT WERE BUDGETED but remain unspent at the end of the fiscal year stay in the Native Hawaiian Trust Fund and are designated as Fiscal Reserve. The amount designated as Fiscal Reserve carries over to the following fiscal year.

When the Fiscal Reserve was first established in 2000, it was referred to as a "rainy day fund." In 2009, OHA unofficially identified it as a source of funding for Kōkua Initiatives and other funding requests. Whenever the use of Fiscal Reserve funds is authorized, money is drawn from the Native Hawaiian Trust Fund. At least six trustee votes are needed to authorize the use of the Fiscal Reserve, and the board may authorize up to \$3 million in expenditures using the Fiscal Reserve each fiscal year.

Audit of the Office of Hawaiian Affairs

A Report to the Governor and the Legislature of the State of Hawai'i

Report No. 18-03
February 2018



OFFICE OF THE AUDITOR
STATE OF HAWAII

were raised in Report 18-03 related to the Fiscal Reserve:

- OHA continues to **lack a clear policy guiding** the use of its Fiscal Reserve.
- The one-time payment provision **allows for almost any Fiscal Reserve request to be approved.**
- Nine out of the 10 action items for Fiscal Reserve funding we tested **lacked required information.**
- Trustees voted on action items based on **factors outside of Fiscal Reserve guidelines.**
- The Fiscal Reserve **has been spent down rapidly.**

As a result of Report 18-03 findings and recommendations, the Board approved a moratorium.

Moratorium. On February 21, 2018 and February 28, 2018, via Action Item #18-03 (Attachments C and D, respectively) the Resource Management Committee and subsequently the BOT approved a moratorium on the use of Fiscal Reserve funds until specific policy changes were approved by the Board of Trustees (BOT). As also noted in the Action Item #18-03,

“On March 29, 2017, the Board of Trustees approved the RM Committee’s recommendation to create the FSP Working and Implementation Advisory Committee (“FSP Advisory Committee”). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA’s

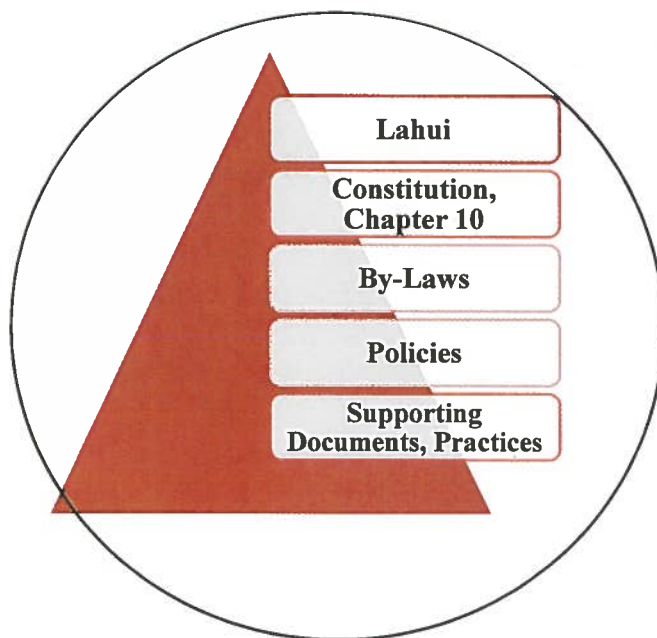
RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines."

IV. Policy Review and Analysis²

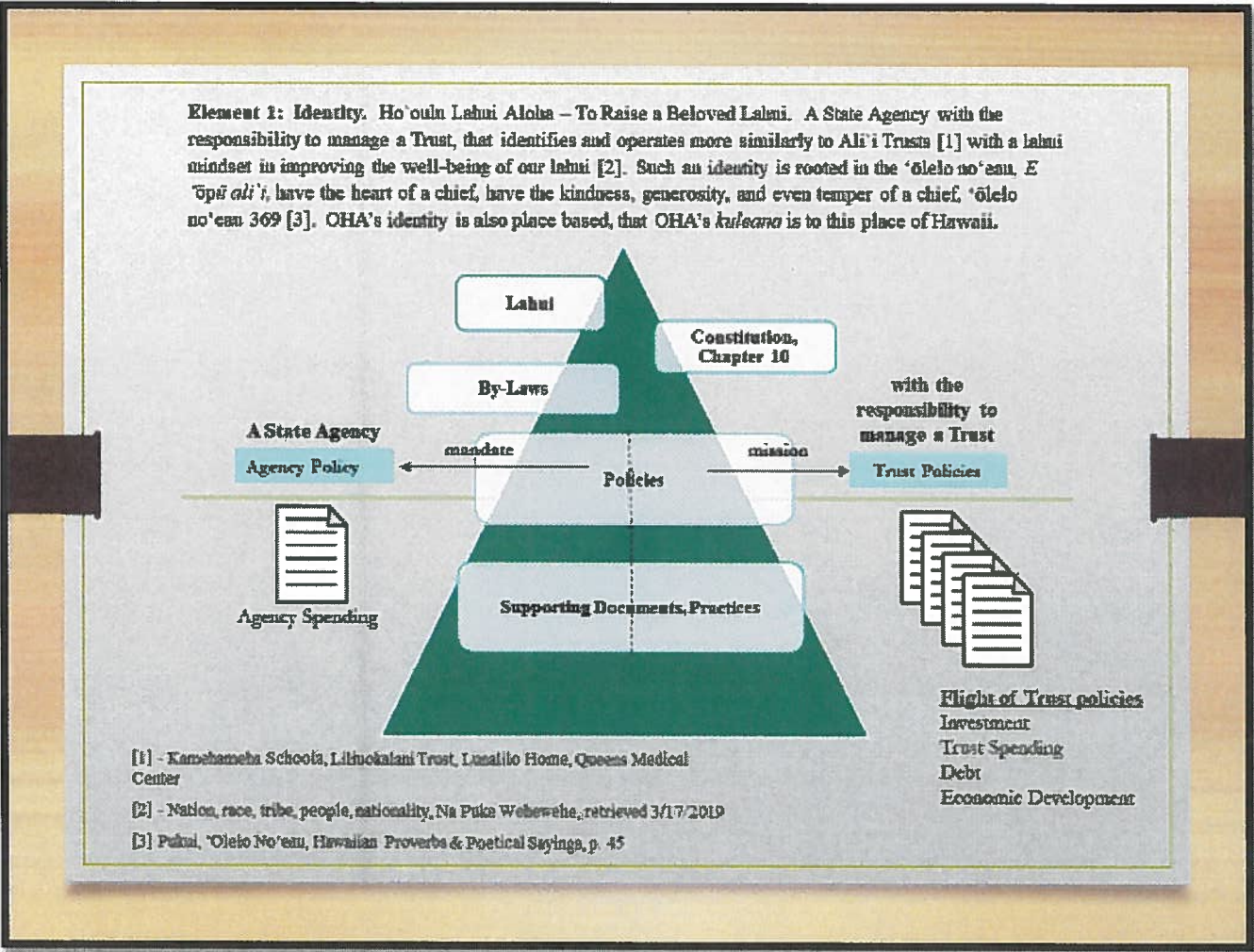
Board Governance Framework. In January 2019, the Board approved the formation of a permitted interaction group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. In April 2019, the Board approved the PIG's recommendation to approve the five elements of OHA's Board Governance Framework: 1) Identity; 2) Values and Mana; 3) Statutory Basis; 4) Policies; and 5) Supporting Documents and Practices (Operations).

Policy Actions. In May 2019, via Action Item #19-07, the Board took action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies, noting particularly the following: Acknowledge the **Spending Policy** language and the existing Native Hawaiian Trust Fund (NHTF) Spending Policy, as Amended, noting Administration will return with a consolidated policy document for Board action; and Acknowledge the **Investment and Real Estate Policy** language and the existing NHTF Investment and Real Estate Vision, Mission, and Strategy policies, noting Administration will return with consolidated policy document(s) for Board action.



RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

Identity is expanded below and illustrates the dual nature of identity and the related impact to policies.



Policy Alignment. The new Fiscal Stabilization Policy is aligned to the existing Native Hawaiian Trust Fund, Spending and Investment policies; and the withdrawal parameters from the existing guidelines have been reviewed and mapped to the new policy.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

V. Existing Status of the Fiscal Reserve

As of the end of the fiscal year ending June 30, 2018, the balance of the fiscal reserve was approximately \$5.7MM.³

ATTACHMENT 3

Office of Hawaiian Affairs
Fiscal Reserve Rollforward
Actuals from FY11 to FY 18, Projected to FY 19

Moratorium in Effect (see note 2)

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Projected
FISCAL RESERVE ROLLFORWARD	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Fiscal Reserve Balance, beginning of year	15,131,590	13,265,235	11,256,763	8,257,459	5,909,701	4,845,506	2,090,142	4,243,980	5,745,956
Additions to reserve									
Current year lapse to fiscal reserve									
BOT approved budget (less G/F)	33,921,801	32,578,746	33,624,166	33,206,175	32,476,815	32,675,225	33,116,011	32,565,354	36,014,771
Expended / Encumbered (less G/F)	(32,837,432)	(32,576,115)	(33,623,470)	(33,196,854)	(31,109,261)	(32,646,209)	(32,019,207)	(31,072,636)	(33,860,798)
Current year lapse	54,669	2,630	697	9,321	1,367,554	29,016	1,096,804	1,459,738	2,154,173
Prior year PO cancellation	1,348,976	688,898		512,921	568,251	215,630	1,027,034	12,218	1,000,000
Less: board designation made for use of fiscal reserve	(3,000,000)	(3,000,000)	(3,000,000)	(2,870,000)	(3,000,000)	(3,000,000)			
Add back lapse of fiscal reserve									
Fiscal Reserve Balance, end of year	13,565,235	11,256,763	8,257,459	5,909,701	4,845,506	2,090,142	4,243,980	5,745,956	8,900,129

Note>

1) Per section IV of OHA's Native Hawaiian Trust Fund Spending Policy section entitled, "Policy/Procedure", Fiscal Reserve is defined as "Any funds available but not spent in previous fiscal year." This includes, but not limited to current year lapses, prior year PO cancellation with remaining funds, and prior year designated fiscal reserve lapses. The maximum designations allowable to be made in any fiscal year are limited to no more than \$3,000,000 annually. Under special circumstances that will require the use of funds in excess of the categories noted above, the \$3,000,000 limit may be waived by the BOT with a vote of the super majority plus 2 (8 affirmative votes).

2) BOT Approved Action Item BOT# 18-01, February 27, 2018, Moratorium on use of Trustee Sponsorship and Allowance Fund (TSAF) and CEO-initiated Sponsorships. BOT approved to impose a moratorium on the use of Trustee Sponsorship and Allowance Fund (TSAF) and CEO-initiated Sponsorships and the immediate return of the unced balance of the TSAF to OHA.

VI. Reasons for Administration's Recommendation for a new Fiscal Stabilization Policy⁴

SPIRE completed an analysis and suggested consideration of a different approach to the Fiscal Reserve Guidelines ("Guidelines"). This approach suggests OHA consider the creation of a Fiscal Stabilization Fund of discrete size and limited uses to address OHA's historical needs for budget stabilization and respond to concerns by the State Auditor and other that the Guidelines require (1) more structure, (2) more rigor in the process of requesting and approving draws, and (3) more clarity about whether spending under the Guidelines is included in the maximum withdrawal limit in the OHA Spending Policy. The approach also considers this, and any other options, as interim steps toward a more comprehensive policy document that should consider how other relevant policies interact, respond and impact any new policies. It

³ Also refer to the FB20-21 Biennium Budget Book, Attachment 3

⁴ Based on May 2019 Report and related deliverables

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

recognizes that, while written as a stand-alone policy, it, and any other replacement policy options should be reviewed for further amendments to track the evaluations of OHA's spending, withdrawal, debt and investment policies.

The option would replace the current Guidelines and Fiscal Reserve Fund with a new fund and fund policies. As a temporary measure, the fund could address many of OHA's annual needs for budget stabilization and emergencies, while OHA considers permanent responses to the State Auditor's concerns. We believe that OHA needs to analyze its current policies, especially those related to investment and withdrawals, so they are not contradictory, and work toward agreed-upon objectives. As recommended in the past, that effort needs to be based upon internal OHA discussions regarding organizational objectives and priorities.

Therefore, we need to emphasize that the adoption of the option is a temporary measure to address the concerns of the State Auditor while OHA (the BOT and Administration) makes the numerous, necessary decisions to shape and reconcile OHA's objectives and policies. These include:

- 1) Identifying OHA policies that are based on conflicting objectives and reconcile how they must be revised to align with each other under a uniform structure and logic.
- 2) Identifying the core and non-core functions of OHA and whether different funding and withdrawal rules should apply to each.
- 3) Identifying whether OHA needs a reserve (rainy day) fund, and what kind of reserve fund is needed.

Relevant to the last issue, it is important to re-emphasize that this option is not for a reserve (rainy day) fund. A true reserve fund is meant to address economic volatility and disaster recovery and must be based on a complete assessment of OHA's future needs, investment outlook, and other factors that could affect the level of the reserve fund needed. This assessment of reserve fund levels, structures, and withdrawal policies is complex, as shown in the studies by the Pew Charitable Trusts. A reserve assessment is consistent with the State Auditor's recommendations that OHA should (1) clarify and clearly define the purpose of the five percent spending limit, and determine whether it is necessary to establish a withdrawal rate limit to ensure the health and sustainability of the Native Hawaiian Trust Fund and (2) work with the Administration, including OHA's Investment Management staff, to determine and obtain the financial information necessary for the board to assess the short- and long-term impacts to the Native Hawaiian Trust Fund when considering the use of the Fiscal Reserve.⁵

IV. Certification of Funding Availability

N/A – no funding required for this policy establishment action item.

⁵ Report 18-03, page.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

V. Recommended Action(s)

Administration recommends the Board of Trustees (BOT): 1) Approve the new Fiscal Stabilization Policy, including Withdrawal Guidelines as detailed in Attachment A; and 2) Eliminate the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy as detailed in Attachment B.

VI. Alternatives

- A. Take no action, no new policy and Fiscal Reserve Withdrawal Guidelines exist as is (see Attachment D).
- B. Take alternate action (e.g., create new policy, modify existing Fiscal Reserve Withdrawal Guidelines, amend Native Hawaiian Trust Fund Spending Policy).

VII. Time Frame

This action shall be retroactively applied to be effective at the beginning of the fiscal biennium or July 1, 2019.

VIII. Attachment(s)

- A. Draft Fiscal Stabilization Policy
- B. Native Hawaiian Trust Fund (NHTF) Spending Policy including Fiscal Reserve Withdrawal Guidelines
- C. Action Item #18-03 February 27, 2018 –Board of Trustees approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees
- D. Action Item #18-03 February 21, 2018 –Resource Management Committee (“RM”) recommendation to approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees
- E. State Auditor Report 18-03 Report Summary

**OFFICE OF HAWAIIAN AFFAIRS
FISCAL STABILIZATION POLICY**

SECTION I - PURPOSE AND INTENT

Purpose and intent. Historically, OHA has required funds to address unexpected shortfalls in available funding that had a significant effect on budget, as well as emergencies. OHA currently uses “OHA’s Native Hawaiian Trust Fund Spending Policy’s Fiscal Reserve Management Guidelines” (the Guidelines) to address funding needs, but the guidelines have been viewed as overly broad and unclear. This policy supersedes the guidelines and establishes a Fiscal Stabilization Fund (FSF) and the rules for its governance and maintenance, to enable OHA to have funds available for budget stabilization and emergencies, but under stricter fiscal limitations. Definitions, concepts, criteria and other elements found in the Guidelines have been mapped to the Fiscal Stabilization Policy (FSP) contained herein.

SECTION II – DEFINITIONS

Definitions. In this policy, if not inconsistent with the context:

1. **“Action Item”** refers to a draft of proposed policy or description or other action by the Board. An action item must comply with the form and content requirements set by the Board or the OHA organization.
2. **“Annual Ceded Land or Public Land Trust Revenues”** shall be the \$15.1 million annual revenues received from the State of Hawaii as of fiscal year 2006-2007, or including any adjustments to annual ceded lands revenues in the future by the State of Hawaii.
3. **“Appropriation”** refers to funds allocated for the OHA organization, set aside by formal Board action for specific use or through normal and customary government funding mechanism. An appropriation allows money to be spent; and is not an expenditure record.
4. **“Authorized Fund Uses”** means the uses described in section IV of this policy.
5. **“Beneficiary”** means as defined in HRS section 10-2.
6. **“Board” or “BOT”** means the OHA Board of Trustees, as described in Article XII, section 5 of the State Constitution and HRS chapters 10 and 13D.
7. **“Budget cycle”** means the two-year, biennium term of budget activity.
8. **“Budget process”** includes the process of developing and approving an operating budget for the fiscal biennium, as described in the BOT Executive Policy Manual section 3050, Fiscal; subsections 3.5.C and 3.5.D.
9. **“Budget Stabilization”** refers to setting aside funds for times of unexpected revenue shortfall, budget deficit, or emergency.
10. **“Chief Executive Officer” or “CEO”** means the administrator of the Office of Hawaiian Affairs, appointed by the Board pursuant to HRS section 10-10.
11. **“Chief Financial Officer” or “CFO”** means the person appointed by the administrator to be the chief financial officer of OHA or an individual that carries out the function.

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

ATTACHMENT A

12. **“Contingency”** refers to an event or condition (such as an emergency) that may but is not certain to occur.
13. **“Emergency”** refers to a serious, unexpected, and often dangerous condition requiring immediate attention. Emergencies include threats to public health, welfare, or safety from a major natural disaster, infrastructure emergencies involving OHA’s real properties or legal fees and costs incurred by OHA for pending claims or litigation.
14. **“Fiscal Biennium Total Operating Budget”** means the formal document that reflects the authorized expenditures of OHA for the two fiscal years that constitute the applicable fiscal biennium.
15. **“Fiscal Reserve Fund”** means the fund prior to the establishment of the “Fiscal Stabilization Fund” under the Guidelines.
16. **“Fiscal Stabilization Fund”** means the fund established by this policy.
17. **“General Fund Appropriations from the State”** refers to appropriations determined by the State of Hawaii Legislature during each biennium and are spent for a specific purposes.
18. **“Native Hawaiian Trust Fund”** is defined as all Public Land Trust revenue emanating from 5(f) funds that is subject to OHA’s Native Hawaiian Trust Fund investment policy.
19. **“NHTF Financial Assets Portfolio”** means the Native Hawaiian Trust Fund plus any other financial asset subject to OHA’s Native Hawaiian Trust Fund investment policy.
20. **“Non-recurring”** refers to costs, charges, or expenses that occur one time only and are not likely to happen again.
21. **“Originator”** includes a person who first thinks of something and causes it to happen.
22. **“Policy”** means this Fiscal Stabilization Fund Policy.
23. **“Quarterly Withdrawal Limitation”** means the maximum quarterly withdrawals from the fund, as defined in section V(a) of this policy.
24. **“Reserve”** means something stored or kept available for future use or need, money or its equivalent kept on hand or set apart usually to meet liabilities.
25. **“RM Committee”** means the Resource Management Committee of the Board.
26. **“Shortfall”** refers to a deficit of something required or expected, such as revenues or budgeted funds.
27. **“Trustee”** means the members of the BOT, as described in Article XII, section 5 of the State Constitution and HRS chapters 10 and 13D.
28. **“Variance”** means the financial or quantitative difference between a budgeted amount and purpose for the actual amount and purpose.
29. **“Unexpected”** means not expected or unforeseen.

SECTION III – ESTABLISHMENT

A. Establishment.

1. The Fiscal Stabilization Fund (FSF) is established by an initial, one-time appropriation of \$1,500,000¹ into a separate fund account² outside the Native Hawaiian Trust Fund (NHTF) upon adoption of this policy. This appropriation shall be counted toward maximum withdrawal limitation in the BOT Spending Policy.
2. Deposits and withdrawals into the FSF shall follow the requirements of this policy. Upon adoption of this policy, “OHA’s Native Hawaiian Trust Fund Spending Policy’s Fiscal Reserve Management Guidelines” shall terminate.
3. At the discretion of the BOT, additional deposits of up to \$3,000,000 may be made in each subsequent fiscal year from funds that were budgeted from the NHTF Financial Assets Portfolio that were unspent at the end of previous fiscal years. The audited financial statements and audited processes (i.e., lapsing of prior encumbered purchase orders) for each respective fiscal year shall be used as the sole basis to determine the eligible deposits into the FSF. Annual deposits shall be counted toward the maximum withdrawal limitations in the BOT Spending Policy.
4. The monies in the FSF may be carried over from year to year, provided that the total amount in the FSF shall not exceed \$10,000,000. Funds above and beyond the \$10,000,000 cap shall be redeposited into the NHTF.
5. Withdrawals from the FSF shall not be included in the maximum withdrawal limitations in the BOT Spending Policy for the fiscal year in which the withdrawal is made.
6. Temporarily idle moneys in the FSF may be invested as directed by the BOT, and the interest earned may be either transferred permanently into the NHTF or may remain in the FSF, at the discretion of the BOT. If the interest remains in the FSF, it may serve to increase the fund balance, but in no event shall the balance of the FSF be allowed to exceed the \$10,000,000.

B. Reserves.

1. Once established, reserves for contingencies may be designated in the Fiscal Stabilization Fund to acknowledge and recognize the responsibilities of the OHA.
2. Such reserves for contingencies may include but not be limited to estimates for legal or other settlements, repatriation, budget stabilization needs and emergencies such as natural disasters.

¹ The amount of the initial deposit will be dependent on the current size of the fiscal reserve fund.

² Such fund should be a part of the OHA’s overall cash management policy

SECTION IV – AUTHORIZED FUND USES

Authorized fund uses. Funds from the Fiscal Stabilization Fund may be withdrawn and used as authorized by the BOT through an Action Item for the following purposes only:

1. **Budget stabilization.** The Fiscal Stabilization Fund may be used to address unexpected shortfalls in available funding that directly translate into a significant budget decrease. Shortfalls can be considered any decrease in Annual Public Land Trust Revenues or General Fund Appropriations from the State, change in State assessments such as fringe rate, retirement or a significant financial market downturn.
2. **Emergencies.** The Fiscal Stabilization Fund may be used to address emergency expenditures directly incurred by the OHA or experienced by the OHA's beneficiaries. To qualify as an authorized fund use, the expenditures (1) must directly result from an emergency; (2) must address events or situations that are non-recurring; (3) must not have been contemplated in the budget process; and (4) cannot wait to be included in the next budget cycle. Emergencies include threats to public health, welfare, or safety from a major natural disaster, infrastructure emergencies involving OHA's real properties or legal fees and costs incurred by OHA for pending cases.
3. **Reserves.** The Fiscal Stabilization Fund may be used to activate previously designated reserves.
4. **Contingencies.** The Fiscal Stabilization Fund may be used to address contingencies either previously reserved or subsequently identified.

SECTION V – MAXIMUM WITHDRAWALS

Limitations on the maximum FSF size and related withdrawals are identified below.

Maximum withdrawals. The maximum withdrawals from this fund are limited as follows:

1. The maximum withdrawals in any given fiscal year, for any combination of authorized uses in section IV, are limited to no more than \$3,000,000 annually, and no more than \$750,000 per quarter, regardless of the total balance of the fund. The funds that are withdrawn must be used during the current fiscal year, and do not carry over to subsequent fiscal years.

Spending Guidelines

Minimum Balance	None
Maximum Designations (Annual)	\$3,000,000
Maximum Designations (Quarterly)	\$750,000

2. The fund balance cannot be negative after accounting for all authorized spending.
 - a. Funds are subject to quarterly withdrawal limitations;
 - b. The \$3,000,000 limitation is based on the fiscal year in which the designation is made,

RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy

ATTACHMENT A

regardless of the year of funding specified in the designation. For example, if a \$2,000,000 designation is made in budget year one, to be funded in budget year two, the \$2,000,000 will count towards the limit in budget year one, and only an additional \$1,000,000 can be designated in budget year one. In budget year two, the maximum designation of \$3,000,000 is still available.

SECTION VI – REQUEST PROCEDURE

Request Procedure. Funding requests for the use of Fiscal Stabilization Fund must be submitted as an action item. To be considered, the action item must comply with Board requirements for action items, and include the following, at a minimum:

- 1 **Originator.** Identification of the originator of the initial request. If the originator is not a member of the BOT, the action item shall state that it is being made “By Request,” and include the identity of the originator, for example, “CEO” or “beneficiary.”
- 2 **Explanation.** Clear explanation of the reasons the request qualifies as an authorized fund use. The explanation must address all requirements of sections IV and V, including:
 - a. The reasons the request cannot be accommodated with other available means of financing, or why it cannot be budgeted in the next Fiscal Biennium Total Operating Budget.
 - b. An explanation of the urgency of the request and its impact on OHA or its beneficiaries if the request is denied or the decision is delayed.
 - c. Certification by the CFO that the funds are available for the request, and that maximum withdrawal restrictions will not be violated if the request is granted.
- 3 **Supporting documentation.** All supporting documentation that justifies the funding request.

SECTION VIII – DELEGATION OF RESPONSIBILITY

Delegation of Responsibility.

1. The CEO shall be responsible for the initiation of the Action Item(s) requesting funding.
2. The CFO shall be responsible for reviewing the Action Item(s), the release of funds and any documentation in relation to disbursements. All documentation must be stored in accordance with OHA’s record retention policy.
3. Any Action Item that does not comply with the requirements of this policy shall not be considered by the Board. Any non-compliant action item approved by the Board shall be considered void.

SECTION IX – VOTING REQUIREMENTS

Voting requirements. The following defines the voting requirements for Board approval of funding requests.

- (a) The Board of Trustees with six (6) affirmative votes may authorize expenditures from the Fiscal Stabilization Fund, up to the maximum designation allowable under section V, Maximum withdrawals.
- (b) The Board of Trustees with eight (8) affirmative votes may approve in excess of the \$3,000,000 withdrawal limit, provided that the amount withdrawn shall not result in the Fiscal Stabilization Fund balance falling below zero.

SECTION X – REVIEW

Review. This Policy will be reviewed as recommended by the Chair of the RM Committee, but no less than every two (2) years. Any modification to this Policy shall require six (6) votes and two (2) readings at the Board of Trustees level with external review, consultation and advice being completed prior to any modifications.



OFFICE OF HAWAIIAN AFFAIRS

NATIVE HAWAIIAN TRUST FUND SPENDING POLICY, AS AMENDED

Adopted by the Board of Trustees, September 15, 2004

Amended and adopted by the Board of Trustees on July 6, 2006

Amended and adopted by the Board of Trustees on May 21, 2009

Reviewed with no modifications by the Board of Trustees on April 18, 2012

Amended and adopted by the Board of Trustees on February 27, 2014

**OFFICE OF HAWAIIAN AFFAIRS
NATIVE HAWAIIAN TRUST FUND SPENDING POLICY**

I. PURPOSE. The purpose of this policy is to ensure the continued viability of the Office of Hawaiian Affairs (OHA) Native Hawaiian Trust Funds (NHTF) by providing specific guidelines to balance the objectives of maintaining principal and producing large, stable and predictable spending. Decisions affecting management of the NHTF focus upon four conflicting objectives:

- A. Maximize long-term total return;
- B. Maximize annual spending from the Trust;
- C. Preserve the real value (purchasing power) of the Trust's principal and of its spending distributions over the long term;
- D. Maximize the stability and predictability of spending distributions. In other words, minimize the spending shortfall risk.

II. OBJECTIVE. The following spending policy reflects the objective of distributing as much total return as is consistent with the overall defined investment objectives while protecting the value of the principal.

III. DEFINITIONS. To further clarify the spending policy, the following definitions are used:

A. Native Hawaiian Trust Fund defined as all Public Land Trust revenue emanating from 5(f) funds that is subject to OHA's Native Hawaiian Trust Fund investment policy.

B. Spending Rate is the percentage (%) applied to the average market value to determine the spend amount.

C. Annual Spending Withdrawals defined as the maximum amount authorized to be budgeted from the Native Hawaiian Trust Fund in one fiscal year.

D. Moving Average Rule – to spend a fixed percentage of the average Native Hawaiian Trust Fund's average market value (e.g., spend 5.0% of the average market value of the previous 20 quarters).

E. Annual Ceded Land Revenues – shall be the \$15.1 million (fifteen million one hundred thousand dollars) annual revenues received from the state of Hawai'i as of fiscal year 2006-2007, or including any adjustments to annual ceded lands revenues in the future by the state of Hawai'i.

F. State of Hawai'i General Fund appropriations are determined by the Legislature during each Biennium and are spent for a specific purpose.

G. To Spend is the result of multiplying the moving average rule (Moving Average) by the spending rate.

H. Spent is when actual disbursement or encumbrances of funds is made. Trustees should never appropriate funds beyond the Spending Policy calculated amount.

I. Average Market Value – shall be computed quarterly based upon the monthly statements received from OHA's Custodian of Record, the average shall be computed from the most recent 20 quarter period ending as of March 31st, fifteen months prior to the start of the budget on July 1. If real estate is included in the Native Hawaiian Trust Fund then the real property market value shall be included to compute the average market value.

J. Public Land Trust Revenue – emanating from 5(f) funds that the State of Hawai'i remits to the Office of Hawaiian Affairs.

K. Real Property Market Value – shall be based upon the latest real estate appraisal. Such an appraisal should be conducted every five (5) years or upon the sale of any respective real estate property, whichever comes first.

L. Investment – an acquisition for future income or benefit.

M. 5(f) Funds – refers to Section 5(f) of the State of Hawai'i Admissions Act.

N. Total return is defined as the sum of earned interest and dividends and realized and unrealized gains or losses, less all investment management costs (e.g. *investment consultant, custodian, money manager fees*).

O. Native Hawaiian Self-Governance Spending Withdrawal defined as a maximum cumulative authorization not to exceed \$3,000,000 to be budgeted from the

Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs.

IV. POLICY/PROCEDURE. Consistent with the overall investment goals of the Native Hawaiian Trust Fund, the following spending rates and rules for distribution are set forward.

A. The formula for determining **annual spending withdrawals** and the mechanics of its implementation shall adopt the **Moving Average Rule**, whereby;

1. OHA will **spend** a fixed percentage of no more than five percent (5%) of the Native Hawaiian Trust Fund's **average market value**,

plus

2. **Ceded Land Revenues** received by OHA

plus

3. **State of Hawai'i General Funds** received by OHA

plus

4. Any funds available but not spent in previous fiscal years (Fiscal Reserve), held within the Native Hawaiian Trust Fund.

B. Regardless of the performance of the Native Hawaiian Trust Fund, OHA's spending policy will apply. The 5% spending rate shall be applied to investment portfolio and real property assets intended to be income or benefit producing.

C. Funds available from sources other than those defined in Section IV.A. of this policy are not limited by this annual spending withdrawal formula.

V. SPECIAL SPENDING WITHDRAWAL. Public Law 103-150 recognizes that the "...indigenous Hawaiian people never directly relinquished their claims to their inherent sovereignty as a people or over their national lands..." and urges the President of the United States to "...support reconciliation efforts between the United States and the Native Hawaiian people." Act 195 was signed into law on July 6, 2011 and recognized the Native Hawaiian people as the only indigenous, aboriginal, maoli people of Hawai'i. Act 195 encourages OHA to "...continue to support the self-determination process by Native Hawaiians in the formation of their chosen governmental entity" and notes that the State has designated OHA "...as a trust vehicle

to act on behalf of Native Hawaiians until a Native Hawaiian governing entity could be reestablished...". Balancing the opportunity for the formation of a governmental entity that would empower Native Hawaiians to exercise their un-relinquished inherent sovereignty with the objectives of maintaining principal and producing large, stable and predictable spending, a special cumulative spending withdrawal of no more than \$3,000,000 can be authorized to be budgeted from the Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs and will be known as a **Native Hawaiian Self-Governance Spending Withdrawal**. Authorizations of funds pursuant to Section V. will require a separate Action Item appropriation request pursuant to Section 1.4.b of OHA's Board of Trustees Executive Policy Manual. This Section V. specifically disallows transfer of funds or appropriations of any kind to the Native Hawaiian Roll Commission, as established by Act 195.

VI. REVIEW

A. The Spending Policy will be reviewed at least every two years or as recommended by the Chair of the ARM Committee.

B. Modifications to the Spending Policy must meet requirements as provided by the then current By-Laws. Any modification or exceptions to OHA's Spending Policy shall require six (6) votes and two (2) readings at the Board of Trustees level and require external due diligence to be conducted.

VII. EFFECTIVE DATE. "The effective date of this policy is February 27, 2014 and this policy shall be deemed to pre-exist funds disbursed to OHA by the State pursuant to Act 178, SLH 2006."

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES

Colette Y. Machado

Colette Y. Machado, Chairperson

First Reading	2/20/2014
Second Reading	2/27/2014

OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S FISCAL RESERVE WITHDRAWAL GUIDELINES

I. INTRODUCTION. The Office of Hawaiian Affairs two criteria for an effective Fiscal Reserve are the following: (1) the fund collects and dispenses appropriate amounts of money at appropriate times; and (2) it is simple to operate. Of the various alternatives studied by Administration, the fiscal reserve fund proposed here comes closest to satisfying these criteria. The purpose of this section is to describe the proposed operation of OHA's fiscal reserve as established by OHA's Spending Policy, which was initially adopted on October 31, 2000 and subsequently amended in September 2004, July 2006, and May 2009, respectively. These guidelines are not policy, rather it clarifies existing policy that exists on page 3, section IV of OHA's Native Hawaiian Trust Fund Spending Policy section entitled, "Policy/Procedure" and states "*plus*" A.3 "*Any funds available but not spent in previous fiscal years, held within the Native Hawaiian Trust Fund.*"

II. OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S - FISCAL RESERVE. Following is a description of the fiscal reserve fund:

A. Objective. OHA's fiscal reserve fund is designed to provide money in certain situations.

B. Authorized uses. Money can be authorized under any of the 3 (three) permissible purposes as follows:

1. **Budget Stabilization** – To address shortfalls in funding that directly translate into a significant spending decrease for a budget year. The shortfall can be the result of a downturn in the economy that negatively impacts the value of the NHTF investments, or can be the result of a reduction in general funding or ceded land revenue payments received from the state. Costs of programs can be funded through the fiscal reserve if it is determined that not providing the funding will have a severe negative impact on OHA's beneficiaries. The amount that can be utilized under this category in any given fiscal year, cannot exceed the previous year's spending limit subject to the limitations set forth in (E.) below. In other words, the budget stabilization can be used so that the fiscal reserve will supplement the current year budget to be at least equal to the prior year budget up to the limit set forth in (E.) below.
2. **Unpredicted One-time Payments** – to address events or opportunities that are non-recurring in nature, have not been contemplated in the

budget process, and cannot wait to be included in the next budget cycle. This category would also include any expenditures needed to address legal issues as well as to remedy an emergency condition (which means a situation that creates a threat to public health, welfare, or safety that may arise by reason of major natural disaster, epidemic, riot, fire, or other reason.) The maximum designation amount under this category is subject to the limitations set forth in item (E.) below.

3. **Capital Acquisitions** – Major purchases of non-investment land or other capital assets that either have not been contemplated during the time of budget preparation, or cannot be addressed within the confines of the budget, and cannot wait to be included in the next budget cycle. The maximum withdrawal amount under this category is subject to the limitations set forth in item (E.) below.

C. Maximum Designations. The maximum designations allowable to be made in any given fiscal year, using any combination of items B.1. through B.3. above, are limited to no more than \$3,000,000 annually. The \$3,000,000 limitation is based on the fiscal year in which the designation is made, regardless of the year of funding specified in the designation. For example, if a \$2m designation is made in budget year 1, to be funded in budget year 2, the \$2m will count towards the limit in budget year 1, and only an additional \$1m can be designated in budget year 1. In budget year 2, the full \$3m of designations is still available.

D. Special Circumstances – There may be special circumstances that will require the use of funds in excess of the categories noted above. For example, the imminence of the passage of a federal recognition bill may trigger events for which OHA will be required to spend monies not otherwise available. In these special circumstances, the criteria set forth above can be waived by the BOT with a vote of the super majority plus 2 (8 affirmative votes). Since the “fiscal reserve” is a part of OHA’s Native Hawaiian Trust Fund and not an account established separately, if and when the fiscal reserve is utilized, the funds identified will merely serve as an additional means of financing.

E. Deposit Calculations. The source of data required to calculate the amount to be “restricted” as an OHA NHTF Spending Policy Fiscal Reserve shall be subject to audited financial statements for the respective fiscal year. Estimated year-end budget surpluses based upon unaudited records are not permissible.

F. Restrictions. The operation of the fiscal reserve fund is subject to two (2) restrictions:

1. no more than the current balance of the fiscal reserve in any year will be designated from the fund (e.g., the fund's balance cannot be negative after accounting for all designations; and
2. the total amount of money earmarked as a fiscal reserve does not have an upper threshold (*cap*) imposed upon it.

G. Operation

A. Pursuant to the OHA Spending Policy, Administration is tasked with calculating the spending policy limitation for the upcoming fiscal year utilizing a 20-quarter rolling average of the Native Hawaiian Trust Fund's market value, ending as of March 31st, fifteen months prior to the start of the budget on July 1. The respective 20-quarter rolling average along with a Board of Trustees determined spending rate (up to 5%) eventually determines the upper threshold for the development of a biennium budget, which is revisited during the supplemental year to correct any upward or downward adjustments in accordance to the actual spending policy formula. Note: during the development of a biennium budget, only the first fiscal year can utilize actual figures with the second year requiring Administration to "estimate" the market value of the upcoming four quarters based upon financial analysis techniques.

B. Only upon the close of OHA's fiscal year end financial records and the successful completion of a financial audit engagement can fiscal year "expenditure" figures be utilized, less any investment related expenses, and then deducted from OHA's calculated spending policy ceiling. As a part of OHA's adjusting fiscal year end journal entry, the difference is to be accumulated to any existing fund reserve account. Note: the funds are maintained within the Native Hawaiian Trust Fund, without the benefit of interest income and/or capital gains accrual, and are merely recognized as "reserved" funds within OHA's financial statements.

III. PROCEDURE. The procedure to be followed when requesting money via these guidelines for Board consideration shall be in the form of an Action Item and must include, at a minimum, the following information:

1. Identify the originator of the request;
2. Cite specific "Authorized Use" being requested as:
 - a. **B.1. Budget Stabilization,**
 - b. **B.2. Unpredicted One-time Payments, or**

c. B.3. Capital Acquisitions

3. Cite **D. Special Circumstances** if applicable.
4. Explain why the request cannot be accommodated with funds from the current Core Operating Budget.
5. State the urgency of the request and its impact on OHA if the request is denied or the decision is delayed.
6. Attach a letter or proposal detailing the request in sufficient detail to reasonably draw a conclusion of merit.

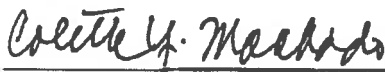
IV. VOTING REQUIREMENTS.

A. The Board of Trustees with six (6) affirmative votes may authorize expenditures from the fiscal reserve up to the maximum designation allowable under Budget Stabilization, Unpredicted One-time Payments, and Capital Acquisitions categories as set forth in Section II. B.1., B.2. and B.3., respectively, above.

B. The Board of Trustees with eight (8) affirmative votes may authorize expenditures from the fiscal reserves above the maximum designation allowable under the Special Circumstances category as set forth in Section II.D. above.

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES



Colette Y. Machado, Chairperson

First Reading	2/20/2014
Second Reading	2/27/2014

Office of Hawaiian Affairs
560 N. Nimitz Hwy, Suite 200
Honolulu, HI 96817
Roll Call Vote Sheet

ATTACHMENT C

BOARD OF TRUSTEES MEETING	DATE: February 27, 2018																																																																													
AGENDA ITEM: V. New Business B. Committee on Resource Management 1. RM 18-03: Moratorium on Fiscal Reserve Spending																																																																														
MOTION: Move to approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.																																																																														
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MOTION: [x] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

DISCUSSION:

**COMMITTEE ON RESOURCE MANAGEMENT
(RM)**

Committee Report

February 27, 2018

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Committee on Resource Management, having met on February 21, 2018 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Relevant attachments are included for your information and reference. Attachment(s):

- 1) Action Item RM#18-03
- 2) RM Roll Call Vote Sheet(1)


Respectfully submitted:


Trustee Carmen Hulu Lindsey, Chair

excused
Trustee Peter Apo, Member

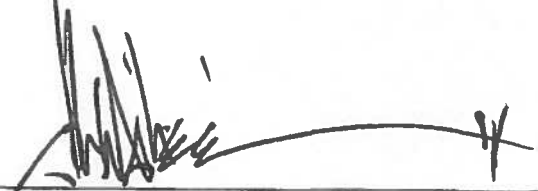

Trustee Leina'ala Ahu Isa, Member


excused
Trustee Robert Lindsey, Member


Trustee Dan Ahuna, Member

excused
Trustee Colette Machado, Member

excused
Trustee Rowena Akana, Member


Trustee John Waihe'e, IV., Member


Trustee Keli'i Akina, Member

OFFICE OF HAWAIIAN AFFAIRS
Action Item
Committee on Resource Management
February 21, 2018

RM# 18-03

Action Item Issue: Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Prepared by: Max Mukai 2/16/2018
Max Mukai Date
Ke Kua Kāko'o, Trustee Aide

Reviewed by: Kamama'o M. Crabbe 2/16/18
Kamama'o M. Crabbe, Ph.D. Date
Ka Pouhaha, Chief Executive Officer

Reviewed by: Colette Y. Machado 02/16/18
Colette Y. Machado Date
Ke Kauhuhu, Chair of Board of Trustees

Reviewed by: Carmen Hulu Lindsey 2/16/2018
Hulu Lindsey Date
Ho'omalū Komike RM, RM Chairperson

I. Action:

Approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

II. Issue:

Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

III. Background:

On March 29, 2017, the Board of Trustees approved the RM Committee's recommendation to create the FSP Working and Implementation Advisory Committee ("FSP Advisory Committee"). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA's Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and Fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust Fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines.

IV. Alternative Actions:

- A. Recommend approval of the moratorium, and transmit the recommendation to the Board of Trustees for consideration.
- B. Decline approval of the moratorium and take no other action.
- C. Take no action.

V. Recommended Action:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

VI. Timeframe:

The moratorium will take effect immediately upon approval by the Board of Trustees.

VII. Funding Source:

No funding required.

VIII. Attachment:

None.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817
Roll Call Vote Sheet

Committee on Resource Management	DATE: February 21, 2018 Motion: Vote:						
AGENDA ITEM: III. New Business							
B. RM 18-03: Moratorium on Fiscal Reserve Spending							
MOTION: To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.							
AMENDMENT:							
MEANS OF FINANCING:							
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEI	AHU ISA			X			
DAN	AHUNA			X			
ROWENA	AKANA						X
KELI'I	AKINA			X			
PETER	APO						X
ROBERT	LINDSEY						X
COLETTE	MACHADO						X
JOHN	WAIHE'E			X			
CHAIR HULU	LINDSEY			X			
TOTAL VOTE COUNT				5			

MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

**COMMITTEE ON RESOURCE MANAGEMENT
(RM)**

Committee Report

February 27, 2018

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Committee on Resource Management, having met on February 21, 2018 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Relevant attachments are included for your information and reference. Attachment(s):

- 1) Action Item RM #18-03
- 2) RM Roll Call Vote Sheet(1)

Respectfully submitted:

ATTACHMENT D


Trustee Carmen Hulu Lindsey, Chair

excused
Trustee Peter Apo, Member

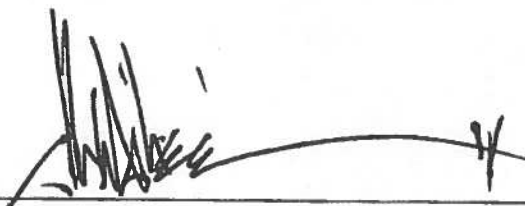

Trustee Leina'ala Ahu Isa, Member

excused
Trustee Robert Lindsey, Member


Trustee Dan Ahuna, Member

excused
Trustee Colette Machado, Member

excused
Trustee Rowena Akana, Member


Trustee John Waihe'e, IV., Member


Trustee Keli'i Akina, Member

OFFICE OF HAWAIIAN AFFAIRS
Action Item
Committee on Resource Management
February 21, 2018

RM# 18-03

Action Item Issue: Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

Prepared by: Max Mukai 2/16/2018
Max Mukai
Ke Kua Kāko'o, Trustee Aide Date

Reviewed by: Kamama'o M. Crabbe 2/16/18
Kamama'o M. Crabbe, Ph.D.
Ka Pūhaha, Chief Executive Officer Date

Reviewed by: Colette Y. Machado 02/16/18
Colette Y. Machado
Ke Kauhuhu, Chair of Board of Trustees Date

Reviewed by: Hulu Lindsey 2/16/2018
Hulu Lindsey
Ho'omalū Komike RM, RM Chairperson Date

I. Action:

Approval of a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

II. Issue:

Whether the Resource Management Committee ("RM") shall approve a recommendation to the Board of Trustees for a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

III. Background:

On March 29, 2017, the Board of Trustees approved the RM Committee's recommendation to create the FSP Working and Implementation Advisory Committee ("FSP Advisory Committee"). Subsequently, RM Committee Chair, Trustee Hulu Lindsey, created collaborative FSP working groups comprised of Trustees, Administration, and subject matter experts to address the following priority areas: OHA's Spending Policy, Real Estate Investments, Legal and Taxable Structure, OHA's Relationship with the Department of Hawaiian Homelands; and Pension Benefits. The FSP Spending Policy Working Group has met to discuss improvements to the spending policy and Fiscal Reserve guidelines, analyzing the policies current implications and outlining the issues that need to be addressed. Additionally, the FSP Spending Policy and Real Estate Investments Working Groups have also met to discuss improvements to the Native Hawaiian Trust Fund Investment Policy Statement and consideration of an investment policy statement that would apply to OHA's real estate investments. These efforts will put OHA on the path to better managing and maintaining the health of its financial resources and other assets so that the agency may continue to address both the present and future needs of Native Hawaiians. As the review, modification and/or creation, and adoption of revised fiscal and investment policy statements will take time and a concerted effort by the working groups, it is appropriate to impose a moratorium on the use of Fiscal Reserve funds until the Board of Trustees adopts the recommended changes to the Fiscal Reserve guidelines.

IV. Alternative Actions:

- A. Recommend approval of the moratorium, and transmit the recommendation to the Board of Trustees for consideration.
- B. Decline approval of the moratorium and take no other action.
- C. Take no action.

V. Recommended Action:

To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.

VI. Timeframe:

The moratorium will take effect immediately upon approval by the Board of Trustees.

VII. Funding Source:

No funding required.

VIII. Attachment:

None.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817
Roll Call Vote Sheet

Committee on Resource Management		DATE: February 21, 2018 Motion: Vote:					
AGENDA ITEM: III. New Business							
B. RM 18-03: Moratorium on Fiscal Reserve Spending							
MOTION:							
To approve a moratorium on the use of Fiscal Reserve funds until specific policy changes are approved by the Board of Trustees.							
AMENDMENT:							
MEANS OF FINANCING:							
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEI	AHU ISA			X			
DAN	AHUNA			X			
ROWENA	AKANA						X
KELI'I	AKINA			X			
PETER	APO						X
ROBERT	LINDSEY						X
COLETTE	MACHADO						X
JOHN	WAIHE'E			X			
CHAIR HULU	LINDSEY			X			
TOTAL VOTE COUNT				5			

MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

Auditor's Summary

Audit of the Office of Hawaiian Affairs

Report No. 18-03



PHOTO: OHA

IN REPORT NO. 18-03, *Audit of the Office of Hawaiian Affairs*, we found that the Office of Hawaiian Affairs (OHA) has created alternate funding processes that allow the agency to regularly direct money towards a multitude of programs, projects, and individuals. At first glance, these funding opportunities appear to be guided by policies, procedures, and guidelines designed to ensure that funds are distributed fairly and equitably. In reality, however, these expenditures and other forms of discretionary spending do not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Some are approved by the OHA Administration without Board of Trustee vote or even knowledge.

What we found

In FY2015 and FY2016, OHA spent nearly double as much on discretionary disbursements (\$14 million) as it did on planned, budgeted, and properly publicized, vetted, and monitored grants (\$7.7 million). To fund these unplanned expenditures, OHA realigned its budget (by \$8 million) and drew from its Fiscal Reserve (\$6 million). We found that OHA has spent with little restraint, using Native Hawaiian Trust Fund moneys to pay for such things as the retirement benefits for a former trustee (\$56,300), political donations, an international conservation convention (\$500,000), as well as a beneficiary's rent (\$1,000), another beneficiary's funeral-related clothing expenses (\$1,000), and a trustee's personal legal expenses (\$1,500).

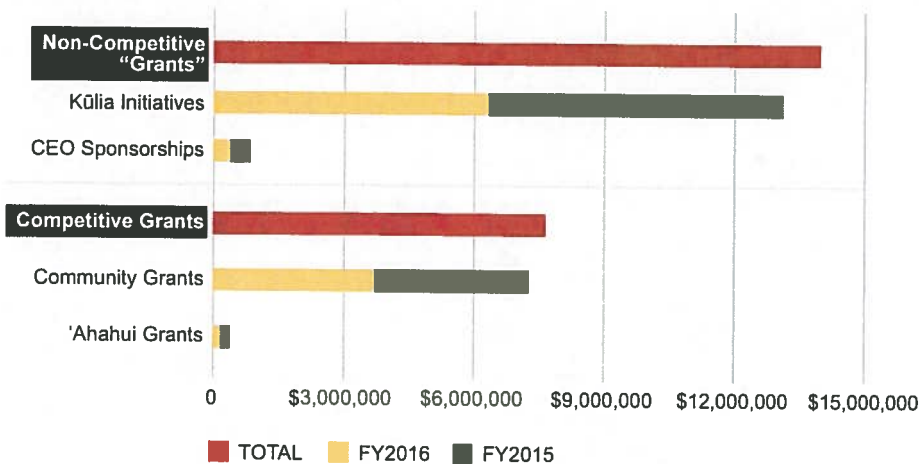
Why did these problems occur?

OHA's vague rules guiding its discretionary spending are broadly interpreted, arbitrarily enforced, and at times, disregarded. For instance, we found several occasions in which OHA's chief executive officer (CEO) ignored "do not fund" recommendations from Administration personnel and funded Sponsorships, contrary to written guidelines. We also found significant irregularities in and abuse of OHA's Trustee Allowance process, which was originally established to cover incidental expenses for trustees to develop and maintain ongoing communication with beneficiaries and the general public, but has evolved to allow a broad range of expenditures. When we asked trustees, the CEO, and other officers about questionable expenditures, the consistent justification provided was that the money helps a Native Hawaiian or Hawaiian beneficiary, thus fulfilling OHA's mission to improve the conditions and well-being of Native Hawaiians and Hawaiians.

Why do these problems matter?

The Fiscal Reserve, the source for much of OHA's discretionary spending, has been spent down rapidly in recent years. From FY2011 to FY2016, the Fiscal Reserve balance fell from \$15.1 million to a little more

Spending on non-competitive versus competitive awards



Source: Information provided by OHA's Transitional Assistance Program.

Fiscal Reserve

FUNDS THAT WERE BUDGETED but remain unspent at the end of the fiscal year stay in the Native Hawaiian Trust Fund and are designated as Fiscal Reserve.

than \$2 million, as the board spent the maximum \$3 million allowed under OHA policy each year. However, not only do OHA's spending irregularities pose risks — both great and small — to the Native Hawaiian Trust Fund, they appear to violate the OHA trustees' solemn fiduciary obligation to their beneficiaries that they will administer the trust fairly, equitably, and without self-interest. In other words, this form of behind-the-scenes giving is inherently inequitable to OHA's many other beneficiaries who may be in need of financial assistance, but are unaware of who and how to ask for help.

We acknowledge that trustees have broad discretion in determining whether a particular expenditure better the conditions of Native Hawaiians and Hawaiians, but their desire to provide assistance to a few should be tempered by their fiduciary duties to all of the beneficiaries, both present and future. Doing so would not only benefit Native Hawaiians and Hawaiians in the long term, it would help ensure that they are treated more equitably in the short term.

"If an organization is denied funding by the administration of OHA, they can come to a trustee to seek funding for their project. There's something that can be self-defeating in having these two competing processes."

— OHA trustee

Examples of Questionable Spending



Las Vegas Rodeo

On June 26, 2014, Trustee H circulated a memo to fellow board members, soliciting donations for the recipient to attend a Las Vegas rodeo competition. Trustee H donated \$1,000. Two others, Trustee A and Trustee G, responded with donations of \$500 and \$400 respectively.



Trustee to Trustee's Spouse

Trustee A donated \$1,000 to Trustee B for Trustee B's son's medical expenses. According to OHA's controller, it is possible that Trustee B was not aware that the funds were from OHA.



Spousal Support

Trustee B donated OHA funds to this community leadership program; Trustee B's spouse had been a participant in the program just three months before, from September 2013 – June 2014.



Fund DNC

Political contributions to the Democratic National Committee and the League of Women Voters made by Trustee C were allowed because they pre-dated OHA's March 4, 2014, policy statement.



CLA (CliftonLarsonAllen LLP)
CLAconnect.com

**Office of Hawaiian Affairs
Contract & Disbursement Review and Recommendations
Status Report #4**

Date: August 6, 2019

To: Dan Ahuna, Trustee and Chair of the Resource Management Committee
Robert K. Lindsey, Jr., Trustee and Vice-Chair of the Resource Management Committee

From: Ernie Cooper, Principal, CliftonLarsonAllen LLP
Jenny Dominguez, Signing Director, CliftonLarsonAllen LLP

RE: OHA Contract & Disbursement Review and Recommendations: June 1, 2019 to July 31, 2019

A. Background

On Tuesday, September 4, 2018, the Office of Hawaiian Affairs (OHA), a body corporate under the Constitution of the State of Hawaii, engaged the services of CliftonLarsonAllen (CLA) to conduct a contract and disbursement review as described in OHA's contract number 3284. The purpose of this review is to identify and quantify potential areas of waste, abuse, and fraud in the procurement of professional services as well as other disbursements of funds for fiscal years (FY) FY2012, FY2013, FY2014, FY2015, and FY2016 for OHA and its LLCs.

B. Status of Document Request

1. **OHA:** As reported in Status Report #3 (dated June 4, 2019) OHA had provided all documents on the request list submitted by CLA or had provided an explanation for why a particular item was not available. The CLA request list included financial and organization documents and information requested on September 14, 2018, October 12, 2018, and November 16, 2018. This document request list does NOT include documentation related to the sample contracts and disbursements selected for testing. See section titled "**Sample Selection and Testing**" for further information regarding the OHA documents pertaining to the sample section.
2. **LLCs:** The original document request list sent to the LLCs by CLA (sent on September 14, 2018 and updated on September 18, 2018) included 54 items. There are 9 items still outstanding from this list (as listed below). These items were considered not essential for selecting the sample for testing; however, the documents will be required before CLA can complete the testing of the contracts and disbursements selected for the LLCs. CLA is following up with legal counsel to the LLCs to determine the status of these items.

- a. Hi'ilei Aloha LLC:
 - i. Organization charts¹
 - ii. Quarterly reports to OHA from Hi'ilei Aloha LLC (9/30/2011, 12/31/2011, and 12/31/2015 only)²
- b. Hi'ipoi LLC:³
 - i. Organization charts
 - ii. Policies, procedures, and SOPs pertaining to purchasing, procurement, contracts, credit cards, and vendor disbursements
 - iii. Policies, procedures, and SOPs pertaining to the budgeting process and budget approval
 - iv. Policies, procedures, and SOPs pertaining to the preparation of the quarterly report to the OHA Board of Trustees
- c. Ho'okele Pono LLC:
 - i. Organization charts¹
 - ii. Quarterly report to OHA (9/30/2011, 12/31/2011, and 12/31/2015 only)²
 - iii. Policies, procedures, and SOPs pertaining to purchasing, procurement, contracts, credit cards, and vendor disbursements.¹

See section titled “**Sample Selection and Testing**” for further information regarding the status of LLC documents to be gathered and provided to CLA.

C. Trustee & OHA Employee Interviews

During the week of July 22, 2019, CLA was in Honolulu and conducted in-person interviews of all 9 current OHA trustees. The purpose of the interviews was to allow the trustees the opportunity to meet with CLA and share with CLA any thoughts or concerns they had regarding OHA or the LLCs relative to the scope of work of this engagement.

During this week, CLA also met with three OHA staff members who were assigned contract managers for contracts selected by CLA for testing. The purpose of these meetings was for CLA to ask questions regarding the respective contracts based on CLA's review of the documents provided by OHA.

D. Sample Selection and Testing

1. **OHA Sample Selection & Testing:** On May 10, 2019, CLA sent to OHA its sample selection for contracts and disbursements. According to the approved scope of work, CLA is to test 80 contracts and 50 disbursements for OHA. The sample selection sent to OHA consisted of 75 contracts and 45 disbursements. CLA reserved 5 contracts and 5 disbursements to select after the visit to OHA in June 2019 for the initial round of testing and after the trustee interviews that occurred the week of July 22, 2019.

¹ ES&A identified these documents as confidential.

² The quarterly reports to OHA were originally downloaded from the secure file share portal that CLA was given access to by ES&A; however, these quarterly reports were missing. CLA requested the missing quarters from the LLCs; however, the LLCs indicated that the missing quarterly reports could be obtained from OHA. CLA then requested the missing quarterly reports from OHA, and OHA indicated that it could not locate these specific quarterly reports.

³ ES&A identified these documents as confidential, indicated that they may not exist, and, to the extent that they do exist, will “take some time to retrieve.”

CLA was at OHA's office in Honolulu from June 3, 2019 through June 14, 2019 to review the supporting documentation for the selected contracts and disbursements. CLA was informed that OHA would provide the supporting documentation in an electronic format (scanned PDF), and the supporting documentation for the initial 75 contracts and 45 disbursements was provided to CLA via CLA's secure file transfer portal (Leapfile) beginning on Monday, June 3, 2019. OHA completed its submission of the supporting documents on Monday, June 10, 2019. CLA began reviewing the electronic documents provided while at OHA during these two weeks. During this time, CLA had informal meetings with Phyllis Ono-Evangelista and Gloria Lee to ask clarifying questions regarding the procurement and disbursement processes based on the supporting documents provided. CLA also had informal meetings with Misti Pali-Oriol to ask questions relating to the grant process.⁴

As CLA reviewed the supporting documentation provided for the contracts and disbursements selected, CLA identified questions and additional documents needed. For example, one of the criteria CLA is to evaluate, based on the scope of work, is whether "deliverables were met by the contractor." As such, if the contractor deliverables outlined in the contract were not provided with the original set of supporting documents, CLA identified the deliverables as additional documents needed (or missing documents). CLA prepared an Excel schedule to identify, by contract and disbursement, the questions and additional documents needed. As CLA progresses through the review of supporting documents, CLA is adding questions and additional documents needed to this Excel schedule and is sending it to Ms. Ono-Evangelista, who is coordinating internally at OHA to provide a response to the questions and gather the requested additional documents to send to CLA.

CLA is continuing its review of the supporting documents provided by OHA for the initial 75 contracts and 45 disbursements selected for testing. CLA will have this review completed by August 23, 2019, and all questions and additional documents needed will be communicated to Ms. Ono-Evangelista via the established protocol by this date.

On Friday, August 2, 2019, CLA selected the remaining sample of 5 contracts and 5 disbursements for OHA and emailed this list to Ms. Ono-Evangelista. In addition, during the review of the supporting documents provided by OHA for the disbursement sample, CLA determined that 9 of the transactions selected as "disbursements" were actually payments on existing contracts or grant awards, and were processed by OHA as such. According to the approved scope of work, "contracts will include vendor contracts, other contracts for professional services and/or goods, and grant agreements awarded by the OHA." Therefore, in addition to the 5 remaining disbursements selected, CLA selected 9 replacement disbursements and 5 back-up disbursements, for a total of 19 disbursements sent to Ms. Ono-Evangelista.⁵

During the sample selection process, CLA attempted to identify when a transaction was a contract or a grant using the general ledger information and a contract listing previously provided by OHA. In some cases, a transaction selected was a disbursement for a contract issued prior to the scope period covered by CLA (FY2011-12 through FY2015-16); therefore, the contract did not appear on the contract listing provided by

⁴ Ms. Pali-Oriol is no longer part of the Grants Department; however, CLA was told that she would have some of the historical knowledge regarding the process for grant awards.

⁵ Five back-up disbursements were selected in case one of the new 14 disbursements selected ends up being a contract or grant.

OHA. There were also instances in which it was not evident from the general ledger detail that a transaction was a grant. In order to fulfill the requirements of the scope to test 80 contracts and 50 disbursements for OHA, CLA determined that it was best to replace the 9 transactions selected with a new sample selection. Of the 9 disbursements that ended up being contracts or grants, CLA decided to retain 2 as part of the contract testing. Therefore, only 3 new contracts were selected to complete the sample of 80 contracts.

2. LLC Sample Selection & Testing:

On May 10, 2019, CLA sent to ES&A the sample selection for contracts and disbursements for the LLCs. According to the approved scope of work, CLA is to test 30 contracts and 25 disbursements for the LLCs. The sample selection sent to the LLCs consisted of 23 contracts and 21 disbursements. CLA reserved 7 contracts and 4 disbursements to select after the trustee interviews that occurred the week of July 22, 2019.

On July 3, 2019, CLA was informed that the LLCs had pulled together the supporting documents for the sample selection, and the documents are available in hardcopy at the respective LLC offices. CLA is confirmed to be at the LLC offices the weeks of August 12, 2019 and August 19, 2019 to review the supporting documentation for the sample selection.⁶ CLA is planning to be on site for Hi'ipaka the week of August 12, 2019 and on site for Hi'ilei Aloha (and the remaining LLCs) the week of August 19, 2019.

On Friday, August 2, 2019, CLA selected the remaining sample of 7 contracts and 4 disbursements for the LLCs and emailed this list to Sam Sneed of ES&A, legal counsel to the LLCs. CLA requested that the supporting documentation for the remaining 7 contracts and 4 disbursements be available to CLA during its site visit during the weeks of August 12, 2019 and August 19, 2019.

E. Other Work Performed

- 1. Phone Call with State Auditor:** As reported in Status Report #3 (dated June 4, 2019), CLA was advised of a letter OHA received from the Office of the Auditor of the State of Hawaii. The letter notified OHA that the Office of the Auditor is considering OHA's LLCs as one of the possible programs and activities to audit; however, the State does not intend to duplicate the work being performed by CLA.

On June 26, 2019, CLA was notified (via the Resource Management Committee leadership) that the State Auditor is conducting an audit of OHA, is considering auditing OHA's LLCs, and requested to speak with CLA by phone. On June 27, 2019, CLA received authorization, via email, to meet with the State Auditors by phone. On July 1, 2019 at 7:00 am HST, CLA participated in a phone call with the State Auditors. Also in attendance on the call were two representatives from the Resource Management Committee leadership.⁷ The call consisted of the State Auditors asking CLA questions regarding the scope of work, process for selecting the sample for testing, and current status.

⁶ On August 1, 2019, CLA received written authorization from OHA to book travel arrangements for this visit.

⁷ CLA was informed prior to the call and at the beginning of the call that the call was being recorded by the State Auditors. CLA gave authorization for the call to be recorded.

As of the date of this status report, no further requests have been made of CLA by the State Auditors.

F. Next Steps

- 1. Complete Testing of Contracts & Disbursements:** Because OHA provided the supporting documents in electronic format, CLA is continuing its review of these documents from its offices in California. Included below are critical dates to ensure that CLA is able to complete its testing and prepare a written report within the current deadline approved by the Board of Trustees (December 16, 2019).
 - a. **August 12, 2019 to August 23, 2019:** CLA on site at LLC offices to perform testing of LLC sample selection.⁸
 - b. **August 23, 2019:**
 - i. CLA will complete its review of the supporting documents for the initial 75 contracts and 45 disbursements submitted to OHA on May 10, 2019 and submit to OHA all questions and additional documents needed.
 - ii. OHA to send to CLA the supporting documentation for the remaining 14 disbursements (5 new disbursements and 9 replacement disbursements) and 5 contracts (3 new contracts and 2 disbursements moved to contracts).
 - c. **August 31, 2019:**
 - i. OHA to send to CLA a response to all questions and additional documents requested for the initial 75 contracts and 45 disbursements (see b.i. above).
 - ii. CLA will complete its review of the supporting documents for the 14 disbursements and 5 contracts and submit to OHA all questions and additional documents needed.
 - d. **September 6, 2019:** OHA to send to CLA a response to all outstanding questions and provide all outstanding documents requested.⁹
- 2. Discussion/Meeting with RM Committee Leadership:** As documented in the timetable dated April 2, 2019, CLA will meet with the RM Committee Leadership during the week of September 9, 2019 to brief the leadership on CLA's findings from the testing performed.¹⁰ If OHA is able to get all items to CLA as outlined in #1 above, CLA will be prepared to meet with the RM Committee leadership by the end of this week.

⁸ If there are open items from the LLC testing after CLA leaves the LLC offices on August 23, 2019, CLA will work with the LLCs and their legal counsel to coordinate responses to follow-up questions or documents needed. CLA will request that all open items be provided no later than September 6, 2019.

⁹ Based on the most recent timetable prepared by CLA (dated April 2, 2019) and shared with the Resource Management Committee leadership, CLA is to close out all open items, review the work performed, and finalize the testing and results by September 6, 2019. Therefore, all items must be provided to CLA by OHA on or before this date.

¹⁰ Whether the meeting will be in person or via a conference call will be determined with the RM Committee Leadership as the date gets closer. The recommended format of the meeting will likely depend on the nature of the results of CLA's work, such as complexity, sensitivity, etc.

3. **Prepare Draft Report:** Based on the results of the testing performed, CLA will begin drafting its report on or around September 13, 2019.

G. Project Obstacles – Obtaining Outstanding Documents on LLC Request List

As mentioned above, there are 9 items still outstanding from the original document request lists sent to the LLCs in 2018. CLA is following-up with the LLCs and their legal counsel to determine the status of these items. CLA previously communicated that it needed all remaining document no later than July 31, 2019; however, this date has now passed. ***CLA will communicate to the LLCs that all remaining documents on the LLC request list must be provided no later than August 12, 2019, in order for CLA to perform the testing required of the LLC sample selection.***

CLA is currently on schedule to complete the project and issue our report by December 16, 2019, assuming that all documents are provided by OHA and the LLCs within the time periods requested.

H. Items of Notable Mention

1. **Attempted meeting with Kamana’opono Crabbe:** There were 3 contracts selected for testing by CLA for which OHA identified Dr. Kamana’opono Crabbe, former OHA CEO, as the contract manager. While at OHA for testing the week of June 3, 2019, CLA was notified that Dr. Crabbe’s last day with OHA would be June 30, 2019. As such, CLA prioritized testing these 3 contracts so that CLA could meet with Dr. Crabbe prior to his last day with OHA to ask any questions related to the contracts.

On June 11, 2019, CLA emailed Ms. Ono-Evangelista (cc: to Raina Gushiken) to request a meeting with Dr. Crabbe and was informed that a meeting with Dr. Crabbe was being worked on. A meeting with Dr. Crabbe was not scheduled while CLA was on site at OHA (through June 14, 2019). CLA then requested a phone conference with Dr. Crabbe prior to his last day, and a call was scheduled for Tuesday, June 25, 2019 from 11:00am – 12:00pm HST. CLA provided the conference call information and called into the number at the scheduled time. CLA waited for approximately 15 minutes, but Dr. Crabbe did not call in. CLA sent a follow-up email to Ms. Gushiken and Dr. Crabbe, to which Dr. Crabbe replied and apologized for missing the call. He indicated that he would work with Ms. Gushiken for a possible reschedule of the call. On the same day, CLA provided its availability for this rescheduled call, but did not get a response on a new day/time.

2. **Redactions on OHA supporting documentation:** As mentioned above, the supporting documents for the OHA sample selection were provided electronically (scanned PDFs). Based on the documents reviewed thus far, the supporting documents for 2 contracts include pages containing redactions. The redactions have been applied to attorney invoices (detailed time descriptions), email communications (which include OHA’s corporate counsel), and a Procurement Document Checklist (the portion of the form where OHA’s corporate counsel typically signs).

Based on discussions between CLA and Ms. Gushiken, current Corporate Counsel to OHA, Ms. Gushiken reviewed the supporting documentation prior to it being submitted to CLA. To the extent that she identified communications believed to be privileged, she redacted the applicable portions of the documents. CLA is unable to assess the impact these redactions have on its ability to fully assess the documentation provided as CLA does not know the substance of the information that has been redacted.

I. Total Hours & Costs Incurred and Billed through July 30, 2019

Table 1 summarizes the total hours and costs incurred and billed to OHA for professional services and travel-related costs through July 30, 2019. Based on the total estimated budget and the work completed to date, CLA is over the dollar amount budgeted for the categories “Project oversight, meetings, status briefings” and “Travel: 50% of actual travel time.” This is due to the time incurred by CLA in updating the new Resource Management Committee leadership on the scope of work, historical work performed, and project obstacles. Additionally, CLA attended an in-person meeting with the Resource Management Committee leadership on March 12, 2019. CLA will not bill OHA in excess of the approved \$500,000 contract cost to complete the approved scope of work.

Table 1: Summary of Total Hours and Cost

Description	Total Budgeted Hours	Total Budgeted Costs	Hours Through 07/30/19	Costs Through 07/30/19
Testing of OHA transactions*	861.00	\$ 246,580.00	876.20	\$ 201,412.88
Testing of LLC transactions*	354.00	81,090.00	181.85	42,071.80
Project oversight, meetings, status briefings	180.00	49,840.00	173.80	54,090.00
Report of findings and recommendations	346.00	86,360.00	-	-
Travel: 50% of actual travel time	130.00	38,773.00	142.20	41,341.00
Travel: Out-of-pocket costs	N/A	31,470.00	N/A	31,558.01
Total	1,871.00	\$ 534,113.00	1,374.05	\$ 370,473.69
Less estimated Professional Discount		(34,113.00)		
OHA's Not-to-Exceed Cost		\$ 500,000.00		

*These categories broadly represent the work being conducted related to the OHA and its LLCs, including reviewing documents and financial data, performing data analytics on the financial data, preparing for and conducting the process and risk assessment interviews, review of internal controls over the reporting to the OHA Board of Trustees, and the contract and disbursement testing.

As of the date of this status report, CLA has not yet received payment from OHA for invoice #2192208; however, CLA has been informed that the invoice has been submitted for payment processing. Invoice #2216196 for costs incurred from June 28, 2019, through July 30, 2019 has been processed and will be sent to OHA within the next few days (the costs for this invoice are included in Table 1 above).