MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)

DATE: Tuesday, August 3, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Twenty-First Supplementary Proclamation dated June 7, 2021 that suspends parts of Hawai‘i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location. The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA’s website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

AGENDA *******Amended

I. Call to Order
II. Public Testimony on Items Listed on the Agenda*
   (Please see page 2 on how to submit written testimony or provide oral testimony online. Oral testimony by telephone/landline will not be accepted)

III. Approval of Minutes
   A. July 22, 2021

IV. Unfinished Business
   None

V. New Business
   A. ACTION ITEM RM #21-10: Approval of Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures
   B. Administration Updates re: Audits in Progress by the State Auditor and Annual Financial Audit

VI. Executive Session‡
   A. Consultation with Board Counsel Kurt W. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)
   B. ACTION ITEM RM #21-11: Approve Financing of Potential Commercial Property Acquisition Consultation with Board Counsel Kurt W. Klein, and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration and financing options and approval regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(3) and HRS §92-5(a)(4) *******

VII. Announcements

VIII. 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. Meeting materials will be available to the public 72-hours prior to the meeting and posted to OHA’s website at: www.oha.org/rm.

† 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.
△△△△ Amendment made to first amended agenda that was filed.

*Public Testimony: Public testimony can be submitted to the OHA Board of Trustees either:
   (1) in writing emailed at least 24 hours prior to the scheduled meeting, or
   (2) as live, oral testimony online during the Public Testimony portion of the virtual meeting.

   Public Testimony must be limited to matters listed on the meeting agenda.

Please visit OHA’s website for more detailed information on how to submit Public Testimony at:

Persons wishing to provide written testimony on items listed on the agenda should submit testimony via email to BOTmeetings@oha.org at least 24 hours prior to the scheduled meeting. Any testimony received after this deadline will be considered ‘late’ testimony and distributed to the Board members after the scheduled meeting.

Due to COVID-19, please do not fax, mail, or hand-deliver written testimony.

Persons wishing to provide oral testimony online during the virtual meeting must register here first:
https://us06web.zoom.us/webinar/register/WN_pc5Vepf0RqSSzPMILRK94Q

The registration to provide oral testimony online will remain open until the Public Testimony section on the agenda has concluded. You will need to register prior to this time if you would like to orally testify. Once you have completed your registration, a confirmation email will be sent to you with a link to join the virtual meeting and further instructions on how to provide oral testimony during the virtual meeting.

   To provide oral testimony online, you will need:
   (1) a computer or mobile device to connect to the virtual meeting;
   (2) internet access; and
   (3) a microphone to provide oral testimony.

   Oral testimony online will be limited to five (5) minutes.

   Oral testimony by telephone / landline will not be accepted at this time.

Once your oral testimony is completed, please disconnect from the meeting. If you do not log-off on your own, support staff will remove you from the Zoom meeting.

You can continue to view the remainder of the meeting on the livestream or by telephone, as provided at the beginning of this agenda.

07/28/2021

Date

August 3, 2021 - Continued
MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)

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(A. July 22, 2021)

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VII. Announcements

VIII. Adjournment
I. CALL TO ORDER

Chair Waihe‘e calls the Committee on Resource Management meeting for Thursday, July 22, 2021, to order at 1:30 p.m.

Chair Waihe‘e notes for the record that PRESENT are:

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<th>MEMBERS</th>
<th>AT CALL TO ORDER (1:30 p.m.)</th>
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At the Call to Order, EIGHT (8) Trustees are PRESENT, thereby constituting a quorum.
EXCUSED from the RM Meeting are:

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<tr>
<th>MEMBERS</th>
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<td>TRUSTEE</td>
<td>KELI‘I AKINA</td>
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Chair Waihe‘e has technical difficulties and asks RM Vice-Chair Alapa to chair the meeting in his absence.

II. PUBLIC TESTIMONY on Items Listed on the Agenda*

None

III. APPROVAL OF MINUTES

A. June 23, 2021
B. June 24, 2021
C. June 30, 2021

Trustee Ahuna moves to approve the minutes of June 23, 24 and 30, 2021.

Trustee Akaka seconds the motion.

Vice-Chair Alapa asks if there is any discussion.

There is no discussion.

Vice-Chair Alapa calls for a ROLL CALL VOTE.

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

Vice-Chair Alapa notes for the record that all members present vote ‘AE (YES) and the MOTION CARRIES.
IV. UNFINISHED BUSINESS

None

V. NEW BUSINESS

A. ACTION ITEM RM #21-09: Approve OHA’s Intent to Apply to the Administration for Children and Families, Administration for Native Americans, American Rescue Plan Act Emergency Native Language Funding Opportunity for Native Hawaiians and Pacific Islanders for $250,000

Vice-Chair Alapa turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Good afternoon, Trustees. The action item before you is the formal request to approve our intent to apply. As the action item has outlined - the Administration for Native Americans had a non-compete competition and awarded the Office of Hawaiian Affairs $250,000 for Native American languages as part of the ARPA. The intent for OHA is to turn around and sub-grant in a competitive process. So, this is the application that needs to be filed.

We have been awarded and we need to formally make that application, so that's the application before you. The deadline is on Monday July 26 - and so we are making sure that we have the right access and all of that back-end sort of things.

Just for your information, the Office of Hawaiian Affairs did have an account in grants.gov and we are wanting to reactivate that, so that we can be prepared to do more federal grant work with that.

So, this is a very excellent, modest, but good pilot program for us to go ahead sub-grant, and then also be able to demonstrate that we can be a good pass-through agent for federal dollars. In the event, other Federal agencies, whether that's the Administration for Native Americans or any other Federal agency, that our capacity to be able to be a pass-through entity is established. That's the context for the action item and the approval.

Trustee Lee: May I have a little leeway as far as inquiry to Administration before we bring this action before the committee?

Vice-Chair Alapa: Sure.

Trustee Lee: Am I understanding correctly that this will not involve any trust funds? It's not asking for matching money or anything from the Native Hawaiian Trust?

Pouhana Hussey: Correct. The award does not require matching, because it's emergency funds as a result of ARPA. The Notice of Funding Opportunity specifically says there is no matching required. Administration had initially considered offering up to the trustees a consideration to match, but at this point, the priority was to get the application in.
Pouhana Hussey: So, we aren’t asking for matching on the trust funds, it is just federal. If there is matching, it is by effort - so the fact that Administration, will upload, will turn around, do the reporting requirements and managing the sub grants. That is our in-kind of matching, but yes, no cash matches required.

Trustee Lee: Thank you, Ka Pouhana. Madam Chair - before it comes before the committee, I don’t believe this is the purview of either the Committee or the Trustees. If Administration wants to go and get an ANA grant that has been offered to OHA, that is 100% Federal funds, then Administration is free to do so.

The Trustees have no say. We have no authority over Federal dollars unless they are asking us to match with the Native Hawaiian Trust Fund monies. We are State elected officials, and we have kuleana only over State funds; whether it be trust funds, given to the agency through legislation or Native Hawaiian Trust Funds. I think this is great, but I don’t believe that we have the authority to approve Administration to go forward with this. It's Federal funding; they're offering it to OHA, if Administration wants to go and get it - awesome, go get it, but I do not believe it's the purview of the Trustees to weigh-in on this.

Pouhana Hussey: May I respond and put some context on this? So, the process that is required is that the applicant, the Office of Hawaiian Affairs in this case, needs to demonstrate that the governance body of the Office of Hawaiian Affairs has given approval to apply. So, we're just fulfilling that requirement. To your point, Trustee Lee – yes, it's all Federal funds, but the process that ANA requires of us is to document the governing body’s approval.

Trustee Lee: That completely answers my concern. Thank you, Ka Pouhana.

Pouhana Hussey: Thank you.

Trustee Lee moves to approve OHA’s intent to apply to the Administration for Children and Families, Administration for Native Americans, American Rescue Plan Act, Emergency Native Language Funding Opportunity for Native Hawaiians and Pacific Islanders for $250,000.

Trustee Akaka seconds the motion.

Vice-Chair Alapa asks if there is any discussion.

Trustee Ahu Isa: Yeah, is it going to require more manpower to do this, Sylvia?

Pouhana Hussey: So what will be required is the sub-granting solicitation process. Our grants department knows that process very well. It will require on the back end that the research department aggregate all of the data that comes in and then produce a report. So, the manpower on our side comes from the Administration as well as the research pieces. Those are the non-federal contributions that we are engaging in.
**Trustee Ahu Isa:** Yeah, the in-kind. Just interesting about the evaluation part of it, because it's native language, so you get into the charter schools or in the immersion schools. But yeah, extra money is really, great.

**Pouhana Hussey:** So, there's a combination - there's our Research side that aggregates. We have consistent research questions that are going to be asked, and then our Systems office will handle the overall systemic evaluation of the five grantees that we are proposing to award. Large enough so that the dollars are meaningful, but manageable enough so that we can do this first foray in community-based research gathering.

**Trustee Ahu Isa:** Yeah, that'd be interesting to see. Okay. Thank you.

**Trustee Lee:** Ka Pouhana, are we considered the prime recipient?

**Pouhana Hussey:** Yes, we're considered the awardee and then we are sub-granting the amount.

**Trustee Lee:** Right, so on page three of the action item, letter D, *Subawards*, it specifically says that the prime recipient must maintain a substantive role in the project. And that Furthermore, ACF does not fund awards where the role of the applicant is primarily to serve as a conduit for passing funds to other organizations.

**Pouhana Hussey:** Correct. So, the pass-through is there, but it's the work of the research, and aggregating and helping them with the research piece, and then the evaluation report that is due.

So, the three-year work plan, data gathering - data gathering - and then reporting and closing out the three-year grant. So that is the substantive work of the grantee, and not just us as a pass-through entity. We've consulted with the technical assistance centers, and they have supported that sub-granting as well, as our role for the grant.

**Trustee Lee:** Okay, that answers that question. I have just one more question. So again, as these are Federal funds under IV on page five of the action item, I understand that this project is going to be following OHA's current grant policies, processes, so on and so on, and that they will make award recommendations to the BOT.

*Why is this coming back to the BOT for approval?* Again, it's not Trust funds. So, I'm not clear how the Trustees would have any authority over approving who the Federal funds are being given to.

**Pouhana Hussey:** So, while that's our current practice, right, in terms of awarding that all grant awards are approved by the Trustees, we're just trying to follow the same practice in terms of authority, even though the funding source may be different.

Even if it's a federal fund application, we are representing that we're going to follow this process, we're going to put it through a competitive solicitation.

The other choice was we (OHA), could have said, okay, we can choose the recipients and Administration felt that that wasn't optimal in our small community. We don't want our grantees or community to feel OHA is trying to hone-in-on, you know, that kind of dollars. What we want to do is provide the structure and the competitiveness of that and be able to then turn around and sub-grant.
**Pouhana Hussey:** So, in terms of authority, granting authority is the Trustees’ and just the source of that funding may be different, but we are representing that we’re running it through our grant process. And our granting process does require that the Trustees be the ones who make the final-authority-approval based on Administration’s recommendation.

**Trustee Lee:** Thank you, Ka Pouhana. Given that nobody from legal signed-off on this action item - can the Trustees get an opinion from either Raina or Everett about the Trustees approving grant funds that don't belong to the trustees?

**Assistant Senior Legal Counsel Ohta:** I can try to address Trustee Lee’s point. HRS§10-5 provides the power to provide grants to individuals, public and private organizations, to the Board of Trustees. So, the Board of Trustees is vested with the authority to issue grants. Under the changes that were implemented in Fiscal Year 2022, the OHA CEO or Administrator no longer has the delegated authority to issue grants. So regardless of the funding source, that authority which originally was with the Board - is no longer delegated to the CEO under a certain dollar threshold, which used to be $25,000.

**Trustee Lee:** Okay, so it doesn't matter who the funding comes from.

**Assistant Senior Legal Counsel Ohta:** Correct.

**Trustee Lee:** Okay, thanks, Everett I appreciate it. Mahalo, Madam Chair.

**Vice-Chair Alapa** asks if there is any further discussion. There is none.

**Vice-Chair Alapa** calls for a ROLL CALL VOTE.

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**VOTE:** [ X ] UNANIMOUS [ ] PASSED [ ] DEFERRED [ ] FAILED

**Vice-Chair Alapa** notes for the record that all members present vote ‘AE (YES) and the MOTION CARRIES.
V. NEW BUSINESS

B. WORKSHOP: Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures

Vice-Chair Alapa turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you, Vice-Chair Alapa, I'm going to turn it over to Casey who will help walk through the workshop material that are in your folders.

Pou Nui Brown: Aloha mai Trustees. Okay, so this workshop topic is going to be about policy edits and namely, we're going to talk about the Native Hawaiian Trust Fund Investment Policy Statement and Debt Management Policy implementation procedures.

I'm going to give you a little context first. I'll basically be summarizing the transmittal memo, and then we'll open it up for questions.

So just so you folks know that these policy edits, that are coming for presented to you folks today, they're part of a larger effort to update OHA’s set of policies. As you all know, policies and procedures are living documents and we definitely need to do our periodic reviews on those so that we can reflect current practices in the market, current regulations and current circumstances for OHA.

So, this is a great practice and know that there is a larger, broader ongoing effort to update all of OHA’s policies. The reason why we've singled these edits out in particular was because these edits have a certain bearing on the proposed acquisition of commercial properties for OHA.

We want you guys to know that that's why they've been identified. We also want you to know that these edits we deem as strong, good edits and we will be bringing these edits to you folks, regardless of whether an acquisition relied on it.

So, you'll see that these edits strengthen OHA, they make OHA more flexible - and bring us up to date with practices.

We're simply accelerating these specific ones so that we can provide you folks the opportunity for purchase acquisition. So let me give you a quick overview of the key edits that were made. There are four key edits, two for the Investment Policy Statement, and two key ones for the Debt Management Procedures.

So the first one for the Native Hawaiian Trust Fund Investment Policy Statement, the first one relates to separating HDI, Hawai‘i Direct Investments from Financial Asset Investments. So those two asset portfolios should be looked at from the perspective of the entire OHA asset portfolio - the broad endowment portfolio. As asset classes, they do have their own sets of targets and benchmarks and so they're managed separately. That's a good thing and that's what it ought to be. We want to reflect that in policy, and so the edits reflect that.
Pou Nui Brown: The second edit for the Investment Policy Statement, is really to update and bring the language of the HDI policy itself. There's a big paragraph in there that if you look at that paragraph, and if you read it, you can sense that it is clearly outdated.

It was speaking very much to the time that it was drafted - the period that OHA was in. So, we're simply bringing that up to date to now and really making it more about OHA's Real Estate Strategy and its investment guidelines, rather than a particular circumstance.

There are two edits that we want to present to you today. In the Debt Management Procedures - the first one is straightforward. There's a reference in there to HRS Chapter 37D and that simply doesn't apply to OHA's Governance structure. Chapter 37D talks about financing agreements for the State. The terms of any financing agreement are set by OHA's Trustees, so we're going to remove the reference to that.

The second edit was to better clarify the Public Land Trust expenditure. So, to really explain better the figure of 5% that we're talking about, should be based off the Native Hawaiian Trust Fund average market value plus ceded land revenues. When we're looking at Debt Service, that's what we're talking about. If you saw the red lines, you can kind of sense what's been trying to be done there. If you folks have or have not, had a chance to review, I want to open it up right now for any questions on any edit and if you guys want us to walk through anything in more detail.

Trustee Lee: Casey, I guess this question would be for Ryan. It's not really on any of the verbiage. I thought all the edits were really, well done. It has to do with the recommended new Asset Allocations that are found on page 10 and 11.

I see that there's a modest bump in a lot of our assets, which I guess I'm okay with it being modest. I wish he was a little bit more aggressive, given some of the conversations that this committee has had in the recent past.

Given that we are now going to be looking at ourselves as an overall endowment and the fact that even withstanding any possible purchases, we are currently a large landholder and the fact that land in Hawaii has never lost value - I'm curious. Not only are we continuing to maintain hedge funds, which its purpose is to balance against a downside movement of the rest of the portfolio, which I believe our land already does. We are also increasing that amount. Although it's 1%, it's still an increase, it's still a cost to the trust.

So, Ryan, do you mind giving us a little clarification on that?

Interim Investment Manager Lee: Okay, so when we updated the policy, separating HDI and Financial Assets, basically there's no target allocation for HDI but we had to reallocate that 5% that was already allocated, currently. So, the 5% was proportionally reallocated to the rest of the Financial Asset Portfolio, with some rounding within certain asset classes.

We also updated the overall benchmark for HDI to be more report of return and reflect that CPI+5% that aligns with the policy. So, in terms of the new Asset Allocation that we talked about last time, it has not been reflected and that work is still being done.
Interim Investment Manager Lee: What we want to do was just really update it, bring forward the recommendations for the Hawai‘i real estate that we have been talking about to the existing, but also continue to work on the overall. So that has been looked at.

Trustee Lee: Got it. Thank you. Thank you so much. I really appreciate that.

Pou Nui Brown: Mahalo, Trustee Lee. *Any other questions or concerns?*

There are no further questions nor concerns.

Pou Nui Brown: Okay, what we're hoping for is to get the green light at this committee, and then there'll be two readings of this at the Board level. So, we'll be booking that, after this.

Pouhana Hussey: I just wanted to build on Casey's process piece. So, the action item will come to the RM Committee at the next meeting on 8/3. Then the referral actions on the two readings will then flow to the next two Board meetings, so just wanted to support that process.

Trustee Lee: Ka Pouhana, this is just a suggestion, but given that we do have a Board meeting scheduled for next week, Thursday, I don't see this being outside the realm of possibility that this showing up on that agenda for us to vote to waive it from the RM Committee straight to the Board.

It's one item, I haven't heard any disparaging discussion about this item, and it would put us ahead two weeks by taking the first reading next week. But I don't have control of the agenda for the Board meeting, but it's just a suggestion, I would find it hard to believe that that item would be voted down to not be waived from the RM Committee directly to the board. Thank you, Ka Pouhana.

Pouhana Hussey: I will take that under advisement and I'm sure the Board Chair will make those considerations. But note to self, I'll be sure the action item is ready either way, whatever is decided.

Vice-Chair Alapa: *Trustee Lee, would you like to make a motion to that effect?*

Trustee Lee: Thank you, Madam Vice Chair. Unfortunately, that will be improper at this time due to Sunshine Law. That is not on our agenda, so I cannot make a motion to that effect. It was a suggestion to Administration - if they want to recommend that - so it would be put on the next Board Meeting. Thank you, Vice-Chair.

Vice-Chair Alapa: *Any other discussion?*

Pouhana Hussey: There's no other discussion for the workshop. Unless Trustees have other questions, and of course Administration - Casey and Ryan, are always available for follow-up questions.

Trustee Ahu Isa: Good job Casey and Ryan.
VI. EXECUTIVE SESSION‡

A. Consultation with Board Counsel Robert G. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)

Vice-Chair Alapa: *Is there a motion to go into Executive Session at this time?*

Trustee Ahu Isa moves to resolve into Executive Session pursuant to HRS§92-5(a)(4).

Trustee Akaka seconds the motion.

Vice-Chair Alapa asks if there is any discussion. There is none.

Vice-Chair Alapa calls for a ROLL CALL VOTE.

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Vice-Chair Alapa notes for the record that all members present vote ‘AE (YES) and the MOTION CARRIES.
The committee resolved into Executive Session at 2:01 p.m. to discuss:

VI. EXECUTIVE SESSION‡

A. Consultation with Board Counsel Robert G. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)

The committee returned to Open Session at 2:39 p.m.

VII. ANNOUNCEMENTS

None

VIII. ADJOURNMENT

Trustee Ahu Isa moves to adjourn the RM meeting.

Trustee Akaka seconds the motion.

Chair Waiheʻe asks if there is any discussion. There is none.

Chair Waiheʻe calls for a ROLL CALL VOTE.

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Chair Waiheʻe adjourns the RM meeting at 2:40 p.m.
Respectfully submitted,

____________________________
Melissa Wennihan
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management (RM) on August 3, 2021.

____________________________
Trustee John Waihe’e, IV
Chair
Committee on Resource Management
MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)

DATE: Tuesday, August 3, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Twenty-First Supplementary Proclamation dated June 7, 2021 that suspends parts of Hawai‘i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA’s website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

AGENDA

I. Call to Order

II. Public Testimony on Items Listed on the Agenda*

(See page 2 on how to submit written testimony or provide oral testimony online. Oral testimony by telephone/landline will not be accepted)

III. Approval of Minutes

A. July 22, 2021

IV. Unfinished Business

None

V. New Business

A. ACTION ITEM RM #21-10: Approval of Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures

B. Administration Updates re: Audits in Progress by the State Auditor and Annual Financial Audit

VI. Executive Session‡

A. Consultation with Board Counsel Kurt W. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)

B. ACTION ITEM RM #21-11: Approve Financing of Potential Commercial Property Acquisition Consultation with Board Counsel Kurt W. Klein, and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration and financing options and approval regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(3) and HRS §92-5(a)(4)

VII. Announcements

VIII. Adjournment

Committee on Resource Management
Trustee John Waihe'e IV, At-Large - Chair
Trustee Luana Alapa, Moloka‘i / Lāna‘i - Vice Chair
Members
Trustee Leina‘ala Abu Isa, At-Large
Trustee Dan Ahuna, Kaua‘i / Ni‘ihau
Trustee Kaleihikima Akaka, O‘ahu
Trustee Keli‘i Akina, At-Large
Trustee Brendon Kale‘aina Lee, At-Large
Trustee Carmen Hulu Lindsey, Maui
Trustee Keola Lindsey Hawai‘i Island
ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT
August 3, 2021

RM #21-10

Action Item Issue: Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures

Prepared by: ____________________________________________________________
Ryan H. Lee Date Jul 30, 2021
Pou Kākoʻo Mahele Kumupuaʻa Kūikawai, Interim Investment Manager

Reviewed by: ____________________________________________________________
Ramona G. Hinck Date Jul 30, 2021
Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Reviewed by: ____________________________________________________________
Casey K. Brown Date Jul 30, 2021
Ka Pou Nui, Chief Operating Officer

Reviewed by: ____________________________________________________________
Raina Gushiken Date Jul 30, 2021
Ka Paepae Puka, Senior Legal Counsel

Reviewed by: ____________________________________________________________
Sylvia M. Hussey, Ed.D. Date Jul 30, 2021
Ka Pouhana, Chief Executive Officer

Reviewed by: ____________________________________________________________
Ke Kua, Trustee John D. Waihee, IV Date Jul 30, 2021
Luna Hoʻomaluh Ke Kōmike Resource Management
Chair of the Committee on Resource Management
I. Proposed Actions

Administration recommends the Committee on Resource Management:

A. Approve the policy changes to the Native Hawaiian Trust Fund (NHTF) Investment Policy Statement (IPS): updating the first page for the policy action; separating management of Hawaii Direct Investments (HDI) from Financial Assets Investments; and updating the HDI Policy to reflect OHA’s real estate strategy and investment guidelines at Attachment A; and

B. Review the Debt Management Policy (DMP) Implementation procedures: noting the removal of the reference to HRS Chapter 37D, which does not apply to OHA’s governance structure; and clarifying Public Land Trust expenditures to equal to 5% of the NHTF average market value, plus Ceded Land Revenues in the Debt Service Limitation calculation at Attachment D.

II. Issue

A. Whether the Committee should recommend or not, the policy changes to the Native Hawaiian Trust Fund (NHTF) Investment Policy Statement (IPS): updating the first page for the policy action; separating management of Hawaii Direct Investments (HDI) from Financial Assets Investments; and updating the HDI Policy to reflect OHA’s real estate strategy and investment guidelines.

Summary of changes include:

- Section 5. Asset Allocation Guidelines and Long Term Targets – deletion and addition of language (page 9);
- 5.1 Asset Allocation tables (pages 10 and 11); and added language in the Rebalancing Policy re: HDI;
- Section 8. Permissible Investments (page 16); and
- Section 18. Hawaii Direct Investment Policy (HDIP) – deletions and additions (pages 20, 21 and 22);

Refer to AS IS NHTF IPS policy, red-lined policy and clean policy at Attachments C, B and A, respectively.

B. Policy amendments to the NHTF IPS require approval by the Committee on Resource Management, followed by two readings by the OHA BOT, each requiring an affirmative majority (5) vote of all the members to which the BOT is entitled. (OHA BOT Executive Policy Manual (“EPM”) sec. 1.2.a.).

C. Procedural amendments to the DMP Implementation Procedures require approval by the OHA CEO, following review by the OHA BOT. (See Debt Management Policy section IV; EPM sec. 1.2.b.5.)
III. Background Context and Discussion


Amendments to OHA’s policies continue to be an on-going effort to ensure the OHA can operate as effectively and prudently as possible. Policies and procedures are living documents and should periodically be reviewed and revised as necessary, to reflect best practices and current regulations, facts and circumstances. Proposed revisions to policies and procedures range from refinement of terminology to complete overhaul of sections and even entire policies.

The amendments being presented are part of broader policy revision work that covers OHA’s financial policies. OHA’s interim Investment Manager, has led this effort thus far and worked with a number of key Administration staff to facilitate the proposed amendments. The interim Investment Manager and Chief Financial Officer also met with a number of Trustees earlier in the year to provide briefings of the broader effort to revise certain financial policies and propose the drafting of a new Endowment policy which will serve as the foundational policy to guide OHA in the management of its assets and liabilities.

B. Discussion. The amendments presented have been specifically identified to be of immediate importance as they have bearing on OHA’s potential acquisition of commercial properties. These amendments are not intended to target the narrow outcome of acquiring property, but rather intended to reflect best practices in the market place as it relates to management of organizational investments and debt. In other words, Administration would be recommending these amendments regardless of whether an acquisition relied upon them. We are simply accelerating these particular amendments to allow the OHA the opportunity to execute the potential purchase of properties in the near future.

- Proposed Policy and Procedure Changes and Rationale. The changes to the NHTF Investment Policy include separation of management of Hawaii Direct Investments (HDI) from Financial Assets Investments; and updating the HDI Policy to reflect OHA’s real estate strategy and investment guidelines. In addition OHA Debt Management Policy Implementation Procedures changes include removal of reference to HRS Chapter 37D, which does not apply to OHA’s governance structure and clarification that for the Debt Service Limitation calculation, Public Land Trust expenditures equal 5% of the NHTF average market value, plus Ceded Land Revenues received by OHA, as defined in the NHTF Spending Policy.

IV. Funding Source

Not applicable, no dedicated funding needed to approve and implement changes to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures.
V. Alternative Actions to Approval of Policy Changes

A. Decline the policy changes recommended, which may impact future commercial property acquisition; or

B. Amend the policy changes with additional proposed changes.

VI. Recommended Actions

Administration recommends the Committee on Resource Management:

A. Approve the policy changes to the Native Hawaiian Trust Fund (NHTF) Investment Policy Statement (IPS) at Attachment A: updating the first page for the policy action; separating management of Hawaii Direct Investments (HDI) from Financial Assets Investments; and updating the HDI Policy to reflect OHA’s real estate strategy and investment guidelines; and

B. Review the Debt Management Policy (DMP) Implementation Procedures at Attachment D: noting the removal of the reference to HRS Chapter 37D, which does not apply to OHA’s governance structure; and clarifying that for the Debt Service Limitation calculation, Public Land Trust expenditures equal 5% of the NHTF average market value, plus Ceded Land Revenues received by OHA, as defined in the NHTF Spending Policy.

VII. Timeframe

These amendments become effective upon the second reading (and approval) by the Board of Trustees and is intended to be incorporated and applied immediately.

VIII. Reference Documents

The following documents are provided as references for this action item:

A. Workshop material from the July 22, 2021 Committee on Resource Management meeting;

B. 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), September 4, 2019; and

Action Item RM #21-10: Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures

IX. Attachments

A. Native Hawaiian Trust Fund, Investment Policy Statement – Amended, Clean
B. Native Hawaiian Trust Fund, Investment Policy Statement – Amended, Redlined
C. Native Hawaiian Trust Fund, Investment Policy Statement – AS IS (September 2019)
D. Debt Management Policy Implementation Procedures – Amended, Clean
E. Debt Management Policy Implementation Procedures – Amended, Redlined
F. Debt Management Policy Implementation Procedures – AS IS
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 August 12, 2021 and is in full force and effect on August 12, 2021.

Carmen Hulu Lindsey, Chairperson
Board of Trustees

Date

First Reading: August 5, 2021
Second Reading: August 12, 2021
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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 mālama (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 Statues 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. 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).

There is no specific asset allocation target to Hawai‘i Direct Investments, however, asset allocation concerns will weigh into consideration when evaluating any other capital investments. It is expected that Hawai‘i’s commercial real estate will remain a substantial portion of the Fund given OHA’s legacy and identity as a Native Hawaiian organization.
5.1 Asset Allocation.

<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
<th>Benchmark Index</th>
<th>Primary Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Traditional Asset Classes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>42%</td>
<td>MSCI ACWI</td>
<td>Growth</td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>18%</td>
<td>Bloomberg US Aggregate</td>
<td>Income</td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
<td>US TIPS +3%</td>
<td>Inflation Hedge</td>
</tr>
<tr>
<td>Total Traditional Assets</td>
<td>88%</td>
<td>33%</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Alternative Asset Classes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>13%</td>
<td>3-Month T-Bills +4%</td>
<td>Volatility</td>
</tr>
<tr>
<td>Private Markets*</td>
<td>25.6%</td>
<td>0%</td>
<td>19%</td>
<td>MSCI ACWI +3%</td>
<td>Growth</td>
</tr>
<tr>
<td>Total Alternative Assets</td>
<td>44.8%</td>
<td>6.4%</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Enhanced Liquidity Account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
<td>1-3 Year Treasury</td>
<td>Liquidity</td>
</tr>
<tr>
<td>Total Financial Assets</td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>Hawai‘i Direct Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>No Target</td>
<td></td>
<td>CPI +5%</td>
<td>Total Return</td>
<td></td>
</tr>
</tbody>
</table>

*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.
<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>42%</td>
</tr>
<tr>
<td>Private Markets</td>
<td>25.6%</td>
<td>0%</td>
<td>19%</td>
</tr>
<tr>
<td>Total Growth</td>
<td>80.6%</td>
<td>22%</td>
<td>61%</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Total Income</td>
<td>22%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Volatility Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>13%</td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Total Inflation Hedge</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Hawai‘i Direct Investments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>No Target</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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. For Hawai‘i commercial real estate, OHA chooses to utilize internal management of the assets. Management shall formulate and implement an overall strategy incorporating both economic and cultural focus. Internal management will also leverage the expertise of OHA’s Real Estate Advisory Committee and external real estate consultant.

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.

**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. There is no specific asset allocation target for Direct Investments, however, asset allocation concerns will weigh into consideration when evaluating any capital investment.

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**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.

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**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 liability partnerships.
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
Managers utilizing funds invest according to the offering memorandum or partnership agreement. The Alternatives Advisor will seek to ensure that one of the Managers has adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place and that the Manager is investing according to 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 inadequate risk controls in place. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one or more of the hedge fund Managers. The Alternatives Advisor should utilize strategies that have at least reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their 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. 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.

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

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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, REIT’s, 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) Hawai‘i Direct Investments. The primary role of Hawai‘i Direct Investments is to seek a total return of five percent in excess of inflation from Hawai‘i commercial real estate. This asset class also includes the OHA corporate headquarters and private equity and debt investments with significant operations in Hawai‘i. 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 Hawai‘i-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 primary role of the HDI asset class is to create financially viable Hawai‘i commercial real estate holdings while also protecting and preserving Hawai‘i lands and their cultural significance. OHA’s Hawai‘i commercial real estate portfolio will seek to generate a total return (Income and Capital Appreciation) to meet OHA’s spending requirements while also preserving purchasing power for future generations. OHA will make capital investments to enhance, maintain, and protect existing improvements on its Hawai‘i commercial real estate holdings and consider real estate acquisitions and monetization where compelling and for strategic reasons.

A secondary objective targets equity and/or debt positions in private companies based in Hawai‘i as further guided by the OHA Economic Development Policy and BOT-approved lending programs for Native Hawaiians. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT.

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.
18.2 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 Investments

Hawai‘i Real Estate

a) Hawai‘i commercial real estate strategies seek to create financially viable properties owned by OHA focusing on total return to meet current spending requirements.
b) The objective for Hawai‘i commercial real estate strategies is to outperform, net of commissions and fees, a blend of real estate indices that reflect the holdings of the Fund. The performance will be monitored regularly and evaluated over rolling five and ten-year periods.
c) Only real property that is Hawai‘i commercial real estate property is included in the Fund.
d) OHA may finance real estate acquisition or capital improvements 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 subjected to the OHA’s Debt Management Policy.
e) The market valuation of Hawai‘i commercial real estate is determined by biennium appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Before the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Other Investments

a) Includes income and growth-oriented strategies with significant operations in Hawai‘i which are managed in an integrated manner to meet the long-term spending objectives of OHA.
b) BOT-approved lending programs for Native Hawaiians.

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 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 Fund 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
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.

Adopted 5/29/03 (ARM 03-05); amended 10/24/08 (ARM 08-04); amended 8/3/09 (ARM 09-07); amended 4/15/10 (ARM 10-02); amended 9/27/12 (ARM 12-08); amended 6/19/14 (ARM 14-03); amended 8/24/17 (RM 17-08); amended 9/19/19 (RM 19-13); amended 08/12/21 (RM 21-10).
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 September 19, 2019/August 12, 2021, and is in full force and effect on November 1, 2019/August 12, 2021.

Colette Y. Machado Carmen Hulu Lindsey, Chairperson
Board of Trustees

Date

First Reading: September/August 5, 2019/August 2021
Second Reading: September 19, 2019/August 12, 2021
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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 Adviser/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 provide for the management of the people and environmental resources of 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 fully 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 15% 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 Hawaiʻi 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) ʻOahu
   b) Kauaʻi and Niihau
   c) Molokaʻi and Lānaʻi
   d) Hawaiʻi
   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 Alternative 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 on-site 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 Hawai‘i 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

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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) Disburse 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).
There is no specific asset allocation target to Hawai‘i Direct Investments; however, asset allocation concerns will weigh into consideration when evaluating any other capital investments. It is expected that Hawai‘i’s commercial real estate will remain a substantial portion of the Fund given OHA’s legacy and identity as a Native Hawaiian organization.
5.1 Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
<th>Benchmark Index</th>
<th>Primary Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Asset Classes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>4042%</td>
<td>MSCI ACWI</td>
<td>Growth</td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>1718%</td>
<td>Bloomberg US Aggregate</td>
<td>Income</td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
<td>US TIPS +3%</td>
<td>Inflation Hedge</td>
</tr>
<tr>
<td>Total Traditional Assets</td>
<td>88%</td>
<td>33%</td>
<td>6263%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternative Asset Classes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>4213%</td>
<td>3-Month T-Bills +4%</td>
<td>Volatility Management</td>
</tr>
<tr>
<td>Private Markets*</td>
<td>25.6%</td>
<td>0%</td>
<td>4812%</td>
<td>MSCI ACWI +3%</td>
<td>Growth</td>
</tr>
<tr>
<td>Total Alternative Assets</td>
<td>44.8%</td>
<td>6.4%</td>
<td>3032%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
<td>1-3 Year Treasury</td>
<td>Liquidity</td>
</tr>
<tr>
<td>Total Financial Assets</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>10%</td>
<td>No Target</td>
<td>CPI +5%</td>
<td>US TIPS +3%</td>
<td>Deleted Cells</td>
</tr>
</tbody>
</table>

*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.
<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>404%</td>
</tr>
<tr>
<td>Private Markets</td>
<td>25.6%</td>
<td>0%</td>
<td>141.9%</td>
</tr>
<tr>
<td><strong>Total Growth</strong></td>
<td>80.6%</td>
<td>22%</td>
<td>5861%</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>421.8%</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>22%</td>
<td>11%</td>
<td>421.8%</td>
</tr>
<tr>
<td><strong>Volatility Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>1213%</td>
</tr>
<tr>
<td><strong>Inflation Hedge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>40%</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>Total Inflation Hedge</td>
<td>211.1%</td>
<td>0%</td>
<td>105%</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Hawai‘i Direct Investments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>No Target</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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. For Hawai‘i commercial real estate, OHA chooses to utilize internal management of the assets. Management shall formulate and implement an overall strategy incorporating both economic and cultural focus. Internal management will also leverage the expertise of OHA’s Real Estate Advisory Committee and external real estate consultant.

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

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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 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 5.9% 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.

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. There is no specific asset allocation target to Hawai‘i Direct Investments, however, asset allocation concerns will weigh into consideration when evaluating any capital investment.

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

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 Guidelines 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 OSHA 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 assure 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 tenant/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 exclude 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 invest 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.

e) 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.

f) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLPs) 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, REIT’s, 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.

g) Hawaiian Hawai’i Direct Investments. The primary role of Hawaiian Hawai’i 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 Hawai’i commercial real estate. This asset class also includes the legacy investment in Russell Investments Private Real Estate Fund the OHA corporate headquarters and private equity and debt investments with significant operations in Hawai’i. 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 from 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 3% 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 Adviser” 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 Advisor 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% primary role of the market value of the Fund at the time of investment, on a cost basis for Hawai‘i Direct Investments, including HDI asset class is to create financially viable Hawai‘i commercial real estate and holdings while also protecting and preserving Hawai‘i lands and their cultural significance. OHA’s Hawai‘i commercial real estate portfolio will seek to generate a total return (income and Capital Appreciation) to meet OHA’s spending requirements while also preserving purchasing power for future generations. OHA will make capital investments to enhance, maintain, and protect existing improvements on its Hawai‘i commercial real estate holdings and consider real estate acquisitions and monetization where compelling and for strategic reasons.

A secondary objective targets equity and/or debt positions in private companies based in Hawai‘i or with significant operations in Hawai‘i. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding Hawai‘i as further guided by the OHA Economic Development Policy and 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 headquarters 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.

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All the combined cost of all direct investments, less any return, should demonstrate the ability to generate current income and capital to the Fund from these direct investments, cannot exceed gains consistent with the $25 million allocation asset class benchmark index and Fund’s long-term objective.

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, subleases, 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 headquarters corporate real estate acquisition, OHA is to invest in real estate located on the island of Oahu. 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.

18.3 Permissible Investments

Hawaii’s Real Estate
a) Hawaii’s commercial real estate strategies seek to create financially viable properties owned by OHA focusing on total return to meet current spending requirements.
b) The objective for Hawaii’s commercial real estate strategies is to outperform, net of commissions and fees, a blend of real estate indices that reflect the holdings of the Fund. The performance will be monitored regularly and evaluated over rolling five and ten-year periods.
c) Only real property that is Hawaii’s commercial real estate property is included in the Fund.

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.

18.4d) Leverage. OHA may finance the real estate acquisition of corporate real estate or capital improvements 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 subject to the OHA’s Debt Management Policy.

e) Market Valuation. Market. The market valuation of corporation Hawaii’s commercial real estate is determined by a biannual appraisal conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to Before the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Other Investments
a) Includes income and growth-oriented strategies with significant operations in Hawaii’s which are managed in an integrated manner to meet the long-term spending objectives of OHA.
b) BOT-approved lending programs for Native Hawaiians.
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
Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund (NHFT) 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 NHFT investment portfolio. The OHIA 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.

Adopted 5/29/03 (ARM 03-05); amended 10/24/08 (ARM 08-04); amended 8/3/09 (ARM 09-07); amended 4/15/10 (ARM 10-02); amended 9/27/12 (ARM 12-08); amended 6/19/14 (ARM 14-03); amended 8/24/17 (RM 17-08); amended 9/19/19 (RM 19-13)—j; amended 06/21/21 (RM 21-10).
ATTACHMENT C

The Office of Hawaiian Affairs Native Hawaiian Trust Fund
Statement of Investment Objectives and Policy

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 Statues 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 BCT;

h) Conduct on-site 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 Hawai‘i 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
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) Disburse funds to cover expenses, accept funds from OHA or the Advisors, and disburse 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 underlying 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

<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
<th>Benchmark Index</th>
<th>Primary Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Asset Classes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>40%</td>
<td>MSCI ACWI</td>
<td>Growth</td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>17%</td>
<td>Bloomberg US Aggregate</td>
<td>Income</td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
<td>US TIPS +3%</td>
<td>Inflation Hedge</td>
</tr>
<tr>
<td>Total Traditional Assets</td>
<td>88%</td>
<td>33%</td>
<td>62%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Alternative Asset Classes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>12%</td>
<td>3-Month T-Bills +4%</td>
<td>Volatility Management</td>
</tr>
<tr>
<td>Private Markets*</td>
<td>25.6%</td>
<td>0%</td>
<td>18%</td>
<td>MSCI ACWI +3%</td>
<td>Growth</td>
</tr>
<tr>
<td>Total Alternative Assets</td>
<td>44.8%</td>
<td>6.4%</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Enhanced Liquidity Account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
<td>1-3 Year Treasury</td>
<td>Liquidity</td>
</tr>
<tr>
<td><strong>Hawai'i Direct Investments</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawai'i Direct Investments</td>
<td>10%</td>
<td>0%</td>
<td>5%</td>
<td>US TIPS +3%</td>
<td>Inflation Hedge</td>
</tr>
</tbody>
</table>

*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.
<table>
<thead>
<tr>
<th>Asset Class Portfolios</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Strategic Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Equities</td>
<td>55%</td>
<td>22%</td>
<td>40%</td>
</tr>
<tr>
<td>Private Markets</td>
<td>25.6%</td>
<td>0%</td>
<td>18%</td>
</tr>
<tr>
<td>Total Growth</td>
<td>80.6%</td>
<td>22%</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Fixed Income</td>
<td>22%</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>Total Income</td>
<td>22%</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Volatility Management</strong></td>
<td></td>
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</tr>
<tr>
<td>Hedge Funds</td>
<td>19.2%</td>
<td>6.4%</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Inflation Hedge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Global Real Assets</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Hawai‘i Direct Investments</td>
<td>10%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Total Inflation Hedge</td>
<td>21%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Liquidity</td>
<td>10%</td>
<td>0%</td>
<td>3%</td>
</tr>
</tbody>
</table>

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 in 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
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 OIA 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 mee: 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 ard/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 (MLPs) 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 §105D-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 Guidelines 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 headquarters 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 headquarters 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. Realize 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 to 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 DOT by the Investment Consultant on an annual basis, or more frequently as needed.
VI. PROCEDURES TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for review by the Board, procedures regarding debt which shall be congruent with this Policy. The procedures shall model best practices for issuing debt. The procedures must at a minimum:

1. Procedures for incurring and managing debt, including the requirements for the due diligence analysis and process prior to incurring debt, the process for requesting approval by the Board, and reporting requirements to the Board
2. Performance standards for OHA staff and external consultants, managers, or advisors
3. Permissible/impermissible forms of debt

The procedures shall detail how the policy principles will be implemented - what will be done, what resources will be used and what results will be expected.

A. Purpose and Uses of Debt

In managing debt, OHA shall distinguish between long-term debt and short-term debt. Debt with maturities that exceed three years are considered long-term debt and debt with maturities that are less than three years are considered short-term debt.

Debt shall only be used to fund capital projects. Under no circumstances shall long-term debt proceeds be used to fund current operations or maintenance expenditures.

1. Long-term debt proceeds shall only be used for the purpose of financing or refinancing the cost of design, acquisition, improvement, and construction of capital projects that relate to the mission of OHA and align with its Strategic Plan objectives.

2. Short-term debt may only be used to fund temporary cash flow shortages for capital projects or unexpected and significant repair and maintenance expenses for existing capital assets.

B. Guidelines for Decision-making

OHA shall use the following guidelines for decision-making regarding the assumption of debt:

1. To preserve debt capacity, OHA shall only consider debt when necessary and only if utilizing pay-as-you-go financing is not feasible.

2. Capital projects that are fully self-funded and that relate to OHA's Strategic Plan objectives will receive priority consideration.

3. Capital projects that are partially self-funded and relate to OHA's Strategic Plan objectives will only be considered if the project generates significant cultural value to OHA's beneficiaries and produces adequate revenue to offset recurring expenditures for maintenance.

4. OHA shall balance the objective of achieving the lowest cost of capital with the objective of limiting exposure to restrictive liens and debt covenants, interest rate, default, and liquidity risks.
C. Debt Service Limitation

Under no circumstances shall debt service payments exceed twenty percent (20%) of Public Land Trust expenditures, equal to five (5%) percent of the average market value of the Native Hawaiian Trust Fund (NHTF), plus Ceded Land Revenues received by OHA, as defined by the Native Hawaiian Trust Fund Spending Policy.

D. Permissible/Impermissible forms of Debt

In accordance with the provisions, restrictions and limitations of the Hawai‘i state Constitution, Hawai‘i Revised Statutes (HRS), and applicable provisions of the state Debt Management Policy, OHA shall only consider the following forms of permissible debt:

1. Reimbursable General Obligation Bonds as defined by HRS Chapter 39
2. Revenue Bonds as defined by HRS § 10-25
3. Revenue Anticipation Bonds as defined by HRS § 10-24
4. Financing Agreements on terms determined acceptable by the OHA Board of Trustees.

To reduce risk and preserve debt capacity, under no circumstances shall OHA enter into the following forms of debt agreements;

1. Conduit debt obligations in which OHA would be liable to pay for the principal and interest for debt instruments issued by third-party entities in which OHA does not hold an ownership interest.
2. Non-Exchange Financial Guarantees in which OHA would provide credit enhancements or financial assurances to a third-party entity in which OHA does not hold an ownership interest.
3. Derivatives Instruments, such as interest rate agreements or swaps.

E. Financing Agreements

OHA shall solicit and consider proposals from various statewide and national financial institutions. Additionally, OHA may consult with the Department of Budget and Finance to determine whether OHA can participate in any state financing opportunities.

F. Revenue Bonds

If revenue bonds are considered the appropriate method of financing, OHA shall reach out to the Department of Budget and Finance to request for assistance in the structuring, preparation and sale of revenue bonds. The State Debt Management Policy shall be used as the basis to determine the structure, issuance, methods of sale, standards for professional service providers, and pricing of revenue bonds.
G. Debt Structuring

In structuring debt, OHA shall use the following guidelines:

1. Debt proceeds shall be secured as close to the date of expenditure as possible
2. Debt maturity structures shall not exceed the lesser of the expected useful life of the project financed or 30 years.
3. Debt amortization schedules for long-term debt shall be structured with either annual level principal payments or annual level debt service payment.
4. Principal payments must be made no later than five years from the date of the debt issuance.
5. Debt covenants shall not consist of features that prohibit or restrict potential refunding or refinancing opportunities in the future.

H. Board of Trustees Approval

The Board of Trustees must approve all decisions regarding new debt as well as the refinancing and refunding of existing debt.

Action items that involve decision-making on debt shall include a financial plan that covers the useful life of the capital project to be financed. At minimum, the financial plan shall include estimates for the cost for design, acquisition, construction, financing and ongoing maintenance of the capital project.

I. Refunding/Refinancing

OHA shall monitor outstanding debt for refunding and refinancing opportunities at least annually. Refunding and refinancing decisions shall be considered under the following circumstances:

1. When refunding or refinancing would generate a net present value savings on debt service.
2. When refunding or refinancing would result in the modification of restrictive debt covenants.
3. When refunding or refinancing would involve the conversion between variable and fixed interest rate structures.

J. Debt Affordability Study ("Study")

The Study shall use generally accepted financial ratios that are consistent with the methodologies adopted by credit rating agencies. At minimum, the Study shall include the following financial ratios:

1. Outstanding debt as a percentage of the NHTF assets,
2. Outstanding debt, pension and other post-employment benefit liabilities as a percentage of Unrestricted Net Assets,
3. Debt service as a percentage of Public Land Trust expenditures, and
4. Debt service, pension and other post-employment benefit contributions as a percentage of Public Land Trust expenditures.
K. Board Reporting

Consistent with OHA Executive Policy Manual section 3.4.f., a summary of outstanding debt shall be submitted in conjunction with the Multi-Year Financial Plan, which shall be submitted in conjunction with the Biennium Budget.
VI. PROcedures TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for review by the Board, procedures regarding debt which shall be congruent with this Policy. The procedures shall model best practices for issuing debt. The procedures must at a minimum:

1. Procedures for incurring and managing debt, including the requirements for the due diligence analysis and process prior to incurring debt, the process for requesting approval by the Board, and reporting requirements to the Board
2. Performance standards for OHA staff and external consultants, managers, or advisors
3. Permissible/impermissible forms of debt

The procedures shall detail how the policy principles will be implemented - what will be done, what resources will be used and what results will be expected.

A. Purpose and Uses of Debt

In managing debt, OHA shall distinguish between long-term debt and short-term debt. Debt with maturities that exceed three years are considered long-term debt and debt with maturities that are less than three years are considered short-term debt.

Debt shall only be used to fund capital projects. Under no circumstances shall long-term debt proceeds be used to fund current operations or maintenance expenditures.

1. Long-term debt proceeds shall only be used for the purpose of financing or refinancing the cost of design, acquisition, improvement, and construction of capital projects that relate to the mission of OHA and align with its Strategic Plan objectives.
2. Short-term debt may only be used to fund temporary cash flow shortages for capital projects or unexpected and significant repair and maintenance expenses for existing capital assets.

B. Guidelines for Decision-making

OHA shall use the following guidelines for decision-making regarding the assumption of debt:

1. To preserve debt capacity, OHA shall only consider debt when necessary and only if utilizing pay-as-you-go financing is not feasible.
2. Capital projects that are fully self-funded and that relate to OHA's Strategic Plan objectives will receive priority consideration.
3. Capital projects that are partially self-funded and relate to OHA's Strategic Plan objectives will only be considered if the project generates significant cultural value to OHA's beneficiaries and produces adequate revenue to offset recurring expenditures for maintenance.
4. OHA shall balance the objective of achieving the lowest cost of capital with the objective of limiting exposure to restrictive liens and debt covenants, interest rate, default, and liquidity risks.
C. Debt Service Limitation

Under no circumstances shall debt service payments exceed twenty percent (20%) of Public Land Trust expenditures, equal to five (5%) percent of the average market value of the Native Hawaiian Trust Fund (NHTF) average market value, plus Ceded Land Revenues received by OHA, as defined by the Native Hawaiian Trust Fund Spending Policy.

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In accordance with the provisions, restrictions and limitations of the Hawai‘i state Constitution, Hawai‘i Revised Statutes (HRS), and applicable provisions of the state Debt Management Policy, OHA shall only consider the following forms of permissible debt:

1. Reimbursable General Obligation Bonds as defined by HRS Chapter 39
2. Revenue Bonds as defined by HRS § 10-25
3. Revenue Anticipation Bonds as defined by § HRS § 10-24
4. Financing Agreements on terms determined acceptable by the OHA Board of Trustees, as defined by HRS Chapter 37D

To reduce risk and preserve debt capacity, under no circumstances shall OHA enter into the following forms of debt agreements;

1. Conduit debt obligations in which OHA would be liable to pay for the principal and interest for debt instruments issued by third-party entities in which OHA does not hold an ownership interest.
2. Non-Exchange Financial Guarantees in which OHA would provide credit enhancements or financial assurances to a third-party entity in which OHA does not hold an ownership interest.
3. Derivatives Instruments, such as interest rate agreements or swaps.

E. Financing Agreements

OHA shall solicit and consider proposals from various statewide and national financial institutions. Additionally, if financing agreements are considered the appropriate method of financing, OHA may consult with the Department of Budget and Finance to determine whether OHA can participate in any state financing opportunities. Additionally, OHA shall solicit and consider proposals from various statewide and national financial institutions.

F. Revenue Bonds

If revenue bonds are considered the appropriate method of financing, OHA shall reach out to the Department of Budget and Finance to request for assistance in the structuring, preparation and sale of revenue bonds. The State Debt Management Policy shall be used as the basis to determine the structure, issuance, methods of sale, standards for professional service providers, and pricing of revenue bonds.
G. Debt Structuring

In structuring debt, OHA shall use the following guidelines:

1. Debt proceeds shall be secured as close to the date of expenditure as possible.
2. Debt maturity structures shall not exceed the lesser of the expected useful life of the project financed or 30 years.
3. Debt amortization schedules for long-term debt shall be structured with either annual level principal payments or annual level debt service payment.
4. Principal payments must be made no later than five years from the date of the debt issuance.
5. Debt covenants shall not consist of features that prohibit or restrict potential refunding or refinancing opportunities in the future.

H. Board of Trustees Approval

The Board of Trustees must approve all decisions regarding new debt as well as the refinancing and refunding of existing debt.

Action items that involve decision-making on debt shall include a financial plan that covers the useful life of the capital project to be financed. At minimum, the financial plan shall include estimates for the cost for design, acquisition, construction, financing and ongoing maintenance of the capital project.

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3. When refunding or refinancing would involve the conversion between variable and fixed interest rate structures.

J. Debt Affordability Study ("Study")

The Study shall use generally accepted financial ratios that are consistent with the methodologies adopted by credit rating agencies. At minimum, the Study shall include the following financial ratios:

1. Outstanding debt as a percentage of unrestricted net assets of the NHTF assets,
2. Outstanding debt, pension and other post-employment benefit liabilities as a percentage of Unrestricted Net Assets,
3. Debt service as a percentage of Public Land Trust expenditures, and
4. Debt service, pension and other post-employment benefit contributions as a percentage of Public Land Trust expenditures.
K. Board Reporting

Consistent with OHA Executive Policy Manual section 3.4.f., a summary of outstanding debt shall be submitted in conjunction with the Multi-Year Financial Plan, which shall be submitted in conjunction with the Biennium Budget.
IV. PROCEDURES TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for review by the Board, procedures regarding debt which shall be congruent with this Policy. The procedures shall model best practices for issuing debt. The procedures must address, at a minimum:

1. Procedures for incurring and managing debt, including the requirements for the due diligence analysis and process prior to incurring debt, the process for requesting approval by the Board, and reporting requirements to the Board.

2. Performance standards for OHA staff and external consultants, managers, or advisors.

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4. OHA shall balance the objective of achieving the lowest cost of capital with the objective of limiting exposure to restrictive liens and debt covenants, interest rate, default, and liquidity risks.
C. Debt Service Limitation
Under no circumstances shall debt service payments exceed twenty percent of Public and Trust expenditures.

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2. Outstanding debt, pension and other post-employment benefit liabilities as a percentage of Unrestricted Net Assets,
3. Debt service as a percentage of Public Land Trust expenditures, and
4. Debt service, pension and other post-employment benefit contributions as a percentage of Public Land Trust expenditures.

J. Board Reporting

Consistent with OHA Executive Policy Manual section 3.4.f., a summary of outstanding debt shall be submitted in conjunction with the Multi-Year Financial Plan, which shall be submitted in conjunction with the Biennium Budget.
MEETING OF THE COMMITTEE ON RESOURCE MANAGEMENT (RM)

DATE: Tuesday, August 3, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Twenty-First Supplementary Proclamation dated June 7, 2021 that suspends parts of Hawai‘i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA’s website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

AGENDA

I. Call to Order
II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online. Oral testimony by telephone/landline will not be accepted)

III. Approval of Minutes
   A. July 22, 2021

IV. Unfinished Business
   None

V. New Business
   A. ACTION ITEM RM #21-10: Approval of Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures
   B. Administration Updates re: Audits in Progress by the State Auditor and Annual Financial Audit

VI. Executive Session‡
   A. Consultation with Board Counsel Kurt W. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)
   B. ACTION ITEM RM #21-11: Approve Financing of Potential Commercial Property Acquisition Consultation with Board Counsel Kurt W. Klein, and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration and financing options and approval regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(3) and HRS §92-5(a)(4)

VII. Announcements
VIII. Adjournment
Date: July 30, 2021

To: Ke Kauhuhu Carmen Hulu Lindsey  Ke Kua Luana Alapa  
   Ke Kua Leina‘ala Ahu Isa  Ke Kua Brendon Kalei‘āina Lee  
   Ke Kua Dan Ahuna  Ke Kua Keola Lindsey  
   Ke Kua Kaleihikina Akaka  Ke Kua John Waihe‘e IV  
   Ke Kua Keli‘i Akina

From: Sylvia M. Hussey, Ed.D., Ka Pouhana, Chief Executive Officer

cc: Casey K. Brown, Ka Pou Nui, Chief Operating Officer  
   Ramona G. Hinck, Ka Pou Kihi Kanaloa Wai, Chief Financial Officer  
   Raina Gushiken, Ka Paepae Puka, Senior Legal Counsel

Subject: August 3, 2021, Committee on Resource Management Meeting, Agenda Item V.B. Administration Updates re: Audits in Progress by the State Auditor and Annual Financial Audit

Attachments: A – What to expect during an audit; B – Frequently Asked Questions About the Special, Revolving, and Trust Fund Review Process

A. Background and Purpose. The purpose of this memorandum is to inform the Trustees of the various audits and review in progress.

B. Statutory Basis. The following Hawaii Revised Statutes (HRS) sections form the primary basis for statutory audits and reviews by the State Auditor:

   - **Chapter 10-14.55:** The auditor shall conduct an audit of the office at least once every four years and shall submit a report on findings and recommendations to the governor and the legislature on or before the convening of the next immediate legislative session.

   - **Chapter 23:** Gives the (State) Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every state agency.

C. Definitions. Attachments A and B provide definitions for terms such as: performance audits, financial audits, special fund, revolving fund, trust fund and trust account.
D. State Auditor Audits and Review. The following audits and review are currently in progress:

1. 2017 Performance Audit
   Report 18-03 issued February 2018; 2021 follow up on the report recommendations made, field work completed in the spring of 2021 and awaiting auditor’s report.

2. 2017 Follow Up, Performance Audit
   Report 18-08, issued June 2018; 2021 follow up on the report recommendations made, field work completed in the spring of 2021 and awaiting auditor’s report.

3. 2021 Performance Audit
   OHA Trustees and CEO notified of audit via e-mail on WE, 7/21/2021 with an initial document request list; entrance conference held with Trustees on TH, 7/29/2021; and initial document request deadline is WE, 8/4/2021. Administration will continue to work with the audit team through the planning, fieldwork, report and feedback phases. An invitation to the Trustees was provided by the State Auditor to participate in the exit conference and Administration will advise and coordinate as desired by the Trustees.

4. Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts
   OHA CEO notified of review via e-mail on MO, 6/28/2021; entrance conference held with Administration on WE, 7/28/2021 with objectives, preliminary review and next step activities outlined. The objectives include: a) creating an inventory of the Office of Hawaiian Affairs’ special funds, revolving funds, and truste funds and trust accounts; b) Administration will continue to work with the audit team on review activities (e.g., questionnaire, analysis, review of purpose) culminating in a drafted, reviewed and published report.

E. Financial Audits. The annual financial audit is conducted by a third party contractor, currently N&K, CPAs, Inc. for the fiscal year ended June 30, 2021. In addition the single audit for all federal funds---Native Hawaiian Revolving Loan Fund and Halawa-Luluku Interpretive Development is also done annually. Interim field work will commence upon OHA’s closing of its records and books officially for FYE June 30, 2021 and completing preliminary schedules and records. The estimated publication of the audit report is February 2022.

F. Financial Transparency Link on OHA Website. Annual reports, audits, trustee protocol allowance, CLA Contracts and Disbursements Report are all posted on the OHA website and can be accessed by this link: https://www.oha.org/financials

G. References. The following audit or review reports can be accessed by the embedded links:


H. Point of Contact. Administration will continue to keep Trustees periodically updated as to the progress of each of the four audits and one review. Please feel free to contact CFO Ramona Hinck with any questions.
There are two kinds of audits

**Performance audits**
also referred to as management audits, examine the efficiency and effectiveness of government programs or agencies. These are also called program audits when they focus on whether programs are attaining the objectives and results expected of them, and operations audits when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

**Financial audits**
attest to the fairness of the financial statements of agencies. They examine the adequacy of financial records, accounting, and internal controls and determine the legality and propriety of expenditures.

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**The Law**
The drafters of the 1950 Constitution envisioned an Auditor who would help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent. Article VII, section 10 of the State Constitution established the position of Auditor. Chapter 23, Hawai‘i Revised Statutes, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and answer questions under oath.

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**State of Hawai‘i**
Office of the Auditor
465 S. King Street, Room 500
Honolulu, HI 96813-2917
Phone: (808) 587-0800
Email: LAO.auditors@hawaii.gov
http://auditor.hawaii.gov
Our Process

Because agency staff are a primary source of information, their cooperation is essential during key stages of our audit process.

Planning

We research to obtain background information on an agency. We meet with the agency, request documents, and conduct preliminary interviews and observations to determine audit objectives.

Fieldwork

We continue collecting and examining information relevant to the audit. This involves analyses of documents and data, and further interviews and observations. We meet with the agency to discuss our preliminary audit findings.

Report

Based on our fieldwork, we finalize our audit findings and recommendations and prepare a draft report. We provide the draft report to the agency and meet to discuss at an exit conference.

Feedback

Audited agencies have an opportunity to review and respond to our draft report. Our published report includes the audited agencies' responses and our comments on those responses.

Expectations

To ensure that an accurate audit report is released in a timely manner, we expect you to inform your staff about the audit and set the tone for them to:

- Attend and participate in requested meetings and conferences. Full and complete disclosure of information speeds the audit process and helps us produce an accurate and useful report.
- Provide on-site workspace for our staff as required.
- Respond to information requests in a timely manner.
- Provide comments on the draft report by the established deadline.
- Protect the confidentiality of information included in draft reports, as they are not yet final and available to the public.

How are audits selected?

Projects are initiated by the Legislature through concurrent resolution, law, or other legislative directive. We also self-initiate audit efforts after considering a variety of factors, such as legislative or public interest, economic or social impact, major investment or expenditures, and known or potential risks to the State.

Our Mission

Improve government through independent and objective analyses.

Our Standards

Our audit work is conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

For more information on the Office of the Auditor, visit our website: http://auditor.hawaii.gov
FREQUENTLY ASKED QUESTIONS ABOUT THE SPECIAL, REVOLVING, AND TRUST FUND REVIEW PROCESS

Why is the Office of the Auditor reviewing our Special, Revolving, and Trust Funds and Trust Accounts?

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review each department’s special funds, revolving funds, and trust funds, once every five years. We also include trust accounts as part of our review. We collectively refer to the special funds, revolving funds, trust funds, and trust accounts as “SRT funds.”

Since the financial and other information about each fund and account that we report to the Legislature are primarily based on the information provided to us by the department, it is important that the department fully participate in the review.

What will the Office of the Auditor be reviewing and reporting on?

Our review will provide a “snapshot” of each fund or account, which will include a financial summary of the last five fiscal years based on data provided by the department as well as information we access through FAMIS. Also included is a summary of the original intent and purpose of the fund and an assessment about whether the fund is achieving that purpose. We will also be making observations about whether the department has complied with reporting and accounting for its funds as mandated by law.¹ We do not audit the financial data; that data is provided for informational purposes only. We also do not assess the effectiveness or management of the program the fund supports or come to any conclusions as to whether the program should be continued.

What happens during the review process?

Generally, we schedule an entrance conference with department management and accounting staff to discuss the SRT fund review process and timelines as well as our expectations. Around this time, you will be provided with a preliminary inventory of the department’s funds and accounts based on information compiled from FAMIS, past reports, legislative history, and other sources. We rely on the department to help us finalize this inventory. This

¹ Departments are required to report all of their respective funds and accounts to the Legislature annually:

Section 37-47, HRS, requires that departments report all non-general funds, which include the SRT funds that we are reviewing, twenty days prior to the convening of each regular legislative session.

Section 37-52.5, HRS, requires that departments submit to the Legislature:

- A report of new administratively established accounts or funds, within 30 days of establishment; and
- At least 20 days prior to each regular legislative session, a report listing all administratively established accounts or funds, including all revenues, expenditures, encumbrances, and ending balances of each account or fund.

Frequently Asked Questions about the Special, Revolving, and Trust Fund Review Process – 07/27/21
includes identifying any accounts that have been closed and noting any accounts not included in the list. The entrance conference is a good opportunity for departments to ask questions about the process and for us to discuss any potential concerns.

Once the department confirms the accuracy and completeness of the inventory, we send out fund questionnaires. The questionnaires contain a series of questions based on the statutory definition and criteria for the fund or account and the statutory requirements of our review. To expedite the process, we split the questionnaire into two parts, since the answers may require information from multiple department personnel. Part 1 relates to fund balances and financial activities, which can be completed by fiscal officers. Part 2 asks for more general information about the fund’s purpose and how it is being used by the department. This information – purpose, costs, and connection to the funding source – is likely best provided by the staff of the program that the fund supports.

Since our review does not include appropriation accounts or funds solely dedicated to federal grants or other federal awards, the department may not receive a questionnaire for those accounts or funds. However, our review does include funds and accounts that were closed during the five-year-review period. Therefore, departments must complete questionnaires for any funds or accounts closed during this time.

When we have completed our review, we will provide a draft of the report to the department to review and schedule an exit conference for the purpose of discussing the draft report. It is important for the department to raise any issues or concerns it may have about the draft report during the exit conference, so we have time consider any objections, and, if appropriate, revise the report before it is issued. The department will also have an opportunity to provide a written statement in response to the report, which will be included in the published report.

Definitions

For purposes of our review of the department’s funds and accounts, we will use the following definitions:

**Special Fund**: Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” Unlike the General Fund, Special Funds have legislative or other restrictions imposed upon their use. As of 2002, new special funds may only be established by statute.

**Revolving Fund**: Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.” Loan programs established with general fund seed moneys are a common example.

**Trust Fund**: Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” A trust fund is a fund in which a designated person or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes. Pension or security deposit funds are common types of trust funds.

**Trust Account**: The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. Trust accounts often serve as accounting devices to credit or charge agencies for payroll or projects.

*Please do not hesitate to contact our office if you have any questions about Special, Revolving, Trust Fund, and Trust Account Reviews. Past reports are available at our website: [http://auditor.hawaii.gov/reports/](http://auditor.hawaii.gov/reports/).*

Frequently Asked Questions about the Special, Revolving, and Trust Fund Review Process – 07/27/21
Due to the threat of COVID-19, Governor Ige issued the recent Emergency Twenty-First Supplementary Proclamation dated June 7, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA’s website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

AGENDA ******Amended

I. Call to Order

II. Public Testimony on Items Listed on the Agenda*

(Please see page 2 on how to submit written testimony or provide oral testimony online. Oral testimony by telephone/landline will not be accepted)

III. Approval of Minutes
   A. July 22, 2021

IV. Unfinished Business
   None

V. New Business
   A. ACTION ITEM RM #21-10: Approval of Amendments to the Native Hawaiian Trust Fund Investment Policy Statement and the Debt Management Policy Implementation Procedures
   B. Administration Updates re: Audits in Progress by the State Auditor and Annual Financial Audit

VI. Executive Session‡
   A. Consultation with Board Counsel Kurt W. Klein and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(4)
   B. ACTION ITEM RM #21-11: Approve Financing of Potential Commercial Property Acquisition Consultation with Board Counsel Kurt W. Klein, and Everett Ohta, OHA Assistant Senior Legal Counsel, re: questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities with respect to updates by Administration and financing options and approval regarding potential acquisition of commercial properties, pursuant to HRS§92-5(a)(3) and HRS §92-5(a)(4) ******

VII. Announcements

VIII. Adjournment
MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)

DATE: Tuesday, August 3, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477, Webinar ID: 859 7141 3944

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