Kamehameha Schools
Annual Report
July 1, 2014 - June 30, 2015

TRUSTEE MESSAGE

New Strategic Plan
The First Step in Moving Vision 2040 Toward Reality

Kamehameha trustees feel an urgency to help all Native Hawaiian learners achieve greater success.

This is a significant time for our organization, as July 2015 marked the beginning of our new five-year strategic plan (SP2020). Our new strategic direction is anchored on the mission of Kamehameha Schools: to fulfill Pauahi’s desire to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry. This mission is unchanging. It gives us focus — and a mandate — to make an even greater impact on Native Hawaiians. We are fortunate to have the opportunity to build on the tremendous progress of the past, which provides a foundation that allows us to set our sights and expectations even higher.

It is our kuleana as trustees to provide the vision that will position Kamehameha Schools. As trustees acting in our fiduciary and strategic capacities, we feel an urgency to help all Native Hawaiian learners achieve greater success. Our collective mana’o has informed the following vision statement: Within a generation of 25 years, we see a thriving Lāhui where our learners achieve postsecondary educational success, enabling good life and career choices. We also envision that our learners will be grounded in Christian and Hawaiian values and will be leaders who contribute to their communities, both locally and globally.

This long-term vision — Vision 2040 — provides unified direction not only for the next five years, but also for the next 25 years. Central to Vision 2040 is a thriving Lāhui characterized by significantly higher rates of success in postsecondary education, career, and leadership. Change at all levels is needed for our learners to truly thrive. Kamehameha Schools plays an important role in this effort, particularly in providing high-quality educational experiences for Native Hawaiian children and families.

Toward this end, we continue to maintain a laser focus on educational attainment and outcomes such as the Educational Pathway Milestones outlined in SP2020. (To read the complete plan, please visit www.ksbe.edu/sp2020.)}

But Kamehameha Schools is not alone in working toward a thriving Lāhui. Strategic collaborations with those that have aligned missions will be key in the years ahead.

As Kamehameha Schools develops into a high-performing Native Hawaiian organization and engages with strategic collaborators, it is important to emphasize the mission-critical attitudes and practices that are essential for our learners and our organization to succeed in an increasingly competitive world.

• Strive for greatness — Kūlia i ka mua
• Work with urgency and discipline — E’eleu ma ka hana me ke akabele pili
• Develop strong, effective, and accountable leadership — Kāhualu alaka’ina
• Build strength — Ho’oikaika mau
• Be innovative — ‘Imi hakuhia
• Be courageous — Kū i koa
• Be focused — Kia mana’o

We observe these guiding attitudes and practices in Chief Executive Officer Jack Wong, whose thoughtfulness, persistence, and skills have led the organization forward in this time of change.

This is further reflected in our CEO’s selection of new executives and his forming of his executive leadership council /Aha Kūlia. /Aha Kūlia members have in turn realigned KS leadership and operating units to ensure that our functions, operations, and outcomes are better aligned to our SP2020 goals.

There are also those who have worked and led Kamehameha Schools for many years and are now retiring or taking on new roles.

For example, Neil Hannahs KSK’69 has been a pillar in our organization and in the community for nearly four decades. For those who have given so much to the mission of Kamehameha Schools, we mahalo you and look forward to new ways of working together toward a thriving Lāhui.

It is the privilege of Kamehameha Schools to serve keiki and ‘ipiwai who will in turn become the leaders to serve and elevate future generations. Even with all the success and accomplishments over the past 128 years, we can — and we must — do even better at serving these future leaders.

Ours is a firm and renewed commitment to serve these future leaders by focusing on the KS mission, Vision 2040, and SP2020.

We offer our profound gratitude to all who have contributed to a successful year at Kamehameha Schools. We are honored to serve you.

Me ka mahalo nuanu,
Kamehameha Schools Board of Trustees
Robert K.W.H. Nobriga KSK’91
Chairman
Corbett A.K. Kalama
Vice Chairman
Mico A. Kane KSK’87
Secretary/Treasurer
Lance Keawe Wilhelm KSK’83

Kamehameha Schools trustees from left: Micah Kāne, Robert Nobriga, Corbett Kalama, Lance Wilhelm

Kamehameha Schools: to fulfill Pauahi’s desire to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry.
Fiscal year 2015 (July 1, 2014 – June 30, 2015) was the tenth year of the 10-year Kamehameha Schools Education Strategic Plan, adopted in 2005 and based on the Kamehameha Schools Strategic Plan 2000-2015. Kamehameha’s Education Strategic Plan offered a framework to create longer-term, intergenerational change for Native Hawaiians via education. The purpose of the Education Strategic Plan was to improve educational outcomes for greater numbers of Hawaiian children, with a specific emphasis on young learners (ages prenatal to 8) in Hawai‘i.

Over the 10-year course of the education plan, Kamehameha Schools more than doubled the number of learners it served each year, moving from 22,400 learners served in 2005 to more than 45,000 learners served in 2015 (FY2015) as part of the Kamehameha Schools campus and community programs. Kamehameha Schools educated 5,409 learners, including graduating 693 seniors at campus programs on Hawai‘i, on Maui and at Kapalālama.

Kamehameha Schools Maui enrolled 1,072 learners and graduated 118.

Kamehameha Schools invested $336 million in its campus- and community-based educational programs.

In fiscal year 2015, the number of children and families served by Kamehameha’s campus and community programs was 46,079 learners...
KS Endowment Exceeds its Performance Targets

‘A‘ole hana mai ke ahi ‘a. No task is too big when shared by all.

This fiscal year (July 1, 2014 to June 30, 2015) was an exciting and transformative one for Kamehameha Schools and Pāhua‘i’s beneficiaries – a new Vision 2040: ambitious and far-reaching goals for Native Hawaiian education and a thriving Lāhui; rigorous five-year milestones for Native Hawaiian education from the endowment was directed to the stewardship of Pāhua‘i’s lands.

At the end of the fiscal year, net of these investments in education and ʻāina, the endowment stood at $11.1 billion, up from $11.0 billion of the prior year.

While supporting current spending needs and growing capacity to support future keiki, the KS endowment also exceeded its performance targets. This year, the endowment’s 3.9 percent return outpaced the 3.0 percent return of its composite market benchmark and the median return of large endowments. Over longer cycles, the outperformance over our KS benchmarks (and versus our peers) has been more pronounced.

That margin of value added over market benchmarks has made a critical difference in the endowment’s ability to outperform the Long-Term Investment Objective of inflation plus 5 percent, which was 5.7 percent for this period.

Long-term performance is built one year at a time, and in FY15, market conditions were challenging for generating returns. For the year, Hāwai‘i’s Commercial Real Estate returned 11.7 percent (versus its 13.0 percent benchmark) and the global, diversified Financial Assets portfolio returned 0.9 percent (versus -0.7 percent for its composite benchmark).

Hāwai‘i Commercial Real Estate, at $3.2 billion (28 percent of the total endowment portfolio), underperformed the one-year benchmark, but over three-and-five-year periods has outpaced its benchmark by comfortable margins. During the year, Kamehameha Schools sold the improvements at Hawai‘i Kai Towne Center while retaining ownership of the land beneath the center. The sale improved overall asset diversification of the Kamehameha Schools endowment assets.

Additionally, KS completed the sale of two blocks in Kaka‘ako as part of the district’s long term master plan and substantial completion of the following development projects:

For the 10 years ending June 30, 2015, the endowment produced an annualized return of 9.0 percent, exceeding KS’s Long-Term Investment Objective of inflation plus 5 percent, which was 5.7 percent for this period.

Kalo Phase II – Located in Mā‘ili, the first building of this 35,000 square foot shopping center, built in 1959, the Kolo Village Phase II project renovated and transformed a collection of six severely deteriorated walk-up apartment buildings into a vibrant and safe community. Today, Kolo Village is 99 percent occupied, with approximately two-thirds of the units rented to UH students, faculty, and/or staff.

Kapalama Shopping Center – The renovation of this 35,000 square foot shopping center, built in 1959, marked the start of Kamehameha Schools’ efforts to revitalize the industrial Kalihi neighborhood and is a catalyst project in the Kapalama Strategic Implementation Plan. The project entailed a variety of significant structural and leasing upgrades.

Hāliewa Store Lots (HSL) – Located in historic Hāliewa town, the HSL project is a critical component of Kamehameha Schools’ North Shore Master Plan. The project resulted in the redevelopment of the former Matsumoto’s Shave Ice site (the iconic mom-and-pop shave ice establishment) and the creation of commercial space to support local merchants and reinfore the “mom and pop” nature of small businesses that populate this tightly knit community. The project was recently awarded the 2015 American Planning Association Hawai‘i Chapter annual award in the Environment Preservation category for demonstrating great innovation to preserve and enhance the historic plantation character, unique Hawai‘i culture, and natural environment.

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Kamehameha Schools Annual Report 2015
The Hawai‘i real estate market continued its strong performance throughout the fiscal year. This has produced not only low rental income, but sustained low vacancy rates as well.

The Financial Assets portfolio represents 71 percent of the value of the KS endowment. Unlike the robust, mid-teens return of FY14, the Financial Asset portfolio returned less than 1 percent this fiscal year. Although absolute performance was low, the portfolio’s return outpaced its overall composite benchmark by 1.6 percent. Five of the nine asset categories outperformed their respective benchmarks.

Market headwinds were formidable this year. Global growth was tepid at best, and although China continued to grow, the slowing rate of its expansion weighed on the markets. Deflationary concerns overseas prompted international monetary authorities to cut rates, while in the U.S., after years of very accommodative Federal Reserve System policies that bolstered asset prices, the financial markets braced themselves for inevitable interest rate hikes. Against this backdrop, the U.S. dollar strengthened and foreign currencies fell, hurting the values of non-U.S. dollar assets. How these developments affected the Financial Asset portfolio varied.

For yet another year, Private Equity posted strong returns at 13.4 percent, although it was only financial asset class producing double digit returns. Developed market equities, Absolute Return strategies (which act to diversify and stabilize the portfolio), and U.S. Fixed Income each produced low single digit returns.

Asset classes vulnerable to a strengthening dollar and weak international economic conditions, like Emerging Markets, Global Fixed Income, and Real Assets, all ended the year lower. Although each of these areas outperformed their benchmarks, exposures to these classes hurt absolute performance.

For Real Assets in particular, those factors coupled with the collapsing price of oil — a boon for Kamehameha’s Hawai‘i holdings and school operating costs — resulted in a negative 16.6 percent return year over year.

It’s noteworthy that FY14’s flat or negative returns in most asset classes come after years of buoyant, above normal, performance. Few asset classes can be categorized as inexpensive and those that arguably are cheap, like commodities and emerging markets, are also among the most volatile.

For Kamehameha Schools, the implication is that the organization can’t just rely on strong markets to produce the returns needed to meet the educational spending and growth needs of SP2020.

Recognizing that KS might be in a multi-year period of generally lower returns, our collective kula-ana is to identify areas where we can earn that additional return over market benchmarks. That value add has been critical to the endowment’s ability to meet its short and long term objectives in the past and will be especially important going forward.

At the same time, SP2020 has given KS the opportunity to reframe the role of the endowment over the long haul. In earlier times, we considered our reach to be limited to the extent of our endowment resources.

Today, we are pursuing multiple ways to expand our ability to support Native Hawaiian learning success: through more impactful spending, better partnering with our communities, more effective collaborations, fundraising and advancement.

KS Endowment Exceeds its Performance Targets

continuing from page 3

SALT – KS also made substantial progress in the SALT retail project in Kaka‘ako, an adaptive reuse development which serves as a retail center for the community and a critical component of the Kailaulu ‘o Kaka‘ako Master Plan. SALT will be 85,000 square-feet of curated retail, restaurant and mixed-use space. The project will embody the urban, island culture of the emerging Our Kaka‘ako neighborhood, with the adaptive re-use of existing structures, open-air concepts, green spaces, and central plaza to give SALT a lively, pedestrian-friendly feel.

KAMEHAMEHA SCHOOLS ANNUAL REPORT 2015

Investing in Education

continued from page 2

KAMEHAMEHA SCHOOLS COMMUNITY EDUCATION COLLABORATIONS

A total of $13 million in collaborative efforts with more than 60 community organizations statewide. The top five community education collaborators were:

- ‘Aha Pānana Loe: Hawaiian language immersion classrooms
- Alu Like, Inc.: Comprehensive services for Native Hawaiian families, including early education, vocational education, workforce development, substance abuse prevention and financial literacy
- State Department of Education Charter Schools: Support went to selected charter schools established to address particular educational needs of Native Hawaiians and that demonstrated a commitment to ‘Ike Hawai‘i.
- Kanu o Ka ‘Āina Learning ‘Ohana (KALO): supports culturally driven programs
- University of Hawai‘i system: scholarships, internships, ‘Āina-based education, STEM (Science Technology Engineering Math) and agriculture curricular support
KAMEHAMEHA SCHOOLS
REPORT ON FINANCIAL ACTIVITIES
JULY 1, 2014 – JUNE 30, 2015

Kamehameha Schools’ mission is to fulfill Pāuaʻhī’s desire to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry.

As of June 30, 2015, the overall fair market value of the Kamehameha Schools endowment, which includes Hawai‘i real estate and global financial assets, was $11.1 billion. The endowment achieved a return of 3.9 percent during the fiscal year. The Consolidated Balance Sheet that follows shows total assets to be $9.0 billion: it records real estate at cost rather than fair market value, and includes endowment, educational, agricultural and conservation assets.

Fiscal year 2015 was the tenth year of the 10-year Kamehameha Schools Education Strategic Plan, adopted in 2005 and based on the Kamehameha Schools Strategic Plan 2000-2015. The number of children and families served by Kamehameha Schools campuses and community programs in fiscal year 2015 was 46,079 learners, including a total of 12,209 parents and caregivers in the pre-natal to grade 12 community who received training to support their children. In direct service to Pāuaʻhī’s mission of educating her beneficiaries, Kamehameha Schools saw the following service results in education.

PRENATAL TO 8 YEARS OF AGE
Kamehameha Schools served 14,194 kūkui ages 0-8 and their parents and caregivers through 30 K-3 center-based preschools, preschool scholarships, literacy instruction and various educational collaborations.

GRADES 4 THROUGH POST-HIGH
Kamehameha Schools served 19,773 learners through its enrichment, campus outreach, collaborations, distance learning and summer school programs such as the Explorations Series, Kamehameha Scholars, Kupa ‘Āina and Career Post-High Counseling and Guidance.

CAMPUS PROGRAMS
Kamehameha Schools educated 5,409 learners, including graduating 493 seniors at campus programs on Hawai‘i, on Maui and at Kapalama. Orphan and indigent children comprised approximately 27 percent of the 2015-2016 invited students.

For more, including a copy of Kamehameha Schools audited “Consolidated Financial Statements and Supplemental Schedules” for fiscal year 2015, please visit www.ksbe.edu/annual reports.

CONSOLIDATED BALANCE SHEET
June 30, 2015
(in thousands)

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<th>Assets</th>
<th>Current assets</th>
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<table>
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<tr>
<th>Liabilities and Net Assets</th>
<th>Current liabilities</th>
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<tr>
<td>Total liabilities and net assets</td>
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KAMEHAMEHA SCHOOLS’ ENDOWMENT
Kamehameha Schools’ mission is fully supported by its endowment. The endowment was valued at $11.1 billion as of June 30, 2015. A globally diversified financial assets portfolio of $7.9 billion, and Hawai‘i’s commercial real estate representing $3.2 billion at fair market value.

KAMEHAMEHA SCHOOLS’ LANDS
Commercially zoned lands make up 1 percent of total acreage (363,636) belonging to Kamehameha Schools. Agricultural and conservation lands comprise 99 percent and are primarily considered sustainability assets, not included in the endowment fund. During the fiscal year 2015, Kamehameha Schools spent $8.6 million (net of agricultural rents) to steward agricultural and conservation lands and natural resources.

Kamehameha Schools is a private charitable educational trust endowed by the will of Hawaiian princess Bernice Pauahi Bishop (1831-1884), the great-granddaughter and last direct descendant of King Kamehameha I. During her lifetime, Princess Pauahi witnessed the rapid decline of the Hawaiian population. The princess knew that education would be the key to the survival of her people, so in an act of aloha, she left them a precious gift upon her passing—375,000 acres of ancestral land. She instructed the trustees of her estate to use the land to educate her people. Today, her endowment supports an educational system that serves thousands of Hawaiian learners.

For fiscal year 2015, Kamehameha Schools invested $336 million in educational spending, consisting primarily of $172 million on campus-based programs and $106 million on community-focused programs. Spending highlights include $17.3 million in Paʻauhi Keiki Scholarships to 2,408 preschool students and $5.3 million in Kipona scholarships to 588 students at other K-12 private schools. A total of $14.6 million in post-high scholarships was awarded to 2,475 students attending college. Another $18 million was spent on collaboration efforts with more than 60 community organizations statewide.

In addition, Kamehameha Schools provided $25.2 million in support of public schools in largely Hawaiian communities, including $6.8 million in per-pupil funding and support to 3,900 students in 17 Hawaiian-focused start up and conversion public charter schools and $8.6 million for on-site literacy instruction by Kamehameha Schools’ staff in 19 Department of Education schools (K-3 classrooms) statewide. An additional support included $6.9 million in funding for a variety of programs for students in DOE schools, including summer enrichment programs, homework centers and after-school tutoring, place-based learning in loi ‘āalo and Hawaiian fishponds, distance learning, classroom-based Hawaiian social studies instruction for grades 4-5 and the Kamehameha Scholars and Kupa ‘Āina programs. Another $2.9 million was provided in educator training and support, including funding for Teach for America participants serving predominantly Hawaiian public schools.