MINUTES OF THE REGENTS’ COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, January 17, 2002

Place & Time: Campus Center Conference Chamber, Rm. 220
University of Hawai‘i at Mānoa
2:10 p.m.

Committee Members Present: Regents Kobayashi (presiding)
Dowling
Kawakami
Kurisu
Thurston
Ikawa ex-officio (not present)

Other Regents Present: Regents Bergin
Lee
McElrath
Nunokawa
Poe
Weiner

Others Present: Evan S. Dobelle, President, University of Hawai‘i
Walter S. Kirimitsu, Senior Vice President and University
General Counsel
James R. W. Sloane, Vice President for Administration and
Chief Financial Officer
Eugene S. Imai, Vice President for Administration
Tom Sakai, First Union Securities
Allan Yasue, Partner, PricewaterhouseCoopers, LLP
David Iha, Secretary of the Board
Carl Makino, Administrative Officer, BOR

Approval of Committee Meeting Minutes

The minutes of meetings of the Regents’ Committee on Finance and Facilities held on
October 18, 2001 and November 15, 2001, were approved as circulated.

Subjects:

1. University of Hawai‘i Endowment Fund for the Quarter Ending September 30, 2001

2. Audit of the University of Hawai‘i Bond System for Fiscal Year Ended June 30, 2001
University of Hawai‘i Endowment Fund for the Quarter Ending September 30, 2001

Mr. Tom Sakai, Third Party Monitor, reported that the total fund performance for the third quarter ending September 30, 2001 resulted in a negative 9.6% return decreasing the Fund’s value by $5,645,229 for a total value of $52,930,484. The managers under performed the balanced index return by 1.4 percentage points. The balanced index was at -8.2 percent for the trailing twelve months the total fund returned -19.1 percent decreasing the funds value by $12,520,964 underperforming the balanced index by 5.0 percentage points. However, for the trailing 3 years the total fund returned 5.6% which outperformed the balanced index and by 9.4 percent over the trailing five years.

The fund’s negative 17.9% stock return underperformed the S&P 500 index by 3.2 percentage points and ranked in the lower 65th percentile of managed stock funds. All three balanced managers under performed the S&P 500 in stock funds. Bishop Street Capital Management had a -20.0 percent performance for the third quarter, Jurika & Voyles had a -17.3%, and Pacific Century Trust had a -16.5%. The Fund’s bonds returned 5.5% for the quarter, performing above the 4.8% return of the Lehman Brothers Government/Credit Bond Index. All three balanced managers contributed to the higher return in the bond sector.

Brandes, the foreign stock manager, returned a -15.5% for the quarter under performing both the -14.0 percent return of the MSCI EAFE Index and the -15.0 percent return of the average international fund.

Regent Kobayashi inquired if, in light of the Board’s fiduciary responsibility, the monitor was prepared to make any suggestions regarding a review of any of the managers. Mr. Sakai stated that the Committee should consider asking Bishop Street Capital Management representatives to explain their performance, particularly since they experienced some departures and additions to their staff.

Regent Kobayashi asked that Vice President Sloane review the fund’s performance and make a recommendation at the next Board meeting.

During the ensuing discussion, President Dobelle expressed concern that there were no flags raised by the Third Party Monitor. Mr. Sakai explained that this expectation was not made clear at the time of his engagement. He added that each manager has a different approach to managing their portion of the Fund’s portfolio. Regent Lee commented that she knew of some schools who did make money during the down market by investing in bonds. Mr. Sakai stated that he needs to look at the Board’s policy on the distribution of portfolio.

Audit of the University of Hawai‘i Bond System for Fiscal Year Ended June 30, 2001

Vice President Imai stated that the Bond resolution requires that an annual financial audit of the University of Hawai‘i Bond System be performed by an independent certified public accountant. The firm of PricewaterhouseCoopers was retained to conduct the audit of the Bond System for fiscal ending June 30, 2001.

Mr. Yasue reported that PricewaterhouseCoopers LLP had examined the financial statements
of the University Bond System and the internal control structures resulting in the issuance of a three part report. The first report from the auditors was a financial statement and report of independent certified public accountants. The auditors issued an unqualified report on the financial statements of the University Bond System as of June 30, 2001 which in their opinion the amounts in the statements presented fairly in all material respects and are in conformity with general accepted accounting principles. The second report on internal control structures concluded that there were no significant deficiencies in the internal control structure of the Bond System; specifically, the reliability of the accounting data and the safeguarding of assets. And the third report on controls and procedures, the auditors identified procedural weaknesses and noncompliance with University policies and procedures. In addition the auditors recommended that improvements be made to the capitalization policy of fixed assets, monthly financial reports and changes to the Bond System financial statements.

Project administrators had submitted responses to the recommendations along with corrective measures to be taken and the dates of the implementation of corrective actions. The Bond System Administration and the Office of Internal Auditor jointly performed follow-up reviews to determine the extent of corrective action by the University Bond System project administrators. In cooperation the two offices will monitor the progress of all audit recommendations and monthly status reports will be provided to the Vice President for Administration and Chief Financial Officer who will contact those who do not meet the follow-up deadlines.

Following a discussion, the meeting was adjourned at 2:45 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: February 12, 2002

c: Chairperson Allan K. Ikawa
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Senior Vice President and University General Counsel Walter S. Kirimitsu
Vice President James R. W. Sloane
Interim Vice Chancellor Rodney Sakaguchi