MINUTES OF THE REGENTS’ COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, January 16, 2003

Place & Time: Campus Center Rooms 306-307
University of Hawai‘i at Hilo
4:41 p.m.

Committee Members Present: Regents
Kurusu (presiding)
Dowling
Kawakami
Thurston
Yamasato
Kobayashi (ex-officio)

Other Regents Present: Regents
Kaneshiro
Lee
McElrath
Nunokawa

Others Present: Evan S. Dobelle, President, University of Hawai‘i
Michael T. Unebasami, Vice Chancellor for Admin. Affairs
Dexter Aoki, Senior Vice President, Wachovia Securities
David Iha, Executive Administrator and Secretary of the Board
Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

The minutes of meetings of the Regents’ Committee on Finance and Facilities held on September 12, 2002 and October 17, 2002, were approved as circulated.

Subjects:

1. Unrestricted Endowment Funds

2. University of Hawai‘i Endowment Fund for the Quarter Ending September 30, 2002

3. Amendment to the Board of Regents Bylaws - Audit Committee
Unrestricted Endowment Funds

Vice Chancellor Unebasami informed that in consultation with Third Party Monitor, Wachovia Securities, the administration was recommending the transfer of $5 million of unrestricted Endowment Funds to a reserve account. This action was approved by the Board in October of 2002 and the Committee had delegated the authority to approve the transfer plan. The third party monitor had recommended that $1 million go to Bishop Street Capital Management; $1 million to Pacific Century Trust; $1.5 million to Jurika & Voyles; and $1.5 million to Brandis Investment Partners for a total of $5 million.

Regent Kurisu confirmed that the proposed plan had been reviewed by the third party monitor and that, in their professional judgement, this was prudent. Mr. Aoki stated that Wachovia had reviewed this and concurred.

Regent Thurston moved to approve the recommended transfer plan. The motion was seconded and unanimously carried.

University of Hawai‘i Endowment Fund for the Quarter Ending September 30, 2002

Mr. Aoki reported that preliminary reports of the fourth quarter were rather bleak. The Fund’s third quarter performance resulted in a decrease in value by $5.653 million valuing the Fund at $46,118,823 million. However, he still rated the Fund’s performance an “A” since other comparable funds in the universe had suffered greater losses.

In the equity sector, according to Mr. Aoki, Bishop Street seemed to be returning to a favorable level of performance with a -16.0 percent. Pacific Century with -19.0 and Jurika & Voyles at -20.3 percent under performing the -17.3 percent return of the S&P 500 index. The Fund’s fixed income returned 6.0 percent for the quarter outperforming the 5.7 percent return of the Lehman Brother Government/Credit Bond Index. The higher returns achieved by Bishop Street and Pacific Century offset the lower return of Jurika & Voyles. Brandes, the foreign stock manager, representing 11 percent of the total fund, declined 21.6 percent for the quarter, underperforming both the -19.7 percent return of the MSCI EAFE Index and the -19.6 percent return of the average international fund.

According to Mr. Aoki, the bright note was the return performance of Bishop Street Capital. However, they will still be on probation but have taken the first step towards getting off probation.

Regent Kurisu stated that the Fund and managers need to be given the capability of becoming more proactive and asked Mr. Aoki for some suggestions. Mr. Aoki stated that the Third Party Monitor’s job as per the current policy is to merely support the Board’s investment policy strategy. However, he suggested that Wachovia would be willing to
make suggestions on changes to the portfolio mix as well as the Board’s investment policy.

Amendment to the Board of Regents’ Bylaws - Audit Committee

Secretary Iha explained that at its meeting in December of 2002 the Board of Regents had suggested the establishment of a committee to reinforce the fact that the State’s Constitution and statutes place sole responsibility of governing the internal affairs of the University on the Board of Regents. This places the burden of accountability, fiduciary responsibility, due diligence and most importantly, the responsibility of ensuring for quality higher education opportunities for the people of Hawai‘i on the Board of Regents. Therefore, the Regents had suggested an additional standing committee charged with the responsibility of independently auditing the financial management, internal controls and audit processes of the University.

Following a discussion, Regent Dowling moved to recommend to the Board the establishment of a Regents’ Audit Committee in addition to the existing seven standing committees of the Board and the Board’s bylaws appropriately amended to reflect this addition. As part of the motion, the Audit Committee is to review and monitor the University’s financial, management, internal controls, and audit processes; review and monitor the University’s compliance with policies, statutes, and regulations; and secure external auditors at its discretion. The motion was seconded and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 5:08 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: February 5, 2003

c: Chairperson Bert A. Kobayashi
   Members, Committee on Finance and Facilities
   President Evan S. Dobelle
   Vice President James R. W. Sloane