MINUTES OF THE REGENTS’ COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, March 18, 2004

Place & Time: Campus Center Conference Chamber, Rm. 220
University of Hawai‘i at Mānoa
9:37 a.m.

Committee Members Present: Regents Tatibouet (presiding)
Haynes
Hong
Tanaka
Yamasato
Lee (ex-officio)

Other Regents Present: Regents Bender
Kakuda
Kawakami
Lagareta
Nunokawa

Others Present: Evan S. Dobelle, President, University of Hawai‘i
James R. W. Sloane, Vice President for Administration
and Chief Financial Officer
Sam Callejo, Chief of Staff
Jan Yokota, Director, Office of Capital Improvements
Jan M. Javinar, Director, Co-Curricular Activities, Programs & Services
Lexi Novitske, ASUH Investment Committee Chairman
Tom Sakai, Wachovia Securities
Rob Saracco, Merrill Lynch
David Iha, Executive Administrator and Secretary of the Board
Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Haynes moved to approve the minutes of meetings of the Regents’ Committee on Finance and Facilities held on January 15, 2004 as circulated. The motion was seconded by Regent Yamasato and unanimously carried.
Minutes of the Regents’ Committee  
on Finance and Facilities  
March 18, 2004  
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Subjects:

1. University of Hawai‘i Endowment Funds - Amendments to the Investment Funds

2. Associated Students of the University of Hawai‘i at Mānoa (ASUH) Stadium Stock Fund

3. Capital Improvements Program and Repairs and Maintenance Projects Contracts for Fiscal Year 2003-2004

University of Hawai‘i Endowment Funds - Amendments to the Investment Funds

Mr. Sakai, Third Party Monitor, recommended the following changes to the current money manager structure for the University of Hawai‘i Endowment Fund:

<table>
<thead>
<tr>
<th>Current Structure</th>
<th>Recommended Structure</th>
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</thead>
<tbody>
<tr>
<td>Growth Stocks:</td>
<td>Bank of Hawai‘i</td>
</tr>
<tr>
<td></td>
<td>27%</td>
</tr>
<tr>
<td>Value Stocks:</td>
<td>NWQ</td>
</tr>
<tr>
<td></td>
<td>26%</td>
</tr>
<tr>
<td>Core Stocks:</td>
<td>Bishop Street</td>
</tr>
<tr>
<td></td>
<td>29%</td>
</tr>
<tr>
<td>International Stocks (Large Cap):</td>
<td>Brandes Large Cap Intl.</td>
</tr>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Ultra Short Fixed Income:</td>
<td>Bank of Hawai‘i</td>
</tr>
<tr>
<td></td>
<td>8%</td>
</tr>
</tbody>
</table>

The objective of this change, according to Mr. Sakai, is to increase the allocation to value stocks, currently managed by NWQ Investment Management. Over time, value stocks have achieved higher returns than growth stocks and with lower volatility. He added that value stocks over 5, 10 and 20 years have outperformed growth stocks. For this reason, the raising of the allocation to value stocks (currently the assets managed by NWQ), could enhance the Total Fund’s return and lower its volatility. Mr. Sakai reviewed with the Committee the objective of the Ultra Short Fixed Income Fund and discussed whether it would be desirable to enhance the return by diversifying a portion into Treasury Inflation-Protected Securities (TIPS).

Regent Yamasato asked what had triggered the Third Party Monitor’s recommendation. Mr. Sakai stated it was to lower the Fund’s volatility. He had made this proposal earlier to the administration in order to increase return of the fund. At the time the administration was still interested in a portfolio comprised of more fixed income. That would have hurt the Fund in light of its performance the past year in the value stocks sector.
Regent Lagareta asked if the administration had been consulted and made any comments. Chief of Staff Callejo stated that the administration did concur with Mr. Sakai’s recommendation.

Regent Tatibouet asked that Mr. Sakai provide the Committee with more information on the Treasury Inflation-Protected Securities (TIPS).

Upon motion by Regent Haynes and second by Regent Yamasato the Committee approved the recommended restructuring of the Endowment Fund’s allocation among its money managers.

**Associated Students of the University of Hawai’i at Mānoa (ASUH) Stadium Stock Fund**

Dr. Javinar explained that Board policy requires periodic reports on the ASUH Stadium Stock Fund.

Mr. Saracco, Stadium Stock Fund, Third Party Monitor, reported that the ASUH Fund returned 21.5% which was above the benchmark. He added, however, that they were not satisfied with the performance of some managers and will be coming forward with recommendations to include changes to the investment policy which is too restrictive. At the end of February the portfolio was worth $6.2 million up 3.39%. Ms. Novitske expressed appreciation of ASUH to Merrill Lynch’s professional assistance which has been an educational process for the student Senators involved. She reiterated that the fund’s performance could be improved but was being held back due to policy restraints. ASUH, upon recommendation from Merrill Lynch will be making recommendations to the Board in the future for policy changes.

**Capital Improvements Program and Repairs and Maintenance Projects Contracts for Fiscal Year 2003-2004**

Director Yokota requested that in accordance with Board policy the Committee approve recommended capital improvements program (CIP) and repairs and maintenance (R&M) contracts for planning and design consultants and construction projects. She explained that Board policy requires that the Board give prior approval of CIP and R&M contracts as it pertains to planning and design consultants and construction projects. She briefed the Committee on the list of projects requiring planning and design consultants for CIP and R&M projects that will be undertaken in fiscal year 2003-2004 and the construction projects that the University intends to award during fiscal year 2003-2004.

Regent Hong moved to approve the capital improvements program and repair and maintenance contracts for planning and design consultants in construction projects, subject to determining if any of the consultants were found in violation of campaign spending statutes. The motion was seconded by Regent Haynes, followed by a discussion.
Regent Lagareta asked that General Counsel look into the legal issue of Regent liability due to favoritism deals resulting in excessive profits. Chairperson Lee followed regarding the tentative timetable for the Science and Technology building. Director Yokota reported that it was not in the Governor’s budget nor the State House budget. Therefore, only design funds were budgeted by the legislature.

Upon call, the motion was carried unanimously. Regent Lagareta added that in light of Regent Hong’s concerns that Director Yokota review these contract.

There being no further business before the Committee, the meeting was adjourned at 10:40 a.m.

Respectfully submitted,

David Iha, Secretary

Dated: April 13, 2004

c: Chairperson Patricia Y. Lee
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Vice President James R. W. Sloane
Chief of Staff Sam Callejo
Director Jan Yokota