

MINUTES OF THE REGENTS'  
COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, September 9, 2004

Place & Time: Kaua'i Community College  
Performing Arts Center  
10:07 a.m.

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

Other Regents Present: Regents Bender  
Kai  
Kakuda  
Kawakami  
Lagareta

Others Present: David McClain, Acting President, University of Hawai#  
Walter S. Kirimitsu, Vice President and University General  
Counsel  
James R. Gaines, Interim Vice President for Research  
Sam Callejo, Chief of Staff  
Jan Yokota, Director, Office of Capital Improvements  
Dexter Aoki, Wachovia Securities  
David Iha, Executive Administrator and Secretary of the  
Board  
Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Tatibouet preferred to approve the minutes separately. Therefore, Regent Haynes moved to approve the minutes of the meeting of the Regents' Committee on Finance and Facilities held on June 2, 2004. The motion was seconded by Regent Yamasato and unanimously carried.

Regent Haynes moved to approve the minutes of the meeting of the Regents' Committee on Finance and Facilities held on June 16, 2004. The motion was seconded by Regent Yamasato and unanimously carried.

Regent Haynes moved to approve the minutes of the meeting of the Regents' Committee on Finance and Facilities held on July 15, 2004. The motion was seconded by Regent Yamasato and unanimously carried.

Subjects:

1. Extension of the Contract for Investment Monitoring Services with Wachovia Securities
2. Request to Supplement Existing Contract with Bearing Point
3. University of Hawai'i Endowment Fund, Quarter Ending June 30, 2004
4. Capital Improvements Program and Repairs and Maintenance Project Contracts for FY 2004-2005

Extension of the Contract for Investment Monitoring Services with Wachovia Securities

Chief of Staff Callejo requested that the Committee approve a one-year extension of the current contract with Wachovia Securities, Inc. (Wachovia) for investment monitoring services of the University's Endowment Fund. The term of this extension would be from April 1, 2004 to March 31, 2005.

The cost of the contract extension is estimated at \$10,000. Funds are to be provided by the University Endowment Fund.

The Third Party Monitor will assist the Board of Regents in accomplishing its fiduciary responsibility for the investment of the University's Endowment Fund including investment monitoring, the allocation of funds to various asset classes, and the engagement of professional investment managers.

The University's endowment investment policy is contained in Section 8-6 of the Board of Regents' Policies. Wachovia Securities, Inc., formerly known as First Union Securities, Inc., was contracted to perform investment management services for the University beginning April 1, 2001. The initial contract period was for three years with the option to renew for an additional three-year period. Although the contract can be extended for three years, a one-year extension will give the new Board members an opportunity to evaluate Wachovia's performance during the year and determine if the contract should be terminated or extended for an additional term.

During the term of the initial contract, Wachovia has met all of the contract terms, conditions, and deliverables and has provided the University with prudent and rational advice in managing the University's endowment. Wachovia representatives have worked closely with the University Administration and the Board of Regents to ensure that the goals and objectives of the Endowment were being met.

Regent Tatibouet asked at what administrative level was the previous RFP approved. Chief of Staff Callejo stated that it had been approved by the previous Vice President for Administration.

Regent Yamasato asked if the fee of \$10,000 was pre-set. Chief of Staff Callejo informed that it was calculated on an actual expenditure basis.

Regent Kai asked who was the previous Third Party Monitor. He was informed that it was James Higgins of Smith Barney out of the Kona office on the Big Island.

Chairperson Lee inquired about the overall performance of Wachovia. Chief of Staff Callejo informed the Committee that Wachovia's fees have been very reasonable and their performance has been more than satisfactory.

Regent Haynes moved to extend the contract for investment monitoring services with Wachovia Securities, Inc., for a period of one year from April 1, 2004 to March 31, 2005. The motion was seconded by Regent Yamasato and unanimously carried.

#### Request to Supplement Existing Contract with Bearing Point

Interim Vice President Gaines requested that the Committee approve a supplement to the existing consulting contract with Bearing Point, increasing the contract from \$120,000 up to \$300,000. He explained that Bearing Point was selected to provide consulting services to University of Hawai'i (UH) to prepare the new Indirect Rate Proposal that is to be submitted to the Department of Health and Human Services (HHS). The actual indirect cost rate will be negotiated with HHS but based on the submitted proposal from UH.

Designation by the Navy of UH as the fifth University Affiliated Research Center (UARC) creates great future funding opportunities but also produced some short term complications and additional requirements. The University will have to create an additional rate category for the UARC that will impact the basic on-campus System rate and submit this new rate as part of our proposal. The additional work in the same time frame will require additional financial resources and therefore the supplement.

Interim Vice President Gaines added that due to an unanticipated visit by the Federal negotiator, the additional cost is necessary.

Regent Tatibouet inquired about the completion date for this consulting service. Interim Vice President Gaines stated that it would be in December 2004.

Regent Tanaka asked about the possible impact on the rates by increasing fees to Bearing Point. Interim Vice President Gaines stated the University stands to increase its base rates for research overhead, and would therefore possibly gain by this engagement.

Chairperson Lee asked if the Medical School would have its own rate and if so would it affect M~noa's research rates. Interim Vice President Gaines said that it would. Splitting the Medical School should have a negative impact but the M~noa's rate would still go up.

Regent Yamasato moved to approve a \$180,000 supplement to the existing contract with Bearing Point increasing the total value to the contract from \$120,000 up to \$300,000. The motion was seconded by Regent Tanaka and unanimously carried.

University of Hawai'i Endowment Fund, Quarter Ending June 30, 2004

Mr. Dexter Aoki reported that the University's Endowment Fund for the period ending June 30, 2004 was up 13.3% despite the negative performance during the past quarter. The -0.1% performance of the Fund decreased its value by \$46,176 for a total value of \$54,251,534. This, however, was within the policy index of -0.2%. The fund value overall had increased by \$6,445,700 outperforming the policy index return of 10.3%.

The Fund's 21.1% U.S. stock return outperformed the 19.1% return of the S&P 500 index and ranked in the median 50<sup>th</sup> percentile of managed stock funds. NWQ outperformed both the 21.1% return index and the 19.1% S&P 500 index. This offset the lower returns of Bishop Street Capital Management and Bank of Hawai'i. The -0.3% return of the Fund's bond performed in line with the index. NWQ was favorable as its corporate bonds gained 1.0% for the fiscal year versus the -0.1% benchmark. The higher return of NWQ offset the negative returns of Bank of Hawai'i and Bishop Street Capital Management. Brandes, the foreign stock manager averaged 10% of the total fund and returned 44.9% for the last 12 months, above both the 32.9% and 29.4% indexes. Brandes' stock selection was favorable as the portfolio also outpaced the value index's 39.0% return. The Pacific Capital Ultra Short Government Fund returned 0.3% for the last 12 months, underperforming the 1.1% return of the CG 6-month Treasury Bill index by 0.8 percentage points.

Probation guidelines were implemented as of the beginning of October 2002 and were met for the two years ending June 30, 2004, for Bishop Street Capital Management. At the July 2004 meeting of the Board, a decision was made to remove Bishop Street Capital Management from probationary status. As the objective of the 12 months probation ending December 31, 2003 was met, the probation status for Bank of Hawai'i was removed. However, due to the subsequent under-performance in the quarter ending March 31, 2004, the portfolio was placed on "watch" status. The manager is expected to at least meet the policy index and rank above the 50<sup>th</sup> percentile for calendar year 2004 and the two years ending December 31, 2004. Among the balance portfolio managers, Bank of Hawai'i was given a C grade by Wachovia for their performance to date. Bishop Street Capital Management was given a C- grade and NWQ Investment was given an A grade. Brandes Investment, the Fund's foreign stock portfolio was given an A for its performance to date. Bank of Hawai'i's ultra short bond fund was given a C-grade.

Regent Kai expressed concern over the fluctuating performance of the local managers. Mr. Aoki explained that the Board needs to follow its policy on probation and see to it that the managers stick to the objective guidelines. Nevertheless, Regent Kai asked for further analysis of the local managers and that the Monitor also come up with options. Regent Haynes agreed and moved that the administration in consultation with the Third Party Monitor Wachovia Securities provide the Committee with an analysis of the local managers' performance at the October meeting along with any options. The motion was seconded by Regent Yamasato and unanimously carried.

Providing an update, Mr. Aoki reiterated that the Board had approved NWQ Investments and was to increase its portfolio by \$4.8 million through a reduction of the other managers for the months of July and August all return had a negative return with Bank of Hawai'i showing the largest

negative return of 2.4% on a policy index of -1.8%. NWQ Investment again performed relatively well with only a -0.4% on an index of 1.3%. Brandes, however, under-performed by -3.8% on a policy index of -2.8%. Consequently, the total fund decreased its value by approximately \$701,575 decreasing the total fund to \$53,479,437.

#### Capital Improvements Program and Repairs and Maintenance Project Contracts for FY 2004-2005

Director Yokota explained that by Board policy, the administration is requesting approval of capital improvements projects (CIP) and repairs and maintenance (R&M) contracts in excess of and/or totaling more than \$500,000, and for consultant contracts in excess of \$100,000. She summarized the projects requiring professional service contracts and the construction projects.

Regent Tanaka asked who determines the estimates. Director Yokota stated that there is a formula, sometimes more than estimates. Therefore they will need to come back to the Board for subsequent approval.

Regent Albano asked if information on the estimated cost of the construction as well as the name of the consultant could be added. Director Yokota said that she was working on a website to provide this kind of information.

Regent Tatibouet suggested that the same reporting template be used but as additional information becomes available, it be added. Chief of Staff Callejo said that his office would provide the additional column and information.

Regent Albano inquired as to who, by practice at the University, reviews the drawings. Director Yokota said that R&M design drawings are reviewed by the Facilities Management Office. He asked how the Medical School consultant contracts escaped the CIP approval process. Chief of Staff Callejo explained that the consultant contracts for Gilbane and King were sole source contracts through the Research Corporation of the University of Hawai'i (RCUH). Beyond that he did not know the details. Regent Albano followed as to the role of RCUH. Chief of Staff Callejo said that all the funding for the Medical School project went through RCUH. Regent Albano asked if that was the typical method to do a major CIP project. Chief of Staff Callejo said it was not. However, it was approved by the previous President who was a personal friend to both the Gilbane as well as the King consultants.

Regent Tatibouet asked if Gilbane was still under contract. Chief of Staff Callejo informed that it was not. However, the Board needs to review and approve the final payment of \$29,000 for services rendered with no contract. This expense had occurred prior to former president Evan Dobelle being instructed to terminate the contracts. Regent Haynes asked why it had been a sole source contract. Chief of Staff Callejo stated that Dr. Dobelle knew Mr. Jack Bradshaw of Gilbane and insisted that he be the consultant.

Regent Tatibouet asked that a full report on the \$29,000 be made to the Committee at its November meeting. The report should include what work has been done, the quality of work and what was going on. Regent Albano asked that RCUH's role be explained in the report.

Regent Haynes asked about preventive maintenance. Director Yokota explained that there is a life cycle for all buildings but nothing has been done to develop a comprehensive R&M/preventive maintenance program. However, she will be moving in that direction. Regent Tatibouet suggested that in the program that the same reference to buildings be made and an updated list of all buildings be submitted to the Board.

Regent Yamasato moved to approve the CIP and R&M projects as recommended. The motion was seconded by Regent Haynes and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 11:34 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: October 6, 2004

c: Chairperson Patricia Y. Lee  
Members, Board of Regents  
Acting President David McClain