MINUTES
BOARD OF REGENTS’ COMMITTEE ON BUDGET AND FINANCE MEETING
March 2, 2011
I. CALL TO ORDER
Committee Vice Chair Clifford Dias called the meeting to order at 9:00 a.m. on Wednesday, March 2, 2011, at University of Hawai’i, Bachman 113, 2444 Dole Street, Honolulu, Hawai’i 96822

Committee members in attendance: Vice Chair Clifford Dias; James Haynes; and James Lee.

Others in attendance: Regent Eric Martinson; Vice President for Budget and Finance/Chief Financial Officer, Howard Todo; Associate Vice President for Capital Improvements, Brian Minnau; and Executive Administrator and Secretary of the Board of Regents Keith Amemiya, Esq., and others as noted.

II. PUBLIC COMMENT PERIOD
Secretary Amemiya reported that there was no testimony.

III. AGENDA ITEMS

Update from Investment Task Group
Vice President for Budget and Finance/Chief Financial Officer, Howard Todo, said that the investment task group has been looking at how UH manages its investments and comparing that to the way that the UH Foundation (UHF) is managing its investments. The UHF’s Investment Committee meets frequently, with members with expertise in investing. It also has an investment manager in Cambridge Investment Research, Inc. The investment task group is considering the idea of the UHF handling UH’s endowment, or “legacy” funds, as a fund manager. The legacy funds are valued at around $50 million and were given to UH before the UHF existed. Legally, UH can’t give the money to UHF because it is public money that was promised for a specific reason.

Regent Martinson said that UH’s funds are currently managed passively. The Board of Regents set the policy, and an advisor – Peter Backus of MorganStanley SmithBarney – provides some market reporting of the fund, but there is no active management of the fund.

Regent Martinson repeated Todo’s remarks on the merits of using the UHF as a fund manager. He said that the first issue that the investment task group looked at was if the Board of Regents can legally delegate the responsibility to a third party, and that was resolved: The Board of Regents would have a presence (ex-officio or active
member) on the UHF’s Investment Committee, and the UHF would also report to the Board of Regents.

Regent Martinson said that the investment task group also looked at other concerns, such as co-mingling of funds and the privacy issues that would arise for the donors of the UHF. Now, the UHF is shielded from disclosure issues and would like to preserve the sanctity of privacy for its donors. The UHF suggested managing UH’s endowment funds as a separate account with many of the same asset allocations. The UHF told the investment task group that they could serve either role for UH.

Regent Martinson added that the UHF told the investment task group that its fee would be 1.5%, although initially UHF told the investment task group that there would be no fee. Regent Martinson said another option is to use a discretionary manager and to pay the fee. Upon question by Regent Haynes, Regent Martinson confirmed that the strength of the UHF is its internal monitoring from its investment committee. UH’s policy targets (6%) are similar to the policy targets of UHF (5.5%). There are also comparable spending rates.

Regent Haynes said that he was concerned that the UHF’s first priority would be the UHF, and if there would be a conflict of interest. VP Todo said that if the funds are co-mingled, priority would be a non-issue. If the accounts are separate, UH’s accounts would mirror the UHF’s accounts.

Regent Haynes recommended that the investment task group look at other advisors to manage UH’s portfolio. He also said that the process that UH uses to manage its funds is a ponderous process. VP Todo said that the Board of Regents may want to update its investment policy. Committee Vice Chair Dias suggested looking into Hawai‘i firms.

**Investment Reports**

Peter Backus, of MorganStanley SmithBarney, provided an outlook on the economy for 2011.

Backus reviewed UH’s endowment fund performances. As of the day before the meeting, UH’s account was at $58.49 million. Two fund managers, Oakridge Investments and KCM Investments, significantly underperformed for the second consecutive year in a row. Backus said UH has a lengthy procurement process in obtaining fund managers, and it can be cumbersome. He said if it is undecided about what UH plans to do with its endowment funds and if it may take some time to make the decision in regards to the UH Foundation, he recommended that UH terminate Oakridge and KCM and put the money in index funds.

The Committee on Budget and Finance recommended termination of fund managers Oakridge Investments and KCM Investments and to transfer those funds into index funds, pending Board approval and consultation. Regent Lee moved and Regent Haynes seconded the motion, which was approved unanimously.
Upon review of Chapter 8 of the Board of Regents' Policy, Secretary Amemiya determined that the Committee on Budget and Finance shall recommend to the Board for approval the engagement, evaluation, and termination of investment consultants, managers, custodial firms, and other investment professionals (Section 8-6b(2)).

Regent Lee thus amended his motion to recommend to the Board for approval, the termination of Oakridge Investments and KCM Investments and to transfer funds into index funds. Regent Haynes seconded the motion, which was approved unanimously.

Financial Status Reports

VP Todo went over the June 30, 2010, September 30, 2010, and December 31, 2010 Financial Status Reports.

IV. ADJOURNMENT

There being no further business, upon motion by Regent Haynes and second by Regent Lee, and with unanimous approval, the meeting was adjourned at 11:12 a.m.

Respectfully Submitted,

Keith Y. Amemiya, Esq.
Executive Administrator and
Secretary of the Board of Regents