I. CALL TO ORDER

Chair Diane Paloma called the meeting to order at 9:30 a.m. on Thursday, June 1, 2023, at the University of Hawai‘i (UH) at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai‘i 96822, with regents participating from various locations.

Committee members in attendance: Chair Diane Paloma; Vice-Chair Gabriel Lee; Regent Wayne Higaki; Regent Laurel Loo; and Regent Alapaki Nahale-a.

Others in attendance: Board Chair Randy Moore; Regent William Haning; Regent Laurie Tochiki; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Academic Strategy Debora Halbert; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; Interim VP for Community Colleges Della Teraoka; UH Hilo Chancellor Bonnie Irwin; UH West O‘ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Yvonne Lau; and others as noted.

II. APPROVAL OF MINUTES

Chair Paloma inquired if there were any corrections to the minutes of the March 2, 2023, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Board Secretary Lau announced that the Board Office did not receive any written testimony, and that no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Fiscal Year (FY) 2022-2023 Third Quarter UBS Legacy Endowment Fund (Fund) Investment Performance Report

Kyle Yoneshige and Lori Hamano from UBS provided a report on the Fund for the third quarter of FY 2022-2023, reviewing both asset allocation and investment performance. Ms. Hamano stated that the Fund’s investment portfolio was comprised
of cash, fixed-income, and equity assets and reviewed allocations for each asset class. She provided the rationale for UBS’s decisions to raise $3 million in cash at the end of the 2021 calendar year stating that this was a strategic maneuver to address concerns regarding the impacts of market volatility on the Fund and drew attention to a $2.5 million distribution made from the Fund in January 2023 to support the Regents and Presidential Scholars Program.

Mr. Yoneshige presented an overview of the Fund’s portfolio performance noting that, as of March 31, 2023, the value of the Fund stood at just over $84.15 million. While the third-quarter performance of both the international growth and international core asset classifications was exceptional, he pointed out that all asset categories outperformed benchmarks established within Regents Policy 8.207 during this same time period. He also mentioned that internal reviews confirmed the Fund’s compliance with all investment policies and that no material changes or weaknesses have been identified with respect to the management of the Fund.

Ms. Hamano and Mr. Yoneshige briefed the committee on current economic challenges that could impact the Fund’s performance including inflation and interest rates established by the Federal Reserve to combat inflationary pressure. They also discussed annual returns of the equity and bond markets, as well as the effect of interest rate increases and decreases on United States Treasury Bond yields. Although inflation remains elevated relative to the Federal Reserve’s target of two percent, it has stabilized and appears to be on a steady decline. As a result, market analysts are anticipating that the Federal Reserve will cut interest rates by the end of 2023. However, market analysts are also predicting a recession by year’s end. While UBS concurs that an economic recession will be experienced by the end of 2023, it does not believe that the Federal Reserve will reduce interest rates in the near future given its analysis of current economic data regarding, among other things, unemployment rates and wage growth. All things taken into consideration, UBS maintains its belief that equities still afford the best opportunity for long-term returns-on-investment. UBS will continue to monitor the financial markets, focusing on long-term returns that consider inflation and market volatility, and adjust its investment strategy accordingly.

Given its belief that interest rates will not be cut by the end of 2023, Vice-Chair Lee asked when UBS thought interest rates would be reduced. Mr. Yoneshige replied that he did not have a definitive answer as to when interest rate reductions would occur. However, considering historical actions taken by the Federal Reserve during periods in which similar economic conditions were experienced, UBS thinks the current Federal Reserve will not begin to reduce interest rates until such time that the inflation rate declines to levels nearer its target.

B. FY 2022-2023 Third Quarter Financial Report

VP Young provided the FY 2022-2023 third quarter financial report stating that, with three quarters of the fiscal year completed, the fiscal condition of the university remains positive. He presented systemwide and campus specific revenue and expenditure data pointing out that General Fund (GF) increases from higher legislative appropriations and collective bargaining raises resulted in the university experiencing total revenues that
were higher than the same time period last fiscal year; tuition and fees revenues received were $5.9 million lower than the same time period last fiscal year due to declining enrollment at all campuses; other special and revolving funds revenues were trending higher as a result of upticks in on-campus activities but remain below pre-pandemic levels; and expenditures grew due to a variety of factors including a considerable growth in on-campus activity and high inflation for goods and services. He also presented information on several enrollment data points, noting that impacts to Tuition and Fees Special Fund revenues resulting from a continued trend in declining overall enrollment is a fiscal concern, and remarked that the cessation of federal coronavirus response funds at the end of this fiscal year is something to be aware of as the university heads into the next fiscal year.

Regent Nahale-a remarked that all tuition revenues were not equal because the delivery of some academic programming involved higher costs. He asked if tuition revenues generated by a program relative to its expenses is something that is considered by the administration when determining the cost-effectiveness of a program. VP Young responded that this was more of a campus-level rather than system-level issue since each campus has a more intimate knowledge of the tuition revenues generated by, and cost drivers associated with, specific programs. President Lassner added that most academic programs, particularly those in the healthcare fields, do not generate sufficient tuition revenues to cover expenses and must rely on a mixture of funding sources, including GF appropriations to the campus, to support their operations.

Chair Paloma sought to confirm that all federal coronavirus funding received by the university must be expended by June 30, 2023. VP Young replied in the affirmative.

Discussions ensued about the university's static versus dynamic costs relative to the amount of tuition revenues being generated as well as its ability to be nimbler in addressing these matters.

Regent Haning questioned whether research funding was the largest source of revenue for the university. He also asked about the provision of financial support for medical residency programs given that individuals enrolled in those programs are not considered students of the university and medical residency programs often have to rely on federal and medical center funds to remain operational. VP Young replied that GF appropriations was the largest source of revenue for the university. With respect to medical residents, he acknowledged that medical residency programs do require subsidies and highlighted efforts to secure funding for medical residencies in the recently concluded legislative session.

Regent Wilson inquired about the university's spending plan going forward since its overall budget request was not approved by the Legislature. VP Young replied that the funds received by the university for the upcoming fiscal year will be adequate to maintain the status quo. However, serious funding reductions for the university that have been incorporated into the State’s budget beyond the next fiscal year will need to be addressed during the next legislative session. He noted that the administration will be presenting a
report on this matter, along with the university’s proposed expenditure plan, to the board in approximately three months.

C. **Status of Higher Education Emergency Relief Funds (HEERF)**

VP Young reported that, as of the end of May 2023, the university has used all but $10 million of the HEERF monies it was awarded. The administration expects HEERF funding to be fully expended by the June 30, 2023, expenditure deadline and will be providing a full report on this matter to the board later this summer.

D. **Committee Annual Review**

Chair Paloma referenced the committee annual review matrix provided in the materials packet stating that it sets forth the goals and objectives for the committee, as well as the actions carried out by the committee throughout the year.

V. **ADJOURNMENT**

There being no further business, Chair Paloma adjourned the meeting at 10:09 a.m.

Respectfully Submitted,

Yvonne Lau
Executive Administrator and Secretary
of the Board of Regents