

PHONE (808) 594-1888

FAX (808) 594-1865

Committee on Asset and Resource Management
Trustee Oswald K. Stender, *Chair*
Trustee Robert K. Lindsey, Jr., *Vice-Chair*
Members

Trustee Rowena Akana
Trustee Peter Apo
Trustee S. Haunani Apoliona
Trustee Donald B. Cataluna
Trustee Hulu Lindsey
Trustee Colette Y. Machado
Trustee John D. Waihee, IV



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
711 KAPI'OLANI BOULEVARD, SUITE 500
HONOLULU, HAWAII 96813

LIEUTENANT GOVERNOR'S
OFFICE

*12 OCT -2 P1:42

Office of Hawaiian Affairs
COMMITTEE ON ASSET AND RESOURCE MANAGEMENT
(ARM)

DATE: Wednesday, October 10, 2012
TIME: 9 a.m.
PLACE: OHA Board Room, 5th Floor at above address

AGENDA

- I. Call to Order
- II. Approval of Minutes
 - A. September 26, 2012
- III. Community Concerns/Beneficiary Comments
- IV. New Business*
 - A. Native Hawaiian Trust Fund 2nd Quarter Performance Review with Goldman Sachs
 - B. Native Hawaiian Trust Fund 2nd Quarter Performance Review with JP Morgan
 - C. JP Morgan Non-Marketable Alternatives Presentation
 - D. ARM 12-09: FY 2013 Total Operating Budget Realignment #2
 - E. ARM 12-10: OHA's General Funds and Preliminary Community Grants Biennium Budgets for Fiscal Biennium Periods 2013/2014 and 2014/2015
 - F. ARM 12-11: Native Hawaiian Trust Fund Approved Advisors List and Addition of JP Morgan as a Non-Marketable Alternatives Provider
- V. Announcements
- VI. Adjournment

*The 72 hour rule, pursuant to OHA Operations Guide, may be waived for distribution of new committee materials.


Trustee Oswald Stender, Chair
Committee on Asset and Resource Management

10/3/12
Date

**Office of Hawaiian Affairs
711 Kapi'olani Blvd., Ste. 500
Honolulu, HI 96813**

Committee on Asset & Resource Management

October 10, 2012

MINUTES

Trustees Present:

Trustee Oswald Stender, Chair
Trustee Robert Lindsey, Vice Chair
Trustee Peter Apo
Trustee Haunani Apoliona
Trustee Colette Machado
Trustee John Waihe'e, IV

Trustees Excused:

Trustee Rowena Akana
Trustee Donald Cataluna
Trustee Hulu Lindsey

BOT Staff:

Crayn Akina
Leah Burrows-Nu'uanu
Makana Chai
Lei-Ann Durant
Reynold Freitas
Kama Hopkins

Lehua Itokazu
Shirley Nakanishi
Dayna Pa
Ani Pang
Nathan Takeuchi

Administrative Staff:

Kamana'opono Crabbe, Chief Executive Officer
Aedward Los Banos, Chief Operating Officer
Hawley Alamodin, Chief Financial Officer

David Okamoto, Senior Investment Analyst

Kehau Abad
Jocelyn Doane
Kealoha Fox
Mehana Hind
John Kim
Momi Lazo

Victor Lo
Lorna Loeb
Breann Nu'uhiwa
Wayne Tanaka
Keith Yabusaki

Guests:

Howard Hodel, Consultant

Goldman Sachs

Melania Lonchyna
Stephanie Spector

JP Morgan

Aren LeeKong
Darren Smith
Bob White

- A. Native Hawaiian Trust Fund 2nd Quarter Performance Review with Goldman Sachs *(Information provided before quorum present)*
- B. Native Hawaiian Trust Fund 2nd Quarter Performance Review with JP Morgan *(Information provided before quorum present)*

Note: At 9:10 a.m., there was no quorum present. ARM Committee Chair Oswald Stender stated that OHA's Native Hawaiian Trust Fund Investment Managers from Goldman Sachs and JP Morgan would present their 2012 2nd Quarter Performance Reviews the Trustees present (Apoliona, R. Lindsey, Machado, and Stender) FOR INFORMATION ONLY.

(Refer to 'Office of Hawaiian Affairs, Board Report, June 2012' for information)

CALL TO ORDER

The meeting was called to order by Chair Oswald Stender at 9:35 a.m. when a quorum was present.

APPROVAL OF MINUTES

Trustee Machado MOVED, SECOND by Trustee Robert Lindsey to approve the minutes of the September 26, 2012 meeting of the Committee on Asset and Resource Management.

MOTION PASSED by a unanimous vote of 6 – 0

COMMUNITY CONCERNS/BENEFICIARY COMMENTS

None

NEW BUSINESS

Note: For the record, New Business Items A. and B. were presented prior to quorum being present

C. JP Morgan Non-Marketable Alternatives Presentation

David Okamoto, Senior Investment Analyst, introduced Aren LeeKong who presented an overview of JP Morgan's Alternative Assets in order for JP Morgan to add more diversification to OHA's Native Hawaiian Trust Fund portfolio.

Each trustee was given a score sheet and asked to score JP Morgan on the following areas: Firm (5%), Portfolio Construction and Risk Management (35%), Historical Performance (35%), Services (10%), and Overall Impression (5%).

Howard Hodel, Consultant, and David Okamoto informed the Trustees that they have researched the performance of JP Morgan and conducted their own evaluation using the same Score Sheet given the Trustees. Based on JP Morgan's performance, firm size, and experience, they found JP Morgan to be a favorable addition to the Native Hawaiian Trust Fund Approved Advisors List as well as an Approved Provider of Non-Marketable Alternatives. *(Refer to 'Office of Hawaiian Affairs – JP Morgan Asset Management Global Multi-Asset Group (GMAG)' report dated October 10, 2012)*

Note: At the request of board members present, Chair Stender took New Business Item F. out of order to finalize discussion on this portion of the meeting.

*Chair Stender called a Recess at 10:14 in order for OHA's Investment staff to add up score sheet results.

*Meeting resumed at 10:18 a.m.

F. ARM 12-11: Native Hawaiian Trust Fund Approved Advisors List and Addition of JP Morgan as a Non-Marketable Alternatives Provider

Trustee Robert Lindsey MOVED, SECOND by Trustee Apoliona to approve the Native Hawaiian Trust Fund Approved Advisors and Non-Marketable Asset Providers List as described in Attachment "A" (Approved Advisors List) and add JP Morgan Asset Management as an Approved Provider of Non-Marketable Alternatives.

MOTION PASSED by a unanimous vote of 6 – 0.

ARM 12-09: FY 2013 Total Operating Budget Realignment #2

Trustee Stender stated that although he was unable to attend the October 8 [2012] ARM Committee Workshop that focused on Items D. and E. (below), he understood some of the Trustees in attendance still had unanswered questions about increasing staff positions. He further suggested that the original Action stated in Action Item 12-09 could be revised to defer the requested staff positions item and vote only on the FY 2013 Total Operating Budget Realignment #2. He encouraged the Trustees who did attend the Workshop to voice their concerns if they still had them.

Trustee Lindsey (who chaired the October 8 workshop) noted that two major questions came up at the Workshop:

1. **Trustee Apoliona** requested an updated Organizational Chart since there have been changes in personnel and
2. **Trustee Apo** requested Administration be cognizant of the impact on OHA's grants process within the community

Trustee Waihe'e expressed concerns about what the restructure looks like in the Budget with regard to the three additional positions being requested as did Trustee Apoliona.

Trustee Machado expressed concerns about the Kaka'ako Makai operations with regard to design contracts and Phase II of the upcoming Kaka'ako Makai development along with "reserve" resources for issues that will come up with Kaka'ako Makai as OHA moves forward.

Trustee Stender expressed his continued disappointment that Administration has not yet engaged a development planner, property managers, etc. He emphasized that until we can get the experts on board, the Board will continue to make best guess estimates which does not make good business sense and will hurt the organization in the long run. **Trustee Machado** also expressed concern that the work on Kaka'ako Makai has not moved forward.

Trustee Machado continued that she also has great concern about the Gentry office building and the lack of forward movement in that area. **Trustee Stender** again asked for a detailed report at the October 31 [2012] ARM Committee meeting. **Trustee Machado** asked for the report to be concise with regard to her concerns; **Trustee Stender** reminded Administration of his concern that OHA continues to lose money on the Gentry acquisition as long as there is no movement forward by Administration.

Trustee Apoliona expressed her concern that Administration needs to be very specific and detailed in their work on these property matters in order for the Trustees to make accurate and informed decisions. She reminded Administration that this is the work of administrative staff and not the Trustees.

Trustees Stender and **Machado** requested Administration move forward, as previously asked, with securing someone who is capable in providing a management plan for Kaka'ako Makai and Gentry along with its cost so that the Trustees can begin to study the plans and make informed decisions as well as approve a budget that will cover those costs.

Trustee Machado expressed her frustration that the State continues to present their Master Plan while OHA has not secured those persons to help the Trustees in making decisions and wants to make sure there are enough funds in the Budget to cover these costs.

Trustee Stender reminded **Dr. Crabbe** that the property issues continue to be a very high priority that needs to be dealt with immediately. **Dr. Crabbe** informed the Trustees that OHA has engaged Inkinen and Associates to aid Administration in their search for qualified persons. Administration expects to hear from Kathy Inkinen by the end of October. He assured the

Trustees that the information requested will be forthcoming at the October 31 [2012] ARM Committee meeting.

Trustee Stender requested Dr. Crabbe make sure OHA not only hires a property manager but also a project manager. **Trustee Machado** also asked Dr. Crabbe to schedule a walk-through of the new wedding chapel that has been built as well as revisit the issue of Fisherman's Wharf as the Trustees continue to be asked questions about both sites and are embarrassed that they don't have answers.

Trustee Machado stated that the Governor is willing to support OHA's plans for the Fisherman's Wharf site but OHA so far is unable to articulate its plans. **Trustee Apoliona** expressed the Trustees needs to be very careful and not move in haste until a plan is in place. **Trustee Machado** expressed being anxious because OHA so far has no plan.

Hawley Iona, Chief Financial Officer, assured the Trustees that **Chief Operating Officer, Aedward Los Banos**, does have a plan along with a timeline that will be presented to the Trustees by November 1 [2012].

Trustee Machado explained her concern that the Trustees have not been informed as Administration moves forward and that without critical information, they are helpless in their ability to answer questions being posed by the State, the community; and soon, by the Legislature. **Ms. Iona** responded that a memo had been drafted by the COO and was forthcoming.

Trustee Machado expressed concern that this budget did not support the costs of both Kaka'ako Makai and Gentry; **Trustee Stender** explained that those costs cannot be included in this budget because there has not been a management plan laid out so it is impossible and fiscally irresponsible to throw a number into the budget 'just in case.' **Trustee Apoliona** asked if the CEO was prepared to discuss this at the October 31 [2012] ARM meeting; **Trustee Machado** informed the Trustees that he would not be prepared because she instructed him only to give the Trustees an update that did not include financial commitments and further stated that those costs should have been included in the current realignment #2 that is before the Trustees. **Trustee Stender** again reiterated that without a solid management and project plan developed by expert planners, the budget cannot include unknown costs. **Ms. Iona** confirmed that RFPs have been issued.

Trustee Stender reminded the CEO that the ARM Advisory Committee was willing to work with Administration, at no cost, to get these situations figured out and encouraged him to do so immediately because OHA loses money for every day the projects are not moving forward. **Dr. Crabbe** assured him that Administration has been working with experts. **Trustee Apo** expressed a desire to visit the policy issue as trustees need to decide how they will handle the financing (trust funds vs. borrowing the money). **Dr. Crabbe** informed the Trustees that his intent is to engage those from other Hawaiian trusts to guide the Trustees through this process. **Trustee Lindsey** asked for a timeline with regard to hiring of these positions as well as informing the Trustees on all activity regarding Kaka'ako Makai and Gentry.

Trustee Stender expressed disappointment that much time has gone by and OHA has not moved in a timely manner nor have the right people been hired. **Ms. Iona** offered a timeline by the week of October 17 as she and the CEO would speak to Aedward [Los Banos, COO] to get it done so the Trustees could be informed.

Ms. Iona confirmed for the Trustees that this budget realignment covers operational costs for Gentry, not build out or transition costs. She further stated that this budget realignment also included the LLCs.

Trustee Stender called for the Motion:

Trustee Robert Lindsey MOVED, SECOND by Trustee Machado to approve the Total Operating Budget Realignment #2 for the Fiscal Year 2013 as outlined in Attachment 1 as revised on October 10, 2012.

Discussion

Trustee Stender explained to the CEO that the request for additional personnel, which seemed to be problematic for some of the Trustees, will be deferred to Realignment #3 (around January or February 2013). **Ms. Iona** offered that Administration was prepared to present the deferred item on October 31 [2012]; however, the Trustees decided they were not ready to discuss the item further because they have many concerns regarding that item. **Dr. Crabbe** expressed that Administration has been ready to discuss this item for a while; however, **Trustee Machado** expressed that the Trustees were not getting their questions answered by Administration and that was the reason for them to hold off on considering the request for three new positions until a later date.

Trustee Stender explained that there will be a workshop regarding not only these three positions but other positions as well. He expressed his concern about OHA's ongoing transition and restructuring because OHA is not equipped financially to continue to hire additional new people or create new positions. He continued sharing his mana'o that creating positions is not advisable because OHA does not have the funds to do so and that OHA needs to create an austerity program because spending money for things just because we want them will only hurt OHA's beneficiaries in the end. He cautioned the CEO and the Trustees that taking money from programs to fund newly created positions that may not be necessary is fiscally irresponsible and as chair of the ARM Committee, he will need to see overwhelming evidence of need for new positions. **Trustee Apoliona** concurred with the ARM Chair and requested more clarity on OHA's organizational structure in its entirety along with a comparison between the former structure and the present structure especially within the Communications line of business. She explained to the CEO that the information she requested had not been given to her in its entirety and she is looking for a document comparison of the past communications division alongside the current organization as

well as proposed organizational structure for that division. Referring to the Organizational Structure document distributed at the meeting, **Trustee Stender** expressed concern that the document was marked 'Confidential' so further discussion should not be continued because there was no request for an Executive Session to be agendaized. **Dr. Crabbe** offered that he was ready with the explanations and that he was not increasing personnel costs; the presentation would show that the new positions would decrease the need for outside contracts. **Trustee Stender**, along with some of the other trustees, held their decision to hold off on this matter until a later date. **Trustee Apoliona** suggested that at a future workshop, more clarity be provided on the organizational structure along with the rationale for new positions. **Dr. Crabbe** explained that he recalled the Trustees wanted information to go out to the public in a more timely matter so a staff evaluation was conducted; and it was found that the current staffing is not adequate for the needs of community engagement and messaging. He further informed them that the current staff is unable to even keep up with publishing the Ka Wai Ola. Again, **Trustee Stender** reminded the CEO of the confidential personnel matter before them and tabled any further discussion.

There being no further discussion, **Chair Stender called for the vote:**

[Trustee Robert Lindsey MOVED, SECOND by Trustee Machado to approve the Total Operating Budget Realignment #2 for the Fiscal Year 2013 as outlined in Attachment 1 as revised on October 10, 2012.]

MOTION PASSED by a vote of 4 – 2

(Trustees Apo voted 'no,' Trustee Machado voted 'kanalua' and 'no')

Trustee Apo expressed his frustration in not being able to consult with other trustees and/or staff outside of a meeting; and without the ability to further discussion, he felt he had no option but to vote 'no.'

E. ARM 12-10: OHA's General Funds and Preliminary Community Grants Biennium Budgets for Fiscal Biennium Periods 2013/2014 and 2014/2015

Trustee Machado expressed concern that asking the Legislature for an extra \$1 million because she feels the Legislature may decrease their operating funds to OHA because of the increase in funding request. **Ms. Iona** explained that the CEO intends to increase OHA's grants for the community and the hope was that the State would help OHA provide for its beneficiaries as well.

Dr. Crabbe informed the Trustees that the Obama Administration has sanctioned a Pacific Islander Philanthropic Initiative to leveraged federal money with specific foundations such as Kellogg, Ford, and Kresky, among others. He has been invited and now sits on this committee because these organizations are willing to invest in the native Hawaiian community. They are

looking for projects multi-year multi-million dollar projects that will meet needs specific to business development, but can also help fund education and health initiatives. The goal is to develop partnerships with other funding organizations in order to help our beneficiaries. This program will provide the need for OHA to prove fiscal accountability and the success of granting programs and the impact of these programs in our community. The funds requested in this Realignment #2 will be there when this initiative becomes a reality. OHA already has several projects within the organization that have the capacity to leverage OHA's resources.

Trustee Machado inquired about the enrichment program as well as Native Hawaiian Legal Corporation (NHLC) and Alu Like; **Ms. Iona** confirmed that enrichment program grantee was Na Pua No'eau. She further explained that legal services are not a grant item and that an RFP must be submitted for NHLC and Alu Like because both agencies are social service agencies and must go through the procurement process. The budgets for these programs will be decreased. Alu Like, for example, presents a request that seeks a large request for administrative services which is not part of OHA's obligation. She further explained that if the Legislature does not provide funds for these programs, the money will need to be taken from OHA's programs budget. **Ms. Iona** explained that if OHA's budget is reduced, that reduction will be passed on to those agencies/programs that OHA funds. OHA will no longer be able provide additional funds outside the funds procured due to OHA's decrease in trust funds. **Trustee Machado** did express her disappointment in the decrease for NHLC as they provide a great service for our native Hawaiian beneficiaries along with the ability of the Board to weigh in on the budget prior to it being presented to the ARM Committee, especially because of the social services provided by NHLC and Alu Like to OHA's beneficiaries.

Trustee Robert Lindsey pointed out that OHA's request is very small compared to other state agencies and felt that if we didn't request more funding and if the Legislature cuts their funding for OHA, at least they are cutting from a larger dollar amount. He felt that the Legislature will most likely cut whatever OHA requests so it is better we ask for more to begin with. For this reason, he encouraged other trustees to approve what the Administration is asking for in this budget.

In response to **Trustee Machado's** inquiry, **Keith Yabusaki** explained that future grants focus and priorities will deal with career pathways for our beneficiaries.

Trustee Stender explained to the Board that as the ARM Committee chair, his instructions to Hawley [Iona, CFO], was to 'hold the line' and to budget at less than 5% from OHA's Native Hawaiian Trust Fund. **Ms. Iona** explained that OHA's portfolio has decreased so OHA's spending will also decrease. **Trustee Robert Lindsey** expressed concern because the monetary needs of our beneficiaries increases as our OHA's funds decreases.

In response to **Trustee Machado's** inquiry to funds provided the Department of Hawaiian Home Lands (DHHL), **Ms. Iona** explained that money received from OHA pays their infrastructure debt and OHA has requested DHHL refinance their debt. **Trustee Stender** explained that the original plan was that OHA would lend them a maximum of \$3 million; but once DHHL was able to produce income from the shopping center and future income sources, the debt service would be

satisfied. OHA's contribution to DHHL will remain the same at \$3 million, but DHHL and OHA would also benefit from a refinance.

Trustee Machado informed the other trustees that she did not agree with the request for increased funds from the Legislature so she would be voting 'no' because of the difficulty of working with the Legislature to provide funds to OHA. **Trustee Stender** and **Dr. Crabbe** expressed that they agreed with Trustee Lindsey in that it would be better to submit a higher funding request because the Legislature would probably cut the request anyway, and it would be better to get a reduction from a higher funding request than from a lower funding request.

Trustee Stender called for the motion:

Trustee Robert Lindsey MOVED, SECOND by Trustee Waihe'e to approve (1) the General Funds Biennium Budget for the fiscal biennium periods 2013/2014 and 2014/2015 and (2) the Preliminary Community Grants Biennium Budget for the fiscal biennium periods 2013/2014 and 2014/2015.

MOTION PASSED by a unanimous vote of 6 – 0
(Trustee Machado voted 'yes, with reservations')

Trustee Machado inquired of the CEO who would present the Budget to the Legislature in 2013. **Dr. Crabbe** offered that **Ms. Iona**, as CFO, would present the Budget because he agreed with Trustee Stender that at some point, OHA needs to take a hard stand on its budget request and he felt the CFO is the best person to defend OHA's budget. **Trustee Machado** restated her disappointment in the lack of increase for NHLC and Alu Like and that the requested increase for education and health budget needs would take more work at the legislative level. Again, she asked who would meet with the Legislators to defend the Budget. **Trustee Stender** expressed that OHA needs to at least try to get more funding because OHA is trying to improve the betterment of our Hawaiian beneficiaries and that the CFO and the CEO, along with the Trustees, must believe in OHA's budget and must go to the Legislature to defend it. He continued by adding that OHA's beneficiaries deserve that much from OHA. **Trustee Apo** and **Dr. Crabbe** agreed with the ARM Committee chair.

Trustee Machado requested a possible realignment in December (after the Investiture and Board Reorganization).

ANNOUNCEMENTS

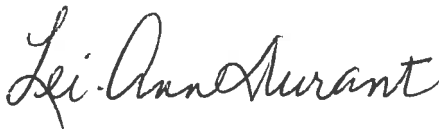
Trustee Machado reminded the Trustees that the October 11 [2012] Board Meeting would convene at 9 a.m.

ADJOURNMENT

Trustee Apoliona MOVED, SECOND by Trustee Waihe'e to adjourn the October 10, 2012 meeting of the Committee on Asset and Resource Management.

Chair Stender adjourned the meeting at 12:39 p.m.

Respectfully submitted,



Lei-Ann Durant, Aide/Secretary
Committee on Asset and
Resource Management



Oswald K. Stender, Chair
Committee on Asset and
Resource Management

Approved: October 31, 2012