

MINUTES OF THE
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

April 15, 2009

The Chair of the Committee, Carroll Robertson Ray, convened the Endowment Management Committee of the University of Houston Board of Regents, in the Flamingo Room 275, located in the University of Houston Hilton Hotel, 4800 Calhoun, on Wednesday, April 15, 2009, at 1:05 p.m., with the following members present: Jim P. Wise, Vice Chair, Calvin W. Stephens, Welcome W. Wilson, Sr., Ex Officio, and Michael J. Cemo and J. Christopher Jones, as Advisory Members.

Regent Ray stated that this was the quarterly meeting of the committee; and there would be two items on the agenda for discussion. Regent Ray was asked to defer the first item, to Approve the Amendment to Contract with Cambridge Associates – UH System to the next committee meeting. The Reports and Recommendations regarding Endowed and Non-Endowed and Manager Presentation would be provided by Cambridge Associates.

Regent Ray turned the meeting over to Dr. Carlucci, who introduced Mr. Bruce Myers, from Cambridge Associates, and requested he discuss with the committee their contract and relationship with the university.

Mr. Myers reflected that Cambridge failed to anticipate how the changes in the committee, the staff, and the changes in the market would impact the level of service that was currently in place. He felt the university should move into a different kind of relationship and take a comprehensive look at the engaged level of service they were providing to the university over the next three months. Mr. Myers suggested the need for more transparency as to what they have been doing behind the scenes and in between committee meetings. It was also suggested there should be standing monthly meetings with the chair of the committee, another committee member, the advisory members, and the staff on a regular basis, to increase the timeliness of information.

During the next few months, before the next quarterly meeting, everyone should work closely together to review and look at current market conditions and any short term moves that would be necessary moving forward. Many things have happened over the last six months and it is imperative to assess and study the asset allocation closely.

Regent Ray moved to the next item on the agenda, Report and Recommendations regarding Endowed and Non-Endowed Assets and Manager Presentation - UH System. Mr. Myers introduced Mr. Gerald B. Smith, Chairman and CEO of Smith Graham & Co., an Investment Manager, who presented the committee an update on their portfolio. Mr. Smith stated that since their inception 19 years ago, Smith Graham had always sought to add value to their clients by enhancing their product lines and client services whenever appropriate opportunities arise. Mr. Smith stated that they had recently acquired the fixed income and small- and mid-

cap value equity assets of Ark Asset Management Co. Inc. (Ark). This move doubles their size, services and potential; bolsters their assets under investment professionals to 20; and synergistically augments their product lines and client base. They are one company with two offices: Houston and New York. As of March 31, 2009, total firm assets totaled \$5.5 billion.

Mr. Smith further explained their fixed income investment philosophy and stated that their superior long-term returns can be achieved by maximizing stable cash flows across the yield curve. Diversification reduces risk and promotes stability, said Mr. Smith and there were five key factors to add value to the fixed income portfolios they manage which represent opportunities to enhance portfolio value while diversifying risk and reducing total return volatility. These five key factors are: (1) Security Selection; (2) Sector Rotation; (3) Yield Curve Positioning; (4) Volatility Management; and (5) Duration Management.

A complete copy of Mr. Smith's report was distributed to the committee and was filed in the Board office.

Mr. Myers moved to the discussion materials and gave a brief overview of the UHS endowment portfolio.

A performance update through February 2009 was reviewed. Though the performance calendar year-to-date through February was negative in absolute terms, the university's investment managers, as a whole, added value relative to their respective benchmarks across asset classes. The only asset class not to add relative value was inflation hedge.

The Manager Watch List policy was discussed. Some suggestions were offered as to how to maintain and monitor a watch list of managers whose performance was lagging or who had undergone material personnel or operational changes, including guidelines for when and for what reasons to include a manager and when to act (either firing the manager or removing them from the watch list).

Mr. Myers moved to secondary investments and described the secondary market for private equity and venture capital limited partnership interests. Cambridge felt the secondary market represents an attractive, more liquid, and potentially more conservative way to build out the university's private equity allocation in the current environment.

Mr. Myers stated these were attractive for a buyer because:

- The quality of underlying companies is clearer;
- Secondaries shorten the "J-Curve"; and
- Pricing is often attractive.

An investment manager has not yet been identified and Mr. Myers stated that they will watch for promising managers to come to market and will bring those opportunities to the committee's attention later in the year.

An update on Wellington Management's securities lending practices (including their US Research Equity product and Diversified Inflation Hedges), as well as an update on a new

product they were developing as an alternative to Diversified Inflation Hedges, whose portfolio manager was moving to Hawaii, was provided to the committee. In summary, Wellington had decided to mark to market the value of the cash collateral pools underlying their securities lending program with State Street.

There being no further business to come before the committee, the meeting was adjourned at 3:20 p.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to "Passed" agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

Others Present:

Carl P. Carlucci
Dona H. Cornell
Michael Rierson
Gerald B. Smith

Bruce Myers
Tom Ehardt
Jon Aldrich
Gerry Mathisen

Raymond Bartlett
Dineta Frazier
Marquette Hobbs