

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

November 4, 2009

The Chair of the Committee, Jarvis V. Hollingsworth, convened the Endowment Management Committee of the University of Houston System Board of Regents at the University of Houston in the Athletics/Alumni Center, Melcher Board Room 100B, 3100 Cullen Blvd., Houston, Texas on Wednesday, November 4, 2009 at 3:04 p.m. The following committee members were present: Jarvis V. Hollingsworth, Chair; Carroll Robertson Ray, Vice Chair; Jim P. Wise; Welcome W. Wilson, Sr., Ex Officio; Michael J. Cemo and J. Christopher Jones, Advisory Members. Regent Nandita V. Berry attended the meeting as a non-member of the committee.

Regent Hollingsworth welcomed everyone to the meeting and announced there would be four items presented before the committee. The first item on the agenda, Report on Fundraising and Use of Institutional Advancement Assessment Fee – UH System, was for information only. Regent Hollingsworth turned the meeting over to Dr. Carl Carlucci, Executive Vice Chancellor, Administration and Finance, who introduced the item and requested Mr. Michael Rierson, Vice Chancellor for University Advancement (UA), to give his report on this issue. A presentation was distributed to the regents that outlined the Report on Fundraising. Mr. Rierson stated the most significant initiative for UA was to achieve and sustain \$100 million or more per year in total private support. He stated the key steps towards achieving \$100 million in fundraising was to have the proper infrastructure in place, best practices, establish clear fundraising goals through written business plans, and increase key staff in critical areas.

The assessment fee took place in 2006. New gifts and pledges over the last three years were up 80% vs. the previous 3-year period; cash is up over 50% for the same time period. This is total private support – gifts for operations, endowment, and capital construction.

The endowment assessment resulted in \$17.4 million for UA's budget for the past three years, FY2007 – FY 2009. \$36.6 million in new gifts were generated for the endowment with total private support totaling \$183.0 million. A comparison of funding strategies by various public universities was addressed. A complete copy of this presentation was filed in the board office.

The next item presented to the committee was the Reports and Recommendations regarding Endowed and Non-Endowed Assets and Presentation by an Investment Manager – UH System. Dr. Carlucci turned the meeting over to Hamilton Lee and Jeff Blazek, Cambridge Associates, to give their presentations to the committee. Mr. Blazek gave a market update and stated the markets were broadly positive in the third quarter. The S&P 500 posted a 15.6% gain during the quarter. Returns were positive across asset classes in the portfolio, with international and domestic equities, hedged equities, and inflation-sensitive assets posting the strongest gains. Mr. Blazek stated that smaller and less profitable companies have outperformed large cap companies.

Mr. Lee touched on asset allocation and gave a performance update through September 30, 2009. He stated the endowment returned 10.2% during the third quarter, bringing the calendar year-to-date return to 17.1%. Both the third quarter and year-to-date returns were well ahead of both Dynamic Portfolio Benchmarks. Year-to-date, the portfolio's rebound has been driven by public equities (domestic and international), hedged equity and absolute return, and inflation hedging assets, all of which have posted double-digit gains this year.

As of September 30, 2009, Mr. Lee stated that total assets totaled \$428.7 million with the net total assets of \$383.9 million.

Mr. Lee stated that one of the issues to be discussed at the meeting would be a selection of an Emerging Markets Investment Manager. As emerging markets represent the greatest potential for strong growth over the next few decades, and since this is an inefficient market where active management can add value, Cambridge suggested the committee begin reviewing potential managers to fill this mandate, so when the timing is right, the appropriate manager will be in place. Three companies were presented to the committee for consideration: Aberdeen Asset Management, Artisan Partners, and City of London Asset Management. Cambridge Associates recommended Aberdeen Asset Management as the potential new emerging markets investment manager to the committee.

Regent Carroll Robertson Ray then made the following motion to the committee for consideration: Approval was requested to delegate authority to the Chair of the Endowment Management Committee, Regent Jarvis V. Hollingsworth, and based on consultation with Cambridge Associates and other members of the committee individually, to select one of the three emerging markets managers presented as the new emerging markets investment manager. Regent Wise seconded the motion and the committee members concurred. Once the review is completed and approved by the Chair of the Committee, this item will be placed on the agenda for the November 11, 2009 Board of Regents meeting for final board approval.

The next presentation before the committee was a Smith Group Asset Management Review. This manager is one of the Endowment's large cap growth managers, has underperformed its benchmark by over 300 basis points since inception in January 2007; more importantly, recent performance has lagged the benchmark by more than 1,300 basis points. Mr. Lee introduced three individuals from the Smith Group who would give an update to the committee on their performance: Mr. Kenneth W. Smith, Partner and Director of Business Development; Mr. Stephen S. Smith, CFA, Founder & CEO; and Mr. John D. Brim, CFA, Partner & Senior Portfolio Manager.

Mr. Stephen Smith was asked by Regent Wise how their strategy would work over the next year. Mr. Smith stated their investment philosophy has been to identify companies with undiscovered growth potential. These companies normally outperform their counterparts. Smith Group has done their best during times of stable growth. It was pointed out that the company had been underperforming over the past three years since inception. They were asked if their possible future out-performance would be tied to an improving economy. Mr. Stephen Smith stated that an improving economy would set the stage for the performance driver of their processes to come through. The Smith Group does require a good and stable economy in order for their processes

to work as well as they have in the past. The committee thanked the principles of the company for their presentation. It was the consensus of the committee to review Smith Group's performance over the next three months. A copy of their presentation has been filed in the board office.

The following agenda item, Item D, the Report on a Plan for Increasing the Internal and External Resources to the Endowment – UH System was tabled.

The last item on the agenda, Item E, Approve an amendment to the existing contract with Cambridge Associates to increase their level of service offering from general investment consulting to comprehensive advisory services and modify the fee structure from a fixed price per year to basis points of total assets – UH System, was addressed by Dr. Carlucci. He proposed that the committee consider the approval to delegate authority to the Chair of the Committee, Regent Jarvis V. Hollingsworth, with the assistance of the other committee members, advisors, and staff to review this contract and the proposed amendment. Regent Ray made a motion to the committee for this request. Regent Wise seconded the motion and the other committee members concurred. This item will be placed on the agenda for the November 11, 2009 Board of Regents meeting for final board approval.

There being no further business to come before the committee, the meeting adjourned at 4:53 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 Carlucci
Dona Cornell
Michael Rierson
Barbara Stanley
Mike Cemo
J. Christopher Jones
Gerry Mathisen

Spencer Yantis
Raymond Bartlett
Dan Wells
Ed Jones
Kenneth W. Smith
John D. Brim

Eli Cipriano
Tom Ehardt
Hamilton Lee
Jeffrey Blazek
Stephen S. Smith
Marquette Hobbs