

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

August 12, 2008

The Chair, Carroll Robertson Ray, convened the Endowment Management Committee of the University of Houston System Board of Regents, in Room 128 E. Cullen Building, 4800 Calhoun, University of Houston, on Tuesday, August 12, 2008, at 9:43 a.m., with the following members present: Jim P Wise, Vice Chair; Calvin W. Stephens; and Welcome W. Wilson, Sr., Ex Officio.

Regent Ray introduced the first item on the agenda, University Advancement Endowment Assessment - UH System. The approval was requested to continue to assess the UH System Endowment at a rate of up to 1.5%. This assessment had produced a 40% increase in UH System donations; and on the UH campus, this assessment had produced a 46% increase.

The endowment statement of investment objectives and policies, permits the UH System to annually assess a reasonable fee against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities. The investment policy states the Board shall annually review and approve this fee. The fee is based as a percentage of the fiscal year-end market value averaged over rolling three-year periods for eligible endowments. If the endowment has been in existence less than three years, the average is based on the number of years in existence. The estimated assessment for FY09 spending was \$5.8 million.

Regent Wise moved committee approval; Regent Ray seconded the motion; and members of the committee concurred. This item will be presented for Board approval at the August 19, 2008 meeting.

The next item on the agenda, Approval to dissolve the Delphian Quasi Endowment - UH System, was presented by Dr. Carl Carlucci. According to UH System Administrative Memorandum (SAM) 03.F.02, approval was requested to dissolve the Delphian Quasi Endowment to subsidize Delphian scholarship awards to students during the 2008-2010 academic years. This quasi endowment was established in 1990, using excess distributable income from a Delphian true endowment for scholarships, to be used when there were opportunities to give more awards than were covered by current year distributions. Both the Delphians and Financial Aid were in agreement to convert the Quasi Endowment into expendable dollars to use for scholarships over the next two years. This allows the awarding of these scholarships in a timely manner.

Regent Wise moved committee approval of this item; Regent Ray seconded the motion; and members of the committee concurred. This item will be presented for Board approval at the August 19, 2008 meeting.

Regent Ray introduced the next two items for information which required no action by the board.

The first information item was the Overview of Endowed and Non-Endowed Assets - UH System. The committee received reports from its investment consultant, Bruce Myers of Cambridge Associates. Mr. Myers discussed investment strategies with the committee members.

The following is a brief summary of Cambridge Associates' report:

Market Update

- Market Value \$546M at June 30, 2008
- Diversification and defensive posture of portfolio had preserved capital
- Second Quarter of 0.1% beat benchmark of -0.6%
- One-Year return of -1.3% beat benchmark of -3.2%
- Outperformed portfolio benchmark across all time horizons measured
- Allocation in line with targets and ranges
- Inflation hedges best performing asset class in 2nd Quarter and 1-Year.
- International equities worst performing asset class in 2nd Quarter: Large cap equities worst performing asset class over 1-year.

Peer Comparison

- Peer group in allocation to alternatives (PE/VC) still behind but building
- International allocation 10% greater than peer group.

EnCap Update

- The University of Houston had made a \$15 million commitment in June 2007 to EnCap Energy Capital Fund VII, a private oil & gas partnership.
- Earlier this summer, EnCap had announced plans to raise a midstream energy infrastructure fund unrelated to Fund VII, and somewhat outside the strategy focus of the firm.
 1. It would be run by a third-party manager called Flatrock (an investment firm with 7 individuals with 25 years' experience in midstream infrastructure investing.
 2. Involvement with the midstream fund would be limited to managing director, Wynne Snoots, who is with EnCap. EnCap (Mr. Snoots) would provide fundraising assistance and sit on the investment committee, but would not be involved on a day-to-day basis in the management of the fund.
 3. EnCap would own 60%-70% of the economics of this fund, though Flatrock would provide the majority of the labor.
- EnCap had asked limited partners (including the University) to acknowledge their establishment of this fund. EnCap needed a two-thirds majority approval from

the limited partners in order to proceed. They did receive the necessary approval to move forward.

- Cambridge had advised the University staff to vote against allowing the firm to continue raising this fund.
- Cambridge believes that EnCap's involvement with this fund would be limited and they do not expect it to interfere materially with the investment of Fund VII, nor to compete with any of Fund VII's transactions.

At the last Endowment Management Committee meeting held on April 21, 2008, the committee had raised concerns about Smith Graham's performance. Mr. Myers commented that Smith Graham's mandate had changed in May 2007 to core fixed income and benchmarked to Lehman Aggregate Bond Index like Wells Capital. Since this change, Smith Graham had underperformed benchmark by 40 bps and Wells Capital by 170 bps. Cambridge recommended closely monitoring Smith Graham over the next two-three quarters and a decision will be made at that time.

For the record, Regent Ray wanted to know which managers had been placed on the watch list. The following managers were cited by Mr. Myers: Boston Partners; Dodge & Cox; Bernstein; Hedge Energy; and Smith & Graham.

Cambridge Associates is currently working to identify qualified managers who will give presentations at the next Endowment Management Committee meeting in December. CommonFund will give a presentation at the December meeting.

Regent Ray expressed her appreciation for the diligence Cambridge Associates has shown in the marketplace. Regent Wise stressed the importance of knowing and cultivating the community.

The discussion materials distributed by Cambridge Associates were filed in the Board office.

The last item on the agenda was the Overview of Private Support - UH System. Regent Ray called upon Mr. Michael Rierson for his report. Mr. Rierson stated the actual amount raised year-to-date was \$71,322,770 system-wide, which was 116.2% of the FY 2007-2008 goal of \$61,400,000.

Regent Ray requested Mr. Rierson prepare a report which outlines all of the foundations, what they have given, and what were their audit costs. The committee would like to see this report given at the next committee meeting.

There being no further business to come before the committee, the meeting adjourned at 11:35 a.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
Jerry Strickland
Jim McShan
Michael Rierson

Wayne Beran
Ed Hugetz
Dan Wells
Bruce Myers

Oscar Gutierrez
Emily Messa
Gerry Mathisen