AGENDA

UNIVERSITY OF HOUSTON SYSTEM
ENDOWMENT MANAGEMENT
COMMITTEE MEETING

DATE: Tuesday, August 16, 2011
TIME: 1:00 p.m. (changed from original start time of 1:30 p.m.)
PLACE: Hilton University of Houston Hotel
Waldorf Astoria Ballroom E, Second Floor
4800 Calhoun
Houston, Texas 77204

Chair: Jarvis V. Hollingsworth
Vice Chair: Jim P. Wise
Members: Mica Mosbacher
Carroll Robertson Ray, Ex Officio
Advisory
Members: Michael J. Cemo
J. Christopher Jones

ENDOWMENT MANAGEMENT COMMITTEE

A. Call to Order

B. Approval of Committee Minutes
   • May 17, 2011, Endowment Management Committee Meeting

Action: Approval

C. Resolution in Appreciation – Michael J. Cemo – University of Houston System

Action: Approval

D. Resolution in Appreciation – J. Christopher “Chris” Jones – University of Houston System

Action: Approval

E. Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets – University of Houston System

08/16/2011
EM AGENDA - 1
**Action:** Information and/or Approval

F. Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund – University of Houston System

**Action:** Approval

G. Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund – University of Houston System

**Action:** Approval

H. Adjourn
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Resolution in Appreciation – Michael J. Cemo

DATE PREVIOUSLY SUBMITTED:

SUMMARY:
Approval is requested for a Resolution in Appreciation of Michael J. Cemo for his exceptional and distinguished service as an advisory member to the University of Houston System Endowment Management Committee for the years 2008 through 2011.

SUPPORTING DOCUMENTATION:
Resolution in Appreciation – Michael J. Cemo

FISCAL NOTE:
None

RECOMMENDATION/ACTION REQUESTED:
Administration recommends approval of this item

COMPONENT:
University of Houston System

EXECUTIVE VICE CHANCELLOR
Carl Carlucci
DATE 7/29/2011

CHANCELLOR
Renu Khator
DATE 8/1/11

08/16/2011
EM – C-1
RESOLUTION IN APPRECIATION

MICHAEL J. CEMO

WHEREAS, Michael J. Cemo was appointed as an Advisory Member of the Endowment Management Committee of the University of Houston System Board of Regents in April 2008, serving three consecutive one-year terms until August 31, 2011; and,

WHEREAS, Michael J. Cemo was the first Advisory Member appointed unanimously by the Chair of the Board, the Chancellor of the UH System, and the Chair of the Endowment Management Committee; and,

WHEREAS, applying his vast experience and knowledge during his term of service, Michael J. Cemo was involved in various investment policy reviews that led to improvements in the oversight of the UH System's investment portfolio, engaged in the process of restructuring the domestic equity, fixed income, and hedge fund asset classes to enhance risk-adjusted returns over time, and recommended increased exposure to additional asset classes to diversify portfolio risk; and,

WHEREAS, in addition, Michael J. Cemo advocated for increased funding of university advancement operations to further increase the size of the endowment for the benefit of current and future generations of students, focused on peer comparison to benchmark the endowment's performance, and was involved in the decision to expand the investment consultant's role in the endowment, which has led to improved returns relative to our peer group; and,

WHEREAS, Michael J. Cemo, a proud alumnus of the University of Houston, had previously served the institution with diligence, commitment, and vision for a six-year term as a Member of the UH System Board of Regents, including terms as Secretary and Vice Chair,

NOW BE IT THEREFORE RESOLVED that the Endowment Management Committee of the University of Houston System Board of Regents issues this resolution in appreciation of Michael J. Cemo for his committed and distinguished service to the University of Houston System Board of Regents.

Dated this sixteenth day of August, 2011.

Jarvis V. Hollingsworth, Chair  
Endowment Management Committee  
University of Houston System Board of Regents

Jim P. Wise, Vice Chair  
Endowment Management Committee  
University of Houston System Board of Regents

Michele “Mica” Mosbacher, Member  
Endowment Management Committee  
University of Houston System Board of Regents

Carroll Robertson Ray, Ex Officio Member  
Endowment Management Committee  
University of Houston System Board of Regents

08/16/2011  
EM – C-1.1
Committee: Endowment Management

Item: Resolution in Appreciation – J. Christopher “Chris” Jones

Date Previously Submitted:

Summary:
Approval is requested of a Resolution in Appreciation of J. Christopher “Chris” Jones for his exceptional and distinguished service as an advisory member to the University of Houston System Endowment Management Committee for the years 2008 through 2011.

Supporting Documentation:
Resolution in Appreciation – J. Christopher “Chris” Jones

Fiscal Note: None

Recommendation/Action Requested:
Administration recommends approval of this item

Component: University of Houston System

Executive Vice Chancellor: Carl Carlucci (7/29/2011)

Chancellor: Renu Khator (8/11/11)
RESOLUTION IN APPRECIATION

J. CHRISTOPHER “CHRIS” JONES

WHEREAS, J. Christopher “Chris” Jones served as an Advisory Member of the Endowment Management Committee of the University of Houston System Board of Regents for the years 2008-2009, 2009-2010, and 2010-2011; and,

WHEREAS, J. Christopher “Chris” Jones was the second Advisory Member appointed unanimously by the Chair of the Board, the Chancellor of the UH System, and the Chair of the Endowment Management Committee; and,

WHEREAS, applying his vast experience and knowledge during his term of service, J. Christopher “Chris” Jones was involved in various investment policy reviews that led to improvements in the oversight of the UH System’s investment portfolio, engaged in the process of restructuring the domestic equity, fixed income, and hedge fund asset classes to enhance risk-adjusted returns over time, and recommended increased exposure to additional asset classes to diversify portfolio risk; and,

WHEREAS, in addition, J. Christopher “Chris” Jones supported funding of university advancement operations to further increase the size of the endowment for the benefit of current and future generations of students, focused the endowment to raise its exposure to private equity to be in line with its peer group in order to improve its long-term returns, and was involved in the decision to expand the investment consultant’s role in the endowment, which has led to improved returns relative to our peer group,

NOW BE IT THEREFORE RESOLVED that the Endowment Management Committee of the University of Houston System Board of Regents issues this resolution in appreciation of J. Christopher “Chris” Jones for his committed and distinguished service to the University of Houston System Board of Regents.

Dated this sixteenth day of August, 2011.
COMMITTEE: Endowment Management

ITEM: Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets

DATE PREVIOUSLY SUBMITTED:

SUMMARY:
Approval is requested for (1) the replacement of the manager specific benchmark for Wellington Diversified Inflation Hedge from Wellington’s custom benchmark to a custom inflation hedge benchmark (ex-REITs) constructed of an equal weighted blend of US TIPS, natural resource equities, and commodities; (2) the replacement of the composite level inflation hedging benchmark for the total inflation hedging portfolio from the Wellington DIH custom benchmark to a custom benchmark constructed of an equal weighted blend of US TIPS, natural resource equities, commodities, and REITs; and (3) a $1.5 million partial redemption from York Capital Management. (4) Cambridge Associates will present an overview of the market, the endowment’s asset allocation and performance, and other analysis of the portfolio.

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials book

FISCAL NOTE: As to item 3, $1.5 million.

RECOMMENDATION/ACTION REQUESTED: Administration recommends approval of items 1, 2, and 3. Item 4 is information only.

COMPONENT: University of Houston System

EXECUTIVE VICE CHANCELLOR: Carl Carlucci  DATE: 7/29/2011

CHANCELLOR: Renu Khator  DATE: 8/1/11

08/16/2011

EM – E-1
COMMITTEE: Endowment Management

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund.

DATE PREVIOUSLY SUBMITTED:

SUMMARY: Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund. The Committee will receive a report from the System’s investment consultant, Cambridge Associates, regarding their recommendation to hire a hedge fund manager. The recommended manager is an opportunistic, contrarian event-driven fund that focuses on companies and industry sectors undergoing turmoil. The fund takes long and short positions in both equity and debt securities and considers a company’s entire capital structure when evaluating current and prospective holdings. Aside from long/short equity and credit investments, the fund also utilizes portfolio hedges, often in the form of index put options and credit default swaps. The investment process is driven by bottom up fundamental analysis as well as the investment team’s views on economic conditions and market cycles.

SUPPORTING DOCUMENTATION: Detail of this manager is included in the Cambridge Associates discussion materials book.

FISCAL NOTE: $6 million investment recommended. Fee structure is 1.75% management fee and a 20% incentive fee.

RECOMMENDATION/ACTION REQUESTED: Administration recommends approval of this item.

COMPONENT: University of Houston System

EXECUTIVE VICE CHANCELLOR  Carl Carlucci  08/16/2011

CHANCELLOR  Renu Khator  08/16/2011
ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund.

SUMMARY:
Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of an investment manager for the University of Houston System Endowment Fund. The Committee will receive a report from the System’s investment consultant, Cambridge Associates, regarding their recommendation to hire a globally focused private equity firm. About 50% of the fund is expected to be invested in oil and gas, 20% in metals and mining, and 30% in power and renewables. The manager is seeking $2.5 billion for its sixth private equity fund, of which Cambridge is recommending a $4 million commitment by UHS. A first close is scheduled for the third quarter of 2011.

SUPPORTING DOCUMENTATION: Detail of this manager is included in the Cambridge Associates discussion materials book.

FISCAL NOTE: $4 million initial commitment recommended. Management fee 2%; 20% carried interest with an 8% preferred return

RECOMMENDATION/ACTION REQUESTED: Administration recommends approval of this item.

COMPONENT: University of Houston System