AGENDA

UNIVERSITY OF HOUSTON SYSTEM
ENDOWMENT MANAGEMENT
COMMITTEE MEETING

DATE: Wednesday, April 15, 2009
TIME: 1:00 p.m.
PLACE: University of Houston Hilton Hotel
        Flamingo Room 275
        4800 Calhoun
        Houston, Texas 77204

Chair: Carroll Robertson Ray
Vice Chair: Jim P. Wise
Members: Calvin W. Stephens
         Welcome W. Wilson, Sr., Ex Officio
Advisory Members: Michael J. Cemo
                 J. Christopher Jones

ENDOWMENT MANAGEMENT COMMITTEE

1. Call to Order

2. Approve Amendment to Contract with Cambridge Associates – UH System
   Action: Approval

3. Report and Recommendations Regarding Endowed and Non-Endowed Assets and Manager Presentation – UH System
   Action: Information and/or Approval

4. Adjourn
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Approve amendment to contract with Cambridge Associates

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested to amend the contract with Cambridge Associates to increase their annual fee to $232,500 for the period February 1, 2009 through January 31, 2010. The 2009 proposed fee represents a 5.9% increase compared to $219,500 in 2008. A portion of the 2009 increase is attributable to the number of current managers in the non-marketable portfolio (reporting cost is variable, based on the number of managers). The remaining increase is based on the past year’s activity recorded by the consulting team (i.e. increased number of conference calls and ad hoc requests) as well as an anticipation of additional miscellaneous consulting services required in the year to come in response to an unpredictable market. We have a 5 year contract with Cambridge that goes to 2013, which was approved by the Endowment Management Committee and the Board on September 12, 2007. The contract stipulates that the fee is negotiated annually.

FISCAL NOTE: 2009-2010 Fee: $232,500

SUPPORTING DOCUMENTATION:
Summary of Contract Amendment and 2007 Selection Process for Investment Consultant

ACTION REQUESTED: Approval

COMPONENT: University of Houston System

PRESIDENT
EXECUTIVE VICE CHANCELLOR Carl Carlucci
CHANCELLOR Renu Khator

DATE 3/27/09
DATE 3/31/09

ENDOW - 1
Cambridge Associates
Summary of Contract Amendment
And Original Selection Process for Investment Consultant

We have a 5 year contract with Cambridge that goes to 2013, which was approved by the Endowment Management Committee and the Board on September 12, 2007. The contract stipulates that the fee is negotiated annually. Cambridge is requesting an increase in their annual fee to $232,500 for the period February 1, 2009 through January 31, 2010. The 2009 proposed fee represents a 5.9% increase compared to $219,500 in 2008. A portion of the 2009 increase is attributable to the number of current managers in the non-marketable portfolio (reporting cost is variable, based on the number of managers). We had 13 non-marketable funds in January 2008 compared to 15 today with a possibility of adding more in this 12-month period principally through secondary private equity fund investments. The remaining increase is based on the past activity recorded by the consulting team (i.e. increased number of conference calls and ad hoc requests) as well as an anticipation of additional miscellaneous consulting services required in the year to come in response to an unpredictable market. The fee provides us access to Cambridge research, 6 meetings or conference calls for the year, performance reporting for up to 35 managers for the endowment fund and 6 managers for the non-endowed funds (traditional); unlimited traditional and fund-of-funds manager searches; and performance reporting on the non-marketable assets. Flash reports are billable at $1,800 per report. Cambridge travel and miscellaneous expenses are reimbursable at cost.

In June 2007, we distributed a Request for Proposal (RFP) for investment consultant to twelve firms and posted the RFP on the Texas Building and Procurement Commission’s web site. Raymond Bartlett and Robbi Puryear, Assistant Treasurer, performed independent evaluations of each of the firms that responded to our RFP. We evaluated each response to over 30 specific questions aimed at determining (a) the ability of the firm to fulfill the System’s current and future needs; (b) the appropriateness of the firm’s business profile; and (c) cost of services. The primary drivers of ranking were the firm’s ability to meet our current and future needs and its business profile. Price was a factor, but we realized that a few firms were able to rank higher in the total score because their price was below, and in some cases well below, those firms that we feel can best meet the System’s needs.

There were eleven responses, but one firm, Hirtle, Callaghan & Co., was disqualified for lack of responsiveness to the RFP. The overall results of the evaluations were as follows:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Overall Ranking</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge Associates</td>
<td>1</td>
<td>$229,500</td>
</tr>
<tr>
<td>Hammond Associates</td>
<td>2</td>
<td>387,500</td>
</tr>
<tr>
<td>Guggenheim Partners</td>
<td>3</td>
<td>387,500</td>
</tr>
</tbody>
</table>

ENDOW – 1.1
| Prime Buchholz & Assoc. | 4 | 301,400 |
| Evaluation Associates | 5 | 288,000 |
| Ellwood Associates | 6 | 212,500 |
| RV Kuhns & Associates | 7 | 165,000 |
| Wilshire Associates | 8 | 250,000 |
| Gregory W. Group | 9 | 175,000 |
| PFM Advisors | 10 | 320,000 |

Factors that set Cambridge Associates apart from the other respondents were as follows:

- 34 years of experience – #1 among all respondents
- 74% of their clients (in terms of number of clients) are endowments and foundations – #1 among all respondents
- 61% of their clients (in terms of dollars under advisement) are endowments and foundations - #2 among all respondents
- $980 million is the average size of their endowment and foundation client – #1 among all respondents
- $1 Billion in assets under advisement – #2 among all respondents
- More depth of consulting, research and analytical staff compared to any other respondent with 161 consultants, 29 research analysts, 181 performance analysts, and 107 analysts performing other duties

In the final analysis, Cambridge Associates ranked the highest overall among the respondents, and their cost is significantly less than the next four highest rated firms. This information was presented to the Endowment Management Committee and the Board of Regents on September 12, 2007. The Committee and Board approved the request to retain Cambridge Associates as the Investment Consultant for the UH System’s endowed and non-endowed funds for another five-year period.
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Report and Recommendations Regarding Endowed and Non-Endowed Assets and Manager Presentation

DATE PREVIOUSLY SUBMITTED:

SUMMARY:
The Committee will receive reports and recommendations from its investment consultant, Cambridge Associates, discuss investment strategies for the System's Endowment Fund and Non-Endowed Funds, and interview an investment manager.

FISCAL NOTE:

SUPPORTING DOCUMENTATION:

ACTION REQUESTED: Information and/or Approval

COMPONENT: University of Houston System

PRESIDENT

DATE

EXECUTIVE VICE CHANCELLOR  Carl Carlucci

DATE

CHANCELLOR  Renu Khator

DATE