

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

February 13, 2009

The Chair of the Committee, 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 Friday, February 13, 2009, at 10:07 a.m., with the following members present: Jim P. Wise, Vice Chair, Calvin W. Stephens, and Michael J. Cemo and J. Christopher Jones, as Advisory Members. Ex officio member, Welcome W. Wilson, Sr. was unable to attend.

Regent Ray welcomed everyone and turned the meeting over to Dr. Carl Carlucci, Executive Vice Chancellor/Executive Vice President for Administration and Finance, who introduced the first item on the agenda, FY'09 Endowment Payout Rate – UH System.

Dr. Carlucci requested approval to decrease the UH System Endowment payout rate from 5% to 4% for FY 2009 (FY 2010 spending). The Endowment Statement of Investment Objectives and Policies approved by the board authorized a payout rate within a range of 4% to 5%. This policy attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing reasonable, predictable, stable, and sustainable level of income to support current needs.

Dr. Carlucci stated notice had been given to the Faculty Senate, Vice Chancellors, Staff Council, Deans, and students regarding this 1% percent decrease in the payout. The main concern of this decrease was the impact it would have on scholarships. This decrease would cause a shortage of \$287,000 in funds, but he emphasized that this shortage could be covered by other funds. It was suggested scholarship accounts be made whole to the extent reserves were not available in a scholarship account. Tom Ehardt gave a brief analysis to the committee on this subject.

Regent Ray expressed her appreciation to both Dr. Carlucci and Provost Antel for their diligence on this issue and working with the board.

Regent Stephens moved committee approval of this item as presented. Regent Wise seconded the motion, which the committee approved unanimously.

The next item presented on the agenda was the FY'09 University Advancement Endowment Assessment –UH System. Dr. Carlucci requested committee approval to assess the UH System Endowment at a rate of 1.5% for FY'09 (FY 2010 spending). This represents the annual approval by the board of this assessment. The Investment Policy also states that the board shall annually review and approve the fee. This fee was based as a percentage of the fiscal year-end market value averaged over rolling three-year periods for eligible endowments. If an endowment

has been in existence less than three years, the average would be based on the number of years in existence.

It was estimated the assessment for FY 2010 spending would be \$5 million, which represents an estimated \$900,000 decrease from FY 2009 spending. Mr. Rierson stated University Advancement would take the loss; and that program support, marketing and travel would be the main areas impacted by the decrease in funding, but no potential layoffs were anticipated.

Regent Ray emphasized that the board would give University Advancement the necessary tools they needed to succeed. University Advancement has currently made 29% of goal and has raised an estimated \$26 million to date.

Regent Stephens made a motion for committee approval of this item. Regent Wise seconded the motion, which the committee approved unanimously. This item will be placed on the February 17, 2009 agenda for final Board approval.

The last item on the agenda for discussion was the Report and Recommendations regarding Endowed and Non-Endowed Assets – UH System. Regent Ray turned the meeting over to Mr. Hamilton Lee, who gave the Cambridge Associates report to the committee.

Mr. Lee addressed the committee and stated for the fourth quarter, the Endowment declined 15.7% and lost 31.1% for the calendar year. For both periods, performance lagged the dynamic portfolio benchmark and the Cambridge Endowment Median, which was due in part to poor relative performance by the portfolio's international, fixed income, and inflation hedging managers.

Aggregate returns for the cash and liquidity pools totaled 2.1% for the quarter and 4.7% for the calendar year. Total non-endowed assets, which includes the cash and liquidity pools plus the funds invested in the endowment, declined 1.1% during the quarter, and fell 2.1% during the year.

Mr. Lee discussed the Asian growth rate. While the Chinese economy was the third largest in the world, it had slowed dramatically. Current forecasts call for the GDP growth between 6% and 8% (real) in 2009 and 2010. Mr. Lee said that any growth rate north of 7% in China could be viewed as a positive sign for the pace of the recovery in the global economy.

Energy prices have also dramatically declined from the nearly \$100 a barrel recorded earlier; and Mr. Lee said to look for energy prices to stabilize around the \$50 a barrel level.

Cambridge Associates made the recommendation to terminate the University's International Value Manager, Alliance Bernstein, due to major personnel changes that had recently occurred and poor relative performance. Cambridge recommended a replacement for this manager be considered as soon as possible, and provided the committee with an analysis of three potential replacement managers for their consideration.

- Silchester International Investors;
- Sanderson Asset Management Limited; and
- Artisan Partners.

After the committee reviewed Cambridge's information on these managers and discussed the possibilities presented, the committee determined that Silchester International Investors would be the best replacement for Alliance Bernstein.

Regent Wise moved committee approval of this request. Regent Stephens seconded the motion, which was approved unanimously by the committee. This item will be placed on the February 17, 2009 agenda for final Board approval.

Wellington Management was discussed due to recent developments with regard to the portfolio management team of their Diversified Inflation Hedge product. Mr. Lee felt there was no immediate action to be taken, but to continue to monitor the situation and identify potential replacements.

Mr. Lee discussed comparative data on two Global Bond Managers who each gave a presentation to the committee. They were:

- Mondrian Investment Partners; and
- Colchester Global Investors.

The first presentation was given by Mr. Daniel Philps, Senior Portfolio Manager and Mr. Lee Giannone, Senior Vice President, Client Services, both from Mondrian Investment Partners. Mr. Philps, from their London office, stated they were a successful, well-managed company, founded in 1990, with 18 years of stable, consistent leadership; and over \$48 billion under management. They are a value-oriented defensive manager and invested in global fixed income markets which offer high income in real (inflation adjusted) terms, measured by a market's Prospective Real Yield (PRY). A complete copy of their presentation was filed in the Board office.

The second presentation was given by Ms. Mamak Shahbazi, Colchester Global Investors. Ms. Shahbazi emphasized that this firm was a value-oriented global fixed income manager investing primarily in high quality sovereign bond markets that offer attractive real yields and sound finances. The firm is majority-owned and controlled by its principals. Ms. Shahbazi stated that about two-thirds of the alpha in the product is derived from bond/country selection and one-third is derived from currency allocation. A complete copy of this presentation was filed in the Board office.

After the committee heard both presentations from the Global Bond Managers, the following recommendations were made by the committee:

- Approval was requested for Mondrian Investment Partners Limited as an investment manager for the UH System Endowment Fund;
- Smith Graham - rebalance this portfolio by taking \$10 million and placing it with Mondrian Investment Partners; and

- Take \$10 million from cash and place it with Mondrian Investment Partners.

Regent Wise moved committee approval to add Mondrian Investment Partners as an investment manager for the UH System Endowment Fund. Regent Stephens seconded the motion, which passed unanimously. This item will be placed on the February 17, 2009 Board agenda for final Board approval.

There being no further business to come before the committee, the meeting was adjourned at 1:26 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
Dan Gardner
Hamilton Lee
Gerry Mathisen

Tom Ehardt
Michael Rierson
Daniel Philips
Jeannie Kever

Raymond Bartlett
Eli Cipriano
Lee Giannone
Heather Duran