
AGENDA

UNIVERSITY OF HOUSTON SYSTEM ENDOWMENT MANAGEMENT COMMITTEE MEETING

DATE: Thursday, December 3, 2020

TIME: 11:00 AM

PLACE: The University of Houston System Board of Regents will convene this meeting remotely by videoconference from various locations. It is necessary to conduct this committee meeting remotely due to the COVID-19 pandemic.

Link to live broadcast of meeting: <https://uh.edu/bor-live>

Chair: Beth Madison

Vice Chair: Jack B. Moore

Members: Durga D. Agrawal
Alonzo Cantu
John A. McCall, Jr.
Alvaro De La Cruz
Tilman J. Fertitta, Ex Officio

I. Endowment Management Committee

A. Call to Order

Presenter: Chair Steve I. Chazen

B. Approval of Committee Minutes
- May 21, 2020, Endowment Management Committee Meeting

Action: Approval

Presenter: Chair Steve I. Chazen

C. Report from Cambridge Associates regarding the University of Houston System Endowment and non-endowed portfolios - University of Houston System. 3

Action: Information

Presenter: Raymond Bartlett, Sr. Vice Chancellor for Administration and Finance

D. Approval is requested to transfer investment assets from one investment product to another within the UH System Endowment Fund - University of Houston System. 30

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

- E. Approval is requested for the annual review of the University of Houston System Board of Regents Endowment Management Committee Charter - University of Houston System. 31

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

II. **Executive Session**

1. Consultation with System Attorney Regarding Legal Matters and/or Contemplated Litigation or Settlement Offers
Texas Gov't Code Section 551.071
- Consultation with General Counsel on pending legal matters
2. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property
Texas Gov't Code Section 551.072
3. Deliberation Regarding a Prospective Gift
Texas Gov't Code Section 551.073
4. Personnel Matters relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Chancellor, Presidents, Vice Chancellors, in the Division of Athletics and members of the Board of Regents
Texas Gov't Code Section 551.074

Presenter: Chair Steve I. Chazen

III. **Report and Action from Executive Session**

Presenter: Chair Steve I. Chazen

- A. Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for investment consultant for the University of Houston System Endowment and Non-Endowed Investments - University of Houston System 33

Action: Approval

Presenter; Steve I. Chazen

IV. **Adjourn**

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management Committee

ITEM: Report from Cambridge Associates regarding the University of Houston System endowment and non-endowed portfolios.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Representatives from Cambridge Associates will present to the Committee a report regarding the System's endowment and non-endowed investment portfolios. The report may include, such topics as market commentary, asset allocation, portfolio risk analysis, manager performance reporting, current and future investment strategies, and overall portfolio performance among others.


SUPPORTING

DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett

11/12/2020
DATE



CHANCELLOR Renu Khator

11/12/2020
DATE

UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS



UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS

DECEMBER 2020

UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS

DECEMBER 2020

Kerry D. Kirk, CFA
Erin Schuhmacher
Phil Fiske
Kelly Jensen

- I. Cambridge Associates Report on UH Portfolio (Information Only)
 - a. UH Performance & Asset Allocation (Endowed & Non-Endowed)
 - b. Private Investments Update
- II. Cambridge Associates Recommendations (Action Items)
 - a. US Equity Manager Recommendation
- III. Appendix

EXECUTIVE SUMMARY



Executive Summary

Key Tabs	Comments
I. Cambridge Associates Report On UH Portfolio (Information Only)	
a. UH Performance & Asset Allocation	<p>During Q3 2020, markets continued their historic rally from the lows of early 2020. The UH portfolio has returned +1.6% year to date.</p> <p>In relative terms the total portfolio outperformed the policy benchmark by 220 bps, while the total marketable portfolio (+2.3%) outperformed the marketable benchmark by 110 bps.</p> <p>The total portfolio is outperforming the policy benchmark over the trailing 3 and 5 year periods.</p>
b. Private Investments Update	We review the private performance through the first 9 months of 2020.
II. Cambridge Associates Recommendations (Action Items)	
a. US Equity Manager Recommendations	<u>For Approval:</u> We recommend a full redemption (~\$102m) from the Northern Trust Russell 1000 Index and subsequent investment in the Northern Trust Russell 3000 Index product.
III. Appendix	

I. CAMBRIDGE ASSOCIATES REPORT ON UH PORTFOLIO (INFORMATION ONLY)



A. UH PERFORMANCE & ASSET ALLOCATION

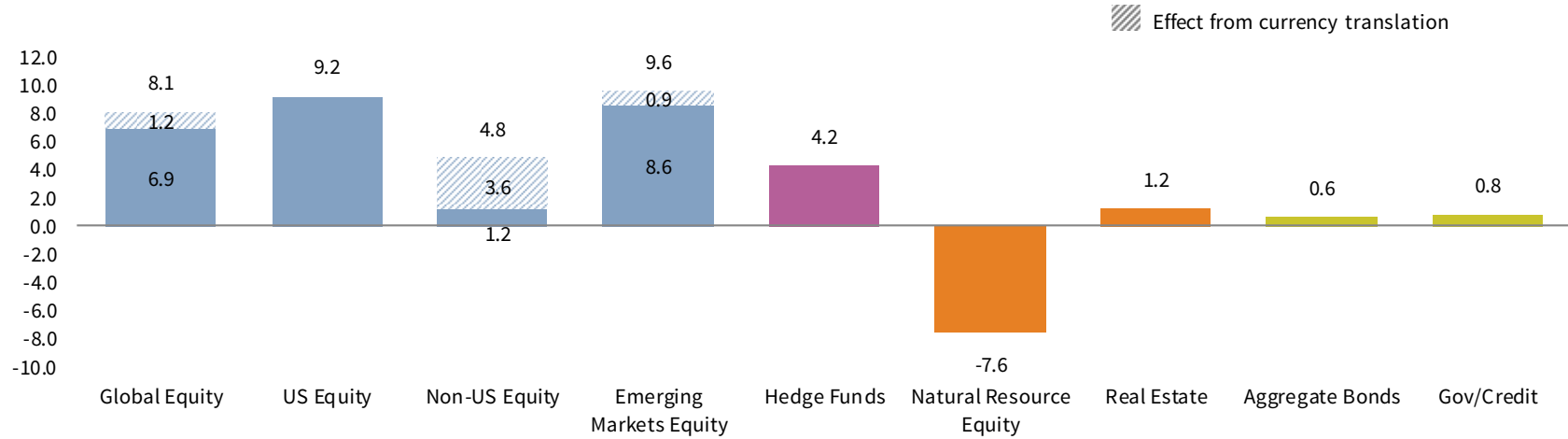


US equities have rebounded from Q1 2020 lows

Bonds continue to shine while real assets lag

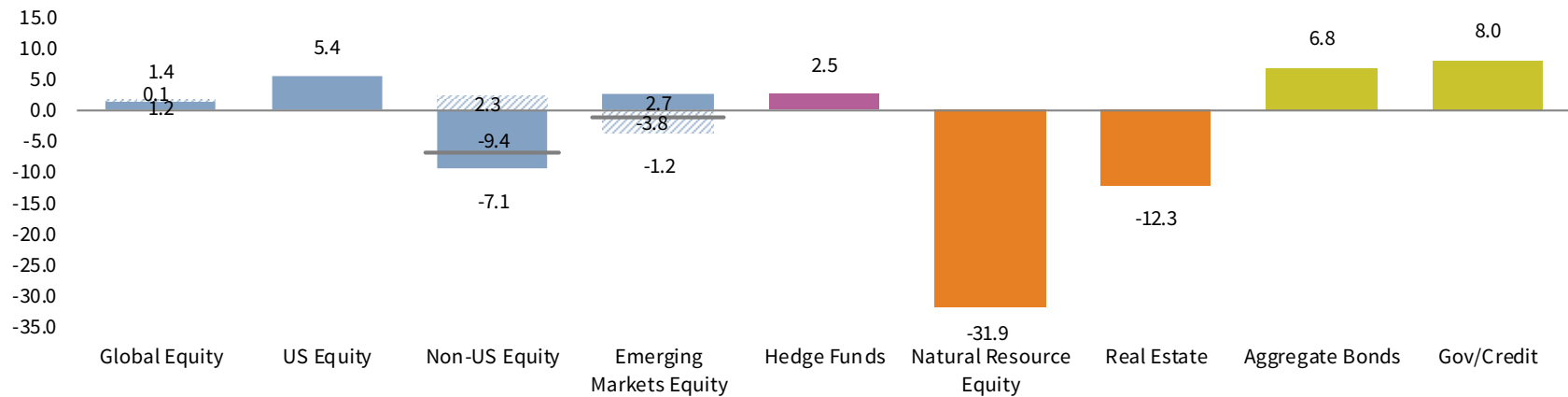
Q3 2020 PERFORMANCE

July 1, 2020 - September 30, 2020



CYTD 2020 PERFORMANCE

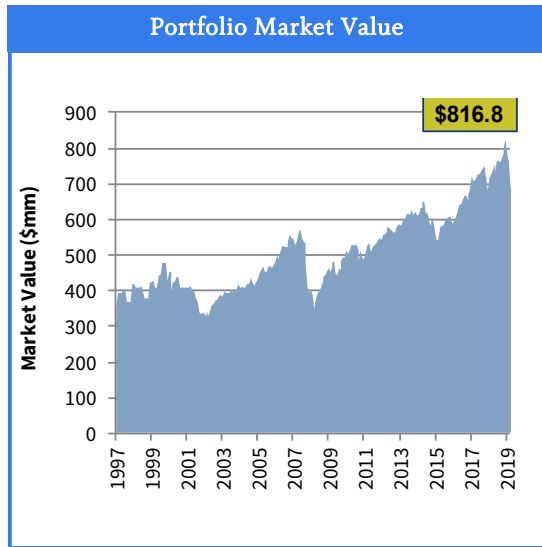
January 1, 2020 - September 30, 2020



Notes: Indices from left to right are as follows: MSCI All Country World Index (Net), Russell 3000® Index, MSCI EAFE Index (Net), MSCI Emerging Markets Index (Net), Hedge Fund Research Fund of Funds Composite Index, S&P North American Natural Resources Sector Index, FTSE® NAREIT All Equity REITs Index, Bloomberg Barclays Aggregate Bond Index, Bloomberg Barclays Government/Credit Bond Index.

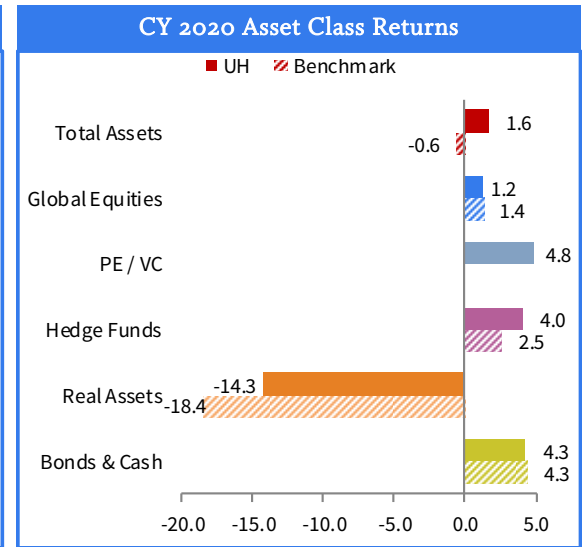
UH portfolio dashboard

UH total portfolio has returned 1.6% CYTD 2020, outperforming the policy benchmark by 220 bps. The portfolio is outperforming over the trailing 3 and 5 year periods



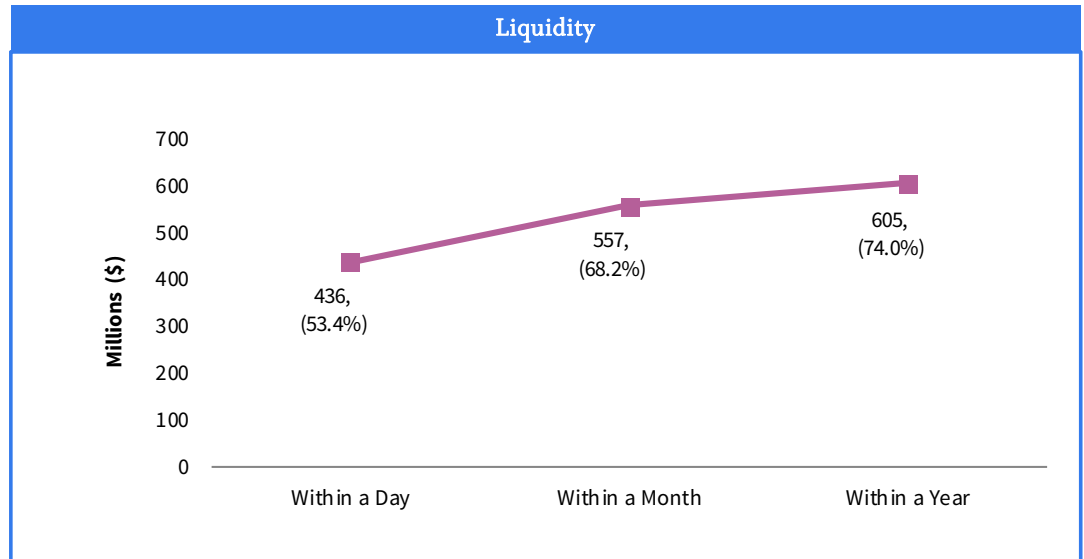
Performance Summary – Total Portfolio

	CY 2020 12/31/2019- 9/30/2020	FY2020 9/1/2019 8/31/20	Annualized Trailing 3 Years	Annualized Trailing 5 Years
Total Portfolio	1.6	10.8	6.3	7.4
Policy BM	-0.6	8.9	4.9	6.8
Total Marketable Assets	2.3	12.3	5.1	6.7
Marketable Policy BM	1.2	10.9	5.0	6.6
Peer Mean ¹	1.6	---	6.0	7.2



Asset Allocation: Actual, Targets, and Allowable Ranges

	Actual Allocation	Near-Term Targets	Long-Term Targets	Allowable Ranges
Global Equities	45%	50%	45%	35-55%
Hedge Funds	8%	5%	5%	0-10%
Private Equity / Venture Capital	19%	20%	25%	10-35%
Real Assets	9%	10%	10%	5-15%
Bonds and Cash	20%	15%	15%	5-20%



Note: UH portfolio market value includes private investment values as of June 30, 2020.

¹ Peer data performance represents the universe of UH peers that C|A covers for performance reporting and not the entire peer universe as seen on the CompAA.

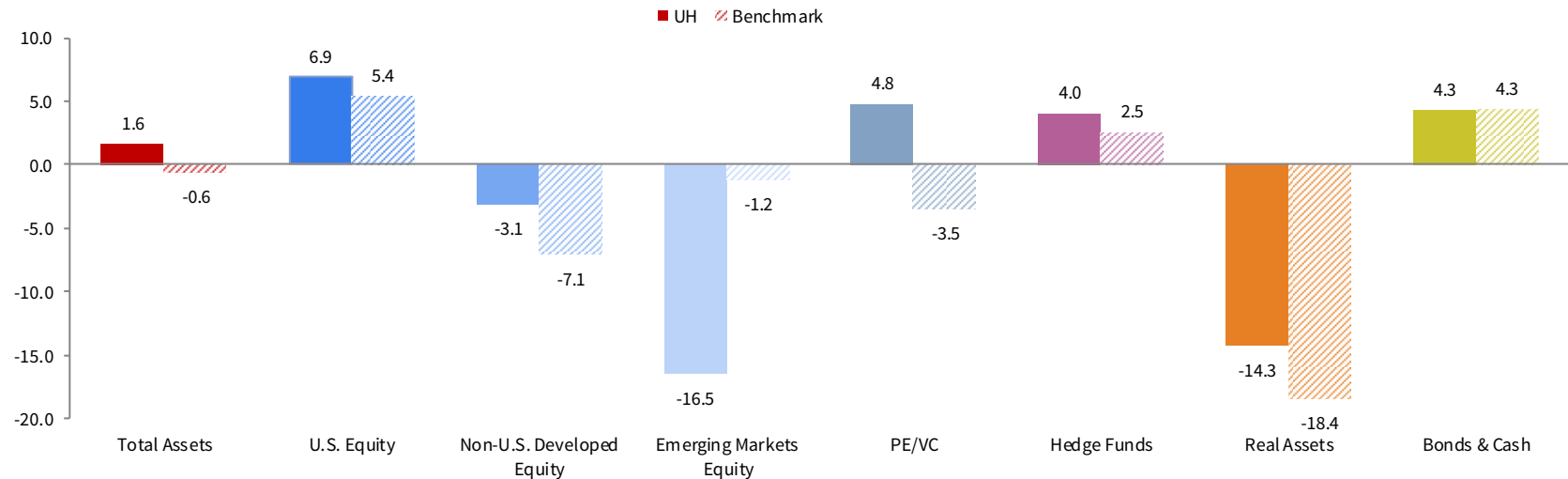
CYTD 2020 UH performance & attribution

UH's US Equity segment have rebounded on both an absolute and relative basis while hedge funds and fixed income have continued to protect; value exposure within the EM equity allocation hurt on a relative basis

UH Performance vs. Benchmarks (%) as of September 30, 2020

CYTD Performance

January 1, 2020 through September 30, 2020



	Absolute Return	Relative To Asset Allocation Benchmark
Calendar Year 2020 Result	+1.6%	+2.2%
Key Contributors	<ul style="list-style-type: none"> US Equity (Columbia) Bonds & Cash (Smith Graham) Private Investments 	<ul style="list-style-type: none"> Non-US Developed Equity (William Blair) US Equity (Columbia) Private Investments
Key Detractors	<ul style="list-style-type: none"> Real Assets (T. Rowe Price) Emerging Markets Equity (Oldfield, Edgbaston) 	<ul style="list-style-type: none"> Emerging Markets Equity (Oldfield, Edgbaston)

Note: Total Assets represents the University's actual performance versus the Policy Benchmark. Asset class benchmarks: U.S. Equity (Russell 3000), Non-U.S. Developed Equity (MSCI EAFE (Net)), Emerging Markets Equity (MSCI Emerging Markets (Net)), PE/VC (no benchmark), Hedge Funds (HFRI FoF Composite), Real Assets (25% BBG Barc US TIPs, 25% MSCI World Nat Resources, 25% MSCI US REIT, 25% BBG Barc Commodity), Bonds & Cash (Dynamic blend of BBG Barc Agg Intermediate and BofA ML 91 Day T-Bill). Private investment returns as of 12/31/2019.

University of Houston cash flows by category

As of September 30, 2020

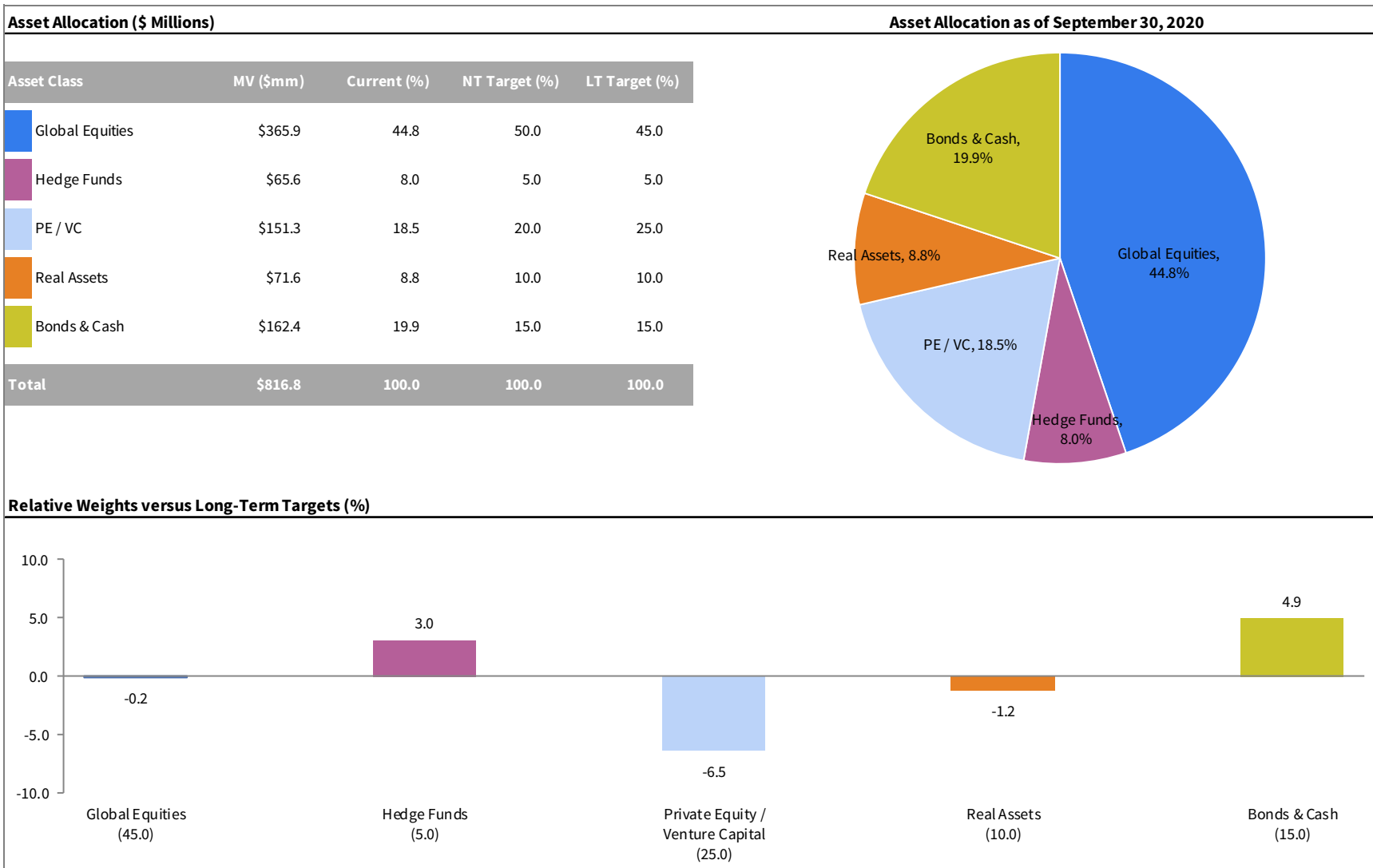
Period	Beginning Market Value	Net Withdrawals	Earned Income	Unrealized Gains/Loss	Management Fees	Ending Market Value
						(\$000)
2012	\$486,853	\$10,962	\$19,227	\$42,164	-\$3,798	\$555,408
2013	\$555,408	-\$42,572	\$35,492	\$40,892	-\$3,885	\$585,336
2014	\$585,336	\$9,127	\$44,772	-\$24,157	-\$4,495	\$610,582
2015	\$610,582	-\$24,614	\$49,433	-\$61,636	-\$3,678	\$570,086
2016	\$570,086	-\$16,937	\$24,526	\$7,660	-\$4,666	\$580,670
2017	\$580,670	\$7,757	\$34,341	\$61,495	-\$5,011	\$679,252
2018	\$679,252	\$26,657	\$32,659	-\$50,434	-\$4,834	\$683,300
2019	\$683,300	\$17,003	\$33,763	\$86,927	-\$6,372	\$814,623
2020	\$814,624	-\$17,384	\$20,669	\$4,460	-\$5,291	\$817,077

■ Since 2012 the Endowment has:

- ◆ added \$200 million in new gifts,
- ◆ generated \$295 million in realized/unrealized gains,
- ◆ distributed \$161 million to the beneficiary accounts, and
- ◆ paid \$42 million in portfolio expenses.

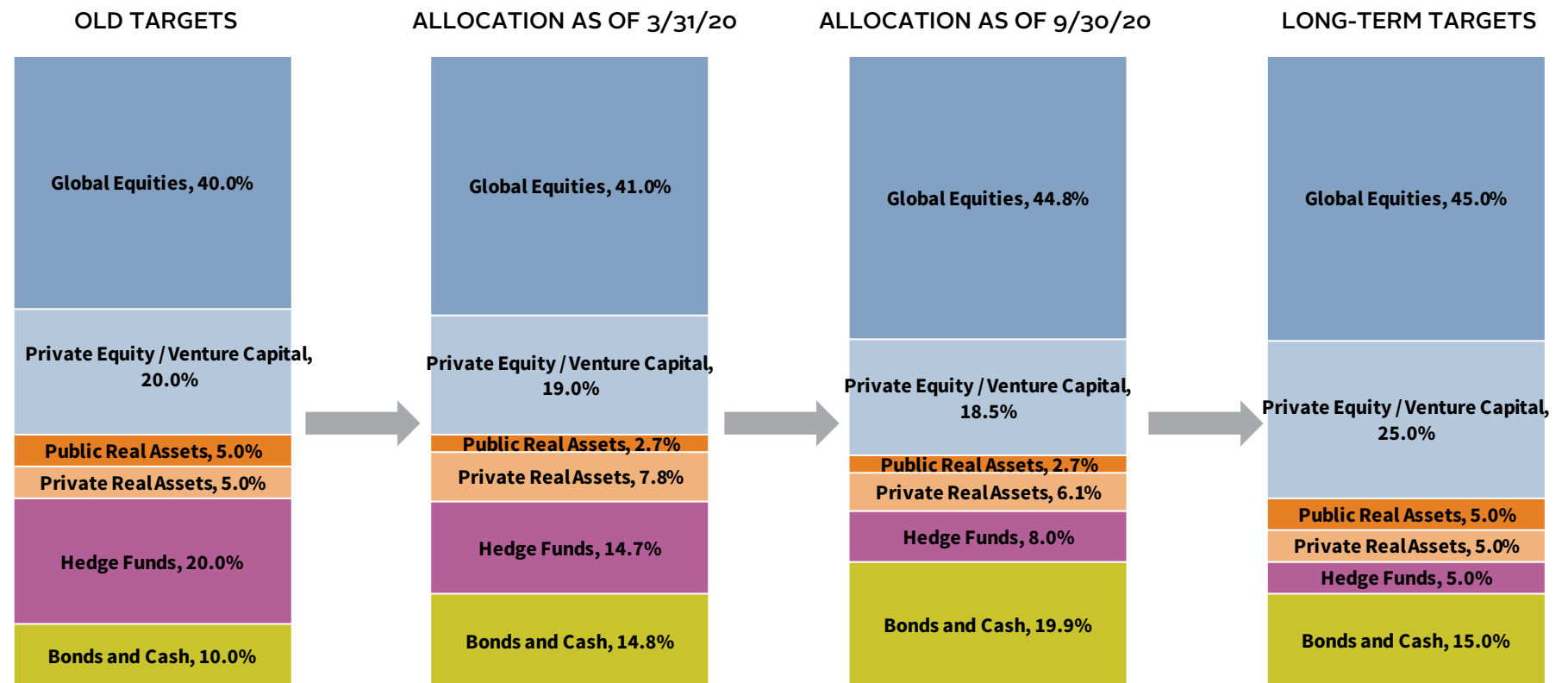
Asset allocation summary

We continue to move the UH portfolio closer to long-term targets; bonds and cash allocation artificially high at quarter end while waiting to report a \$30m addition to equities that occurred first week of October



Asset allocation update

- Trades made throughout 2020 have moved us closer to the long-term targets approved at the February meeting. The portfolio should be close to, if not fully transitioned by Q1 2021.

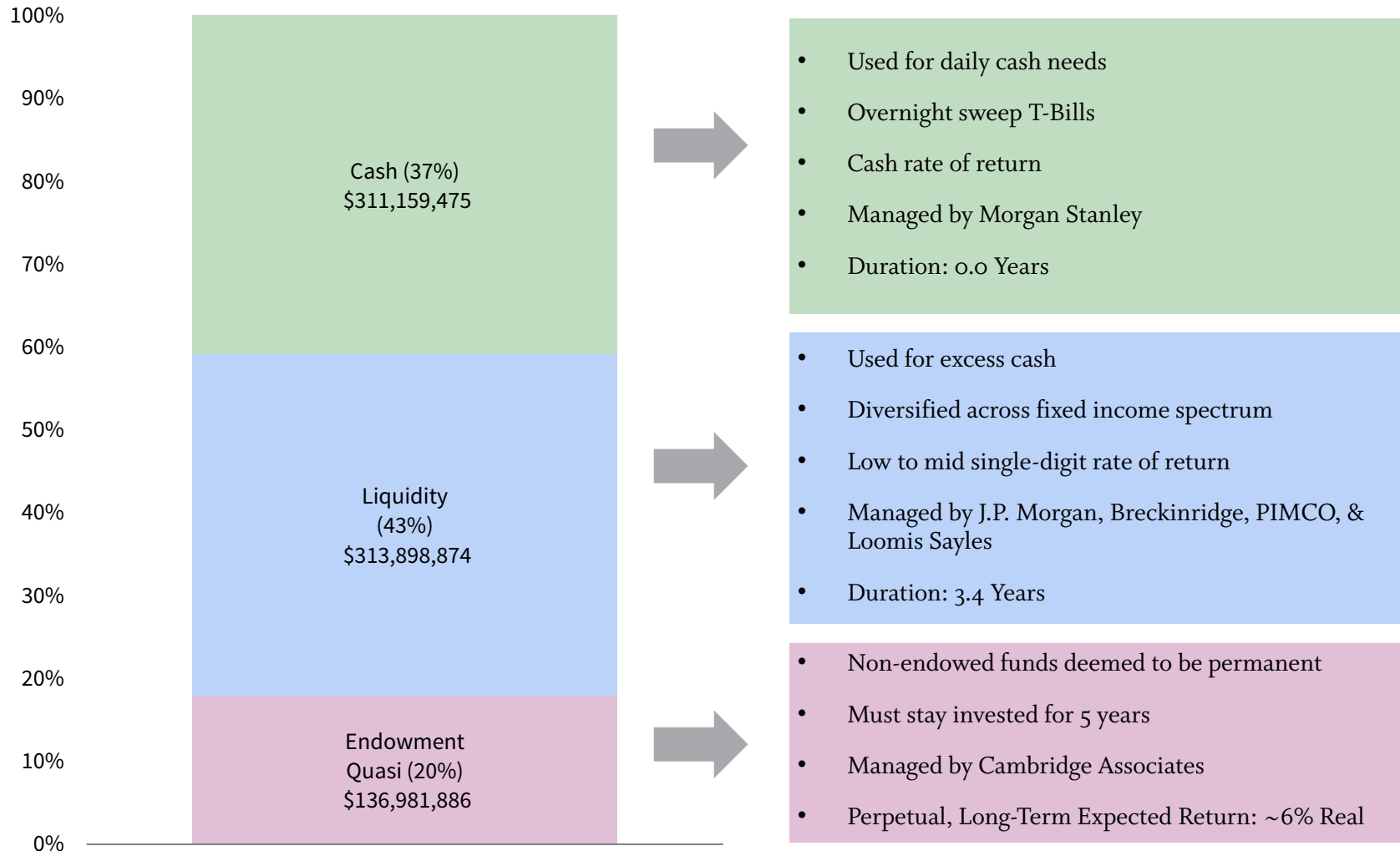


Non-endowed fund composition

UH's non-endowed fund is diversified across cash & liquidity pools and the endowment

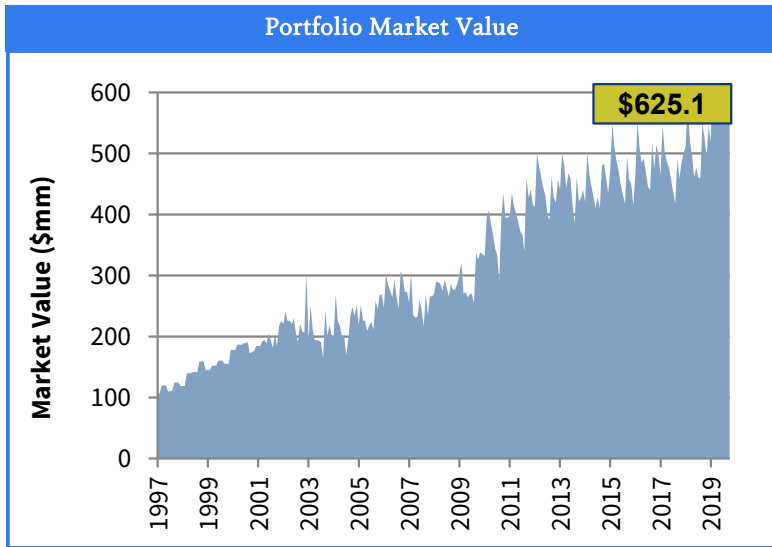
UH NON-ENDOWED ASSETS

As of September 30, 2020



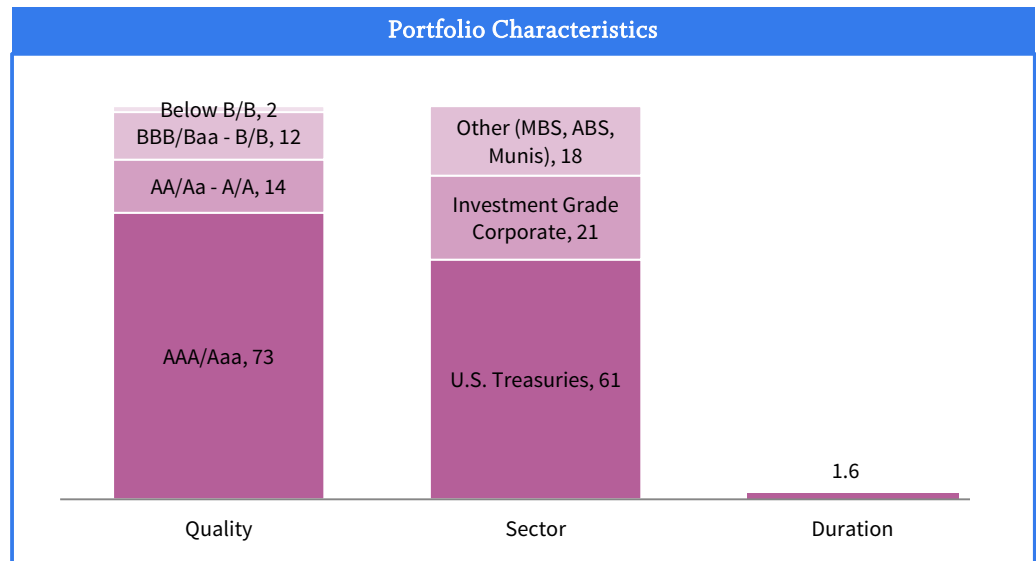
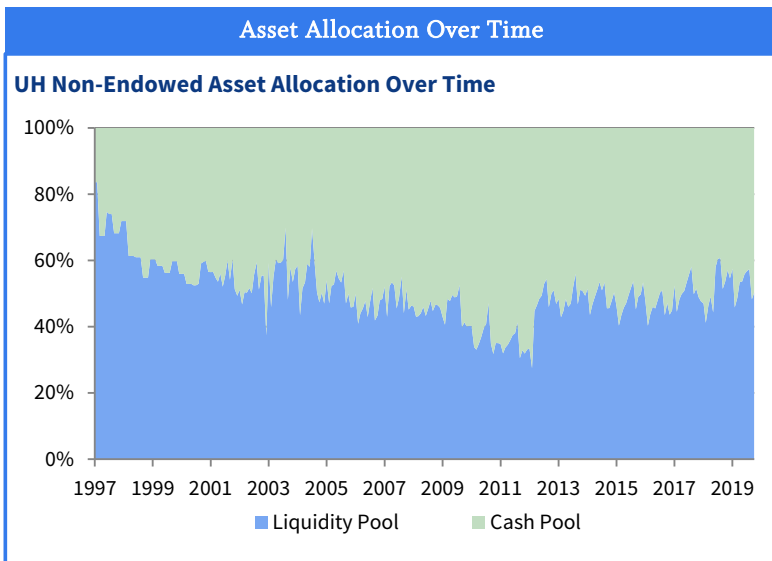
UH non-endowed portfolio dashboard

As of September 30, 2020



Performance Summary – Total Non-Endowed Portfolio

Total Non-Endowed	3.0	3.5	2.8	1.8
Non-Endowed Policy Benchmark	2.5	2.9	2.6	1.8
Total Cash Pool	0.2	0.8	1.5	1.0
BofA ML 91-Day T Bills	0.6	1.3	1.7	1.2
Total Liquidity Pool	5.3	5.7	3.7	2.6
BofA ML 1-5 Year Gov/Credit AA+	4.2	4.3	3.2	2.3
BofA ML 1-5 Year Gov/Corp Index	4.3	4.7	3.5	2.6



B. PRIVATE INVESTMENTS UPDATE



Current Private Investments Snapshot

The University of Houston's Private Investments (PI) program has produced an attractive 13.5% net IRR since inception.

Private Investments Exposure in \$ millions (As of Q2 2020 Plus Recent Commitments)					
	NAV	Unfunded	Distributions*	NAV as a Percent of Total Endowment (6/30/20)	NAV as a Percent of Total Endowment (9/30/20)**
Venture Capital	56.0	39.2	26.5	7.2%	7.4%
Private Equity	75.2	61.7	48.5	9.7%	10.1%
Secondaries	17.1	26.6	12.4	2.2%	2.3%
Real Estate	27.2	30.9	27.5	3.5%	3.5%
Natural Resources	22.3	26.6	41.1	2.9%	3.0%
Total	197.8	185.0	156.1	25.5%	26.3%

*Total Paid in Capital for the active portfolio was \$258.8M as of Q2 2020. Distributions have amounted to 60.3% of paid in capital.

**September 30, 2020 private investment allocation is based on NAV as of June 30, 2020, updated with capital calls and distributions through September 30, 2020.

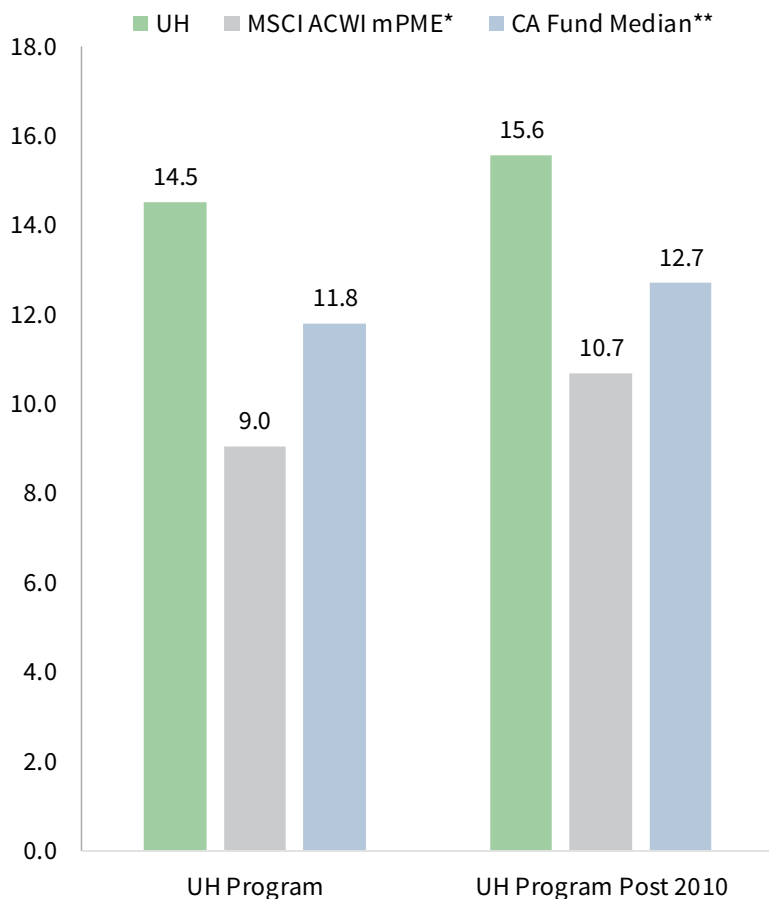
Source: Cambridge Associates preliminary performance report for the University of Houston, as of Q2 2020. Numbers may not add up due to rounding.

Private Investment Comparative Performance

The UH private investment program returns have been strong on both an absolute and relative basis.

SINCE INCEPTION PERFORMANCE

As of December 31, 2019 • Net IRR (%)



COMPARATIVE PERFORMANCE VS. CA PRIVATE INVESTMENT CLIENTS

As of December 31, 2019 • Net IRR (%)

	3 Years	5 Years
CA Client PI Returns		
Upper 90th percentile	18.4	15.0
Upper Quartile	15.3	12.7
Median	12.3	10.2
Lower Quartile	9.2	7.7
Bottom 10th percentile	6.5	5.5
<i>n=</i>	519	488
UH Program Post 2010	16.7	15.1
<i>MSCI ACWI mPME*</i>	12.5	10.7

The current private investment program (excluding pre-2010 funds) has generated top quartile returns for the trailing 3-year period and top decile returns for the trailing-5 year period when compared to the universe of CA Private Investment clients.

Note: CA Client Private Investment Returns includes private investment fund programs with a least 10 private investment funds per portfolio who receive performance reports as of 12/31/2019. Terminated client returns are not included due to unavailability of data. The performance of CA's clients may be attributable to factors other than CA's advice because CA's clients may or may not follow this advice. Similarly, client returns shown may include investments made prior to client's relationship with CA. Past performance is not necessarily a guide to future performance. The performance data is net of investment managers' fees but has not been adjusted to reflect CA's advisory fees and other expenses that a client may incur.

*CA's modified Public Market Equivalent (mPME) is an in-house methodology that provides a private to public comparison framework that replicates the private investment reference fund under public market conditions (per a given index). Under mPME, actual private contributions are invested in the given public market index and distributions are calculated in proportion as in the private investment reference fund, with the corresponding NAV a function of the mPME cash flows.

**CA's asset class and portfolio benchmark means are a pooled return of funds sorted by designated asset group and the funds' inception dates weighted by member's paid-in capital to each asset class vintage year. All benchmarks are in U.S. Dollars.

UH Private Investments Strategy

■ Implementation

- Allocation target: up to 30% of total portfolio
- Portfolio construction: total annual commitments of \$50– \$60 million, with individual commitments of \$5.0 – \$7.5 million
- Approach: best ideas portfolio based on bottom-up manager selection

■ Key Themes & Objectives

- Growth orientation through venture capital, growth equity, and growth buyouts
- Selective use of promising emerging managers
- J-curve mitigation through use of secondaries as portfolio builds towards its PI target
- Sector focus on software, large-cap tech, financial services, tech-enabled businesses
- Diligent approach to building a portfolio of best-in-class managers without limits or quotas by strategy type

II. CAMBRIDGE ASSOCIATES RECOMMENDATION



A. US EQUITY RECOMMENDATION



Endowed pool US equity recommendation

- **Recommendation:** Transition U.S. passive exposure from Northern Trust Russell 1000 Index (~\$102m) to Northern Trust Russell 3000 Index (~\$102m) to broaden out exposure to include mid and small cap stocks.
- **Rationale:**
 - 2020 market returns have been heavily dominated by large and mega cap stocks, particularly mega cap tech names like Amazon, Alphabet, Google, Facebook and Microsoft resulting in lofty valuations and a concentration of this exposure in market cap weighted indices. These 5 names account for 20.2% of the Russell 1000 Index.
 - We believe its prudent to reduce concentration across these names by broadening out the mandate to gain exposure to segments of U.S. equities where valuations are more modest. While these names still account for largest positions in the Russell 3000, their concentration is 17.8%.
- **Timing/Process:**
 - Liquidity is daily in the R1000 fund; Northern Trust will facilitate transition by transferring positions in-kind where possible and the balance of cash will be used to build out the remaining exposure.

III. APPENDIX



Comparative asset allocation

Colleges & Universities, \$500m - \$1.0bn with Less Than 20% Endowment Reliance; as of June 30, 2020

Institution	Asset Allocation (%)										AACRs (%)		
	U.S. Equity	Non-U.S. Developed Equity	Emerging Markets Equity	PE & VC	Hedge Funds	Distressed Securities	RA & ILB	Bonds	Cash	Other	3 Years	5 Years	10 Years
1	12.0	12.2	6.3	29.5	25.2	4.4	4.5	---	6.0	---	7.9	6.5	8.4
2	31.2	20.7	4.9	14.0	8.7	0.1	10.0	7.2	3.2	---	4.7	4.4	5.9
3	14.6	11.6	10.7	15.3	7.4	3.3	25.5	12.5	-0.9	---	3.2	4.6	6.8
4	24.7	18.6	5.5	22.7	6.6	2.2	10.9	4.2	4.8	---	4.5	4.6	6.5
5	22.3	21.6	8.2	12.3	17.1	---	3.9	12.3	2.1	0.1	4.6	4.8	--
6	23.9	13.4	6.6	14.7	16.7	5.3	13.1	4.6	1.9	---	2.6	3.0	6.3
7	23.4	11.5	1.0	9.7	15.9	8.6	8.7	17.0	3.6	0.5	4.3	4.5	7.5
8	29.6	20.5	5.7	16.6	8.7	2.5	6.4	9.1	0.8	---	4.0	4.2	6.8
9	23.9	14.6	3.7	20.3	28.2	5.1	1.3	---	2.9	---	6.8	5.9	7.8
10	42.0	6.8	5.7	8.5	12.2	6.1	7.8	8.2	2.8	---	6.1	6.0	--
11	22.7	7.1	4.4	17.2	28.9	5.0	2.0	4.8	6.7	1.3	4.6	4.4	6.4
University of Houston System	25.7	15.7	4.3	20.2	9.1	6.4	6.2	5.8	6.5	---	5.5	4.6	6.6
Key Peers Mean <i>n=11</i>	24.6	14.4	5.7	16.4	16.0	3.9	8.6	7.3	3.1	0.2	4.9	4.8	6.9
C&U Mean <i>n=140</i>	23.7	14.0	6.7	15.2	15.9	3.1	7.6	9.0	3.9	0.9	5.1	5.0	7.4
Institutional Mean <i>n=422</i>	24.9	14.8	6.9	11.5	16.4	2.6	6.3	11.4	4.4	0.6	4.8	4.8	7.1
											<i>n=415</i>	<i>n=409</i>	<i>n=381</i>

Colleges & Universities \$500M - \$1.0B With Less Than 20% Endowment Reliance

American University	Pepperdine University	Villanova University
Clemson University Foundation	Rensselaer Polytechnic Institute	William & Mary Foundation
Florida State University Foundation	Santa Clara University	Yeshiva University
Oberlin College	University of Tennessee	

1. Includes Distressed Private Equity structure vehicles, Other Private Investments, Private Real Estate, Private Oil & Gas / Natural Resources, and Timber.
2. Includes Distressed Hedge Fund Structure Vehicles, Long/Short Hedge Funds, Absolute Return Hedge Funds.
3. Includes Public Real Estate, Commodities, Inflation-Linked Bonds, and Public Energy / Natural Resources.
4. Includes High Yield Bonds, US Bonds, Developed Market Bonds, Emerging Markets Bonds.
5. Includes assets that cannot be categorized in other asset classes (e.g. Faculty Mortgages, GTAA funds, Opportunistic Managers, and Synthetic Exposure).



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**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested to transfer investment assets from one investment product to another within the UH System Endowment Fund.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Committee will receive a report from the System's investment consultant, Cambridge Associates, regarding their recommendation to make a full redemption from Northern Trust Russell 1000 index. Cambridge will also recommend reinvesting these proceeds into the Russell 3000 index.

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: Northern Trust Russell 1000 index market value of \$85.5 million as of 11/11/2020

**RECOMMENDATION/
ACTION REQUESTED:** Administration recommends approval of this item. This item requires committee approval only.

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett

11/12/2020

DATE



CHANCELLOR

Renu Khator

11/12/2020

DATE

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested for the annual review of the University of Houston System Board of Regents Endowment Management Committee Charter

DATE PREVIOUSLY SUBMITTED: August 23, 2018

SUMMARY:



In accordance with the UH System Board of Regents Bylaws, the Endowment Management Committee shall review this charter at least once a year. There is one recommended edit to this charter, which is to delete the statement that the chair of the Finance and Administration Committee shall be a member of the Endowment Management Committee. Said language was a hold-over from the late 2000's and should have been corrected when we last presented the committee charter for review.

SUPPORTING DOCUMENTATION: Endowment Management Committee Charter- redline

FISCAL NOTE: None

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

COMPONENT: University of Houston System

 _____ SENIOR VICE CHANCELLOR	Raymond S. Bartlett	11/12/2020 _____ DATE
 _____ CHANCELLOR	Renu Khator	11/12/2020 _____ DATE

Endowment Management Committee

Charter: The endowment management committee has oversight of all investment assets and activities, outside investment managers, investment consultants, and any other matters pertaining to endowed and non-endowed assets for the System. It also provides oversight of investment policies and performance.

The committee is required to perform a review of the charter annually, as required by Board of Regent Bylaws.

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management Committee

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract for an investment consultant for the University of Houston System Endowment and Non-Endowed Investments

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

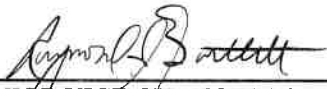
We are seeking approval to enter into a contract with an investment consultant to assist the board and staff on all investment and related matters for the University of Houston System endowed and non-endowed assets. A request for proposal was issued for investment consulting services in May 2020. An evaluation team comprised of UH staff independently evaluated the nine proposals received. Four firms were selected as finalist candidates based on the highest scores. The finalist firms gave virtual presentations, and the evaluation team evaluated each firm, including client reference checks and best and final offer pricing was requested. NEPC was the selected firm.

SUPPORTING DOCUMENTATION: None

FISCAL NOTE: \$1.02 million for the initial 3-year term
\$0.70 million for the optional terms (two 1-year renewal options)

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

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett

11/12/2020

DATE



CHANCELLOR Renu Khator

11/12/2020

DATE