Thursday, February 18, 2016 - The members of Endowment Management Committee of the University of Houston System convened at 9:34 a.m. on Thursday, February 18, 2016, at the University of Houston, Student Center Ballroom, Room 210, Second Floor, 4455 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
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<tr>
<th>Present</th>
<th>Member(s) Absent</th>
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<tr>
<td>Durga D. Agrawal, Chair</td>
<td>Tilman J. Fertitta, Ex Officio</td>
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<td>Roger F. Welder, Vice Chair</td>
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<td>Spencer D. Armour, III, Member</td>
<td>Non-Member(s) Present</td>
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<td>Beth Madison, Member</td>
<td>Paula M. Mendoza, Regent</td>
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<tr>
<td>Gerald W. McElvy, Member</td>
<td>Peter K. Taaffe, Regent</td>
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<td>Welcome W. Wilson, Jr., Regent</td>
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<td>Garret H. Hughey, Student Regent, nonvoting</td>
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In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, the Chair of the Committee, Durga D. Agrawal, called the meeting to order.

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AGENDA ITEMS

Action Items

Regent Agrawal stated there were seven (7) items to be addressed – three (3) requiring committee and board approval; two (2) requiring committee approval only; and the remaining two (2) items for information only. Three (3) representatives from Cambridge Associates were present at the meeting who presented several of the items listed on the agenda. It was also noted that after discussions and any recommendation(s) made from Cambridge Associates, a vote was called; and that the recommendations from Cambridge Associates required committee approval only.

The first action item presented to the committee was the approval of minutes from the August 20, 2015 Endowment Management Committee meeting.

1. Approval of Minutes – Item B:

On motion of Regent Welder, seconded by Regent Madison, and by a unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:
August 20, 2015, Endowment Management Committee Meeting

Regent Agrawal reiterated that the first three (3) items listed on the agenda would be presented by Cambridge Associate representatives as follows:

1. **Item C – Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios – University of Houston System:**

2. **Item D – Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the UH System Endowment Fund – University of Houston System; and**

3. **Item E – Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for additional investment in existing hedge fund managers for the UH System Endowment Fund – University of Houston System.**

Regent Agrawal asked Interim Vice Chancellor for Administration and Finance, Mr. Jim McShan, to please introduce these items.

Mr. McShan stated there were three (3) individuals from Cambridge Associates who were present at the meeting: Mr. Kerry Kirk, who is the UH System’s new lead investment consultant from Cambridge Associates with approximately 21 years of experience in institutional advising; Ms. Katherine Chu, and Ms. Erin Schuhmacher. Each representative from Cambridge Associates would address Item C – the Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios.

Mr. Kirk expressed his pleasure in joining the team and their important work in stewarding the assets on behalf of the University of Houston System. The first order of business was a discussion on the UH System endowment and non-endowed portfolios. A review of the executive summary was given and below is a brief overview of Mr. Kirk’s remarks.

- Strategic observations were made of the Endowment Management Plan which was adopted in May 2015.
- The UH portfolio should have a minimum of 50% allocated to pure growth-oriented assets. The Endowment has moved from 53% to 55% with the recent Strategic Plan; and in 2016 Cambridge would like to see it moved to 57%.
- Historically, the Endowment has not had enough targeted for investment in private equity and private real assets in light of its risk-return and liquidity profile. The Strategic Plan changed that.
- Valuations in major developed markets equities have been elevated. While private equity exposure is built over time, hedge fund strategies provide an appropriate interim “middle ground” stance.
- Despite their significantly lower volatility profile to equities, safe fixed income markets are priced for low to even negative real returns for the foreseeable future.
• The Current Strategic Plan Asset Allocation in both Near Term (“NT”) and Long Term (“LT”) was addressed. There was substantial increase in growth; diversifiers increased in NT and decreased in LT; and defensive assets decreased to reduce long-term opportunity cost.

• Mr. Kirk reviewed the Strategic Plan since his arrival and asked the question, “could this Strategic Plan be improved?” His observations fell into two (2) main categories:
  - Those that were specific to the portfolio; and
  - Those that were more policy-oriented and monitoring enhancements.

• Portfolio Enhancements were outlined and addressed as follows:
  - Reclassify certain asset classes by creating a Global Equity category; rename Privates to Venture Capital/Private Equity; and renaming Inflation Hedges to Real Assets.
  - Streamline sub-asset class targets by removing sub-targets to U.S. Developed and Developing Markets.
  - Update and modify near term targets by reducing Global Equity, Hedge Funds and Fixed Income and Increase Real Assets.
  - Deletion and creation of one policy target – Delete 5% Marketable Inflation Hedge target, create 10% Real Assets target.
  - Modest streamlining of the manager structure by modestly reducing the number of managers in Global Equity structure; and specific changes to be determined.

• Policy/Monitoring Enhancements were outlined and addressed as follows:
  - Revisit and affirm definitions of success;
  - Modest reclassification of performance reporting; and
  - Benchmarking modifications consistent with reclassifying certain asset classes and modest streamlining of the manager structure.

• A chart was shown with the current policy target classifications versus the proposed policy target classifications as noted below.
  - U.S. Equity, Developed International Equity and Developing Markets aggregates into Global Public Equities.
  - Hedge Funds (Hedged Equity and Absolute Return) aggregates into Hedge Funds.
  - Private Investments becomes Private Equity/Venture Capital.
  - Marketable Inflation Hedge becomes Real Assets (Public/Private).
  - Bonds and Cash – no changes made.

• The effects of the above modifications on Near- and Long-Term Asset Allocation was described and noted in brief summary below:

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<thead>
<tr>
<th>Asset Class</th>
<th>Target</th>
<th>Proposed Near-Term</th>
<th>Long-Term</th>
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<tbody>
<tr>
<td>Growth Exposure:</td>
<td>55%</td>
<td>Growth Exposure:</td>
<td>57%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>65%</td>
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<tr>
<td>Diversifiers Exposure:</td>
<td>35%</td>
<td>Diversifiers Exposure:</td>
<td>35%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>25%</td>
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<tr>
<td>Defensive Exposure:</td>
<td>10%</td>
<td>Defensive Exposure:</td>
<td>8%</td>
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• The above was not presented for action at the meeting but rather some ideas and thoughts regarding the portfolio and how to proceed going forward. It is a possibility that some of these proposals may be brought to the next meeting for consideration and approval.

• Developing markets equities lost more ground this year (-14.6%), with net commodity exporters experiencing the sharpest declines as growth expectations for China were ratcheted down.

• Commodity markets suffered (-32.9%), with multiple segments including copper, oil, and natural gas hitting multi-year lows. Commodity-linked investments such as natural resource equities were similarly wounded (-24.3%). US REITs were unable to continue the double-digit returns of recent years, returning just 2.8%.

• Global bond market returns in 2015 were muted as fixed income markets did not provide the defensive element generally seen in times of heightened volatility.

• The total portfolio returned 1.1% in Q4 2015 underperforming the implementation and dynamic benchmarks ex P.I. by 100 and 110 basis points, respectively.

• For calendar year 2015, UH returned -3.6% down from -3.3% for the benchmarks. From an asset allocation perspective, the portfolio is in line with near-term targets.

• Drivers of Q4 Performance:
  - Contributors: Global bonds outperformed the benchmark and developed equities performed well on an absolute basis.
  - Detractors: While developed equities were strong in absolute terms, most managers lagged their benchmarks. Inflation hedges also continued to struggle.

• Drivers of 2015 Performance:
  - Contributors: Developed international managers performed well. The underweight to inflation hedging assets was additive.
  - Detractors: The emerging markets allocation detracted, as did managers within the marketable inflation hedging portfolio.

Mr. McShan stated the next item addressed by Cambridge Associates would be the request to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the UH System Endowment Fund.

Ms. Katherine Chu addressed at length the private investment (PI) portfolio. In 2015, the University of Houston committed $54.0 million to private investments. It was noted that the University of Houston’s PI program is still relatively immature; but since inception, the University’s PI program has returned 15.1%. The University approved increasing the long-term PI allocation from 17.5% to 25.0% of total assets; as well as approved an increase in the PI commitment pace to $40-$50 million per year (from $25-$35 million per year at a 17.5% long-term target allocation).

Ms. Chu stated there were two (2) recommendations for the hiring of private investment managers, one of which was approved in accordance with the UH System Endowment Fund Investment Policy in advance of this Committee meeting for a commitment of $7.5 million to Blackstone Real Estate Partners Europe Fund V, as time was of the essence because the manager expected to hold a first and final close on February 23, 2016.

The second recommendation from Cambridge Associates addressed the private investment recommendation for the University of Houston System Endowment to approve a $7.5 million commitment to Jackson Square Ventures II, L.P. Jackson Square Ventures (JSV) is an early stage venture capital manager that invests in early stage technology companies. JSV plans to hold a first close on its second fund in 1Q 2016 and will target a fund size of $150 million, with a
hard cap of $200 million. Jackson Square will invest in companies in a range of technology sectors, including enterprise software and SaaS, security, storage, mobile, and consumer applications and services.

The partners of this firm were originally part of Sigma Partners which was formed in 1984 in Northern California. Sigma has since split up into two groups: Sigma Prime pursuing investments in the northeastern US and Sigma West focusing on the Silicon Valley. Sigma West recently renamed itself to Jackson Square. Jackson Square is led by a tenured and cohesive investment team, with three of the four senior executives having invested together for over a decade. Each has had a successful career as either an entrepreneur or operator within the technology industry.

Jackson Square Ventures II, L.P.’s terms (as of September 10, 2015) are outlined below:

- Target Fund Size – $150 million ($200 million hard cap)
- GP Commitment – 3% of committed capital
- Management Fee – 2.35% on committed capital during investment period
- Carried Interest – 20% until LP’s receive 100% of committed capital; 25% after a net return of 250% of commitments
- Partnership Life – Through 2014 (subject to three one-year extensions)

Following this presentation on the private investment manager recommended by Cambridge Associates (Item D), Regent Agrawal called for a motion to approve the recommendation of a $7.5 million commitment to Jackson Square Ventures, II, L.P. as presented.

On motion of Regent Welder, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the motion to approve the recommendation of a $7.5 million commitment to Jackson Square Ventures, II, L.P. was approved. This recommendation requires committee approval only and no further board action is required.

Mr. McShan moved to the next item on the agenda, Item E, the request to delegate authority to the Chancellor to negotiate and execute contracts for additional investment in existing hedge fund managers for the University of Houston System Endowment Fund – University of Houston System.

Ms. Schuhmacher presented the following five (5) rebalancing recommendations from Cambridge Associates regarding hedge fund managers. These recommendations were as follows:

1. Coatue (Sector Focused Long/Short Equity): +$2.0 million on April 1, 2016;
2. Davidson Kempner (Event Driven): +$3.0 million on May 1, 2016;
3. Brahman (U.S. Long/Short Equity): +2.0 million on May 1, 2016;
4. Highline (U.S. Long/Short Equity): +2.0 million on May 1, 2016; and
5. Marble Arch (U.S. Long/Short Equity): +1.0 million on May 1, 2016.

Ms. Schuhmacher presented an update on the Hedge Fund Program and stated that UH’s program was designed to provide a diversified “market-like” source of return at lower levels of risk over the long-term. Since its inception, the hedge fund allocation has outperformed the HFRI benchmark by 1.9% while achieving 66% of the return of global equities with approximately 38% of the volatility over the same time period.
What worked in the 4th Quarter?
- With a 7.7% return for the quarter, global long/short equity manager SRS was the strongest performer on an absolute basis.
- Sector-focused long/short equity manager Coatue continued to perform well, gaining 7.1%.

What did not work in the 4th Quarter?
- The University’s U.S. long/short equity managers generally struggled, with Brahman declining -13.2% and Marble Arch returning -6.3%.

Following Ms. Schuhmacher’s update, Regent Agrawal asked for a motion to approve the five (5) hedge fund manager recommendations made by Cambridge Associates.

On motion of Regent Welder, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the motion to approve the five (5) hedge fund rebalancing recommendations as presented were approved. These recommendations require committee approval only and no further board action is needed.

Regent Agrawal moved to the next action item listed on the agenda, Item F, the Approval of the Fiscal Year 2016 University Advancement endowment assessment rate of 1.5% - University of Houston System. Mr. McShan introduced this item to the committee and stated that this assessment of the endowment at 1.5% annually requires the annual review and approval by the board. Mr. McShan presented a slide which showed the University Advancement Endowment Assessment for Fiscal Years 2007 – 2015. This report demonstrated how the University Advancement endowment assessment supports the Advancement division and the payback it provides to the UH System in terms of new gifts. The Endowment Statement of Investment Objectives and Policies permits the System to annually assess a reasonable fee against the earnings of specified endowments to offset expenses associated with gift acquisition and fundraising at the component universities. The estimated assessment will be $6.7 million.

Regent McElvy asked Mr. McShan if there were any other mechanisms where we might develop a more budget focused approach to the fee or was this a common approach? It seems to generate volatility in this amount each year and he would expect more consistency. Mr. McShan stated he would like for the University to look at a budgeted amount and if it takes up to the 1.5%, if that budgeted amount will meet Advancement’s needs than if it was 1.2% that particular year. It would be more based upon the needs to supply Advancement with a consistent budget then the fluctuation of the percentage that is paid out (the dollars paid out based upon the 1.5%).

On motion of Regent Armour, seconded by Regent Welder, and by a unanimous vote of the members in attendance, the motion to approve the FY 2016 University Advancement endowment assessment of 1.5% was approved.

Mr. McShan introduced the next item listed on the agenda, Item G, requesting approval to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System and stated that two (2) changes were being recommended to the Endowment policy – primarily the Payout policy. The University is trying to have a more consistent payout,
especially at the department and college level. This will better allow them to plan. Below is a brief summary of the proposed changes.

- Our current policy states that if an endowment is less than its original principle value within the endowment – this would be considered an underwater endowment. Currently, we do not pay anything on this type of endowment until the time it would be back above or equal to its principle value. Many universities continue to pay on them regardless (they could drop to 50% and they would still give the payout). The university is proposing a mixed proposal (which after reviewing many universities it is a common business practice) and that would be if an individual endowment drops to less than 100% of its value but greater than 90%, the university would pay three-quarters of the payout, which in this case would be 3% instead of 4%. If they should drop between 80%-90%, the university would pay 2% or 50% of the full payout. Once they dropped below 80%, the complete discontinuation of any payout to them until they climbed back above the 80%, 90% or 100%. From what we measured this particular year, the payout would have been $5 million less with our historical practice, but instead, since those endowments that were between 80% and 100% would receive a portion of that payout, we would actually only be paying out $1 million less than otherwise. So it is a $4 million increase in what it would have been under our previous policy.

- The second change was more of a technical adjustment. The university currently calculates the 3-year moving average based upon the end of year balance for the previous 3 years. It was recommended the university go to using the 12 quarters of that same 3-year period so that a significant fluctuation at the end of 1 year could have a more dramatic effect on the endowment which would be a more consistent approach to what the markets and the balances truly were over that period.

Before the vote on this item was called, Regent Welder asked for a brief explanation to the policy changes related to the adjustment in State law. Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance addressed this issue and confirmed that nothing that was placed in the policy was different than what the university was actually doing today. It was codifying what was in State law and placing it in the document.

On motion of Regent McElvy, seconded by Regent Welder, and by a unanimous vote of the members in attendance, the request to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – UH System was approved.

The last action item presented was Item H, the annual review and approval of the UH System Investment Policy for Non-Endowed Funds – UH System. Mr. McShan introduced this item and stated the State law as well as our own policy to support State law requires that annually the Board review and approve the UH System Investment Policy for Non-Endowed Funds. There were no changes to the policy other than the date by which it was reviewed and approved.

On motion of Regent Welder, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the request for the annual review and approval of the UH System Investment Policy for Non-Endowed Funds was approved.

At the conclusion and approval of this item, Regent Agrawal made the motion to place the following three (3) action items unanimously approved by the committee on the Board of Regents’ Consent Docket Agenda for final board approval.
On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the following three (3) action items were approved and will be placed on the Board of Regents’ Consent Docket Agenda for final board approval at the February 18, 2016 Board of Regents’ meeting held later in the day:

1. Approval of the Fiscal Year 2016 University Advancement endowment assessment rate of 1.5% - UH System;

2. Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – UH System; and

3. Annual review and approval of the UH System Investment Policy for Non-Endowed Funds – UH System.

The final agenda item for information only was Item I, the Report on the UH System’s invested funds and bank deposits. Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance presented this item.

Mr. Bartlett stated this report was given to the committee each quarter which summarizes the UH System’s invested funds and bank deposits. This report was for fiscal quarter ending November 30, 2015. There was $1.2 billion of investable funds and bank deposits as of this date. The bond and debt service funds are invested in triple AAA-m-f rated money market funds and spent down over time as construction expenditures are incurred or debt service is paid. This information is also posted to the Treasurer’s website within 60 days of the end of each fiscal quarter and submitted annually to the State Auditor’s Office, Legislative Budget Board, Texas Comptroller of Public Accounts, and the Governor’s Office of Budget, Planning and Policy.

This item was presented for information only and required no committee action.

There was no Executive Session held.

There being no further business to come before the Committee, the meeting adjourned at 10:35 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.

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Others Present:

Renu Khator  
Jim McShan  
Dona Cornell  
Ramanan Krishnamoorti  
Eloise Stuhr  
Richard Walker  
Kerry Kirk  
Erin Schuhmacher  
Raymond Bartlett  
Sabrina Hassumani  
Valerie Coleman-Ferguson  
Iggy Harrison  
Katherine Chu  
David Oliver  
Michael Nguyen  
Cathy Horn  
Dan Maxwell  
Thomas Tillotson

Endowment Management Committee
Minutes, February 18, 2016
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<tr>
<th>Mike Johnson</th>
<th>Ed Hugetz</th>
<th>Don Price</th>
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<tr>
<td>Raymond Vic Morgan</td>
<td>Matthew Castillo</td>
<td>Abner Fletcher</td>
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<td>Michael Olivas</td>
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<td>Shannon Harrison</td>
<td>Marquette Hobbs</td>
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<td>Gerry Mathisen</td>
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