MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Thursday, February 23, 2017 - The members of Endowment Management Committee of the University of Houston System convened at 9:05 a.m. on Thursday, February 23, 2017, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Present</th>
<th>Non-Member(s) Present</th>
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<tr>
<td>Durga D. Agrawal, Chair</td>
<td>Paula M. Mendoza, Regent</td>
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<td>Beth Madison, Member</td>
<td>Peter K. Taaffe, Regent</td>
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<td>Gerald W. McElvy, Member</td>
<td>Joshua A. Freed, Student Regent, Non-voting</td>
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<td>Spencer D. Armour, III, Member</td>
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Members Absent
Roger F. Welder, Vice Chair
Tilman J. Fertitta, Ex Officio

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 five (5) agenda items listed on the agenda – two (2) requiring committee and board approval; two (2) requiring committee approval only; and the remaining item for information only. There were four (4) representatives from Cambridge Associates who were present at the meeting and 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 recommendation(s) from Cambridge Associates required committee approval only.

Regent Agrawal moved to the first action item requiring committee approval, the minutes from the August 25, 2016, Endowment Management Committee meeting.

On motion from Regent Armour, seconded by Regent Madison, and by a unanimous vote of the regents in attendance, the minutes from the following meeting was approved:

- August 25, 2016, Endowment Management Committee Meeting
Following the approval of the minutes, Regent Agrawal stated the next three (3) items listed on the agenda would be presented by Cambridge Associates and he asked Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance to please introduce Item C, the first item listed on the agenda, a Report from Cambridge Associates regarding the UH System Endowment and Non-endowed portfolios – University of Houston System.

Mr. McShan stated that there were four (4) Cambridge Associates in attendance at the meeting: Kerry Kirk, Erin Schuhmacher, Phil Fiske, and Katherine Chu, all of whom would be presenting various items to the committee for discussion. Mr. McShan then asked Mr. Kirk to please begin his presentation.

Mr. Kerry Kirk, from Cambridge Associates, presented an executive summary for the 2016 calendar year and below is a brief outline of his remarks.

- 2016 was a good year for the US stock market despite a rocky ride. At the beginning of January 2016, there was a 5% drop in the first five (5) days which gave the S&P index its worst four- (4) day start to a year ever. It was also the worst January for the index since 2009. However, US markets had recovered to January 1 levels by mid-March.
- The S&P 500 dropped 5% in the two- (2) day period following the Brexit vote, but recovered quickly by month-end to close just 1.5% shy of the all-time high of 2,131 set in May 2015.
- S&P 500 futures dropped 5% overnight, after the surprise announcement of a Trump victory, only to recover by month-end and surpass an all-time high of 2,200.
- 1- and 5- year UH performance was addressed. The total UH portfolio returns have been near benchmark with varied winners and laggards by asset class component.
- Over the 1-year period, the 2016 results were close to benchmark, but slightly trailed, due primarily to: (1) non-U.S./emerging market overweight in a US bull market; and (2) hedge funds trailing their benchmark.
- Over the 5-year period results were also benchmark-like, with: (a) global equities matching benchmark; (b) hedge funds outperforming benchmarking; and (c) marketable real assets and bonds trailing.
- Marketable real assets rallied strongly in 2016 and UH’s managers performed very well; however, the significant sell-off across commodity prices have had a negative impact over the longer-term.
- 1- and 5- year UH performance by portfolio segment was discussed.
- UH global equities managed to match the segment benchmark the last 5 years on strong relative performance from non-US and emerging markets.
- UH hedge funds struggled in 2016 and despite low absolute returns outperformed over the last 5 years.
- UH real assets were a mixed bag. Publics outperformed short term but underperformed longer term while privates underperformed shorter term and outperformed longer term.
- UH bond segment has been a laggard in both time periods. Bond segment was restructured at the December 1, 2016 meeting.

Ms. Erin Schuhmacher, from Cambridge Associates, addressed the outlook for 2017 and discussed the various asset classes. High uncertainty is the watchword in 2017.
• **Developed Market Equities** – Given starting valuation levels and expectations of improved earnings growth prospects, the asset class is poised for decent gains in 2017; reflation trade, that has resulted in rotation from growth to value, and from defensive to cyclical sectors, may continue.

• **Emerging Markets** – Reasonably valued, both in relative and absolute terms; but expected US trade protectionism are a headwind. Continued USD$ strength could hurt at well.

• **Credit** – Given yields and macro head winds, high yield is unlikely to have another banner year; leveraged loans are better positioned; and opportunistic credit may prove to be the best area.

• **Real Assets** – Prospects in this asset class are broadly positive; improving fundamentals in real estate markets; continued recovery in energy, commodities; and rising inflation may make this area more interesting.

• **Sovereign Bonds** – 2016 was probably the end of the 35-year bull market in government bonds; and rising treasuries will pull up yields ex-US.

• The content work plan for the upcoming meetings were addressed. At future meetings, Cambridge would like to review their plan to reach long-term targets and complete a cash and liquidity review; monitor liquidity and anticipated drawdowns; evaluate manager developments across entire UH portfolio; and performance measurement.

• The non-endowed UH performance summary was discussed. This item was for information only and required no committee action.

Regent Agrawal moved to the next item on the agenda, Item D, Approval is requested to rebalance the global equities portfolio including the termination of a global equities investment manager for the University of Houston System Endowment Fund – University of Houston System, and asked Mr. McShan to introduce this item and asked Ms. Schuhmacher to present this item.

Ms. Schuhmacher addressed the UH current asset allocation summary and stated that global equity overweight and hedge fund and bond underweight were acceptable.

Cambridge was recommending UH global equity rebalancing and below is their rational for this recommendation.

• Global equities need rebalancing in order to reduce large ex-US overweight. U.S. investors are torn between attractive valuations outside of the U.S. and the strong possibility of continued U.S. market dominance in the near term.

• U.S. valuations are elevated, while developed ex-US and emerging markets are attractive.

• Valuations (alone) are not always good predictors of interim period performance or tactical positioning.

• Given recent strength in ex-U.S. equity markets and the uncertainty looming across 2017, Cambridge advised beginning to gradually rebalance exposure back to U.S.

• Cambridge stated that rebalancing across global equities to realign geographic exposure given strong emerging manager performance and international managers who have added emerging market exposure was addressed as follows:
  - $5.0mm addition to Northern Trust Russell 1000 Index;
  - $2.0mm addition to Columbia;
- $1.0mm addition to Gotham 140/40;
- $1.0mm addition to Vulcan;
- $4.0mm redemption from Oldfield;
- $3.0mm redemption from Somerset; and
- $3.0mm redemption from JO Hambro Asia ex Japan

- Cambridge continues to view emerging markets as more attractive on an evaluation basis but given the tactical size of this bet. Cambridge was starting to become a little uncomfortable with this size and now looking to trim some of these gains.
- Ms. Schuhmacher also noted that there was one item that had not been submitted to the committee prior to the meeting that was a development that had come up post to submitting their materials for the committee’s review. UH has an investment in Mayo Capital which is a U.S. quality manager. There have been organizational changes made at Mayo Capital which includes the founder of the firm leaving the organization. With this development, Cambridge recommended the full redemption of this manager with the proceeds being transferred into the U.S. index fund.

At the conclusion of Ms. Schuhmacher’s presentation of Item D, Regent Agrawal called for a vote of the committee.

On motion of Regent McElvy, seconded by Regent Armour, and by a unanimous vote of the committee members in attendance, the approval to rebalance the global equities portfolio including the termination of a global equities investment manager, Mayo Capital, for the UH System Endowment Fund was approved. It should be noted that this item, approved by the committee, required committee approval only and no further board action was required.

Item E, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a private investment manager for the University of Houston System Endowment Fund – University of Houston System, was the next item addressed. Regent Agrawal requested Mr. McShan introduce this item.

Mr. McShan asked Mr. Phil Fiske, from Cambridge Associates, to present this item to the committee. Mr. Fiske stated that the University of Houston’s Private Investment (PI) program was still relatively immature, but has produced an attractive 14.0% net IRR since inception. In 2016, the University of Houston committed $67.0 million to private investments. The University approved increasing the long-term PI allocation from 17.5% to 25.0% of total assets; and the University approved an increase in the PI commitment pace to ~$40-$50 million per year (from ~$25-$35 million per year at 17.5% long-term target allocation). PE/VC: ~$28-$35 million per year (from ~$15-$21 million per year); and Hard Assets: ~$12-$15 million per year (from ~$10-$14 million per year).

Ms. Katherine Chu presented two (2) preview investments to the committee. Below is a brief summary for each manager.
EnCap Flatrock Midstream Fund IV, L.P. (EFM) will launch fundraising for their fourth midstream private equity energy fund in the second quarter of 2017. The manager will target a fund size of $3.0B, and they anticipate to hold a first close for Fund IV by the end of 2017. The University is an existing LP and previously committed $3.0 million to Fund II and $5.0 million to Fund III.

EFM was formed in 2008 as a partnership between Flatrock Energy Advisors (FEA), a midstream energy consultancy, and private equity energy firm EnCap Investments LP (EnCap). The venture was created to manage a series of midstream energy-focused private equity funds and combines FEA’s unique midstream operating expertise with EnCap’s depth of energy investment experience. They have been very successful in their strategy and Cambridge anticipates that they will come back with a recommendation when this manager comes back to market later this year.

The second manager previewed by Ms. Chu was TrueBridge-Kauffman Fellows Endowment Fund V, L.P. TrueBridge Capital Partners is targeting $400 million for Fund V. The University is an existing LP and previously committed $3.0 million to Fund II, $3.0 million to Fund III, and $5.0 million to Fund IV.

Consistent with previous funds, TrueBridge plans to invest roughly 80% of the fund in 10 to 12 core GP relationships; 10% in a portfolio of complementary, generally seed-stage, funds; and 10% in a portfolio of 18 to 25 direct interests in venture-backed, mid- to late-stage companies. Most of the core GP commitments will be to US early-stage, IT-focused funds, but the team will invest in multistage, non-US, growth equity, or life sciences funds opportunistically. Cambridge will do their due diligence on this manager and once completed will bring their recommendation to the committee for their consideration.

Ms. Fiske addressed the recommendation from Cambridge Associates that the University of Houston approve a commitment of $4.0 million to LiveOak Venture Partners II, L.P. (“Fund II”). LiveOak Venture Partners is seeking $100 million in commitments, with a $150 million hard cap, for its second fund, LiveOak Venture Partners II. The manager plans to hold a close on March 31, 2017. Consistent with Fund I, the firm will continue to invest in early stage information technology and technology-enabled services companies, based in Texas. The University previously committed $2.0 million to LiveOak Venture Partners I in 2013.

Mr. Fiske stated that LiveOak plans to build a portfolio of 12 to 15 early-stage technology investments located mainly in Southwest US, with a particular emphasis on Texas. A commitment to LiveOak Venture Partners II represents an opportunity for the University of Houston to strengthen its relationship with an emerging venture capital firm focused on the Texas ecosystem. LiveOak’s partners have a history of working together and a growing track record of success, characteristics that help reduce the level of risk typically associated with young funds. Cambridge has not undertaken full due diligence on LiveOak; although Mr. Fiske has done so and knows this company well.

The summary of the LiveOak Venture Partners II Fund fundraising terms were as follows:

- Target Fund Size – $100 million ($150 million hard cap)
- Management Fee – 2.5% of commitments, reducing by 0.25% annually following the first fiscal quarter after the fifth anniversary of the initial drawdown
GP Commitment – 1.0%
Carried Interest – 20%
Partnership Life – 10 years, subject to two one-year extensions

On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the committee members in attendance, the recommendation of $4.0 million to LiveOak Venture Partners II was approved. This action requires committee approval only; and no further board action was required.

The next item for the committee’s consideration and approval was Item F, the Annual review and approval of the UH System Investment Policy for Non-Endowed Funds – University of Houston System. Mr. McShan introduced and presented this item for the committee’s consideration and approval and stated, that by statute and our policy, the University is required annually to review the Non-Endowed Investment Policy as well as the Endowed Investment Policy. At this meeting, the Non-Endowed Investment Policy was reviewed and there were no recommended changes to this policy at the present time.

On motion of Regent Madison, seconded by Regent McElvy, and by a unanimous vote of the committee members in attendance, the Annual Review and Approval of the UH System Investment Policy for Non-Endowed Funds – UH System was approved.

The final item for the committee’s consideration and approval was Item G, the Approval is requested for the Fiscal Year 2017 University Advancement Endowment Assessment Rate – UH System. Mr. McShan introduced this item and stated that the Endowment assessment had been instituted in 2006 and as part of that policy, it had required the annual approval of the Board to ensure that everyone was comfortable with the proposed rate as well as the amount of income it would generate. It was recommended that a 1.5% rate for the next fiscal year be assessed which would generate a total amount of $6.9 million in support of the University Advancement function.

Mr. McShan also mentioned for the record, that the University would be reviewing this rate, looking at the value to either fund it with an endowment fee and/or through operating funds because it does place an extra burden on the Endowment in order to reach the hurdle necessary to ensure growth of the Endowment. Regent McElvy felt it was consistent to go another year with this rate while they continue to study what the appropriate rate should be in the future.

Regent Agrawal asked Regent Gerald McElvy to comment further on this assessment issue. Regent McElvy stated that as Mr. McShan had mentioned, this issue has been studied, (1) as it relates to the expected return on the Endowment; and (2) with an objective to begin to grow the Endowment, perhaps to set a goal for the Endowment to be substantially higher than it is. Regent McElvy said he was satisfied as to where they were at the present time.

On motion of Regent McElvy, seconded by Regent Armour, and by a unanimous vote of the committee members in attendance, the request for the Fiscal Year 2017 University Advancement Endowment Assessment Rate - University of Houston System was approved.
At the conclusion and approval of this item, Regent Agrawal made the motion to place the following two (2) 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 Madison, and by a unanimous vote of the members in attendance, the following two (2) action items were approved and will be placed on the Board of Regents’ Consent Docket Agenda for final board approval at the February 23, 2017, Board of Regents’ meeting held later in the day as follows:

1. Approval review and approval of the UH System Investment Policy for Non-Endowed Funds – UH System; and

2. Approval is requested for the Fiscal Year 2017 University Advancement Endowment Assessment Rate – UH System

There was no Executive Session held.

There being no further business to come before the committee, the meeting adjourned at 9:51 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           Erin Schuhmacher          Phil Fiske
Jim McShan            Katherine Chu            Kerry Kirk
Paula Myrick Short    Brian Krueger             Ashley Ross
Dona Cornell          Don Guyton                Jasmine Davis
Lisa Holdeman         Mike Rosen                Pam Muscarillo
Ramanan Krishnamoorti David Bradley            Ryan Harrison
Eloise Dunn Brice     Macie Kelly               Matt Castillo
Mike Johnson          Don Price                 Jon Aldrich
David Oliver          Sabrina Hassumani         Claire Anderson
Devonte Hilo          David Ellis               Raymond Bartlett
Michael Britt         Greg Sissel               Phil Booth
Brian Thomas          Joe Brueggman             Marquette Hobbs
Brenda Robles         Gerry Mathisen

University of Houston System

Endowment Management Committee
Minutes, February 23, 2017