

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

Tuesday, May 17, 2011 - The members of Endowment Management Committee of the University of Houston System convened at 1:30 p.m. on Tuesday, May 17, 2011, at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Jim P. Wise, Vice Chair
Mica Mosbacher, Member
Carroll Robertson Ray, Ex Officio
Michael J. Cemo, Advisory Member

Member(s) Absent

Jarvis V. Hollingsworth, Chair
J. Christopher Jones, Advisory Member

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, in the absence of the Chair of the Committee, Jarvis V. Hollingsworth, Vice Chair of the Committee, Jim P Wise called the meeting to order. Regent Wise stated there were several approval items and one information item that would be presented to the committee and introduced the first action item on the agenda, the approval of the minutes.

AGENDA ITEMS

Action Item

1. Approval of Minutes – Item B

On motion of Regent Ray, seconded by Regent Mosbacher and by a unanimous vote of the committee members in attendance, the following minutes from the meeting listed below were approved:

- February 15, 2011, Endowment Management Committee Meeting

Regent Wise noted the agenda would be taken out of order with the first item being Item E, followed by Item C, Item D and Item F.

Information Item

2. Presentation by Cougar Investment Fund regarding Investment Performance, Strategy, and Personnel – University of Houston System, Item E – EM-3

A presentation by the Cougar Investment Fund (“CIF”) to the Endowment Management Committee regarding the Fund’s investment performance, strategy, and personnel was

addressed. The UHS Endowment Fund has invested in the Cougar Investment Fund since May 2005. This fund is managed by MBA and MS Finance students in the AIM Center for Investment Management of the UH Bauer College of Business.

Regent Wise asked Dr. Ron Singer, Managing Director of the Cougar Investment Fund, to introduce this item. Also in attendance to give remarks were Peter Vo, Sarah Watkins, Anitha Ramaraj and Greg Sphar. A brief summary of their remarks is listed below:

- The Cougar Fund has three (3) distinct and important components:
 - (a) the people
 - (b) the process
 - (c) the performance
- The hands-on experience students in the Cougar Fund receive is the realization of the legal and ethical requirements that are inherent in making investment decisions with other peoples' money. Fiduciary duty to their investors is an important requirement to their investors and they accomplish this with a Code of Ethics which outlines their fiduciary duties and how they manage conflicts of interest that may arise.
- The Cougar Fund is a private investment fund financed by outside accredited investors.
- The Cougar Fund is unique in that it is only one (1) of four (4) universities in the United States where the students are the portfolio managers that make trading decisions.
- The Cougar Fund aims to provide, on average, superior returns than that of the S&P 500 (their benchmark), while maintaining a similar systematic risk profile similar to the S&P 500. They attempt to add value to their members' investments by profiting from capital gains and dividends of undervalued common stocks and ADRs traded on US exchanges identified by their systematic, process-driven methodology.
- The Cougar Fund also aims to provide graduate students at the University of Houston with hands-on experience in managing a financial services company.
- The organizational structure of the fund consists of the board of managers, who provide general oversight of the fund and are elected by their member investors; company officers, who run the day-to-day operations of the fund; advisory committee, who provide assistance to their student portfolio teams to ensure investment decisions are consistent with the academic mission of the Cougar Fund; and investment counselors, who provide their student portfolio teams with feedback on the investment ideas generated by the students through the process-driven methodology.
- An overview of the four (4) steps taken as part of their due diligence were addressed:
 - Initial screening of stocks from the US Exchanges, building on a business summary, valuation, and finally decision.
- Monitoring and Reanalysis of the stocks is done which ensures their investment thesis still holds the test of time. Through this systematic process, the Cougar Fund has achieved consistent results.
- The portfolio's assets under management as of December 31, 2010 were \$7.1 million.
- The Cougar Fund's expense ratio as of the end of 2011 Q1 was 77 bps of net asset value; turnover ratio was 21%; and beta was 1.05.
- The Cougar Fund has consistently outperformed its benchmark (the S&P 500).

A complete copy of the Cougar Fund presentation has been filed in the Board office. This item was for information only and required no committee action.

3. Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets – University of Houston System, Item C – EM-1

Vice Chair of the Committee, Jim P. Wise, asked Hamilton Lee, from Cambridge Associates, to brief the committee on the performance of the endowed and non-endowed assets since the Endowment Management Committee's last meeting held on February 15, 2011.

Below is an executive summary of Mr. Lee's remarks:

Mr. Lee's discussion points highlighted key performance of the Endowment and included a market commentary. Global equity markets were up for the quarter with the MSCI ACWI returning 4.5%, its third consecutive quarter of positive performance. U.S. equities fared similarly with the S&P 500 gaining 5.9% due in part to improving economic sentiment. Bonds struggled for the quarter as Treasury yields rose across the curve, and the Barclays Aggregate Bond Index ended the quarter up to 0.4%.

The University's Endowment gained 2.9% for the quarter, besting Dynamic Benchmark A by 20 basis points and equaling Benchmark B. For the trailing one-year, the Endowment was up 12.3% versus 9.2% and 10.4%, respectively. Additionally, the portfolio added value versus both benchmarks since inception. Cambridge proposed that the University adopt a fixed weight implementation benchmark called "Implementation Benchmark" to replace Portfolio Benchmark A, which would enable the committee to evaluate the asset allocation impact on portfolio performance. To streamline the benchmark reporting, Cambridge recommended removing Dynamic Portfolio Benchmark A. Dynamic Portfolio Benchmark B would remain as a manager weighted benchmark. To keep a long-term, policy-oriented goal, Cambridge recommended that the University add CPI-U + 5.5% in order to evaluate the University's ability to maintain long-term purchasing power. This issue was discussed at length.

On a motion from Regent Ray, seconded by Regent Mosbacher, and by a unanimous vote of the committee members in attendance, the recommendation that the University of Houston adopt the changes to Dynamic Portfolio Benchmark A and B and include CPI-U + 5.5% was approved. This recommendation requires committee approval only.

The University of Houston's Japanese exposure was discussed and based on manager provided data, Cambridge estimates that the total Endowment exposure to Japan is approximately 5.1%. The chief sources of the exposure are global ex-U.S. equity managers, Silchester and William Blair, and global bond manager, Mondrain. Additionally, seven (7) of the University's hedge funds have small net positions in the country, which account for less than 0.2% of total exposure. Cambridge did not recommend taking any action at this time.

Mr. Phil Fiske of Cambridge Associates recommended that the University of Houston commit \$4.0 million to Dover Street VIII, L.P. HarbourVest Partners, LLC (HarbourVest) is targeting \$3.0 billion for DS VIII, the firm's eighth secondary fund. A first close is planned for June 2011.

The Dover Street fund series is HarbourVest's dedicated secondary strategy. HarbourVest's secondary funds purchase interests in existing limited partnerships (traditional LP interest

secondaries) and portfolios of direct company investments (direct or synthetic secondaries). Direct secondaries have become an increasingly important portion of the Dover Street portfolios and the team expects such investments to comprise 40-50% of the DS VIII portfolio, which is consistent with DS VII. In the current environment, the team views direct secondaries as less competitive than traditional LP interest deals.

The Dover Street funds were started in 1992, making HarbourVest one of the oldest and most experienced secondary sponsors. HarbourVest's secondary strategy is fundamentally opportunistic. The team has adopted an innovative approach and has been a leader in developing unique deal structures and new types of transactions. HarbourVest has a consistent record of generating solid relative performance.

Dover Street VIII represents an attractive opportunity for the University of Houston Endowment to invest with a highly experienced manager in the secondary market as well as to increase diversification of its private investments portfolio across vintage year, geography and industry sectors.

The summary of the Dover Street VIII Fund terms were as follows:

- Management Fee – 0.81% average per year
- General Partner Commitment -1%
- Carried Interest – 12.5%
- Preferred Return – 7%
- Investment Period – 5 years

On a motion from Regent Ray, seconded by Regent Mosbacher, and by a unanimous vote of the committee members in attendance, the recommendation to commit \$4.0 million to Dover Street VIII, L.P. was approved. This recommendation requires committee approval only.

Jeff Blazek, from Cambridge Associates, presented the committee with a commentary on the market. Below is a brief summary of his remarks.

- Commodities and small caps continued to outperform; treasuries have struggled.
- S&P 500 outperformed Emerging Markets (EM) and geopolitical events rocked the markets;
- Crude oil climbed on Middle East developments; agricultural commodities have surged;
- Developed and EM policy makers are fighting different battles on inflation;
- Unemployment has historically been cyclical, but education disparity remains;
- Existing home sales are stabilizing, but new home sales have fallen off;
- Bank loan and lease defaults and charge-offs remain elevated but are generally falling.

Numerous issues were discussed during Mr. Blazek's remarks.

Mr. Hamilton Lee discussed the Manager Watch List as of March 31, 2011 and made the following recommendations:

- Cambridge recommended that the Cougar Fund be taken off of the Watch List.
- Cambridge recommended they continue to monitor William Blair's performance, with another review no later than fourth quarter 2011.
- Cambridge recommends monitoring performance and removing them from the Watch List once their 3-year performance improves.

William Blair, who is currently on the Watch List for long-term performance, continues to trail the MSCI AC World ex-U.S. Index though trailing one-year performance has improved dramatically. William Blair's performance was flat for the quarter, underperforming the benchmark's return of 3.5%. However, for the trailing one-year period, William Blair outperformed the benchmark by 240 basis (16.0% vs. 13.6% for the benchmark).

Wellington Diversified Inflation Hedge was also addressed. Wellington DIH's trailing 3-year performance has lagged both the custom benchmark and CPI-U + 5% by 360 bps and 730 bps, respectively. Cambridge noted that their recent performance had, in fact, improved, with the fund gaining 6.4% for the quarter versus 6.3% and 3.1% for the custom benchmark and CPI-U + 5%, respectively.

Cambridge recommended an additional \$5.8 million investment in Wellington DIH in order to rebalance the inflation hedge portfolio to its interim target. A discussion followed.

On a motion from Regent Ray, seconded by Regent Mosbacher, and by a unanimous vote of the committee members in attendance, the committee approved the delegation of authority to the Chair of the Committee, Jarvis V. Hollingsworth, to invest an additional \$5.8 million with Wellington DIH if he finds it appropriate to rebalance to this level after consulting with staff and Cambridge. This action requires committee approval only.

Mr. Gene Lohmeyer, from Cambridge Associates, gave a brief review of the Hedge Fund Program as of June 2011. Following Mr. Lohmeyer's remarks Mr. Bartlett summarized the following committee actions for approval. All of these proposed recommendations are for existing portfolio fund managers.

- Add \$2.0 million to Highline;
- Add \$2.0 million to Partner Fund Management;
- Add \$2.5 million to Anchorage; and
- Redeem \$2.5 million from Whippoorwill.

On a motion from Regent Ray, seconded by Regent Mosbacher, and by a unanimous vote of the committee members in attendance, the rebalancing of Highline, Partner Fund Management, Anchorage, and Whippoorwill as defined above was approved. This action requires committee approval only.

The final item addressed by the committee was presented for information only.

4. Report on Compliance of Private Support Organizations and Foundations – University of Houston System, Item F – BOR-4

Mr. Don Guyton, Chief Audit Executive, introduced this item. Board of Regents Policy 32.06 requires an annual report on compliance of private support organizations and foundations. Mr. Guyton stated there was one correction to the table listed under the Compliance Review of UH System Support Organizations – April 20, 2011 Report. Under the UH Business Foundation, it should be noted that IRS Form 990 for FY2009 has now been received. The Audited Financial Reports for FY2009 and the IRS Form 990 for FY2009 from the UH Law Foundation and the Houston Athletics Foundation have not yet been received.

Mr. Guyton also noted another correction to the Summary of Support Organizations Activity – FY2008 – FY2009 Report. The University of Houston Law Foundation’s Return (1- year) percentage changed from 5.82% to 9.1%.

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

There being no further business to come before the Committee, the meeting adjourned at 3:25 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:

Renu Khator
Carl Carlucci
Dona Cornell
Raymond Bartlett
Barbara Stanley
Greg Sphar
Lisa Holdeman
Tom George
Gerry Mathisen

Hamilton Lee
Jeff Blazek
Gene Lohmeyer
Phil Fiske
Ron Singer
Sarah Watkins
Anitha Ramaraj
Marquette Hobbs

Linda Klemm
David Draper
Don Guyton
Tom Ehardt
Eli Cipriano
Jon Aldrich
Peter Vo
Ed Jones