

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Thursday, May 18, 2017 - The members of Endowment Management Committee of the University of Houston System convened at 9:02 a.m. on Thursday, May 18, 2017, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Vice Chair
Spencer D. Armour, III, Member
Beth Madison, Member
Gerald W. McElvy, Member

Non-Member(s) Present

Paula M. Mendoza, Regent
Peter K. Taaffe, Regent
Joshua A. Freed, Student Regent, Non-voting

Members Absent

Durga D. Agrawal, 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, in the absence of the Chair of the Committee, Durga D. Agrawal, Regent Roger F. Welder, Vice Chair, called the meeting to order.

AGENDA ITEMS

Action Items

Regent Welder stated there were five (5) agenda items listed on the agenda – one (1) requiring committee and board approval; three (3) 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 Welder moved to the first action item requiring committee approval, the minutes from the February 23, 2017, Endowment Management Committee meeting.

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

- February 23, 2017, Endowment Management Committee Meeting

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Following the approval of the minutes, Regent Welder stated the next item listed on the agenda would be presented by Cambridge Associates and he asked Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance to please introduce Item C, a Report from Cambridge Associates regarding the UH System Endowment and Non-endowed portfolios – University of Houston System.

Mr. Bartlett introduced the four (4) Cambridge Associates in attendance at the meeting: Kerry Kirk, Erin Schuhmacher, Mark Dalton, and Katherine Chu, all of whom would be presenting various items to the committee for discussion. Mr. Bartlett asked Mr. Kirk to please begin his presentation to the committee.

Mr. Kerry Kirk stated an executive summary would be addressed outlining (1) UH performance and asset allocation; (2) an update on progress made with respect to moving the portfolio toward the long-term targets approved in the Strategic Plan adopted in 2015 and refined in 2016; and (3) a review of the cash allocation in the UH portfolio as well as discuss options to better manage the portfolio. Mr. Kirk asked Erin Schuhmacher to address the first phase of their report, the UH performance and asset allocation and below is a brief summary of her remarks.

- Ms. Schuhmacher stated that for the first time in years, non-U.S. stock markets were outperforming the U.S.; and the calendar year-to-date performance and the trailing 1-year performance for U.S. equities had been strong.
- Hedge Fund performance had been modest; and it was not expected that they would keep up with strong equities in these types of markets, but performance has improved from where we were at this time last year.
- On a year-to-date basis, Cambridge has seen some weakness across the commodities spectrum; particularly, if it were compared to the bottom part of the year where we saw very strong returns over a trailing 12-month period as these assets rebounded from trough, trough multiples and evaluations after the collapse in the price of oil.
- The returns on bonds have been modest.
- On a trailing 1-year basis, UH performance has been good and with some of the work that has been done to the Strategic Plan it is starting to pay off and that comes through in the numbers.
- The UH marketable portfolio returned 4.8% for 1st Quarter 2017; and on a trailing 1-year basis this was up 10.5% comparing favorably to both benchmarks.
- Asset allocation: actual, targets and allowable ranges were addressed as follows:

	Actual Allocation	Near-Term Targets	Allowable Ranges
- Global Equities	44.2%	42%	30-50%
- Hedge Funds	27.8%	30%	10-30%
- Private Equity/Venture Cap.	8.1%	10%	10-30%
- Real Assets	9.7%	10%	5-15%
- Bonds	6.7%	7%	5-20%
- Cash	3.5%	1%	0-10%

Target allocations were taken, multiplied by a passive or market index and then aggregate those into policy.
- The trailing 1-year UH portfolio was also ahead of benchmark over the past year led by U.S. equity, emerging markets and real assets.

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- As of March 31, 2017, the Endowment was moderately overweight equities and cash.
- Total Non-endowed assets totaled \$484.8 million.

Mr. Kirk reviewed the progress made to date since the Endowment Management Committee adopted the Strategic Plan in May 2015; and also provided an update for expectations looking forward to the next phase of implementation. Below is a brief summary of his comments.

- Given progress to date in building UH's Private Investments Program, which is a key element of the Strategic Plan, there were four (4) areas addressed:
 1. Progress on the funding of the Privates
 2. Bonds and Cash;
 3. Hedge Funds; and
 4. Global Equity Rebalancing
- The timeline/evolution of the UH endowment was briefly discussed.
- From inception of the endowment until 2002, the endowment was essentially a US only stock bond portfolio with half of the endowment managed by one manager. The university has come a long way with respect to diversifying, upgrading and making the portfolio more sophisticated since then.
- As recently as 2010, the portfolio had a target to privates of only 10% whereby the current target is now 25%.
- In 2013, an Enterprise Advisory Review was conducted by Cambridge of not only the investment-side but the financial-side where it was determined that due to the relatively low reliance of the operating budget on endowment payout that the portfolio could take on more risk with the idea of gaining additional returns and taking more volatility in doing so. This was the basis for the ultimate adoption of the 2015 strategic plan which reduced what Cambridge called drivers of risk hedges and increased the drivers of growth.
- If you were to aggregate in 2015 what the asset classes and strategies to what Cambridge referred to as risk reducers (primarily bonds, cash and hedge funds), it was slightly under 40%; and the growth drivers which were long only equities, US non-equity, non-emerging, real assets, real estate, venture capital, and private equity, it was approximately 60-63%. Today the endowment is closer to 70%-30% and we are now more on the route of 75%-25%.
- Cambridge believes the current long-term targets are still appropriate and are in keeping with the endowment's risk profile.
- It needs to be recognized that UH's long-term performance potential has and will continue to improve. The changes implemented with adoption of the strategic plan are expected to improve UH's performance while assuming only moderate additional volatility. Progress has been made over the past two (2) years. Cambridge expects that it will take 3+ years to reach the long-term target – driven by the time required to build-out the Private Investments Program.
- Private investments exposure modeling was discussed. The net asset value (“NAV”) at UH for the private investments: the venture, the buyouts and the private real assets which showed as to where we are and where we were going when factored in how much is unfunded and what the target is which is 25% (it used to be as low as 10%).
- So based on our commitment of approximately \$50 million (give/take \$15 million) per year, it is expected to be near the NAV target (absent any major change in the markets) in 2019-2020.

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- As the Private Investment Program evolves and matures, it is expected that distributions will increase over time. As this occurs, the program will move toward becoming “self funding” meaning that capital calls are offset by distributions, thereby moderating the need to hold excess cash to manage cash flows.
- As total Private Investments approach 15%-20%, it is anticipated that the near term Hedge Fund target will be adjusted later in 2017.

Following Mr. Kirk’s comments, Ms. Schuhmacher addressed the next issue of cash management and making it more effective within the portfolio.

- Ms. Schuhmacher stated that in order to increase investment returns of the portfolio, the strategic plan calls for a reduction in UH’s allocation to bonds and cash from 15% to 10%.
- Even within the reduction, the level of bonds and cash within the portfolio, while it has been moderated in accordance with the plan, UH cash balance has persistently been above target driven in part by the need to fund capital calls in a timely manner as well as investment policy re rebalancing authority.
- As the Private Investment Program continues to mature, the need to hold this “cash buffer” to fund capital calls will moderate. Cambridge also sees an opportunity to manage cash more effectively which should help mitigate the cash drag that has persisted and impacted UH’s performance.
- Cambridge recommended that authority be delegated to staff in conjunction with the consultant to rebalance the portfolio by 2.0% with an already approved guidelines and targets set up by policy as well as already approved managers. This would be able to happen in between meetings as the need may arise to fund equities or bonds to fund those capital calls.
- Secondly, in order to rebalance when needed, eliminate the long-term policy target of 0% to cash by combining the cash and bonds managers into one asset class. The rationale for this change includes:
 1. Combining interest income related asset classes would simplify the portfolio and benchmarking;
 2. Long-term, the strategic plan class for no target to cash so there is no need to manage to a target; and
 3. The combination will force rebalancing if bonds and cash exceed 10% and in doing so would also serve as a reminder to minimize cash.
- A brief UH cash allocation analysis was presented. A graft from March 31, 2009 through March 31, 2017 of the rolling 12-month allocation versus the allocation relative to policy was shown, as well as a graft from March 31, 2009 through December 31, 2016 on peer cash and equivalent allocations which showed that since the strategic plan has been in place, UH is more in line with its peers. The impact of holding cash is not immaterial over time.
- From a policy perspective, currently the long-term allocation for bonds – 10% and cash/equivalents – 0%. The proposed long-term target allocation is for bonds and cash – 10% and the recommended benchmark would be dynamic bonds and cash benchmark (Bloomberg Barclays Aggregate Index and BofA ML 91 Day Treasury Bills).

Following the comments of Mr. Kirk and Ms. Schuhmacher, Mr. Bartlett stated this concluded the presentation of Item C which was presented for information only.

Regent Welder moved to the next item listed on the agenda, Item D, Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – UH System, and asked Mr. Bartlett to introduced this item.

Mr. Bartlett stated that in order to codify the recommendations made by the Cambridge team, the following approval was requested:

1. Provide the staff and the consultant the flexibility to intra-meeting rebalance up to 2% of the portfolio in order to meet capital calls; and if we receive any excess cash to be able to reinvest that to eliminate the drag cash has on the portfolio.
2. The combining of bonds and cash into one asset class, the elimination of cash as a separate asset class as a target, and the change to the dynamic benchmark. There is no change to the aggregate – it is still 10% but to bonds and cash.
3. Other miscellaneous non-substance housekeeping changes within the policy.

Following the presentation of this item Regent Welder called for a vote from the committee.

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

Regent Welder moved to the next item on the agenda, Item E, Approval is requested to rebalance the portfolio for the University of Houston System Endowment Fund – University of Houston System, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett stated that at our prior meeting, Cambridge Associates presented to the committee and the committee approved various rebalancing opportunities within the global equities portfolio and at this meeting additional recommendations were being made. Mr. Bartlett asked Mr. Kirk to please present their recommendations to the committee.

Mr. Kirk reiterated that with ongoing relative strength in ex-US markets, as well as macro uncertainty, the plan to gradually rebalance geographical exposures closer to benchmark, harvesting gains in the process, while still retaining tactical overweights to these market will continue.

Cambridge recommended 11 transactions as part of the customary rebalancing in the portfolio with the following actions – the first 8 recommendations – rebalance across global equities to realign geographic exposure:

1. \$3.0 million addition to Northern Trust Russell 1000 Index
2. \$2.0 million addition to Columbia
3. \$2.0 million mm addition to Gotham 140/40
4. \$1.0 million mm addition to Vulcan
5. \$3.0 million mm addition to William Blair
6. \$3.0 million redemption from Oldfield
7. \$2.0 million redemption from Somerset
8. \$3.0 million redemption from JO Hambro Asia ex Japan

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The remaining 3 Cambridge recommendations – cash redeployment – inflows into the endowment during Q1 increased cash to 3.5% and the recommendation to rebalance across several managers to move back to near-term asset allocation targets were as follows:

1. \$3.0 million addition to Morgan Stanley
2. \$1.0 million addition to Van Eck
3. \$2.0 million addition to Smith Graham

A brief discussion followed on the current, recommended, and MSCI ACWI global equity market.

Following the discussion of this item, Regent Welder called for a vote.

On motion of Regent McElvy, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the request to rebalance the portfolio for the University of Houston System Endowment Fund was approved.

This item required committee approval only and no further board action was required.

Regent Welder moved to the next item on the agenda, Item F, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the University of Houston System Endowment Fund – University of Houston System, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett stated that Cambridge would be presenting and recommending two (2) private investment managers for a total of \$12.5 million for the committee's consideration and asked Katherine Chu to address this item for discussion.

Ms. Katherine Chu presented two (2) private investments to the committee. Below is a brief summary of the recommendations presented.

1. Cambridge Associates recommended that the University of Houston approve a commitment of up to \$7.5 million to Carnelian Energy Capital Fund II. Carnelian Energy Capital is targeting \$500 million, with a \$600 million hard cap, for its second fund. The manager plans to hold a first and potentially final close on June 9, 2017.

Carnelian is a Houston-based oil and gas private equity manager and was formed in 2015 by partners Tomas Ackerman and Daniel Goodman, who were previously on the investment team at Natural Gas Partners (NGP). Carnelian will pursue primarily controlling investments in lower-to-middle market North American oil and gas companies, by committing \$35 million to \$75 million of equity to eight to twelve companies. Carnelian will likely allocate 75% of the funds's capital to upstream assets, with the remaining capital split between midstream assets and oilfield services companies. The manager will target a 3.0 gross MOIC.

The Carnelian team seeks to partner with next-generation (ages 30 to 40) management teams who are on the cutting edge of the oil and gas technological revolution. Ackerman and Goodman have a combined 24 years of experience investing in the energy sector and worked together for seven years at NGP.

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The summary of the Carnelian Energy Capital Fund II fundraising terms were as follows:

- Target Fund Size – \$500 million (\$600 million hard cap)
- Management Fee – 2.0%
- GP Commitment – \$8 million
- Preferred Return – 8%
- Carried Interest – 20% (European waterfall)
- Partnership Life – 10 years, with up to 2 one-year extensions

2. Cambridge Associates recommended that the University of Houston approve a \$5.0 million commitment to TrueBridge-Kauffman Fellows Endowment Fund V. TrueBridge Capital Partners is targeting \$375 million, with a \$450 million maximum capitalization for Fund V; and the manager plans to hold a first closing on June 30, 2017, and a final closing on October 30, 2017. Consistent with recent funds, TrueBridge plans to invest roughly 75% to 80% of the fund in 10 to 12 core GP relationships; 10% to 15% in a portfolio of complementary, seed-stage, funds; and 10% in a portfolio of 18 to 25 direct interests in venture-backed, mid- to late-stage companies through its commitment to Direct Fund I. Most of the 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.

The University is a previous investor with TrueBridge-Kauffman, committing \$3.0 million to CVE-Kauffman Fellows Endowment Fund II in 2010, \$3.0 million to TrueBridge –Kauffman Fellows Endowment Fund III in 2013, and \$6.25 million to TrueBridge-Kauffman Fellows Endowment Fund IV in 2015.

Cofounders and partners Edwin Poston and Mel Williams are experienced investors and respected within the venture capital industry. They lead TrueBridge’s investment team and share most GP relationships, and are noted to have complementary skill sets and a cohesive approach.

The summary of the TrueBridge-Kauffman Fellows Endowment Fund V fundraising terms were as follows:

- Target Fund Size – \$375 million (\$450 million hard cap)
- Management Fee – 0.7% average over a 15-year term
- GP Commitment – At least 1.0% of commitments
- Carried Interest – 5%
- Partnership Life – None (consistent with prior funds)

On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the University of Houston System Endowment Fund was approved.

This item required committee approval only and no further board action was required.

The last item listed on the agenda, Item G, Approval is requested to make a full redemption from two hedge fund managers in the University of Houston System Endowment Fund – University of Houston, was introduced by Mr. Bartlett.

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Mr. Bartlett introduced this item and requested Mark Dalton, from Cambridge Associates, present this item to the committee.

Mr. Dalton presented the committee with a Hedge Fund Program update. UH's Hedge Fund Program was designed to provide a diversified "market-like" source of return at lower levels of risk over the long-term. Since inception, the hedge fund allocation has outperformed the RFRI benchmark by 1.6% while achieving 62.5% of the return of global equities with approximately 38.1% of the volatility over the same time period.

Mr. Dalton stated that Cambridge was recommending two (2) full redemptions from long/short equity managers PFM and Sheffield. As was mentioned earlier, this was part of the strategic long term plan to reduce hedge funds towards their long term target. Cambridge still likes and supports these two managers from a research perspective, but within the context of the portfolio, Cambridge had a lower conviction in these two managers. As we approach Q4, Cambridge will evaluate the needs of the portfolio and either reallocate these proceeds to new managers or use them to source spending for payout to the University.

Mr. Dalton stated they recommended the following for the committee's consideration:

1. Full redemption from PFM of \$10.6 million as of September 30, 2017; and
2. Full redemption from Sheffield of \$12.3 million as of July 31, 2017. Sheffield has two tranches with 25% investor level gates which would be paid out over the course of 4 quarters.

On motion of Regent McElvy, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the request to make a full redemption from two hedge fund managers in the University of Houston System Endowment Fund was approved.

This item required committee approval only and no further board action was required.

Following the approval of this item by the committee, Regent Welder made the motion to place the following action item, unanimously approved by the committee, on the Board of Regents' Consent Docket Agenda for final board approval.

On motion of Regent Madison, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the following action item was approved and will be placed on the Board of Regents' Consent Docket Agenda for final board approval at the May 18, 2017, Board of Regents' meeting held later in the day as follows:

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

There was no Executive Session held.

There being no further business to come before the committee, the meeting adjourned at 10:03 a.m.

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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	Erin Schuhmacher	Mark Dalton
Paula Myrick Short	Katherine Chu	Kerry Kirk
Dona Cornell	Oscar Duberney	Raymond Bartlett
Elwyn Lee	Ed Hugetz	Hilano Yanez
Ramanan Krishnamoorti	David Bradley	Ryan Harrison
Eloise Dunn Brice	Macie Kelly	Matt Castillo
Mike Johnson	Don Price	Jon Aldrich
David Oliver	Sabrina Hassumani	Ray Paulersen
Tomikia LaGrande	David Ellis	Nader Ibrahim
Glen Houston	Cindy Mejia	Phil Booth
Pamelyn Klepal Shefman	Dan Maxwell	Shannon Harris
Brian Thomas	Joe Brueggman	Marquette Hobbs
Brenda Robles	Gerry Mathisen	