MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Monday, May 24, 2010 - The members of Endowment Management Committee of The University of Houston System convened at 1:11 p.m. on Monday, May 24, 2010, at the University of Houston in Board Room 128, Ezekiel Cullen Building, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present
Jarvis V. Hollingsworth, Chair
Carroll Robertson Ray, Vice Chair
Welcome W. Wilson, Sr., Ex Officio
Michael J. Cemo, Advisory Member
J. Christopher Jones, Advisory Member

Absent
Jim P. Wise, Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Jarvis V. Hollingsworth called the meeting to order.

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AGENDA ITEMS

1. Approval of Minutes – Item B

On motion of Regent Ray, seconded by Regent Wilson and by a unanimous vote, the following minutes from the meeting(s) listed below were approved:

- February 9, 2010, Endowment Management Committee Meeting
- February 16, 2010, Special Called Endowment Management Committee Meeting


Regent Hollingsworth called on Hamilton Lee, from Cambridge Associates, to give their report and recommendations regarding endowed and non-endowed assets.

Mr. Lee addressed the executive summary which serves as a top level reference of the materials, highlighting portfolio performance/positioning, key discussion topics for the meeting, and their specific recommendations to the committee for approval.

Equity markets continued to charge ahead in the first quarter, driven primarily by a strong March. Returns for the first quarter were fairly positive, but market performance in April...
and May was slightly different, although performance for the entire portfolio was positive. The Endowment returned 3.2% and 30.4% for the most recent quarter and 12-month period, respectively, outperforming both benchmarks for each respective period. Performance was aided by strong absolute performance from public equities generally, and from strong relative performance from absolute return, inflation hedging and international equities.

As of April 30, 2010, the Endowment posted a gain of 0.9% for the month, outperforming both Benchmarks A and B by 40 basis points and 10 basis points, respectively. The portfolio continues to outperform on a relative basis for the trailing one-year, posting a gain of 24.0% versus 19.1% for Benchmark A and 23.8% for Benchmark B.

Mr. Lee introduced Mark Dalton and Gene Lohmeyer who discussed Long-Short Equity and Absolute Return Hedge Fund Managers, respectively.

The transition from the University’s current manager structure to the core/satellite structure approved at the prior meeting got underway in April 2010 and should be completed shortly. The U.S. Equity portfolio transition update was addressed. As of close of business on April 22, 2010, the University of Houston U.S. Equity manager transition was approximately 80% complete. Smith Asset Management, Fayez Sarofim, Robeco (Boston Partners) and Dodge & Cox were liquidated; and Mayo Capital, SSgA Russell 1000, and ICAP were funded managers. As of close of business on May 11, 2010, essentially 100% of the transition was complete. Wellington USRE and Hoover were liquidated; and Columbia and Luther King were funded in accordance with the U.S. Equity manager transition.

The consultant and staff have been managing the transition to matching fundings as precisely as possible, given legal documents considerations, trade/settlement date monitoring, and terms of notice for terminated managers; and the market exposure during the transition has been closely monitored. $16 million of equity was contributed in-kind to the funding of the SSgA Russell 1000 investment.

Below is an Executive Summary of the Hedge Fund managers given by Cambridge, along with their recommendations for each Hedge Fund manager.

Absolute Return managers:

- Mason Capital Management, LLC – Cambridge recommended that the System invest $8.0 million in Mason Capital Management through Mason Capital, Ltd.. This is an event-driven hedge fund with assets divided among three distinct strategies: distressed investing, merger arbitrage, and special situations.
- Och-Ziff Capital Management – Cambridge recommended that the System invest $8.0 million in Och-Ziff Capital Management through OZ Overseas Fund II, Ltd.. This is a multi-strategy hedge fund that seeks to achieve consistent, positive absolute returns that are uncorrelated to equity markets.
- Taconic Opportunity Fund – Cambridge recommended that the System invest $8.0 million in Taconic Opportunity Offshore Fund. This is a global event-driven fund founded in June of 1999 by former Goldman Sachs partners Frank Brosens and Ken Brody.
Long-Short Managers:

- **Coatue Master Fund** – Cambridge recommended that the System invest $6.0 million in the Coatue Master Fund, Ltd. This is a global long-short equity fund focusing on the telecom, media, and technology (TMT) system.
- **Scout Capital Fund** – Cambridge recommended that the System invest $6.0 million in the Scout Capital fund. This is a global, long-short equity fund that focuses on high quality businesses undergoing operations or financial transformations which may not be fully understood by the marketplace.

Cambridge stated that they used the following selection criteria in identifying these recommended managers to the committee:

- A solid track record
- Repeatable strategy/process
- Stable organization
- Transparency
- Strong alignment with investors; and
- Leverage is not an important source of return

It was stressed that each manager is continually monitored via quarterly calls by Cambridge Associates’ internal research team and onsite visits by research consultants, hedge fund specialist consultants, and hedge fund due diligence analysts. Their operational due diligence team also visits each manager periodically to review operations and business management procedures.

Cambridge also recommended that the University of Houston invest in each fund’s share class option that has the most favorable redemption terms given liquidity is the primary factor at this point. For Mason, Och-Ziff, Taconic, and Coatue, that is option 1 as presented. Scout only has one fee and redemption structure.

The 2010 Work Plan was discussed. At each quarterly meeting, Cambridge stated they would present to the committee a market update; asset allocation; performance review; and a review of the Manager Watch List. Incorporated in these discussions would be special topics, external commentaries, and recommendations and action items.

The University of Houston Manager Watch List was addressed. There was one International Equity Manager on the Watch List – William Blair. The reason they were placed on the list was due to their long-term performance. Cambridge will continue to monitor their situation.

Other managers on the Watch List were Inflation Hedge Fund Managers: Absolute Plus Management due to their 3-year and short-term performance; and Wellington Diversified Inflation Hedges due to their personnel changes. Cambridge will also continue to monitor their situation.

The last manager on the Watch List was Berwind Property Group (BPG) due to portfolio issues in Fund VII. Certain non-performing holdings in Fund VII need to be refinanced in
the coming months. BPG is currently raising money for this refinancing through a separate fund, into which it is beginning to sell some performing Fund VII assets. Cambridge believes this is a good solution for refinancing the under-performing Fund VII assets, but recommend against the System investing additional capital to purchase the performing Fund VII properties being sold. The committee concurred on this issue.

Regent Ray made the motion for the committee to approve, as presented, the recommendations by Cambridge Associates for the University of Houston to invest $8.0 each in the three Absolute Return Managers; and $6.0 million each to the two Long-Short Managers listed above and moved that Board approval be requested for delegation of authority to the Chancellor to negotiate and execute contracts for the hiring of these investment managers. Regent Wilson seconded the motion, and it was unanimously approved.

There being no further business to come before the committee the meeting was 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.

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Others Present:

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<th>Carl Carlucci</th>
<th>Raymond Bartlett</th>
<th>Mark Dalton</th>
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<tr>
<td>Dona Cornell</td>
<td>Alex Smith</td>
<td>Gene Lohmeyer</td>
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<td>Hamilton Lee</td>
<td>Gerry Mathisen</td>
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