

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Thursday, August 20, 2015 - The members of Endowment Management Committee of the University of Houston System convened at 9:13 a.m. on Thursday, August 20, 2015, at the University of Houston, Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Jarvis V. Hollingsworth, Chair
Roger F. Welder, Vice Chair
Durga D. Agrawal, Regent
Spencer D. Armour, III, Member
Beth Madison, Member
Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

Paula M. Mendoza, Regent
Peter K. Taaffe, Regent
Welcome W. Wilson, Jr., Regent
Garret H. Hughey, Student Regent, nonvoting

Prior to calling the Endowment Management Committee meeting to order, Secretary of the UH System Board of Regents, Welcome W. Wilson, Jr. called Mr. Garrett H. Hughey, the new student regent to the podium for a brief swearing-in ceremony. Following Regent Hughey's swearing-in, he joined the regents table and the Endowment Management Committee was called to order. Regent Hughey stated he was looking forward to working with everyone.

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, the Chair of the Committee, Jarvis V. Hollingsworth called the meeting to order and stated that there would be a few agenda items taken out of order as they were listed on the agenda.

The first item currently listed on the Endowment Management Committee agenda was the Executive Session. Regent Hollingsworth stated that this would move to the end of the meeting and Item B, the next item listed on the agenda would be presented.

AGENDA ITEMS

Action Items

Regent Hollingsworth stated there were five (5) action items to be addressed – one (1) requiring committee and board approval; two (2) items requiring committee approval only and the remaining two (2) items for information only. Four (4) 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 the recommendations from Cambridge Associates required committee approval only.

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

1. Item B – Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios – University of Houston System;
2. Item C – Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a private investment manager for the UH System Endowment Fund – University of Houston System; and
3. Item D – Approval is requested to make a full redemption from a hedge fund manager – University of Houston System.

Regent Hollingsworth asked Mr. Jim McShan, Interim Vice Chancellor for Administration and Finance to please introduce these items. Mr. McShan asked Mr. Hamilton Lee, from Cambridge Associates to present these items to the committee.

Mr. Lee stated that there were three (3) additional individuals from Cambridge Associates who would be addressing the committee on different topics. Also in attendance from Cambridge Associates were Erin Schuhmacher, Mark Dalton and Phil Fiske. Below is a brief summary of their remarks.

Ms. Schuhmacher stated that overall the market continues to face an environment where it is hard to find cheap assets; and it feels as though macro headlines are continuing to dominate how securities are trading. The second quarter ended on a downbeat note for most global equities, as Greece's failure to reach a deal with its creditors sent reverberations through markets. Central banks were key players throughout the quarter, with the European Central Bank launching its quantitative easing program and the People's Bank of China trying to contain a potential stock market bubble. Global bond market returns were generally muted related to equities, as record low yields in Europe proved vulnerable to improving economic data.

Mr. Lee addressed the UH portfolio performance as of June 30, 2015. The University of Houston returned 0.2%, outperforming the implementation benchmark by 60 basis points and the dynamic benchmark by 40 basis points. Year-to-date the UH portfolio is up 2.5% beating the benchmarks by about 50 and 80 basis points, respectively. For both the 3-year and 5-year trailing period, the UH portfolio is up a little more than 8% beating the manager benchmark particularly by approximately 100 basis points per year over that timeframe. Cambridge was very pleased with the relative performance of this portfolio and the absolute terms, particularly over the 3-year and 5-year periods. Manager performance over the past six months has been strong with the exception of emerging markets.

Mr. Lee gave a brief summary of asset allocation as of June 30, 2015. Some adjustments had been made from the previous meeting by reducing fixed income. Near term targets were discussed. Mr. Lee also addressed comparative asset allocation and since long-term targets were put in place 5 years ago there has been improvement. It does take time to get to where we want to go and change will not happen overnight. A lengthy discussion followed.

Following Mr. Lee's remarks, Regent Hollingsworth stated that the committee would consider a private investment manager recommendation from Cambridge Associates.

Mr. Phil Fiske, from Cambridge Associates, stated Cambridge Associates recommended that the University of Houston approve a \$7.5 million commitment to SV Life Sciences Fund VI, L.P. SV Life Sciences (SVLS) is seeking \$400 million, with a hard cap of \$550 million, for its sixth diversified healthcare fund. A first close was held in the spring and a final close will be held during the third quarter of 2015. The fund will be diversified by stage, ranging from seed through growth equity. Geographically, Fund VI will be invested principally in companies located in the United States and London.

SVLS will continue to pursue its diversified healthcare strategy and expects Fund VI to look much like Fund V. It is expected that 40% of the capital will be invested in biotech and therapeutics, 20% to be invested in medical devices, and 40% to be invested in healthcare services and healthcare information technology. The most distinctive part of SV Life Sciences said Mr. Fiske was the operating experience of the managing directors. All of the managing directors have extensive experience in the industry. They also have 12 venture partners, all of whom have run companies, typically in the Life Sciences portfolio. The firm is split into three (3) sector-focused teams - the healthcare services & IT team, medical devices team and the therapeutics team.

SV Life Sciences Fund VI, L.P.'s terms are outlined below:

- Target Fund Size – \$400 million (\$550 million hard cap)
- GP Commitment – At least 2% of commitments
- Management Fee – 2.2% of commitments until the first anniversary of the final closing date; 2.3% of commitments until the second anniversary of the final closing date; 2.4% until the third anniversary of the final closing date; 2.5% of commitments until the end of the commitment period
- Carried Interest – 20%
- Partnership Life – Fund term shall continue until ten years from the final closing date, subject to one or more extensions with LP consent not to exceed three years.

Following the presentation on the private investment manager recommended by Cambridge Associates, Regent Hollingsworth called for a motion to approve the recommendation of a \$7.5 million commitment to SV Life Sciences, Fund VI as presented.

On motion of Regent Armour, seconded by Regent Agrawal, and by a unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of the following private investment manager was approved as follows:

1. A \$7.5 million commitment to SV Life Sciences Fund VI, L.P.

This recommendation requires committee approval only and no further board action is required.

Following this presentation, Mr. Mark Dalton, from Cambridge Associates, presented the next item, Item D - the Approval is requested to make a full redemption from a hedge fund manager – University of Houston System. Mr. Dalton stated that Cambridge Associates had one full redemption recommendation to make to the committee. The University of Houston has been invested in York, a long time, multi-strategy manager based in New York. UH had initially invested in York in 2005 and it has been a successful investment. At the time UH had invested in York, they were a \$7 billion investment and they are now at \$26 billion.

Cambridge recommended a full redemption from York International Partners in the amount of \$10.7 million on December 31, 2015. Cambridge plans to bring a replacement manager for the committee's review closer to the end of the year.

On a motion of Regent Madison, seconded by Regent Welder, and by a unanimous vote of the members in attendance, the request to make a full redemption from a hedge fund manager (York International Partners), effective December 31, 2015 was approved.

The Approval is requested to liquidate an endowment from the UH System Endowment Fund – University of Houston, Item E – EM-E was the next agenda item presented to the committee. Mr. McShan stated that the university was requesting to liquidate an endowment from the UH System Endowment Fund with a current value of \$7,694 as of 5/31/15. The endowment was originally funded in the amount of \$5,000 with the intention to build the endowment to \$25,000 which is the minimum amount for an endowment. The university has had several discussions with the donor, who is unable to completely fund the endowment; therefore, the donor has requested that the endowment be dissolved and the proceeds be used to award operating scholarships in the C.T. Bauer College of Business.

On motion of Regent Agrawal, seconded by Regent Welder, and by a unanimous vote of the members in attendance, the request to liquidate The Williams Group Inspiring Excellence Scholarship Endowment from the UH System Endowment Fund was approved.

At the conclusion and approval of this item, Regent Hollingsworth made the motion to place the following action item unanimously approved by the committee and requiring the approval of the full board be placed on the Board of Regents' Consent Docket Agenda for final board approval.

1. Approval is requested to liquidate The Williams Group Inspiring Excellence Scholarship Endowment from the UH System Endowment Fund - UH System.

On motion of Regent Madison, seconded by Regent Agrawal, and by a unanimous vote of the regents in attendance, the above item will be placed on the Board of Regents' Consent Docket Agenda for final board approval at the August 20, 2015 Board of Regents' meeting held later today.

The final agenda item was addressed for information only, Item F, the Report on the UH System's invested fund and bank deposits. Mr. Raymond Bartlett, 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

May 31, 2015. There was \$1.1 billion of investable funds and bank deposits as of this date. 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.

At 9:55 a.m., Regent Hollingsworth announced that pursuant to Subchapter D of Chapter 551 of the Texas Government Code, which allows governing boards to meet in closed session, Regent Hollingsworth stated the board would convene in Executive Session.

Executive Session Report

Regent Hollingsworth reconvened the Endowment Management Committee in open session at 10:30 a.m. and stated the regents had met in Executive Session and discussed the consulting contract. No action was taken in Executive Session.

There being no further business to come before the Committee, the meeting adjourned at 10:31 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.

Others Present:

Renu Khator	Hamilton Lee	Erin Schuhmacher
Jim McShan	Mark Dalton	Phil Fiske
Paula Myrick Short	Raymond Bartlett	Sabrina Hassumani
Dona Cornell	Jesse Pisors	Brandon Alexander
Eloise Dunn Stuhr	Shannon Harrison	Abner Fletcher
Richard Walker	Dan Maxwell	Mike Emery
William Flores	Don Guyton	Sacha Ryder
Raymond Vic Morgan	Don Price	Jon Aldrich
Phil Booth	Joe Brueggman	Brian Thomas
Matthew Castillo	Ryan Harrison	Marquette Hobbs
Brenda Robles	Gerry Mathisen	