

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

Thursday, August 25, 2016 - The members of Endowment Management Committee of the University of Houston System convened at 10:03 a.m. on Thursday, August 25, 2016, at the Hilton University of Houston, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

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

Members Absent

Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

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

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.

AGENDA ITEMS

Action Items

Regent Agrawal stated there were three (3) agenda items to be addressed – one (1) requiring committee and board approval; one (1) requiring committee approval only; and the remaining item for information only. Two (2) 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 that the recommendations from Cambridge Associates required committee approval only.

The first action item presented to the committee was the approval of minutes from the May 19, 2016, Endowment Management Committee meeting.

1. Approval of Minutes – Item B:

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

- May 19, 2016, Endowment Management Committee Meeting

Regent Agrawal reiterated that the first two (2) items listed on the agenda would be presented by Cambridge Associate representatives as follows:

1. Item C – Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios – University of Houston System; and
2. Item D – Approval is requested to rebalance the global equities portfolio including the termination of an investment manager for the University of Houston System Endowment Fund – University of Houston System.

Regent Agrawal asked Senior Vice Chancellor for Administration and Finance, Mr. Jim McShan, to please introduce these items.

Mr. McShan stated there were two (2) representatives from Cambridge Associates who were present at the meeting: Mr. Kerry Kirk and Ms. Erin Schuhmacher, who will address Items C and D listed on the agenda.

Mr. Kirk, from Cambridge Associates, began his presentation by outlining the information in the Executive Summary that will be addressed at the meeting.

1. UH Performance and Asset Allocation
2. Global Equity Review and Recommendations
3. Private Investments Update (time permitting)
4. Hedge Fund Update (time permitting)

Mr. Kirk turned the meeting over to Ms. Erin Schuhmacher, from Cambridge Associates, who presented the committee with a brief market update. The UH portfolio (ex-private investments) returned 1.6% for the quarter, outperforming the implementation benchmark ex PI by 30 basis points and in line with the dynamic benchmark ex PI. UH asset allocation was in line with near-term targets. Ms. Schuhmacher stated that from March 1, 2016 through June 30, 2016, it was a relatively uneventful quarter for equities until the very end. The market also witnessed in the second quarter, while equities were relatively muted, was an ongoing resurgence of commodity-related assets. Since June 2016 and towards the end of August 2016, equity markets have been quite strong, particularly emerging markets. On a year-to-date basis through July 2016, emerging markets were up approximately 16%, which has been positive for the portfolio overall. A brief discussion followed.

Following Ms. Schuhmacher's market update, Mr. McShan introduced Item D, stating that Cambridge was recommending to the committee to rebalance the global equities portfolio, which would consist of a full redemption of \$9.1 million from Luther King; an \$8.0 million redemption from JO Hambro Asia ex Japan and use those proceeds to rebalance into Columbia of \$8.5 million and Vulcan of \$8.5 million, respectively. Mr. McShan asked Mr. Kirk to comment further on this recommendation.

Mr. Kirk stated since his coming onboard to be the lead investment consultant, he reviewed and outlined the strategic plan that was approved and adopted by the committee last May 2016; and essentially, reaffirmed the directionality of that plan. This plan was to essentially take on more

risk: more active risk, more illiquidity risk, and more beta risk on the basis of trying to improve absolute and relative returns, given the risk profile of the fund that it is not a huge, in terms of percentage of the operating budget contribution and the large reserves the UH System has. But at the same time, there were eight (8) recommendations/enhancements made and since the last three committee meetings, five (5) of those recommendations had been implemented. Below is a brief snapshot of Mr. Kirk's remarks:

- There were three (3) components of the overall global equity, long-term portfolio. He reminded the committee that as of June 2016, this was approximately \$261.0 million or roughly 45% of the long-term portfolio. It is managed by 12 managers in the following three segments: US Equity, International Developed Equity, and International Emerging Equity.
- UH's public equity manager structure is broadly diversified by style, capitalization, and geography. In general, managers need to be defensive, lower-beta managers who will provide value over a complete market cycle rather than outperforming during speculative or liquidity-driven bull markets.
- The performance over 1, 3, 5 and since inception periods were as follows:
 - U.S. Equity – lagged
 - Non-U.S. Developed Equities – exceeded
 - Emerging Markets Equity – exceeded
- One recommendation formally made by Cambridge was to collapse the sub-targets and have one large global equity target which was approved by the Board in May 2016. The allocations are still in place but the target now is just global equity. By collapsing the targets, it allows for increased flexibility for geographical exposure management and increases our flexibility for rebalancing.
- Current UH global equity manager structure, UH global equity geographic exposures, UH global equity market cap exposures, and UH global equity sector exposures were briefly addressed.
- January 1, 2010 – June 30, 2016: it has been 6.50 years since emerging markets equity allocation inception took place in the UH portfolio. U.S. equity has lagged the benchmark with higher volatility; non-U.S. developed equity has outperformed the benchmark with lower volatility; emerging markets equity has outperformed the benchmark with lower volatility; and total global equities have outperformed the benchmark with lower volatility.

Following Mr. Kirk's remarks, Cambridge recommended the following for committee consideration and approval:

- Cambridge remains comfortable rebalancing the global equity manager allocation but sees opportunity to streamline the manager structure, concentrate in high conviction managers and reduce the overweight to small capitalization stocks.
- With this in mind, Cambridge recommended the following to the committee:
 - A full redemption of \$9.1 million from Luther King;
 - An \$8.0 million redemption from JO Hambro Asia ex Japan; and
 - Use proceeds to rebalance into Columbia of \$8.5 million and Vulcan of \$8.5 million, respectively.

On motion of Regent McElvy, seconded by Regent Madison, and unanimously approved by the committee members in attendance, the following recommendation made by Cambridge was approved by the committee.

- A full redemption of \$9.1 million from Luther King;
- An \$8.0 million redemption from JO Hambro Asia ex Japan; and
- Use proceeds to rebalance into Columbia of \$8.5 million and Vulcan of \$8.5 million, respectively as part of the strategic plan.

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

Mr. McShan presented the next item listed on the agenda, Item E, the Approval is requested to liquidate an endowment from the University of Houston System Endowment Fund and transfer the proceeds to the University of Houston Foundation – University of Houston System.

Mr. McShan requested approval to move the George D. Hall Scholarship Endowment in the Cullen College of Engineering from the University of Houston to the University of Houston Foundation. The particular terms of this endowment was gender-based allocation of the scholarships which was contrary to the Texas law so this was a routine housekeeping item. The market value of this endowment was \$25,733.00 as of May 31, 2016.

On motion of Regent Madison, seconded by Regent McElvy, and unanimously approved by the committee members in attendance, the request to liquidate the University of Houston System George D. Hall Scholarship Endowment Fund and transfer the proceeds to the University of Houston Foundation was approved.

At the conclusion and approval of this item, Regent Agrawal 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 Welder, seconded by Regent Madison, 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 August 25, 2016 Board of Regents' meeting held later in the day:

1. Approval is requested to liquidate an endowment from the University of Houston System Endowment Fund and transfer the proceeds to the University of Houston Foundation – University of Houston System

There was no Executive Session held.

There being no further business to come before the Committee, the meeting adjourned at 10:29 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
Jim McShan
Paula Myrick Short
Dona Cornell
Lisa Holdeman
Jason Smith
Richard Walker
Michael Olivas
Raymond "Vic" Morgan
William Staples
Mike Johnson
Don Guyton
Ed Hugetz
Iggy Harrison
Jon Aldrich
Brett Collier
Marquette Hobbs

Kerry Kirk
Sabrina Hassunami
Jesse Pisors
Jane Ottinger
Pam Muscarello
Abner Fletcher
Maureen Croft
Caesar Moore
Erika Harrison
Raymond Bartlett
John Vazquez
Myra Ayla
Katie Brown
Wayne Beran
Joe Brueggman
Matt Castillo
Brenda Robles

Erin Schuhmacher
David Oliver
Mike Glisson
Devi Bala
David Bradley
Katie Bowen
Valerie Coleman-Ferguson
Richard Baker
Ian Armstrong
Cathy Horn
Sushila Agrawal
Daniela Monkiewicz
Phil Booth
Don Price
Sandra Dahlke
Brian Thomas
Gerry Mathisen