

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

Thursday, November 14, 2019 - The members of Endowment Management Committee of the University of Houston System convened at 9:32 a.m. on Thursday, November 14, 2019, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Steve I. Chazen, Chair  
Beth Madison, Vice Chair  
Doug H. Brooks, Member  
Durga D. Agrawal, Member  
Jack B. Moore, Member

Non-Member(s) Present:

Alonzo Cantu, Regent  
John A. McCall, Jr., Regent  
Gerald W. McElvy, Regent  
John D. Fields, Student Regent, Non-voting

Member(s) Absent:

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, the Chair of the Committee, Steve I. Chazen called the meeting to order at 9:32 a.m.

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**AGENDA ITEMS**

Before the meeting began, Regent Chazen thanked Regent Agrawal for the great job he had done over the years as the Chair of the Endowment Management Committee and expressed that his hope was to do a third as good as he had done.

Regent Chazen welcomed everyone to the meeting and stated there were five (5) items listed on the agenda – three (3) action items requiring committee approval only and two (2) items 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 would require committee approval only.

Regent Chazen moved to the first action item requiring committee approval, the minutes from the August 22, 2019, Endowment Management Committee meeting.

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

- August 22, 2019, Endowment Management Committee meeting

Following the approval of the minutes, Regent Chazen 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 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 three (3) of the four (4) representatives from Cambridge Associates who were in attendance at the meeting: Erin Schuhmacher, Phil Fiske, and Philip DeTrempe. After introducing the representatives from Cambridge, he asked Ms. Schuhmacher to begin her presentation to the committee.

Ms. Schuhmacher began her remarks by saying Mr. Kerry Kirk, a representative from Cambridge Associates, who is normally in attendance at this meeting, was unable to attend due to a prior commitment but sends his apologies. Ms. Schuhmacher then introduced Ms. Kelly Jensen, from Cambridge Associates, who is a private investment specialist from their San Francisco office and will be working with Mr. Phil Fiske on the University of Houston System's private investment portfolio.

Ms. Schuhmacher started her presentation on the UH performance for the Endowed Asset Allocation. Despite some market volatility in Q3, the UH portfolio continues to have a strong year in absolute terms, up +10.6%. In relative terms, the portfolio was trailing the policy benchmark by 200 bps while the marketable portfolio has returned +11.1%, in-line with the marketable benchmark. The portfolio is outperforming the policy benchmark over the trailing 1, 3, and 5 year period.

Ms. Schuhmacher addressed the Calendar Year-to-Date (CYTD), 2019 performance (January 1, 2019 through September 30, 2019) and noted that there were strong returns across all asset classes during this time period. For the Fiscal Year 2019 performance (September 1, 2018 through August 31, 2019), it was quite a different story. When going into the 4thQ of last year, particularly in December 2018, there was a significant sell off in equity markets. Effectively, on a Fiscal Year basis, Global Equities were flat to slightly down which impacted our returns for the fiscal year; Bonds were up 10%-11%; it had been a great period for Fixed Income; and Hedge Funds were slightly up.

The UH portfolio market value was just under \$766 million at the end of Q3. A performance summary of the total portfolio was addressed. Ms. Schuhmacher reminded the committee that two (2) performance streams were noted: the total portfolio as well as UH's marketable assets. This is provided because UH does not receive all of our marks for private investments on a current basis – they are always provided and recorded on a lag. The CYTD total portfolio was up 10.6%, trailing our policy benchmark of 12.6%. (Note: within this 9 month number, there was only 6 months of private investment marks). Marketable assets were up 11.1% versus our policy benchmark of 11.3%, effectively in-line. For FY2019 (9/01/18-8/31/19), the total portfolio was up 2.9%, nicely ahead of the policy benchmark of 0.9%.

Ms. Schuhmacher presented the CYTD 2019 UH performance and attribution. The UH portfolio was up 10.6% and was driven by US and non-US equity on an absolute basis; underperformance driven by non-US equities, real assets, and private investment lag. Hedge Funds were up slightly

relative to benchmark; Real Assets have lagged; and Bonds and Cash were relatively in-line. The UH portfolio outperformed the benchmark in FY2019, outperformance driven by private investment, hedge funds and emerging market performance. Private Equity was up 19.8% and privates held their market which drove our returns.

Ms. Schuhmacher discussed the performance of Hedge Funds in further detail and a lengthy discussion followed. It was suggested that in the near future, possibly some time in January 2020 and before the next meeting scheduled in February 2020, an Endowment Workshop be scheduled and the topics of Hedge Funds and Asset Allocations be addressed. Ms. Schuhmacher stated the University was basically coming up next year on five (5) years with the Strategic Plan which was put into place in early-to mid-2015. She stated that this would be a great time to pause and say, “Where were we;” “Where are we now, now that we have adopted this Strategic Plan and what has worked;” and, then “Where does the University want to be in 5+ years from now?” as it relates not too just the portfolio; but again how the portfolio fits in the context of the overall University and enterprise? Ms. Schuhmacher felt that this type of Asset Allocation discussion, in conjunction with thinking about the role of Hedge Funds, would be a great workshop.

Following her remarks, Ms. Schuhmacher introduced Mr. Philip DeTrempe, who addressed the Non-Endowed portfolio. Mr. DeTrempe stated that this was the first full quarter where UH has had the new Non-Endowed managers. Earlier this year, an effort was made to add a few new managers to the liquidity portion of this pool and now this is the first quarter whereby those have been implemented. The portfolio market value of the Non-Endowed pool stands at approximately \$525 million, which excludes the roughly \$130 million that is considered Quasi Endowment and invested in the Endowment. This is just the Cash and the Liquidity Pool.

Mr. DeTrempe then addressed the Non-Endowed portfolio, Asset Allocation Over Time, and the split between Liquidity Pool and Cash Pool being approximately 55 – 45 which is definitely in range. He then addressed a few portfolio characteristics and reiterated that even though changes were made to the Liquidity Pool by adding a few different managers, this has not changed their decision to have very high quality. It was noted that based on both quality and a sector look-through, there was still very high quality although there was more diversification within those sectors trying to get just a little more yield there; and even with these changes, the duration has stayed roughly the same.

The Non-Endowed fund composition was addressed. The UH Non-Endowed Assets as of September 30, 2019:

1. Cash was at 37%, totaling approximately \$243.7 million.
  - This fund is used for daily cash needs;
  - Overnight sweep T-bills;
  - Cash rate of return;
  - Managed by Morgan Stanley; and
  - The duration is 0.0 years.
2. The Liquidity Pool was at 43%, totaling approximately \$281.5 million.
  - This fund is used for excess cash;
  - Diversified across fixed income spectrum;
  - Low to mid-single-digit rate of return;

- Managed by J.P. Morgan, Breckinridge, PIMCO, & Loomis Sayles; and
  - The duration is 3-4 years.
3. The Endowment Quasi was at 20%, totaling approximately \$129.7 million.
- This fund is used for non-endowed funds deemed to be permanent;
  - Must stay invested for 5 years;
  - Managed by Cambridge Associates; and
  - Is perpetual, long-term expected return: ~6% *Real*.

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

Regent Chazen moved to Item D, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a new hedge fund manager for the University of Houston System Endowment Fund – UH System, Regent Chazen stated this item would be tabled for this meeting.

He then moved to the next item listed on the agenda for the committee's consideration, Item E, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a private investment manager for the University of Houston System Endowment – UH System, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett introduced Mr. Phil Fiske, from Cambridge Associates, who discussed this item with the committee. Below is a brief summary of Mr. Fiske's remarks.

Since inception, the Private Investment Program ("PI") had a net return (net of all fees and carried interest) of 14.4%; on a trailing one-year basis; and as of June 30, 2019, the PI Program returned 14.8%, which compares to a 9% return provided by the Russell 3,000 (which is a broad-based US) earning 580 bps over for that index. It was also compared to a Global Index (Old Country World Index) returning 5.7% over this time period. On a trailing one-year basis, we beat the Global Market Index by 910 bps. Mr. Fiske turned the meeting over to Ms. Kelly Jensen who presented the recommendation from Cambridge Associates.

Ms. Jensen stated Cambridge Associates was recommending that the University of Houston approve a \$5.0 million commitment to ACME Fund III. ACME Capital was formed in 2018 by Scott Stanford, co-founder of Sherpa Capital, and Hany Nada, co-founder of GGV Capital. ACME was targeting \$200 million with a hard-cap of \$250 million for its inaugural early-stage venture fund under the recently created ACME brand. The focus of the fund will be on tech-enabled companies across commerce, healthcare, financial services, transportation, deep tech and education, primarily in the US and opportunistically throughout Europe. A first close was in held in July and a second and final close is expected to occur in early 2020.

ACME will invest in companies that take advantage of broad macro trends involving mobile, social, user-generated content, video and artificial intelligence across a wide range of industries. The firm has specifically targeted next gen commerce, digital health, transportation, fintech, connected hardware AI and deep tech, where the partners either have investing or operational experience. The team will invest \$3-\$8 million in initial investment, targeting 10%-12% ownership, and will look to take a board seat with each investment. While the fund will be US focused, it has the ability to invest up to 25% in non-US investments.

Both Nada and Stanford have strong track records, having made over 30 investments each, together totaling over \$800 million in invested capital and \$1.5 billion in realized gains. Nada has an average realized MOIC of 3.32, while Stanford's average stands at 2.42.

On motion of Regent Moore, seconded by Regent Agrawal, and by 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 ACME Fund III, a private investment manager in the amount of \$5.0 million for the University of Houston System Endowment was approved.

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

The last item presented to the committee was Item F, a Quarterly update on "Here, We Go" campaign progress – University of Houston System. Ms. Eloise Dunn Brice, Vice Chancellor for Advancement presented this item; and below is a brief summary of her remarks.

- Ms. Brice thanked the committee for the opportunity to address them at the meeting.
- Ms. Brice stated that as November, 2019, the total of the capital campaign was currently at \$1.146 billion; and it was mentioned that we were on the last lap of this long marathon which will end in August 2020.
- She stated that we have already reached our goal of \$1.0 billion; we do not have precise predications of where we are going to be, but we are currently working on specific objectives in terms of professorships, scholarships, public art and other ongoing programs.
- Ms. Brice thanked everyone for their tremendous support for this campaign. The University would not be where we are if it were not for the strong support of the Board of Regents.
- We currently have 183,540 donors and approximately 125,000 of those are first time donors!
- We currently have 1.2 million gifts that have come through to the campaign.
- A campaign gift table was presented which listed the gift level, the number of gifts needed, the number of prospects needed, the gift level goals, number of donors to date, and the dollars raised.
- Ms. Brice stated that the Elements of Success in the "Here, We Go" Campaign – Giving by Donor Type: 22% of the individuals were "Friends" which totaled \$251.49M; "Alumni" totaled \$326.14M or 28%; and "Corporations, Foundations, Other Organizations" totaled \$569.14M or 50%
- \$314.39M was raised toward Endowments which included multi-year pledges some of which have not fully paid as yet and request provisions; approximately 494 Endowments have been established; and nearly \$200,000,000 has been raised for Scholarships and Fellowships during this campaign.

This item was presented for information only and no further board action was required.

It should be noted that an Executive Session would not be held.

There being no further business to come before this committee, the meeting adjourned at 10:13 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.

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Others Present:

Renu Khator  
Paula Myrick Short  
Dona Cornell  
Eloise Dunn Brice  
Lisa Holdeman  
Richard Walker  
Juan Sánchez Munóz  
Stephen Berberach  
Chris Pezman  
Mike Johnson  
Ed Castillo  
Jon Aldrich  
Branda Lumpkin  
Gerry Mathisen

Erin Schuhmacher  
Kelly Jensen  
Don Guyton  
Ryan Harrison  
Richard Diaz  
Karin Livingston  
Jeff Palmer  
Sabrina Hassumani  
Demarcus Williams  
Joe Brueggman  
Dan Maxwell  
Matthew Castello  
Marquette Hobbs

Phil Fiske  
Philip DeTrempe  
Raymond Bartlett  
David Oliver  
Mark Denney  
Chance Glenn  
Peter Taaffe  
Caesar Moore  
Walter Lucas  
Jason Marquez  
Chris Stipes  
Shannon Harrison  
Brenda Robles