Tuesday, February 14, 2012 – The members of the Endowment Management Committee of the University of Houston System convened at 1:30 p.m. on Tuesday, February 14, 2012, at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Present</th>
<th>Member(s) Absent</th>
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<tbody>
<tr>
<td>Jarvis V. Hollingsworth, Vice Chair</td>
<td>Mica Mosbacher, Chair</td>
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<tr>
<td>Jacob M. Monty, Member</td>
<td>Jim P. Wise, Advisory Member</td>
</tr>
<tr>
<td>Nelda Luce Blair, Ex Officio</td>
<td>Non-Member(s) Present</td>
</tr>
<tr>
<td>Carroll Robertson Ray, Advisory Member</td>
<td>Roger F. Welder, Regent</td>
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</table>

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, Mica Mosbacher, the Vice Chair of the Committee, Jarvis Hollingsworth, called the meeting to order.

The first item requiring committee approval was the minutes from the Endowment Management Committee meeting held on Tuesday, November 15, 2011.

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AGENDA ITEMS

Action Items:

1. Approval of Minutes – Item B

   On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the following minutes from the meeting listed below were approved:

   - November 15, 2011, Endowment Management Committee Meeting

   Regent Hollingsworth noted there were four (4) additional items on the agenda for discussion and introduced the next item to the committee.

2. Approval of the FY2012 University Advancement Endowment Assessment Rate of 1.5% - University of Houston System, Item C – EM-C1
Dr. Carlucci, Executive Vice Chancellor for Administration and Finance, presented this item and requested approval to continue assessing the UH System Endowment at a rate of 1.5% for FY12 (FY13 spending). This is an annual approval by the Board of this assessment and is applied as a three-year rolling average to the market value of eligible endowment accounts. If an endowment has been in existence less than three years, the average will be based on the number of years in existence. The Endowment Statement of Investment Objectives and Policies permits the System to annually assess a reasonable fee against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities.

Ms. Eloise Stuhr, Vice Chancellor for University Advancement, gave remarks on the history of this assessment; and below is a brief summary of her remarks.

- Over the past five (5) years, $24,000,000 has been assessed;
- University Advancement has been a good steward of this money;
- New gifts of $61,000,000 have been added to the endowment during this time period;
- Total fundraising during this five-year period totaled $385,000,000 compared to $210,000,000 raised the previous five years;
- The cost per dollar raised (which is inclusive) was $.16 on the dollar, which against national standards, is about perfect.
- Three aspects for a strong University Advancement area and critical to success were addressed. The three categories were:
  - Great brand, great case for support and great philanthropic opportunities;
  - Efficiency and focus; and
  - Resources

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the approval of the FY2012 University Advancement Endowment assessment rate of 1.5% was approved by the committee.


Regent Hollingsworth asked Hamilton Lee, from Cambridge Associates, to brief the committee on the performance of the endowed and non-endowed assets since the Endowment Management Committee’s last meeting held on November 15, 2011.

Below is an executive summary of Mr. Lee’s remarks:

Mr. Lee’s discussion points highlighted global equity performance, as well as the University’s performance, asset allocation, and key investment decisions and transactions that transpired in fourth quarter 2011. Global equity markets rallied strongly in the fourth quarter, with the MSCI World gaining 7.6% (U.S. $ terms). Domestic equities outperformed their global counterparts for both the quarter and the year, returning 11.8% and 1.5%, respectively. Emerging markets returned 4.4%, lagging their developed market counterparts for the fifth consecutive quarter.
Hedge fund performance was mixed for the quarter as macro headwinds proved to be a challenge for many managers. The University of Houston’s hedge fund program gained 0.5% in fourth quarter versus -0.3% for the HFRI Fund of Funds Index.

Performance in real assets were mixed, specifically commodities, with the DJ-UBS Commodity Index ending the quarter flat at 0.3% while the S&P GSCI gained 9.0%, due to a higher weight to oil. Gold experienced its first quarterly loss since 2008, dropping 2.7% (but still rising 11.1% for the year).

Credit markets ended the quarter in the black, with higher yield (lower quality) besting higher quality by almost 500 basis points in fourth quarter. Ten-year Treasury yields ticked down 3 basis points to close the quarter at 1.89%.

The University of Houston’s Endowment gained 3.4% for the quarter versus 4.7% for the Implementation Benchmark and 4.2% for the Dynamic Benchmark. Over the trailing one-year period, the Endowment returned -1.7%, besting the Implementation and Dynamic Benchmarks by 160 and 200 bps, respectively.

Interim targets were updated at the November 15, 2011 Endowment meeting, and the current allocation is generally in line with the new interim targets, with only the following minor discrepancies:

- Underweight deflation protection (U.S. and global bonds) by 2.4%;
- Overweight cash by 2.0%.

Cambridge remains comfortable with the University’s tactical underweight to fixed income in the short-term, given rich valuations across most fixed income market segments and the nearly equal overweight to cash.

Jeff Blazek, from Cambridge Associates, gave a market commentary to the committee. Below is a summary of his remarks.

- Market Returns - U.S. stocks surged in 4Q, and ended in the black for the year; non-U.S. lagged.
- Despite a tremendous amount of day-to-day volatility, the S&P barely budged.
- U.S. equities fared far better than most risky assets in 2011.
- U.S. economy was surprisingly resilient; employment and retail data have held up despite recent geopolitical drama.
- Longer maturity Treasuries clearly outperformed the rest of the curve in 2011.
- U.S. Corporate profits were addressed and earnings and margins remain strong.

At the November 15, 2011 Committee meeting, it was requested that Cambridge include a historical overview of the market cycles across multiple continuums. Below is a brief summary of Mr. Blazek’s overview.

- Secular and cyclical cycles were the most important cycles addressed.
- Secular bull/bear markets cycles were assessed over very long periods of time (often multiple decades) and although they may be populated with many smaller cyclical
rallies and corrections, secular cycles can define equity returns for a generation depending on your entry and exit.

- Several high-level exhibits were illustrated which showed the nature of secular bull and bear markets, looking specifically at the S&P 500 over the past 80+ years.
- Cambridge believes that current equity conditions remain within a secular bear market that began twelve years ago.
- Graphical depictions of equally powerful cycles were provided that can occur when comparing the following:
  - U.S. equities versus non-U.S. equities
  - Large/mega-capitalization versus small-capitalization
  - Growth bias versus value bias
  - Interest rates (as measured by the 10-year Treasury)

A discussion followed.

Mr. Lee addressed the 2012 review of the University of Houston System’s Endowment Fund Statement of Investment Objectives and Policies and requested the modification to the policy to change the long-term target asset allocation and allowable ranges within asset classes of the Endowment Fund. Cambridge recommended an adjustment to the long-term asset allocation targets to formalize allocation moves made by the Committee over the past three years, which reflect changes in the investment environment and better support the Board’s long-term objective for the Endowment Fund.

The objective of these recommended changes is to achieve the same expected level of return as the current long-term targets with lower risk (as measured by volatility). A secondary objective is to increase exposure to managers with a broader “tool box” to use in adding value to the portfolio and protecting capital, including the use of short sales and the ability to operate opportunistically in multiple markets. Below is the summary of the recommended changes highlighted in bold.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Current LT Target</th>
<th>Proposed LT Target</th>
<th>Target Change</th>
<th>Current Range</th>
<th>Proposed Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Mid to Large Cap Equities</td>
<td>22.5%</td>
<td>17.5%</td>
<td>-5%</td>
<td>15-35%</td>
<td>12.5-30%</td>
</tr>
<tr>
<td>Non U.S. Equities</td>
<td>20%</td>
<td>15%</td>
<td>-5%</td>
<td>15-35%</td>
<td>10-30%</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>7.5%</td>
<td>12.5%</td>
<td>+5%</td>
<td>5-15%</td>
<td>7.5-17.5%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>7.5%</td>
<td>12.5%</td>
<td>+5%</td>
<td>5-15%</td>
<td>7.5-17.5%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0-10%</td>
</tr>
</tbody>
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On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the approval to modify the UH System Endowment Fund Statement of Investment Objectives and Policies was approved.

Mr. Gene Lohmeyer, from Cambridge Associates, presented the committee with an update of the Hedge Fund Program. Below is a summary of Mr. Lohmeyer’s remarks:

- As of December 31, 2011, the University of Houston’s Hedge Fund Program was valued at $121.9 million or approximately 25% of the portfolio.
- The program is currently comprised of 17 hedge funds, including 8 hedge equity and 9 absolute managers.
Absolute return managers account for approximately 58% of the program, or 14% of the overall portfolio.

Hedge equity managers comprise 42% of the hedge fund program and 11% of the total portfolio.

2011 was a uniquely challenging year for hedge funds, as virtually all strategies struggled to generate returns.

Major factors impacting manager-level returns were addressed as follows:
- Volatility and macro risks emanating from Europe.
- Many long/short equity funds suffered negative valued-added from their long holdings, particularly those with sufficient exposure to economically sensitive industries.
- Market cap and geographic exposures were very impactful.
- A flight to quality in fixed income markets was also a headwind.

Three (3) outperformers and three (3) underperforming hedge fund managers were discussed.

**Outperformers**
- Coatue (9.9%) – benefitted from three (3) major technology-driven themes throughout the year: internet utilization, the proliferation of mobile devices, and cloud computing.
- HBK (5.7%) – experienced positive contributions from a broad range of strategies throughout the year including event-driven, structured credit, and several relative value strategies including fixed income and volatility arbitrage.
- Mason (4.2%) – performance was largely driven by relative value trades involving European sovereign credit, through which the fund was able to benefit from a widening of credit spreads among peripheral European countries.

**Underperformers**
- Maverick (-15.7%) – underperformance for 2011 was attributable to a disappointing third quarter, when the fund returned -18.7%, the second worse quarter in their history.
- Anchorage (-7.0%) – suffered a drawdown during Q3 after entering the quarter with much of the fund’s net long exposure focused in cyclical industries (banks, autos, capital goods, media).
- York (-6.4%) – negative return for 2011 was almost entirely attributable to Q3 when the fund experienced a 12% drawdown amidst an abrupt flight to safety in equity and credit markets.

Cambridge recommended the University of Houston redeem its investment in the Whippoorwill Offshore Distressed Opportunity Fund as of June 30, 2012. The University of Houston’s investment with Whippoorwill was valued at approximately $4.6 million as of December 31, 2011 and has returned 1.3% annualized since inception in July 2006.

Cambridge’s primary concern regarding Whippoorwill is that there is an increasing potential for an asset liability mismatch in terms of the redemption provisions that they provide investors and the assets in which they invest. Whippoorwill is a distressed-oriented credit manager that focuses on companies that have less than $200 million in total outstanding debt.
Mr. Lohmeyer stated Cambridge continues to evaluate opportunities to upgrade the University of Houston System’s hedge fund portfolio by either identifying more compelling managers within existing strategies or considering additional strategy exposures that may enhance the risk/return profile of the hedge fund program and further diversity the broader portfolio. A discussion followed.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation that the University of Houston redeem its investment with Whippoorwill Offshore Distressed Opportunity Fund as of June 30, 2012, and the notice given by March 31, 2012, was approved. This action requires committee approval only and no further board action is required.

Mr. Phil Fiske, from Cambridge Associates, presented the committee an update on the University of Houston System’s current private investments portfolio. Mr. Fiske’s discussion focused on a review of the current portfolio, implementation process, and near-term opportunities and managers under consideration in the private investments space. Below is a brief overview of his remarks:

- University of Houston’s private investments program is on track with suggested commitment pace.
- In 2011, the university made a total of $11 million in commitments, in line with Cambridge’s suggested commitment pace.
- Suggested commitment pace was addressed and outlined below.
  - Average of $12 to $15 million per year
  - PE / VC: ~ $7 to $9 million per year
  - Hard Assets: ~ $5 to $6 million per year

Mr. Fiske stated Cambridge Associates recommended that the University of Houston commit $4 million to Axiom Asia Private Capital III (“AAPC III”). AAPC III is seeking $950 million for its third Asia private equity funds to funds. AAPC III is headquartered in Singapore and the firm employs 10 investment professionals. Their investment team has long standing networks within the region and has demonstrated that it can identify and gain access to high quality managers through its prior two fund cycles. They are an attractive investment opportunity and would provide the University of Houston’s private investment portfolio with diversified exposure to Asia, a segment of the market that Cambridge views as particularly attractive in today’s market environment.

The summary of the Axiom Asia Private Capital III Fund terms were as follows:

- Target Fund Size – $950 million; $1.1 billion hard cap
- General Partner Commitment -1.0%
- Management Fee – 1.0% commitments during investment period. After investment period, 90% of previous year’s fee.
- Carried Interest – 5% after 8% preferred return
- Investment Period – 5 years after the final closing

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation that the committee delegate authority
to the Chancellor to negotiate and execute a contract for the hiring of Axiom Asia Private
Capital III for the University of Houston System Endowment Fund was approved. This action
requires committee approval only and no further board action is required.

The annual review and approval of the UH System Investment Policy for Non-Endowed Funds – University of Houston, Item F was addressed by Dr. Carlucci. In accordance with
Section IX of the UH System Investment Policy for Non-Endowed Funds, this policy shall be
reviewed at least once a year. Dr. Carlucci stated there were no recommended changes to the
policy at this time.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the
committee members in attendance, the annual review and approval of the UH System
Investment Policy for Non-Endowed Funds was approved.

At the conclusion of the presentation of this item, Regent Hollingsworth asked for a motion to
place the three action items requiring final Board approval on the Consent Docket Agenda for
the February 15, 2012 Board of Regents meeting.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the
committee members in attendance, the following three action items were approved and will be
placed on the Consent Docket Agenda for final board approval at the February 15, 2012
Board of Regents meeting.

1. Approve the FY12 University Advancement Endowment Assessment Rate of 1.5%;
2. Approval to modify the UH System Endowment Fund Statement of Investment Objectives and Policies; and
3. Annual review and approval of the UH System Investment Policy for Non-Endowed Funds.

There being no further business to come before the Committee, the meeting adjourned at 3:19
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:

Renu Khator  Tom Ehardt  Eli Cipriano
Carl Carlucci  Raymond Bartlett  Hamilton Lee
Dona Cornell  Gene Lohmeyer  Phil Fiske
Grover Campbell  Jeff Blazek  Oscar Gutierrez
Eloise Stuhr  Ed Jones  Jon Aldrich