Tuesday, May 15, 2012 – The members of the Endowment Management Committee of the University of Houston System convened at 1:47 p.m. on Tuesday, May 15, 2012, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Present</th>
<th>Member(s) Absent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mica Mosbacher, Chair</td>
<td>Jim P. Wise, Advisory Member</td>
</tr>
<tr>
<td>Jarvis V. Hollingsworth, Vice Chair</td>
<td></td>
</tr>
<tr>
<td>Jacob M. Monty, Member</td>
<td>Non-Member(s) Present</td>
</tr>
<tr>
<td>Nelda Luce Blair, Ex Officio</td>
<td>Spencer D. Armour, III, Regent</td>
</tr>
<tr>
<td>Carroll Robertson Ray, Advisory Member</td>
<td>Welcome W. Wilson, Jr., Regent</td>
</tr>
</tbody>
</table>

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, Mica Mosbacher, called the meeting to order.

The first item requiring committee approval were the minutes from the Endowment Management Committee meeting held on Tuesday, February 14, 2012.

*****

AGENDA ITEMS

Action Items:

1. Approval of Minutes – Item B

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

   - February 14, 2012, Endowment Management Committee Meeting

Action/Information Items:

Regent Mosbacher noted there were five (5) items on the agenda for discussion. Regent Mosbacher stated she would take the agenda out of order and moved to Item E on the agenda.

Regent Mosacher requested Mr. Don Guyton, Chief Audit Executive introduce this item to the committee.

Mr. Guyton stated this item was the financial statements and independent auditor’s report for FY2011 of the UH System Endowment Fund. The other supplemental information had been excluded from the Endowment Fund financial statements. This information included the schedule of noncurrent investments and the schedule of changes in net assets by the endowment. These schedules are on file in the Board of Regents’ office with the complete set of financial statements. In addition to Mr. Raymond Bartlett, Treasurer, Mr. David Ellis, Executive Director of Financial Reporting was available to answer any questions on these statements. Mr. Matt Malinsky, the KPMG engagement partner will be making a presentation on these statements at the Audit and Compliance Committee meeting scheduled for Wednesday, May 16, 2012.

Mr. Guyton noted that the balance sheet lists the market value of the Endowment Fund of $503.7 million as of August 31, 2011 and that as of March 31, 2012 the Endowment Fund’s market value was approximately $530.0 million. The question was raised as to whether or not this audit report was completed on endowed and non-endowed assets. Mr. Guyton stated this audit report was a clean report and was only completed on endowed assets.

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

Regent Mosbacher moved to Item F, the next item taken out of order and presented by Mr. Guyton.


Mr. Guyton stated this item referred to the Compliance Review of the UH System Support Organizations and the UH System Support Organization Report. The Compliance Review of the UH System Support Organizations indicated the status of the receipt of this information. It was noted that the university had not received all of the information from some of the foundations. Since this report was compiled, Mr. Guyton stated the updated bylaws and investment policy were recently received from the Houston Athletics Foundation (HAF) but have not been reviewed. In addition to the HAF not having provided all of their information, the Audited Financial Report for FY2011, IRS Form 990 for FY2011, and the Updated State Disclosure Statement for Outside Financial Advisors had not been received from the UH Law Foundation and UH Alumni Association; and the IRS Form 990 was needed from the UH College of Business Foundation.

The next report included in this item was the UH System Support Organizations Report which was a compilation of information from Audited Financial Statements, IRS Forms 990, Investment Reports and other information furnished to the UH System by the Support
Organizations. The purpose of this report was to provide information on support organizations’ activities and the Board of Regents’ and UH System’s responsibilities with respect to the foundations. As explained at the beginning of the report, the regents’ fiduciary responsibilities to the UH System related to these organizations was addressed in agreements between the UH System and the organizations. In meeting the requirements of the Board of Regents’ policy on support organizations, the UH System implemented a policy on support organizations which requires the support organizations to furnish certain information to the UH System. This requirement is outlined in our agreements with the support organizations.

Regent Hollingsworth suggested that there should be a standard set of documents that govern these organizations and stated that the Endowment Management Committee should try to do everything it is obligated to do to ensure the university maintains a good working relationship with these support organizations. Advisory Member, Carroll Robertson Ray stated that she had been appointed to chair a Task Force to work with the supporting organizations in order to establish and develop better communications amongst the foundations. Regent Mosbacher requested that the General Counsel compile a report outlining the formation process of the various support organizations, and if possible, have the report presented in the fall. A lengthy discussion followed.

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


Regent Mosbacher requested Dr. Carl Carlucci, Executive Vice Chancellor for Administration and Finance, introduce this item.

Dr. Carlucci stated this item would be presented by the Cambridge Associates team. In the absence of Mr. Hamilton Lee, Mr. Jeff Blazek, from Cambridge Associates, briefed the committee on the performance of the endowed and non-endowed assets since the Endowment Management Committee’s last meeting held on February 14, 2012. Before his briefing, Mr. Blazek announced that given recent developments on the way Cambridge was prioritizing derivatives, he had been selected to be one of five specialists at Cambridge Associates who will work globally on derivatives. Mr. Blazek introduced Ms. Shannon Thomas who will be replacing him on our relationship. The committee congratulated Mr. Blazek on his new responsibilities and welcomed Ms. Thomas to the meeting.

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

Mr. Blazek’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 first quarter 2012. Global equities moved higher in 1Q 2012, as the “risk on” environment led riskier assets, such as emerging markets (+15.1%) and U.S. small-cap equities (+13.8%), led the rally in equity markets, followed closely by U.S. large/mid-cap (+13.2%) and developed international (+11.7%). Hedge fund managers lagged their marketable counterparts, but managed to post respectable gains of 6.4% for long/short equity and 4.6% for absolute return
managers. U.S. bonds ended in marginally positive territory (+0.8%) and global bond performance was flat (-0.1%) for the quarter as investors sated their appetite for risk.

Throughout much of the quarter, investors seized on modestly positive economic data as evidence of the arrival of the long-awaited recovery, as the S&P 500 (total return) Index set a new record high on April 2, 2012. Inflation hedging assets ended the quarter in positive territory, with commodities gaining 0.9% and the S&P GSCI returning 5.9%. The Barclays Aggregate Bond Index was up modestly, gaining 0.3%.

The University’s Endowment gained 7.1% for the quarter versus 6.8% for both the Implementation and Dynamic Benchmarks. Over the trailing one-year period, the Endowment returned 2.2%, besting the Implementation and Dynamic Benchmarks by 220 and 260 bps, respectively.

The University of Houston Asset Allocation Summary was addressed and Mr. Blazek stated that as of March 31, 2012, U.S. Equities were at 23.4% which was overweight to the interim target of 22.0% by 1.4%. This issue was addressed later in the meeting by Ms. Thomas who will address their proposal to rebalance the equity overweight as well as the bond underweight to the committee.

- Market Returns – Powerful rally in equities in 1Q 2012; U.S. beating out non-U.S. on trailing one year.
- Equities surged and safe havens lagged in the strongest 1Q for stocks since 1998.
- One day after the quarter end (April 2, 2012), the S&P 500 total return index set a new record high.
- Apple as an “Asset Class” – the tech bellwether has gotten so large it exerts great influence on the S&P’s price and profits.
- Sustained Recovery in U.S. Economy – Though core inflation is building, the U.S. economy is showing signs of life.
- Caution on U.S. Recovery – Gas prices have yet again hit $4/gallon, and positive surprises to growth are moderating.
- Indicators on Higher Priced Goods – Housing, though subdued, is stable; major uptick in auto sales and capital goods orders.
- Tough Year for Asia – Japan and China both encountered adversity, especially on trade; Asia lagged the U.S. equity markets.
- Eurozone Update – Post Greece default, Portugal is next under the microscope; difficult GDP in peripheral Europe.
- Inflation hedging assets ended the quarter in positive territory, with commodities gaining 0.9% and the S&P GSCI returning 5.9%.
- The Barclays Aggregate Bond Index was up modestly, gaining 0.3%.

Mr. Blazek introduced Ms. Shannon Thomas, who gave a brief presentation on the performance and rebalancing recommendation of Cambridge for the Endowment portfolio. Below is a summary of her remarks.
Given the likelihood that markets will continue to be macro driven in 2012, Cambridge recommended that the University periodically monitor asset allocation and keep the portfolio close to interim targets.

Cambridge recommended the University “harvest” gains in the U.S. equity portfolio and maintain a defensive posture by taking deflation hedging assets back to target despite current valuations. This will require rebalancing the fixed income portfolio back to interim targets.

Based on the current portfolio positioning, Cambridge recommended reducing the Endowment’s equity exposure to target by partially redeeming from U.S. equity managers, using the proceeds to increase the portfolio allocation to deflation hedging assets, namely fixed income.

The Endowment’s Laddered Treasury portfolio mitigates the danger of bond prices falling in a rising interest rate environment. Cambridge recommended rebalancing 0.8% of the portfolio to the Laddered bond portfolio.

However, in order for the fixed income portfolio to fulfill its primary role as a hedge against deflation (or prolonged economic contraction), there must be some longer duration in the portfolio. Smith Graham’s fixed income portfolio serves this purpose. Cambridge recommended rebalancing 1.2% of the portfolio to Smith Graham.

Cambridge recommended the University invest an additional $3.3 million in satellite global bond manager, Mondrian, in order to maintain diversification and global exposure in the fixed income portfolio.

It was also recommended by Cambridge, the committee consider moving the Real Estate Holding ‘below the line’ for rebalancing decisions. With this approach, the value of the Real Estate Holding would still be included in the Total Assets of the University’s Endowment Portfolio for performance reporting purposes.

A lengthy discussion followed these recommendations.

Mr. Phil Fiske, from Cambridge Associates, reviewed the current market private equity market landscape as well as the University’s current private investments portfolio, implementation progress, and near-term opportunities. Mr. Fiske stated the committee would hear a presentation from one (1) of the private equity funds managers present at the meeting:

(1) Mr. William R. Lemmons, one of Flatrock’s 10-member investment team; and
(2) Mr. Gary Peterson, one of four of EnCap’s fund investment committee members.

An overview presentation was given by Mr. Lemmons and Mr. Peterson of EnCap Flatrock Midstream Fund II, L.P.’s and EnCap Investments L.P.’s organizations, investment performance history, track record, investment opportunities, and more. Complete copies of the presentations given have been filed in the Board office.

Mr. Fiske presented an overview of the two proposed Cambridge recommendations regarding the hiring of two investment managers for the University of Houston’s System Endowment Fund. Below is a brief summary of the Cambridge Associates’ recommendations:

- Cambridge recommended the University of Houston approve a commitment of $3.0 million to EnCap Flatrock Midstream Fund II (EFM). EFM is seeking to raise $1.25 billion in commitments for its second midstream fund. The company is run by a highly skilled and experienced operating team, with a history of managing energy-related assets and providing
engineering and financial advice to midstream companies. This experience helps the team source investment opportunities and creates value for portfolio companies.

The summary of the EnCap Flatrock Midstream Fund II terms were as follows:
- Target Fund Size – $1.25 billion; hard cap of $1.75 billion
- General Partner Commitment – 2.0%
- Management Fee – 1.5% of aggregate commitments
- Carried Interest 20%
- Investment Period/Reinvestment – 5 years from final closing
- Term – 10 years subject to two (2) consecutive one-year extensions at the election of the General Partner and 80% in interest of the LPs.

- Cambridge also recommended the University of Houston System approve a commitment of $5.0 million to Advent International GPE VII, L.P. (“Advent VII”). Advent II is one of the most experienced private equity teams investing in Europe and North America; and will pursue a multi-sector, investing primarily in buyouts, recapitalizations, turnarounds, and growth equity opportunities in upper middle-market companies in Europe and North America. Investments will focus on the five sectors listed above and are likely to include a variety of deal types such as buyouts with a high degree of international complexity, high-growth opportunities in specific sub-sectors, and companies requiring significant capital restructuring or turnarounds.

The summary of Advent International GPE VII, L.P. terms were as follows:
- Target Fund Size - €7.0 billion; no hard cap
- General Partner Commitment – At least 2.1% (€150 million)
- Management Fee – 1.5% of commitments during the investment period, declining thereafter
- Carried Interest – 20% subject to an 8% preferred return
- Investment Period – 6 years from the fund’s initial closing

Mr. Gene Lohmeyer, from Cambridge Associates, presented the committee with a Hedge Fund Program update. Below is a brief summary of Mr. Lohmeyer’s remarks:
- Q1 performance commentary was addressed as to what worked and what didn’t.
  - **What worked?**
    - **Patience:** Several funds which were underperformers during the 2nd half of 2011 were outperformers in Q1. Examples given include Maverick (12.5%), York (8.8%), and Taconic (7.1%);
    - **Hedged Equity:** University of Houston’s long/short equity managers collectively return 6.4% vs. 4.6% for the absolute return managers during Q1, capturing approximately half of the upside of the broad equity markets; and
    - **Exposure to pro-cyclical industry sectors:** Cyclical sectors such as financials and consumer discretionary were areas of relative strength in equity markets during Q1. Managers with long-biased exposure in these area, namely York, Samlyn, Anchorage (6.7%), and Covalent (5.4%) benefitted materially as a result. Coatue also delivered particularly strong results (9.7%), but with modest net exposure.
What didn’t work?
- Defensive positioning: PFM (3.5%), HBK (2.6%), Mason (2.0%)m and Asian Century Quest (1.6%) each maintained a relatively defensive posture throughout Q1 and therefore lagged more aggressively positioned managers.
- Small cap distressed: Despite a sharp recovery in risk assets, Whippoorwill failed to participate in the Q1 relief rally, returning 0.7%. The University of Houston has submitted notification to redeem from Whippoorwill as of month-end June.

At the conclusion of the presentations and recommendations made by Cambridge Associates, Regent Mosbacher called for the following committee actions.

The committee heard the recommendation to invest in two private equity funds and the committee requested approval to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of these investment managers for the University of Houston System Endowment Fund:
1. Advent International GPE VII, L.P. - $5.0 million commitment; and
2. EnCap Flatrock Midstream Fund II - $3.0 million commitment.

On motion of Regent Hollingsworth, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation that the request to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of two investment managers for the University of Houston System Endowment Fund was approved by the committee. This action requires committee approval only and no further board action is required.

The committee heard the recommendations regarding rebalancing of the domestic equity and fixed income portfolio and the rebalancing of the hedge fund portfolio, respectively.

On motion of Regent Hollingsworth, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the approval of the rebalancing of the domestic equity and fixed income portfolio was approved by the committee. This action requires committee approval only and no further board action is required.

On motion of Regent Hollingsworth, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the approval of the rebalancing of the hedge fund portfolio was approved by the committee. This action requires committee approval only and no further board action is required.

The final item presented to the committee for information was Item G, Report on Separately Invested Assets, Item G – EM-G43-44.

Dr. Carlucci introduced this item to the committee. The UH System invests two restricted fund groups apart from the endowment and non-endowed funds. They are (1) Operating Capital Funds; and (2) Debt Service Funds. These funds represent the investment of bond proceeds for various capital projects and balances in accounts restricted for debt service. The Operating Capital is in the Texpool and the Debt Service is in the Wells Fargo Government Reserves. These Restricted funds are invested in triple AAA rated money market funds and spent down over time as construction expenditures are incurred or debt service is paid. The investment of these
separately invested assets are governed by the University of Houston System Investment Policy for Non-Endowed Funds, which requires that the university focus on safety of principal, liquidity, and yield in this order of importance.

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

There being no further business to come before the Committee, the meeting adjourned at 4:07 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.

*****

Others Present:

Renu Khator  Tom Ehardt  Eli Cipriano
Carl Carlucci  Raymond Bartlett  Shannon Thomas
Dona Cornell  Gene Lohmeyer  Phil Fiske
Eloise Dunn Stuhr  Jeff Blazek  Oscar Gutierrez
Don Guyton  Cedric Bandoh  Darren Dunne
David Ellis  Steve Wallace  T. J. Meagher
Turner Harris  William Lemmons  Gary Peterson
Ed Jones  Jon Aldrich  Marquette Hobbs
Gerry Mathisen

Endowment Management Committee Minutes
May 15, 2012