MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

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

ATTENDANCE –

Present	Member(s) Absent
Jarvis V. Hollingsworth, Vice Chair	Mica Mosbacher, Chair
Jacob M. Monty, Member	Jim P. Wise, Advisory Member
Nelda Luce Blair, Ex Officio	
Carroll Robertson Ray, Advisory Member	

Non-Member(s) Present
Spencer D. Armour, III, Regent
Roger F. Welder, Regent
Welcome W. Wilson, Jr., Regent

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, Vice Chair, Jarvis Hollingsworth called the meeting to order.

The first item requiring committee approval were the minutes from the Endowment Management Committee meeting held on Tuesday, May 15, 2012.

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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:

   - May 15, 2012, Endowment Management Committee Meeting

Action/Information Items:

Regent Hollingsworth noted there were five (5) action items and three (3) information items on the agenda and asked Dr. Carl Carlucci, Executive Vice Chancellor for Administration and Finance, to introduce the first item, Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets – University of Houston System, Item C – EM-C1.

Dr. Carlucci stated this item would be presented by various members from Cambridge Associates and requested Hamilton Lee begin the discussion and present an update to the committee and give his report.

Mr. Lee stated the University's Endowment Fund fell 3.0% for the quarter versus -2.8% and -3.0% for the Implementation and Dynamic Benchmarks, respectively. Over the trailing one-year period, the Endowment returned -2.0%, besting the Implementation and Dynamic Benchmarks by 70 and 100 bps, respectively. The second quarter was tough for risky assets as market fears over the European debt crisis and less than stellar U.S. economic data presented a strong headwind against global equity markets. The S&P 500 retreated -2.8% for the second quarter; however, international markets did not fare as well with the MSCI EAFE down -7.1% and the MSCI EM down -8.9% for the quarter.

The HFRI Fund-of-Funds Composite Index fell -2.2% for the quarter (UH's Hedge Fund Program was down -1.8% over the same time period). Commodities have had a tough second quarter as the S&P GSCI Index fell -12.4%. Credit markets posted modest gains in the second quarter, with the BC Aggregate Bond Index up 2.0% for the quarter. High-yield (1.8%) lagged higher-quality issues (2.5%), while government bonds returned 2.6%. Treasury yields fell in the second quarter, ending at 1.65%. The U.S. dollar rose 3.3% against a basket of developed currencies as investors favored the greenback due to slow economic data and fears emanating out of Europe. The strengthening dollar proved to be a headwind for international equity and bond returns.

Mr. Lee noted that what positively impacted second quarter performance was a strong relative performance from developed international managers and emerging markets manager, Aberdeen, which helped cushion the pullback in equity markets with 115 bps and 440 bps of outperformance against their respective benchmarks; as well as U.S. bonds and global bonds helped cushion the equity drawdown by returning 1.6% and 1.3%, respectively.

What detracted from the second quarter 2012 performance was that the inflation hedging portfolio lagged its benchmark by 143 basis points, falling -3.1%; and unusually poor relative performance of U.S. equity managers. A downturn in global equity markets during this period caused the University's portfolio to shift slightly away from target. All asset classes remained well within allowable ranges.

Following Mr. Lee's report, Mr. Gene Lohmeyer, from Cambridge Associates, presented the committee with the Hedge Fund Program Update and presented the committee with four (4) decision items for their consideration.

Mr. Lohmeyer stated there were three (3) positive contributors to the Hedge Fund Program:

1. Maverick (14.5%) – Maverick's recent outperformance was largely attributable to strong results on the long side of the portfolio during the first three (3) months of 2012, when the long book returned 26% vs. 12% for global equities. Value added was broad-based across several industry sectors. The fund's underweight of financial stocks had also been beneficial.
2. Coatue (13.2%) – Two (2) factors have benefitted Coatue thus far in 2012; (a) a high degree of return dispersion within the technology sector, leading to significant opportunities for long/short investors, and (b) tactical management of the fund's net exposure during Q1, leading to significant upside capture relative to broad equity markets.
3. Anchorage (7.5%) – Thus far in CY 2012, Anchorage has benefitted from a contraction in credit spreads globally and long-biased exposure to structured credit in the U.S. and Europe.

Two (2) detractors to the Hedge Fund Program were:

1. Asian Century Quest (-3.5%) – As a general matter, non-U.S. hedge funds have trailed US-biased funds throughout the past 6 to 9 months. More specifically, ACQ's poor relative performance was attributable to a failure to keep pace during the broad market rally in Q1 and negative attribution from Chinese holdings throughout most of Q2.
2. PFM (-2.3%) – PFM's recent challenges were attributable to poor security selection as well as ill-timed shifts in net exposure, which resulted in overly defensive positioning during the Q1 rally and excessive market sensitivity during the May selloff.

Mr. Lohmeyer briefed the committee on the hedge fund program strategy allocation and outlined the current manager allocation. There were currently a total of nine (9) total absolute return managers and eight (8) equity hedge fund managers for a total of 17 in the total Hedge Fund Program.

Following the Hedge Fund Program Update, Mr. Lohmeyer made the following recommendations to the committee for their consideration:

1. <u>Full Redemption from Taconic Opportunity Fund</u> – A multi-strategy, event-driven fund focused on distressed debt, merger arbitrage, and special situations and value equities. As of June 30, 2012, the value of UH's investment with Taconic was approximately $8.1 million. Cambridge recommended the University of Houston redeem its investment with Taconic for the following reasons:
   - Two (2) partners of the firm are leaving in order to establish their own investment firm.
   - These departures undermine prior changes in the investment process that were designed to place more decision authority with senior analysts such as the two partners leaving.
   - Within UH's hedge fund program, there are other funds which are well positioned to exploit the same types of opportunities.

   UH is eligible to redeem its investment in this fund as of 10/31/12, with notice by 9/01/12.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation for the full redemption from Taconic

Opportunity Fund was approved by the committee. This action requires committee approval only and no further board action is required.

2. <u>Recommendation for new investment of $6.0 million in the Senator Global Opportunity Fund.</u>
   Highlights of this fund were addressed. Senator's approach involves identifying firms that may be strong candidates for corporate restructuring transactions such as mergers or spin-offs, but are otherwise attractive investments on a stand-alone basis. This firm tends to focus on small-to-mid sized companies ($2 to $10 billion in market cap) and in many cases explicitly avoids positions that are heavily trafficked by other hedge funds. Their analysts act as generalists and source investments across the entire capital structure; and investors in Senator's flagship fund may dedicate a portion of their allocation to less liquid special situations investments such as pre-IPO financing, warrants, and privately negotiated convertible securities.

The summary of the Senator Global Opportunity Fund terms were as follows:

- Fund/Product – Senator Global Opportunity Offshore Fund, Ltd.
- Management Fees – 2.0% management fee, 20% incentive fee subject to a high water mark and expenses are not included
- Entry – Monthly, on the first business day of each calendar month, or at the discretion of the Board of Directors
- Exit – Quarterly, as of each calendar quarter-end, with 60-days' prior written notice
- Gate – Quarterly Investor Level 25%

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation to invest $6.0 million in the Senator Global Opportunity Fund was approved by the committee. This action requires committee approval only and no further board action is required.

3. <u>Recommendation for new investment of $8.0 million in the BlueCrest AllBlue Fund</u>
   Mr. Lohmeyer briefed the committee on the highlights of this fund. For investors seeking to establish a core global macro allocation, this firm is an attractive option. It encompasses both discretionary and systematic strategies (typically 70-80% discretionary), has low targeted volatility (6-8% per annum while targeting returns of 10-15%), and has had low correlation with traditional equity and bond market indices. BlueCrest is a large, institutional organization, with the requisite infrastructure, and its global reach gives investors broad exposure. BlueCrest currently employees approximately 400 people, including over 150 investment professionals. The firm is 100% owned by partners (employees and founders) and is regulated by the SEC, FSA, and the GFSC.

   The AllBlue Fund is a multi-strategy vehicle that invests opportunistically across BlueCrest's discretionary and systematic funds which are highly complementary and typically have a low correlation to each other and, in aggregate, to traditional asset classes and other hedge funds. AllBlue currently invests across six (6) of BlueCrest's funds.

The summary of the BlueCrest AllBlue Fund terms were as follows:

- Fund/Product – BlueCrest AllBlue, Ltd.
- Management Fees – 2.0% management fee + 20% incentive fee subject to a high water mark and expenses are not included
- Entry – Monthly, on the first business day of each calendar month, or at the discretion of the Directors
- Exit – Class A/B/M: Quarterly, on the first business day of each quarter, with 33-days' prior written notice; Class C/D: Quarterly, on the first business day of each quarter, with 93-days' prior written notice
- Gate – Class A/B/M: Share Class Level 10%; Class C/D: Share Class Level 15%

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation to invest $8.0 million in the BlueCrest AllBlue Fund was approved by the committee. This action requires committee approval only and no further board action is required.

4. <u>Recommendation - $1.0 million addition to the HBK Offshore Fund II</u>
   Cambridge also recommended a $1.0 million addition to the HBK Offshore Fund II. This is a more diversified manager in the program and has an equally strong track record. 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 to add $1.0 million to the HBK Offshore Fund II was approved by the committee. This action requires committee approval only and no further board action is required.

Upon the committee approvals of the action items above, Regent Hollingsworth called for a motion to request approval to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of two hedge fund investment managers for the University of Houston System Endowment Fund.

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

Mr. Phil Fiske, from Cambridge Associates, reviewed the current private equity market landscape as well as the University's current private investments portfolio and private investment fund recommendation(s) for committee consideration.

Mr. Fiske stated the University of Houston System's private investments (PI) program was still relatively immature. Through the first half of 2012, the University had made a total of $8.0 million in commitments, which is on track with Cambridge Associates' (CA) suggested commitment pace.

One (1) private equity investment fund recommendation was presented by Mr. Fiske in the amount of $4.0 million to Silver Lake Partners IV, L.P. for the committee's consideration. Silver Lake Partners is seeking $7.5 billion, with a maximum of $10.0 billion, in commitments for its fourth fund, Silver Lake Partners IV, to invest in global technology and technology-enabled companies in a range of sub sectors. The firm was founded in 1999 and has a very senior, experienced team. The firm's 14 investing managing directors have an average tenure of ten years at the firm and the senior team's expertise in technology investing is distinctive and a competitive advantage in the large market. Of all the buyout groups that Cambridge covers, this group has the deepest sector expertise in the technology field. Their portfolio was characterized as having high growth and they use very low leverage. Silver Lake has a 13-member global operating team who focus on portfolio company operations.

The summary of the Silver Lake Partners IV Fund terms were addressed as follows:

- Target Fund Size – $7.5 billion / $10 billion
- Management Fees – 1.5% of commitments during the investment period, 1% thereafter
- GP Commitment – At least the lesser of $225 million or 3%
- Carried Interest – 20% subject to an 8% preferred return
- Investment Period – Six (6) years from the fund's initial closing

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation for the University of Houston to commit $4.0 million to Silver Lake Partners IV, L.P. was approved by the committee. This action requires committee approval only and no further board action is required.

Upon the committee's approval of this action items, Regent Hollingsworth called for a motion to request approval to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of the private equity investment fund manager for the University of Houston System Endowment Fund.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the recommendation for the approval to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of a private equity investment fund manager 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 next action item presented to the committee was introduced by Dr. Carlucci – <u>Approval is requested to liquidate the Charles John Quinones Endowment and transfer the proceeds to an operating account at the University of Houston, University of Houston System – Item F, EM-F4</u>

In accordance with UH System policy 3.F.02, Section 3.4.2 and 3.15, Dr. Carlucci requested approval to liquidate the Charles John Quinones Endowment currently invested in the UH System Endowment. This endowment had been established in 2003 to provide scholarships for business majors at the University of Houston. This endowment has only received $3,780 in gifts towards the pledge of $10,000; therefore, the endowment will be dissolved since the total pledge has not been realized. The proceeds will be transferred to an operating fund to be spent for scholarships in the Bauer College of Business in accordance with the original intent of the endowment.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the request to liquidate the Charles John Quinones Endowment and transfer the proceeds to an operating account at the University of Houston was approved.

The next action item introduced to the committee, Approval is requested to liquidate the Sarah and Geoffrey Scholarship Endowment and transfer the proceeds to an operating account at the University of Houston – University of Houston System, Item G – EM-G5 was presented by Dr. Carlucci.

In accordance with UH System policy 3.F.02, Sections 3.4.2 and 3.15, approval was requested to liquidate the Sarah and Geoffrey Scholarship Endowment currently invested in the UH System Endowment. This endowment had been established in 2000 to provide scholarships to full-time degree-seeking students at the University of Houston but has only received $4,000 in gifts toward the pledge of $10,000. This endowment will be dissolved since the total pledge has not been reached and the proceeds will be transferred to an operating fund to be spent for scholarships at the University of Houston in accordance with the original intent of the endowment.

On motion of Regent Monty, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the request to liquidate the Sarah and Geoffrey Scholarship Endowment and transfer the proceeds to an operating account at the University of Houston was approved.

The Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the sale of UH property in a residential area adjacent to the Texas Medical Center at or above the current appraised value of $11 million – University of Houston System, Item H – EM-H6 was the next action item presented before the committee.

Dr. Carlucci introduced this item requesting approval to delegate authority to the Chancellor to negotiate and execute contracts associated with the sale of a 4.2 acre tract located in a residential area adjacent to the Texas Medical Center at or above the current appraised value of $11 million. This tract of land was gifted to the University of Houston by Carolyn Grant Fay in 1996.

On motion of Regent Hollingsworth, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts associated with the sale of a 4.2 acre tract located in a residential area adjacent to the Texas Medical Center at or above the current appraised value of $11 million was approved.

At the conclusion of the presentation of this item, Regent Hollingsworth called for a motion to place the following three (3) action items, approved by the committee, but requiring final Board approval on the Consent Docket Agenda for the August 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 (3) action items were approved by the committee and will be placed on the Consent Docket Agenda for final board approval at the August 15, 2012 Board of Regents meeting.

1. Approval is requested to liquidate the Charles John Quinones Endowment and transfer the proceeds to an operating account at the University of Houston;
2. Approval is requested to liquidate the Sarah and Geoffrey Scholarship Endowment and transfer the proceeds to an operating account at the University of Houston; and
3. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the sale of UH property in a residential area adjacent to the Texas Medical Center at or above the current appraised value of $11 million.

Information Items

1. Report on Affiliated Support Organizations/Foundations, University of Houston System – Item I – EM-I10

   Ms. Eloise Dunn Stuhr, Vice Chancellor for University Advancement presented the committee with a brief update on the progress toward reviewing and updating the University of Houston support organizations agreements. A review of the current standard agreement has been done and a draft of a revised standard agreement has now been completed. This new agreement has essentially two changes from the prior agreement:

   (a) There will be an assessment on the Endowment of every support organization; and
   (b) It will be requested that an ex officio member from the university's administration be on each of the support organizations.

   Former Chair of the Board and an Advisory Member on the Endowment Management Committee, Carroll Robertson Ray is leading a task force regarding this issue and over the next few months, conversations and meetings will be scheduled with each of the support organizations in order to obtain new agreements. A lengthy discussion followed.

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

2. Update on Year-to-Date Fundraising Activities, University of Houston System – Item J – EM-J11-16

   Ms. Stuhr updated the committee on the University of Houston System fundraising results and related activities. Year-to-date the UH System has raised $91.6 million in new gifts and pledges against our goal of $85.0 million.

   The University of Houston's fundraising results totaled $88.8 million of the $91.6 million vs. the goal of $80.0 million. Of the commitments to date, $20.0 million were for athletics which were in line with the goals for this year. An overview of the FY2012 University of Houston's new gifts and pledges was addressed.

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

3. Report on the UH System Bond Proceeds and Debt Service Funds Investment Balances as of May 31, 2012, University of Houston System – Item K – EM-K17

   Dr. Carlucci introduced this report and summary of the bond proceeds and debt service funds investment balances as of May 31, 2012. The UH System invests two restricted fund groups apart from the endowment and non-endowed funds. These funds represent the investment of bond proceeds for various capital projects and balances in accounts restricted for debt service. 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 and the investment of these assets is governed by the System Investment Policy for Non-Endowed Funds, which requires that we focus on safety of principal, liquidity, and yield in this order of importance.

   As of quarter ended May 31, 2012, the Summary Statement of Bond Proceeds and Debt Service Funds Investment Balances were as follows:

   - Total Bond Proceeds Project Funds – Book Value/Market Value - $339,851,394
   - Total Debt Service Funds – Book Value/Market Value - $7,364,359
   - Total All Funds – Book Value/Market Value - $347,215,753

This report was presented for information only and requires no committee action.

There being no further business to come before the Committee, the meeting adjourned at 3:38 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	Shannon Thomas
Dona Cornell	Gene Lohmeyer	Phil Fiske
Eloise Dunn Stuhr	Hamilton Lee	Cedric Bandoh
Richard Walker	Clifford Redd	Sean York
Jon Aldrich	Phil Aldrich	Ed Jones
Marquette Hobbs	Brenda Robles	Gerry Mathisen