Thursday, November 15, 2018 - The members of Endowment Management Committee of the University of Houston System convened at 9:05 a.m. on Thursday, November 15, 2018, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Present</th>
<th>Non-Members Present</th>
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<tr>
<td>Durga D. Agrawal, Chair</td>
<td>Paula M. Mendoza, Regent</td>
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<td>Beth Madison, Vice Chair</td>
<td>Gerald W. McElvy, Regent</td>
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<td>Steve I. Chazen, Member</td>
<td>Peter K. Taaffe, Regent</td>
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<td>Jack B. Moore, Member</td>
<td>Andrew Z. Teoh, Student Regent, Non-voting</td>
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<td>Tilman J. Fertitta, Ex Officio</td>
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Absent
Doug H. Brooks, Member

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 at 9:05 a.m.

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AGENDA ITEMS

Regent Agrawal stated there were four (4) items listed on the agenda – two (2) action items requiring committee approval only and two (2) items for information only. There were three (3) 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 Agrawal moved to the first action item requiring committee approval, the minutes from the August 23, 2018, Endowment Management Committee meeting.

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

- August 23, 2018, Endowment Management Committee meeting

Following the approval of the minutes, Regent Agrawal stated the next item listed on the agenda would be presented by Cambridge Associates and he asked Mr. Jim McShan, Senior Vice
Chancellor for Administration and Finance to introduce Item C, a Report from Cambridge Associates regarding the UH System Endowment and Non-Endowed Portfolios – University of Houston System.

Mr. McShan introduced the three (3) representatives from Cambridge Associates who were in attendance at the meeting: Kerry Kirk, Erin Schuhmacher and Lucy Chang. After introducing the representatives from Cambridge, he asked Mr. Kirk to begin his presentation to the committee.

Mr. Kirk stated it was always a pleasure to be at the University of Houston and to be able to provide their report to the board. Mr. Kirk began his presentation by addressing the market returns for the 3rdQ 2018 performance, July 1, 2018 – September 30, 2018, and the Calendar Year-to-Date (CYTD) 2018, January 1, 2018 – September 30, 2018 performance. It had been a generally strong year through September 2018 for primarily US risk assets. The US stock markets through this time period was up approximately 11% and this was primarily due to earnings growth of around 25% year over year. Non-US international stocks, developed and emerging markets, where worries over trade wars and rising commodity prices, higher global interest rates and a strong dollar, were taking their toll on these markets. Natural resources and real estate were up due to oil prices and stronger energy earnings; but most fixed income assets lagged this year due to debt of high interest rates, the Fed funds rate, and US inflation continues to be somewhat higher.

Mr. Kirk stated he was primarily going to focus on the Calendar Year. The current market value of the UH portfolio was $743.0 million. The performance summary of the portfolio was addressed and it was noted that for the CY2018 through 9/30/18, the total portfolio was up 2.9% which outperformed the policy benchmark. On a trailing 1-year basis, the total portfolio for this time period was up 7.1% which was also significantly above the policy benchmark and the peer mean. This was due to the strong performance of US equities and private investments.

Mr. Kirk also addressed the Asset Allocation: actual allocation, the near-term targets, and allowable ranges. He stated the portfolio was approximately 3 bps over in global equities; 3 bps under in hedge funds; private equity/venture capital was even; 2 bps over in real estate; and 1 bps under in bonds and cash. The UH portfolio has been slightly overweight public equities as the private program was being built up. Overall, the UH total portfolio was exceeding benchmarks YTD and over the past year.

Near-term targets were discussed and Mr. Kirk stated adjusting near-term targets do not require a vote from the committee because near-term targets were guidelines established by Cambridge and were not part of the Investment Policy. He mentioned that Cambridge would be making a modest increase to the near-term private target from 12% to 14% and would be decreasing the near-term hedge fund target from 26% to 24%.

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

Regent Agrawal moved to the next item listed on the agenda, Item D, Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the University of Houston System Endowment – University of Houston System, and asked Mr. McShan to introduce this item.
Mr. McShan stated that Cambridge Associates would be presenting three (3) private equity firm manager recommendations for a total of $19.0 million for the committees’ consideration in order to meet the university’s short- and long-term allocation goals and asked Ms. Lucy Chang, a Cambridge Associates representative, to present this item.

Ms. Chang began her presentation by stating that the University of Houston’s Private Investment (PI) program was still relatively immature, but has produced an attractive 14.4% net IRR since inception. The 1-year number was highlighted through June 2018 (it was noted that privates were reported on a lag); and for this 1-year period, the performance was reported at 19.1%. Ms. Chang stated there would be three (3) recommendations addressed at this meeting: (1) healthcare private equity; (2) real estate; and (3) energy, which would bring the university’s total 2018 commitment to $81.5 million. She also reminded the committee that the university had approved increasing the long-term PI allocation from 17.5% to 25.0% of total assets.

The first recommendation submitted for the committee’s consideration was to approve a $10.0 million commitment to Blackstone Real Estate Partners IX, LP. This is Blackstone’s ninth private global real estate fund, Blackstone Real Estate Partners Fund IX (“BREP IX” or “Fund IX”), with a target fund size of $18 billion. The university had previously committed $7.5 million to Fund VIII as well as $7.5 million to BREP Europe V. The BREP IX will invest opportunistically in mostly office, multifamily, retail, industrial, and hotel properties, primarily located in the US. The BREP Blackstone is one of the few that survived financial crisis and actually thrived through it. They have a reputation to close deals fast and with certainty which is really important in the real estate market. They have over 100 asset manager professionals to create value on these properties. If approved, Blackstone will waive management fees for four (4) months for investors participating in the first close, which is scheduled for December 6, 2018.

Blackstone Real Estate Partners IX, LP’s terms are outlined below:

- Target Fund Size – $250 million
- GP Commitment – $20 million, 8% of commitments
- Management Fee – 2.0% on committed capital
- Carried Interest – 20% with an 8% preferred return
- Commitment Period – Terminates six years from the final closing date
- Partnership Life – 10 years, subject to two one-year extensions.

The second recommendation for the committee’s consideration was to approve a $4.0 million commitment to Great Point Partners, III, L.P. Great Point Partners or “GPP” is seeking $250 million in commitments, with a hard cap of $300 million, for its third lower-middle-market healthcare-focused fund, Great Point Partners Fund III. The manager closed on $150 million at the end of June 2018 and expects to hold a final close in the fourth quarter of 2018. GPP’s strategy is opportunistic; current sectors of focus are the pharmaceutical and biotechnology supply chain and healthcare information technology. Great Point was founded in 2003 by Jeffrey Jay and David Kroin. Jay had been a GP and the head of healthcare investments at J.H. Whitney & Company, a private equity firm and hedge fund manager with over $6 billion in AUM.

Fund III will target approximately 13 to 20 control investments of $10 million to $20 million apiece in lower-middle-market healthcare companies, typically in the US, with annual EBITDA of $2 million to $10 million each.
Great Point Partners, III, LP’s terms are outlined below:

- **Target Fund Size** – $250 million
- **GP Commitment** – $20 million, 8% of commitments
- **Management Fee** – 2.0% on committed capital
- **Carried Interest** – 20% with an 8% preferred return
- **Commitment Period** – Terminates six years from the final closing date
- **Partnership Life** – 10 years, subject to two one-year extensions.

The final recommendation made by Cambridge Associates and presented for the committee’s consideration was to approve a $5.0 million commitment to Energy Spectrum Partners VIII, LP. Energy Spectrum Partners or “ESP” is seeking $1.3 billion in commitments for its eighth midstream energy private equity fund. The manager is targeting a similar fund size to fund VII in order to remain focused on smaller investments in the lower-middle market of the midstream energy sector. A first close was held on November 1, 2018 and a second close is scheduled for December 19, 2018 before a final close in early 2019.

This fund will invest primarily in the midstream sector of the energy industry in North America. This team has been together for over 20 years and they have formalized a succession plan to facilitate a transition of ownership and fund economics to the next generation of partners – rather than selling the firm to a third party. The team expects to make 10 to 14 investments in companies that acquire, develop, build, and operate midstream energy assets in the US, Canada, and possibly, Mexico, with enterprise values between $100 million and $500 million. The manager is targeting gross returns of at least a 20% internal rate of return (IRR) and 2.0 multiple of invested capital (MOIC) for Fund VIII.

Energy Spectrum Partners VIII, LP’s terms are outlined below:

- **Target Fund Size** – $1.3 billion
- **GP Commitment** – 2.5% of commitments
- **Management Fee** – 2.0% on committed capital
- **Carried Interest** – 20% with an 8% preferred return
- **Commitment Period** – Terminates five years from the final closing date
- **Partnership Life** – 10 years, subject to two one-year extensions.

On motion from Regent Moore, seconded by Regent Chazen, 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 three (3) private investment managers for the University of Houston was approved as follows:

- Blackstone Real Estate Partners IX - $10.0 million
- Great Point Partners III - $4.0 million
- Energy Spectrum Partners VIII - $5.0 million

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

Regent Agrawal stated the next item to be addressed was Item E, **Approval is requested to rebalance the non-endowed portfolio for the University of Houston System and provide cash from the UH System Endowment for the annual payout obligations – University of Houston System.**
Mr. McShan introduced this item stating that Cambridge Associates would be making two (2) recommendations for the committee’s consideration and approval. Ms. Erin Schuhmacher addressed these recommendations and below is a brief summary of her remarks.

Ms. Schuhmacher stated that at the last Endowment Management Committee, the members had asked Cambridge to review UH’s non-endowed funds (operating reserves) to determine if more could be added to the endowment with the goal of enhanced return on these funds. She mentioned that Cambridge, working together with Mr. McShan’s team, had studied the mix of non-endowed funds and reviewed cash needs across the System. Their analysis revealed the following:

- UH, like most institutions, employs a 3-tier approach to managing non-endowed assets.
- UH currently has 18% of non-endowed assets already allocated to the endowment, which is very close to the average or the median of other institutions that do allocate reserves into their long-term pool.
- After studying the reserve levels across the operating and liquidity pool and working with Mr. Bartlett, it was determined that there was an excess of approximately $15.0 million that could be transferred into the endowment.
- Lastly, Ms. Schuhmacher stated there was more work to be done. After reviewing the three (3) pools that UH is currently using, Cambridge believes that there may be more opportunity to change the complexion of one (1) of the pools, perhaps to seek a little more return but certainly staying within the context of what we were allowed to do by State law, but also looking at best practices with respect to what other institutions were doing.

Ms. Schuhmacher presented the committee with the current composition of UH’s current non-endowed funds. When reviewing the performance of the non-endowed assets, Cambridge typically discusses the cash pool and the liquidity pool. The third component of the non-endowed assets are those funds that have already been transferred into UH’s endowment which is about 18% of the non-endowed assets at approximately $112.1 million.

The cash pool is currently managed by Morgan Stanley and currently yields 1.3%; and the trailing 3-year return was only 80 bps. The liquidity pool is excess cash that we do not need on a day-to-day basis, but is available to be invested to increase the return potential but in such a way that there is still limited downside and still preserve capital. The current yield is about 2.9%. The duration is quite low at 2.3 years; and if you were to look at the complexion of this pool, it was about 72% in US treasuries; 24% in high grade corporates; and another 5% or so in agency mortgages. The funds that are currently in the endowment must stay invested for five (5) years once they are transferred into the endowment. They are managed by Cambridge and thinking about long-term expected return, it is approximately 6% real based on our asset allocation.

Ms. Schuhmacher also stated that Cambridge was looking to further review the asset allocation for the liquidity pool and to continue to review and analyze options for transitioning the current liquidity pool to an intermediate pool which may include additional forms of credit as well as some equities.

Ms. Schuhmacher made some rebalancing recommendations for the committee’s consideration as follow:
1. There was currently $15.0 million excess cash in the cash pool that could be transferred into the endowment. This would take our total percentage of non-endowed assets in our long-term pool to 21% and would bring our total to approximately $120.0 million.

2. In addition, Cambridge would use this cash to source spending given that we need to raise in its entirety $30.6 million, we would redeem $7.5 million from Columbia Large Cap Growth, a manager that has performed well on an absolute and relative basis this year; and

3. Source the remaining $8.1 million from existing cash which includes proceeds from hedge fund redemptions.

On motion of Regent Chazen, seconded by Regent Moore, and by unanimous vote of the committee members in attendance, the approval to rebalance the non-endowed portfolio for the University of Houston System provide cash from the UH System Endowment for the annual payout obligations was approved.

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

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

- Ms. Brice thanked the committee for the opportunity to address the progress of the campaign.
- She said that as of November 15, 2018, the total of the capital campaign was currently at $958 million; and mentioned that every gift counts!
- Since the last Board meeting held in August, $76 million had been raised.
- Ms. Brice presented a slide showing the various constituencies who have supported the campaign. It was noted that there had been a considerable bump in giving by corporations and alumni, particularly since the last Board of Regents meeting held in August.
- The campaign fundraising summary by purpose was addressed and this campaign has not been entirely or even largely focused on the endowment. There are so many immediate needs of the University of Houston, said Ms. Brice, particularly the capital projects, and philanthropy is a piece of it.
- On the fundraising for the College of Medicine, we are at $35 million of our $40 million goal before the Legislature goes into session!
- $242 million has been raised for the endowment; and since the campaign started, 436 endowments have been established.
- The Ezekiel Cullen Society had been established for those donors who have given $250,000 or more. A new society was formed this year for alumni loyalty called the “True Cougar Society” and to become a member of this new loyalty giving society, donors would make a gift of any size to the University of Houston for three or more consecutive fiscal years. The purpose of this society was to increase the donor retention rate; identify new prospects; and increase the donor loyalty, and strengthen donor relationships.
- The total number of True Cougar Society Members for FY2018 was 24,414; and the total number of donors with consecutive or cumulative giving of 20 or more years was 2,218.
Ms. Brice mentioned a “Cause Marketing Campaign” was established and below is an outline on how it works.

- **Point of Sales**
  - A set amount will be donated at the point of sales.
  - Individual will complete a purchase at participating company.

- **Portion of Sales**
  - A percentage of proceeds will be donated after the end of the campaign period.
  - Individuals will conduct purchases during set timeframe at participating company.

- **Message Promotion**
  - Company will promote giving to UH during designated timeframe.
  - UH will track funds raised through each campaign.

Lots of great news was shared by Ms. Brice as the university gets closer to reaching the $1.0 billion mark!

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

There being no further business to come before the committee, the meeting adjourned at 9:59 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
- Jim McShan
- Paula Myrick Short
- Dona Cornell
- Eloise Dunn Brice
- Mike Johnson
- Ira K. Blake
- Robert K. Glenn
- Juan Sanchéz Munóz
- Lisa Holdeman
- Susan Koch
- Shannon Harrison
- Brenda Robles

- Erin Schuhmacher
- Kerry Kirk
- Don Guyton
- Raymond Bartlett
- Ryan Harrison
- Mike Emery
- Mark Denney
- Ray Raulersen
- Sabrina Hassumani
- Joe Brueggman
- Deidra Garcia
- Brian Thomas
- Gerry Mathisen

- Lucy Chang
- Devante Hill
- Nader Ibrahim
- David Oliver
- Jeff Palmer
- Phil Booth
- Eric Booth
- Macie Kelly
- Jon Aldrich
- Matthew Castello
- Marquette Hobbs