MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Monday, January 28, 2013 – The members of the Endowment Management Committee of the University of Houston System convened at 3:11 p.m. on Monday, January 28, 2013, at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

Present	Member(s) Absent
Mica Mosbacher, Chair	Carroll Robertson Ray, Advisory Member
Jarvis V. Hollingsworth, Vice Chair	Jim P. Wise, Advisory Member
Jacob M. Monty, Member	
Nelda Luce Blair, Ex Officio	Non-Member(s) Present
	Welcome W. Wilson, Jr., Regent
	Gage A. Raba, Student Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, 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, August 14, 2012.

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AGENDA ITEMS

Action Items:

1. Approval of Minutes – Item B

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

   - August 14, 2012, Endowment Management Committee Meeting

Action/Information Items:

Regent Mosbacher noted there were four (4) action items and two (2) information items on the agenda. Dr. Carlucci, Executive Vice Chancellor for Administration and Finance, was asked to present the first action item on the agenda.

1. Approve the FY2013 University Advancement Endowment Assessment Rate of 1.5% - University of Houston System, Item C – EM-C1

   Dr. Carlucci requested approval to continue the assessment rate of 1.5% for FY2013 for the UH System Endowment. This represents the annual approval by the Board of this assessment.

   Regent Hollingsworth asked Dr. Carlucci for the rationale behind the 1.5% assessment. In response, Dr. Carlucci stated it was his understanding that the two modes used in assessing endowments were on the front-end - where they take something off of the top or on the back-end - where there is an assessment of the earnings. This was a decision of the Endowment Management Committee and, at that time, the committee set the number to provide operating support.

   Regent Hollingsworth questioned how this had been calculated; on what value related to the endowment; and to which endowments? Mr. Raymond Bartlett, Treasurer, stated this rate is calculated the same as is done with the income distribution which is based on a three-year rolling average of the three fiscal year-ends of the endowment (endowed only; it does not include non-endowed) and includes only those endowments above water. The estimated assessment for FY2014 will be $3.9 million which is approximately $300,000 higher than the amount in FY2013.

   Ms. Stuhr addressed the committee on this matter and recapped that they had a record fundraising year which ended August 31, 2012 and raised $112 million for the UH System. The amount of assessment for spending last year totaled $4.1 million toward the $112 million and new cash gifts added to the endowment totaled $10 million of that amount. The amount of the assessment for this year was $3.6 million, and thus far year-to-date, Advancement has raised $6.5 million of gifts adding to the endowment. Historically since 2007, $34.2 million of assessment has been provided to Advancement and roughly $80 million of new gifts have gone into the endowment. A brief discussion followed.

On motion of Regent Hollingsworth, seconded by Regent Monty, and by a unanimous vote of the committee members in attendance, the approval of the FY2013 University Advancement endowment assessment rate of 1.5% was approved.

Regent Mosacher stated the agenda would be taken out of order and moved to Item I on the agenda and asked Mr. Don Guyton, Chief Audit Executive to address this item.

2. Report on External Audit Report – UH System Endowment Fund, Financial Statements and Independent Auditor's Report for FY2012 and FY2011 – University of Houston System, Item I – EM-I18

   Mr. Don Guyton stated this item was an external audit report on the UH System Endowment Fund's financial statements and independent auditor's report for FY2012. This audit report had been issued by KPMG. 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. Mr. Raymond Bartlett, Treasurer, was available to answer any questions on these statements.

Mr. Guyton mentioned that Mr. Matt Malinsky, the KPMG engagement partner would be making a presentation on these financial statements and the other financial statements at the Audit and Compliance Committee meeting scheduled for Wednesday, January 30, 2013. In the statement of net assets, the net asset value of the Endowment Fund as of August 31, 2012 totaled $519 million and Mr. Bartlett had informed Mr. Guyton that the value had increased to $541 million as of December 31, 2012.

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

Regent Mosbacher moved to the next item listed on the agenda and asked Dr. Carl Carlucci, Executive Vice Chancellor for Administration and Finance, to introduce the item, Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets – University of Houston System, Item D – EM-D2.

Dr. Carlucci stated this item would be presented by various members from Cambridge Associates and requested Hamilton Lee, from Cambridge Associates, begin the discussion and update the committee.

Mr. Lee stated Cambridge Associates had several informational items to present, as well as a few recommendations that would require committee approval. Two private equity managers would be presented for the committee's consideration, one of which was present at the meeting and would give their presentation. Mr. Lee introduced Mr. Phil Fiske, from Cambridge Associates, to give his recommendations regarding the private equity managers.

Mr. Fiske recommended that the University of Houston approve a commitment of $2.0 million to LiveOak Venture Partners Fund 1. This is a manager seeking $100 million in commitments for its inaugural venture capital fund. LiveOak plans to build a portfolio of 12 to 15 early-stage technology investments located mainly in the Southwest U.S., with a particular emphasis on Texas. LiveOak defines its sector focus broadly to include technology segments from materials to components to systems (enterprise and communications) to software (infrastructure and application) and mobile software. Approximately 80% of the fund would be invested in seed- and early-stage companies, with the balance in opportunistic later-stage investments.

The three (3) principals spun out of Austin Ventures (AV), where they have worked together since 2002. Their track record while at Austin Ventures has been impressive. The LiveOak team invested $191.3 million in 18 companies while at Austin Ventures. 10 companies have been realized for total value of $226.6 million, equating to a multiple of invested capital (MOIC) of 1.7. Three early-stage, Texas-based investments were sold for over $300 million each. They have a strong relationship outside the state of Texas as well. A commitment to LiveOak Venture Partners I would represent an opportunity for the University of Houston to establish a relationship with an emerging venture capital firm focused on the Texas ecosystem.

Following Mr. Fiske's recommendation of LiveOak, he introduced the three principals of the company: Mr. Venu Shamapant, Mr. Krishna Srinivasan, and Mr. Ben Scott, who then presented the committee with their presentation and investment strategy. Overall, they are a successful team, who have worked together, and have a proven track record.

Upon the completion of the presentation, Mr. Fiske summarized LiveOak Venture Partners Fund I terms as follows:

- Target Fund Size - $100 million
- GP Commitment – 1.0% of aggregate commitments
- Management Fee – 2.5% of commitments during investment period; reduced by 0.25% annually thereafter. 100% of transaction, break-up, and other fees will offset the management fee.
- Carried Interest – 20% of net profits
- Preferred Return – None
- Investment Period – 5 years from the due date of the initial drawdown.

Regent Mosbacher suggested that both private equity investment recommendations be presented before the committee approval was considered and the committee concurred.

Mr. Fiske then presented the second private equity investment recommendation for the University of Houston to approve a commitment of $3.0 million to TrueBridge-Kauffman Fellows Endowment Fund III. The University of Houston System had previously invested $3.0 million in Fund II.

TrueBridge is headquartered in Chapel Hill, North Carolina. This is their third fund-of-funds, a venture capital fund-of-funds, and it is focused primarily on early-stage IT investing. Approximately 90% of the fund is targeted for information technology companies and 10% invested for life sciences. Fund III will invest approximately 85% in the U.S. and 15% in Asia, Europe and Israel, with its international exposure coming from the non-US affiliate funds of its core managers.

Cambridge continues to view TrueBridge as a very top tier manager; and they have an enormous competitive advantage from their relationship with the Kauffman Foundation. The Kauffman Foundation has a very active program of trying to help individuals break into the venture capital industry. They have a two-year apprenticeship program designed to educate, develop and network emerging leaders in the venture capital industry. After the individuals complete the program, the fellows join the Society of Kauffman Fellows, a broad network of 400 industry professionals that spans 42 countries and comprises fellows and mentors from 300 different venture funds.

TrueBridge has a stable, experienced senior team whose reputation among GPs helps it access top funds and conduct effective due diligence. The Fund III strategy is well-defined and consistent with the manger's approach in prior funds. TrueBridge continues to increase its allocation to over-subscribed, brand name venture capital managers and promising emerging groups.

The summary of the TrueBridge-Kauffman Fellows Endowment III terms were as follows:

- Target Fund Size - $325 million
- Hard Cap - $400 million
- Management Fee – 0.77% annual average
- LP Minimum Commitment - $5 million, subject to GP discretion
- GP Commitment – 1.0% of total capital commitments
- Carried Interest – 5%
- Preferred Return – None
- Term – 12 years, with 2 possible 1-year extensions, subject to GP discretion
- Investment Period – 4 years beginning with the first closing
- First Closing – February 2013
- Final Closing – TBD

Regent Mosbacher called for a motion to approve both private equity recommendations presented to the committee.

On motion of Regent Hollingsworth, seconded by Regent Monty and by a unanimous vote of the committee members in attendance, the recommendation to invest $2.0 million in LiveOak Venture Partners Fund I and the recommendation to invest $3.0 million in TrueBridge-Kauffman Fellows Endowment III were approved. This action requires committee approval only and no further board action is required.

Mr. Gene Lohmeyer, Cambridge Associates, reviewed the hedge fund performance and addressed some rebalancing items with the committee. Below is a brief summary of Mr. Lohmeyer's remarks.

- The hedge fund portfolio gained 1.9% in the fourth quarter versus 1.3% and 3.0% for the HFRI fund-to-funds composite and MSCI ACWI, respectively.
- Global equities climbed the proverbial "wall of worry" in 2012, posing double digit gains despite slow economic growth and numerous macro and political uncertainties.
- With the exception of high yield bonds, fixed income securities trailed global equities by a wide margin, as did commodities.
- Broad-based measures of hedge fund performance reflect mid-to-high single digit returns for 2012, with modest dispersion across strategies.
- The University of Houston's hedge fund allocation outperformed its HFRI benchmark while capturing approximately half the return of global equities.
- For the trailing 1 year period ending 12/31/12, UH's hedge fund delivered positive value added vs. broad-based measures of hedge fund performance and was an effective diversifier vs. equities.
- Return dispersion at the manager level was significant, as 1 year returns ranged from 16.8% to -5.7%.
- 14 of 15 managers delivered positive performance.
- Absolute Return of 9.0% outperformed long/short equity of 8.0%.
- The program did a reasonable job of protecting capital during drawdowns in April and May, but was not immune to market volatility.
- The program achieved a higher degree of upside capture vs. global equities in 2012 than the HFRI (1.1% vs. 0.8% in ACWI positive months), and also had better downside

performance (-0.7% vs. -0.8% in ACWI negative months). The bulk of the value added vs. the HFRI throughout the year occurred during months where equity market returns were positive.

Mr. Lohmeyer discussed the global equity markets in 2012 and UH's long/short equity managers strong performance in aggregate, with a healthy amount of return dispersion across individual funds.

<u>What worked?</u>

- Coatue and Maverick, to varying degrees, were beneficiaries of technology-driven trends.
- Coatue continued a streak of four consecutive calendar years of double digit gains, exceeding the return of the S&P Info Tech index with average net exposure of approximately 50%.
- Within Maverick's long portfolio, mobile computing and internet utilization were major themes, while a portion of the fund's short book was focused on companies and industries deemed "secular losers" of technology-driven trends, such as paper producers and copier manufacturers.

<u>What did not work?</u>

- Asian Century Quest and Three Bridges were victimized by subpar stock selection and poor exposure management.

On a 3 year basis as of 12/31/12, UH's hedge fund program had achieved over 3 times the cumulative return of the HFRI while capturing approximately 70% of the return of global equities.

UH's absolute return mangers showed well in 2012 with a 1 year return of 9.0%.

<u>What worked?</u>

- Anchorage outperformed long-only credit indices with relatively oddest net exposure throughout the year (ranged from 30 to 40%) by holding a diverse mix of CLO's, distressed and performing credit, and liquidations.
- York benefitted from a well-timed shift in exposures, as the fund closed out sovereign short positions, and increased credit exposure in Q2, just prior to the ECB's release of aggressive policy language in July, which led to a rally in risk assets in the 2nd half of the year.
- Special situations, spinoffs and liquidations also featured prominently in York's portfolio.
- Och Ziff had a solid year, thanks to substantial holdings I structured credit instruments including RMBS, commercial real estate CDO's, and trust preferred securities.

<u>What did not work?</u>

- Mason had a disappointing 2012, partly due to negative carry associated with short positions in peripheral European sovereign bonds, which were profitable during market stress periods in the 2nd half of 2011, but have been a drag on performance more recently.
- Several of the fund's event-driven trades also detracted from performance.

In terms of the rebalancing the Endowment portfolio, below is a summary of Mr. Lohmeyer's recommendations to the committee on this matter.

There were a total of six (6) different rebalancing items that involve $7.7 million in partial redemptions across four (4) funds and $5.0 million in reallocations across two (2) funds.

These are predominately rebalancing-driven recommendations. Below is the list of rebalancing items recommended by Cambridge:

1. $1.0 million partial redemption from Coatue as of 3/31/13, notice due by 2/14/13;

2. $2.6 million partial redemption from Anchorage as of 6/30/13, notice due by 3/29/13;

3. $2.0 million partial redemption from Davidson Kempner as of 6/30/13, notice by 4/12/13;

4. $2.1 million partial redemption from Samlyn as of 6/30/13, notice by 5/15/13;

5. $3.0 million add to BlueCrest AllBlue; and

6. $2.0 million add to Senator.

Regent Mosbacher requested a motion to approve the six (6) recommended rebalancing items presented to the committee.

On motion of Regent Hollingsworth, seconded by Regent Monty and by a unanimous vote of the members in attendance, the recommendation to approve the six (6) rebalancing items listed below were approved by the committee.

1. $1.0 million partial redemption from Coatue as of 3/31/13, notice due by 2/14/13;
2. $2.6 million partial redemption from Anchorage as of 6/30/13, notice due by 3/29/13;
3. $2.0 million partial redemption from Davidson Kempner as of 6/30/13, notice by 4/12/13;
4. $2.1 million partial redemption from Samlyn as of 6/30/13, notice by 5/15/13;
5. $3.0 million add to BlueCrest AllBlue; and
6. $2.0 million add to Senator.

Following the approval of this item, a question was raised by the committee as to whether or not this item did require committee approval.

NOTE: Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel, clarified that according to policy, Dr. Carlucci, Executive Vice Chancellor for Administration and Finance, Mr. Raymond Bartlett, Treasurer, and typically the Chair of the Endowment Management Committee have the authority to make this type of decision. Once the decision is made it would then be reported back to the Endowment Management Committee no later than the next scheduled committee meeting. Accordingly, if a recommendation is made during the Endowment Management Committee meeting, the policy implies that the committee would vote on the recommendation at that time. If the approval of this type of recommendation were done outside of the confines of a meeting, then it would be reported back to the committee at the next regular meeting.

At the conclusion of Mr. Lohmeyer's presentation and the approval of the rebalancing items by the committee, Regent Mosbacher moved to the next item on the agenda, Item F.

<u>Annual review and approval of the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System, Item F – EM-F4.</u>
Dr. Carlucci introduced this item and stated in accordance with the review procedures section of the UH System Endowment Fund Statement of Investment Objectives and Policies, the Endowment Management Committee shall review this policy at least once a year to determine if modifications are necessary or desirable. Dr. Carlucci stated there were no recommended changes to the policy at this time.

On motion of Regent Hollingsworth, seconded by Regent Monty and by a unanimous vote of the members in attendance, the recommendation for the annual review and approval of the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System was approved by the committee.

Regent Mosbacher moved to the next item for the committee's consideration, Item G.

<u>Annual review and approval of the UH System Investment Policy for Non-Endowed Funds – University of Houston System, Item G – EM-G5.</u>

Dr. Carlucci presented this item to the committee and stated in accordance with Section IX of the UH System Investment Policy for Non-Endowed Funds, the Endowment Management Committee shall review this policy at least once a year. Dr. Carlucci stated there were no recommended changes to this policy.

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

Following the approval of these two items, Regent Mosbacher called for a motion to place both of these items on the Board of Regents Consent Docket Agenda for the January 30, 2013 Board of Regents meeting for final board approval.

On motion of Regent Monty, seconded by Regent Hollingsworth, and by a unanimous vote of the committee members in attendance, the following two (2) action items were approved by the committee and will be placed on the Board's Consent Docket Agenda for final board approval at the January 30, 2013 Board of Regents meeting.

1. Annual review and approval of the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System; and
2. Annual review and approval of the UH System Investment Policy for Non-Endowed Funds – University of Houston System.

Report on UH System's Invested Funds and Bank Deposits – University of Houston System, Item H – EM-H7

Mr. Raymond Bartlett, Treasurer, gave a brief report on the UH System's invested funds and bank deposits. This report is presented quarterly, is posted on the Treasurer's website, and the information is annually distributed to the State Auditor's Office, the Governor's Office, the Comptroller's Office, and the Legislative Budget Board. This report lists all of the various fund groups and the total as of August 31, 2012 was $1,268 million. This amount includes endowed and non-endowed funds, bond proceeds project funds and debt service funds.

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 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
Paula Myrick Short	Hamilton Lee	Gene Lohmeyer
Dona Cornell	Phil Fiske	Caesar Moore
Rathindra Bose	Venu Shamapant	Krishna Srinivasan
Eloise Dunn Stuhr	Ben Scott	Troy Golden
Jon Aldrich	Ed Jones	Marquette Hobbs
Brenda Robles	Gerry Mathisen	