

**MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE**

Tuesday, February 15, 2011 - The members of Endowment Management Committee of the University of Houston System convened at 1:35 p.m. on Tuesday, February 15, 2011, at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Jarvis V. Hollingsworth, Chair
Jim P. Wise, Vice Chair
Carroll Robertson Ray, Ex Officio
Michael J. Cemo, Advisory Member

Absent

Mica Mosbacher, Regent
J. Christopher Jones, Advisory Member

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Jarvis V. Hollingsworth called the meeting to order. Regent Hollingsworth stated there were seven approval items and one information item that would be presented to the committee and introduced the first action item on the agenda, the approval of the minutes.

AGENDA ITEMS

Action Items

1. Approval of Minutes – Item B

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

- November 15, 2010, Endowment Management Committee Meeting

2. Report and Recommendations from Cambridge Associates Regarding Endowed and Non-Endowed Assets – University of Houston System, Item C – EM-1

Chair of the Committee, Jarvis 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, 2010.

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

Mr. Lee's discussion points highlighted key performance of the Endowment and included a market commentary. The fourth quarter witnessed a continuance of momentum for equity markets, as the S&P 500 Index surged 10.8% and the MSCI EAFE Index gained 6.6%. For the full year, the S&P delivered a 15.1% return, and the Index now has gained almost 86% (in price terms) from the lows set in the spring of 2009. Commodities, after lagging equities for much of 2010, spiked 13.4% in the fourth quarter, given particularly strong returns in agriculture and energy. Conversely, fixed income investments fared poorly given investors' lack of enthusiasm for bonds at historically low rates – U.S. Treasuries dropped 2.6%, with longer duration bonds performing significantly worse.

The University of Houston gained 5.6% for the quarter, outperforming Benchmark A's return of 4.4% and equalling Benchmark B. Looking back over the full year, the Endowment Fund returned 12.4%, besting both Benchmark A and B by 360 bps and 250 bps, respectively.

There were no asset allocation changes since the last Endowment Management Committee meeting and Cambridge recommended moving into emerging markets.

Investment Manager' activities since the last Endowment meeting were addressed and are listed below:

- Investments:
 - November: \$6.0 million to long/short manager, Partner Fund Management
 - December: \$7.0 million initial funding of Anchorage, an absolute return manager; initial investments in Maverick (\$6.0 million) and Samlyn (\$2.0 million), two long/short hedge fund managers.
- Partial Redemptions:
 - December: Luther King (-\$1.5 million); William Blair (-\$2.0 million); Smith Graham (-\$1.0 million); SSgA Russell 1000 (-\$4.5 million); Pinnacle Trust (-\$2.5 million); and York (-\$10.0 million) to fund spending and investment needs
- Full Redemptions:
 - December: Absolute Plus Management (-\$4.9 million) and Barlow Partners (-\$39.9 million).

Jeff Blazek, from Cambridge Associates, presented the committee with a commentary on the market. Treasury, municipal and consumer rates have all spiked since the fall. The debt burden has shifted from private to public with the Fed now the largest holder of Treasuries. Job losses continue and even though fewer individuals are filing for unemployment, jobs remain well off their peak. The housing market is still down and homeownership and equity were hit hard. Numerous issues were discussed during his remarks.

Mr. Gene Lohmeyer, from Cambridge Associates, presented the committee with two hedge equity managers and requested approval to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of two long/short investment managers for the University of Houston System Endowment Fund.

1. It was recommended that the University of Houston invest \$6.0 million in the Asian Century Quest Fund (ACQ), a long/short fund focused on the Asia Pacific region. Mr.

Lohmeyer stated that this group was talented and has an experienced manager led by Brian Kelly with over 20 years of research, trading, and portfolio management experience focused on Asian equities. ACQ employs 18 research analysts, many of whom are bi-lingual and multi-cultural with industry specific and/or regional expertise. One of the fund's principal objectives is to mitigate the volatility inherent within Asian equities. Since inception in March 2005 through December 2010, the Asian Century Quest Fund has returned 9.80% vs. 4.80% for MSCI Pacific Index.

The summary of the Asian Century Quest Fund terms were as follows:

- Management Fee – 2.0% of assets;
- Incentive Fee – 20.0% of net profits subject to a high water mark; and
- Liquidity – Quarterly with 45 days notice, 18-month soft lockup.

On a motion from Regent Ray, seconded by Regent Wise, and by a unanimous vote of the committee members in attendance, the recommendation that the University of Houston commit \$6.0 million in the Asian Century Quest Fund was approved. This item required committee approval only.

2. The second recommendation from Cambridge Associates was that the University of Houston invests \$6.0 million in the Indus Europe Master Fund, a long/short equity fund focused primarily on developed markets in Western Europe. Mr. Lohmeyer stated this fund was established in September 2006 by Gene Salamon, who has over 15 years experience as a portfolio manager and research analyst focusing on European equities. The lack of high quality research coverage throughout Europe creates potential for significant mispricings in the region. Indus Europe protected capital extremely well relative to peers in 2008, returning -3.6% while global equity markets were down 35-40%. The fund has also delivered competitive returns during up markets.

The summary of the Indus Europe Fund, Ltd. terms were as follows:

- Management Fee – 1.50% of assets;
- Incentive Fee – 20% of net profits subject to a one-year loss carry forward provision; and
- Liquidity – Monthly exit with 30 days prior written notice after a 1-year soft lockup (4% redemption fee within the first year).

On a motion from Regent Wise, seconded by Regent Ray, and by a unanimous vote of the committee members in attendance, the recommendation that the University of Houston commit \$6.0 million in the Indus Europe Fund was approved. This item required committee approval only.

At 3:23 p.m. Chair of the Committee, Jarvis Hollingsworth requested the committee break for approximately 10 minutes. At 3:30 p.m., Regent Hollingsworth reconvened the committee meeting and the next item on the agenda was addressed.

Mr. Phil Fiske introduced the next item to the committee which was the request to delegate authority to the Chancellor to negotiate and execute a contract for the hiring of a venture capital funds-to-funds investment manager for the University of Houston System Endowment Fund.

3. The third recommendation from Cambridge Associates was the recommendation that the University of Houston commit \$3.0 million to CVE-Kauffman Fellows Endowment Fund II, L.P., a fund being raised by TrueBridge Capital Partners. TrueBridge seeks to raise \$325 million for its second fund. A final close is planned for sometime in Q1 11. Cambridge Associates considers TrueBridge to be a strong emerging FoF manager with unique access to top tier firms. Fund II is an attractive option for clients seeking a diversified global venture portfolio that they would be unable to recreate through direct relationships.

The summary of TrueBridge Capital Partners terms were as follows:

- Management Fee: 1% of commitments for the first 5 years; years 6 through 12, 90% of the previous year's fee; thereafter fixed at 0.25% of commitments;
- Carried Interest: After 100% return of committed capital, 95% to the limited partners (LPs), 5% to the GP;
- GP Commitment: The GP will commit at least \$2 million;
- Commitment Period: Four years following the initial closing date;
- Term: Twelve years with 2 one-year extensions;
- Clawback: Yes; and
- Key Person Clause: Prior to the expiration of the commitment period, Mr. Edwin Poston and Mr. Mel Williams, the two General Partners, shall devote substantially all of their business time to the fund.

On a motion from Regent Ray, seconded by Regent Wise, and by a unanimous vote of the committee members in attendance, the recommendation that the University of Houston commit \$3.0 million in the TrueBridge Capital Partners Fund was approved. This item required committee approval only.

Dr. Carlucci introduced the following action items for approval:

4. Approve the FY2011 University Advancement Endowment Assessment Rate of 1.5% - University of Houston System – Item G – EM-5

Approval was requested to continue assessing the UH System Endowment at a rate of 1.5% for FY2011 (FY2012 spending). This rate represents the annual approval by the Board of this assessment. The Endowment Statement of Investment Objectives and Policies permits the System to annually assess a reasonable fee against the earnings of specific endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities. The investment policy also states that the Board shall annually review and approve the fee which is based as a percentage of the fiscal year-end market value averaged over rolling three-year periods for eligible endowments. If an endowment has been in existence less than three years, the average will be based on the number of years in existence.

On a motion from Regent Ray, seconded by Regent Wise, and by a unanimous vote of the committee members in attendance, the approval for the FY2011 University Advancement Endowment Assessment Rate of 1.5% was approved and will be placed on the Consent Docket at the Board of Regents meeting on February 16, 2011 for final Board approval.

5. Approval to liquidate the Joseph Michael Adamo Drama Scholarship Endowment – University of Houston System – Item H – EM-6

Dr. Carlucci noted that in accordance with UH System policy 3.F.02, Sections 3.4.2 and 3.15, approval is requested to liquidate the Joseph Michael Adamo Drama Scholarship Endowment currently invested in the UH System Endowment. This endowment was established in November 1991 to provide scholarships for drama students at the University of Houston. As of January 2011, the endowment had only received \$5,175 in gifts toward the pledge of \$20,000. In accordance with the terms of the endowment agreement, the endowment will be dissolved since the total pledge had not been reached. The endowment proceeds will be transferred to an operating fund to be spent for drama scholarships in accordance with the intent of the endowment.

On a motion from Regent Ray, seconded by Regent Wise, and by a unanimous vote of the committee members in attendance, the approval to liquidate the Joseph Michael Adamo Drama Scholarship Endowment was approved and will be placed on the Consent Docket at the Board of Regents meeting on February 16, 2011 for final Board approval.

The next action item was introduced by Dr. Carlucci.

6. Approval is requested to modify the University of Houston System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System, Item I – EM-7

Jeff Blazek, from Cambridge Associates, reviewed the suggested modifications of the University of Houston System Endowment Fund Statement of Investment Objectives and Policies with the committee. Below is a summary of the requested changes as presented.

- Cambridge Associates reviewed the University's proxy voting policy. The University of Houston has delegated proxy voting responsibility for separately managed accounts to its investment managers. Such separate account managers are to vote proxies in such a way as to maximize the value of related shares and in a manner consistent with the best interests of the University. It is noted in the case of commingled vehicles, voting rights on underlying company shares do not flow through the System.
- Cambridge Associates reviewed the University's rebalancing policy and timing of triggers. A key tenet of prudent implementation is the discipline of rebalancing – buying/selling assets as necessary to ensure that there are not outsized deviations from targets that may cause Endowment performance to materially diverge from expected policy performance. It was proposed that new language to the policy be completed to formalize this need for periodic rebalancing.
 - To the extent possible, use naturally occurring cash movement opportunities to rebalance; and
 - Delineating that Treasurer and Investment Consultant propose rebalancing recommendations (including recommendation of no action if no rebalancing is needed) no less frequently than twice a year.

- It was reiterated by Cambridge that “emergency” rebalancing language remain in the IPS.
- Cambridge also proposed policy language to more clearly delineate such rebalancing plans:
 - Treasurer and Investment Consultant will develop a plan to bring asset allocation back within acceptable ranges as defined by the IPs;
 - The plan will be communicated to the CFO; and
 - The plan will be executed as expeditiously as possible relative to market conditions and liquidity considerations.
- Any “emergency rebalancing” will be communicated to the full Committee in a timely manner.

On a motion from Regent Wise, and seconded by Regent Ray and by a unanimous vote of the committee members in attendance, the recommendation to modify the University of Houston System Endowment Fund Statement of Investment Objectives and Policies was approved with an amendment which was added to the rebalancing section of the policy as shown below: *“Between meetings of the Committee, should the exposure for any asset class reach a level of 5% or greater beyond the upper or lower limit of the specified range as measured at the end of the month, the Treasurer shall consult with the System’s Investment Consultant (if any) and develop a plan to rebalance asset allocation back within target ranges. Such an allocation plan’s timing will depend to some extent on the asset classes involved (for instance, rebalancing hedge funds would inherently take more time than rebalancing U.S. equities given vehicle/liquidity constraints). In such instances, the Treasurer and Investment Consultant will then communicate the rebalancing plan to the chair of the Endowment Management Committee and the Executive Vice Chancellor. Subsequent to this communication, the rebalancing plan will be executed as expeditiously as possible relative to market conditions and liquidity considerations. Any rebalancing actions taken by the Treasurer and Investment Consultant shall be communicated to the entire Committee by the Executive Vice Chancellor in a timely matter but in any case, no later than the next Committee meeting.”* With this change to the policy, the policy revisions will be placed on the Consent Docket at the Board of Regents meeting held on February 16, 2011 for final Board approval.

At the last Endowment Management Committee meeting, the committee requested Cambridge review the criteria being used for the inclusion and removal of managers on the Watch List. Mr. Hamilton Lee addressed this issue and below is a brief summary of the proposed changes Cambridge recommended to the committee concerning the Watch List.

- Segregate the Watch List by criteria (performance-related vs. business-related issues), allowing for closer monitoring and quicker action for those managers undergoing potentially disruptive change;
- Tighten the timeframe for monitoring and acting in the case of business-related issues. It was suggested the University’s consultant conduct a quarterly interview with the managers, after which we will report our findings and recommend a course of action (if any) at the next meeting of the Endowment Management Committee.
- Specify a separate set of criteria specifically for those managers on the Watch List for business-related issues whose assets under management have either risen or fallen substantially over a specific period of time.

- For managers whose assets have fallen rapidly over a brief period – and for whom the Endowment’s Investment represents 10% or more remaining assets – the manager will be added to the Watch List and the Endowment Management Committee will review the manager and vote on a course of action as soon as practical.
- For managers included on the Watch List for performance-related issues, we have specified separate performance criteria for different types of managers.

Information Item

The last item on the Endowment Management Committee agenda was for information only.

7. External Audit Report – University of Houston System Endowment Fund, Financial Statements and Independent Auditor’s Report for FY2010 and FY2009 – University of Houston System, Item J – EM-8

Mr. Don Guyton, Chief Audit Executive, presented the External Audit Report on the University of Houston System Endowment Fund for FY2010 and FY2009 in accordance with Audit and Compliance Committee Charter and Checklist, Item Number 13. Regent Hollingsworth asked if the External Auditor had found any issues or concerns regarding how the Endowment Management Committee handled the accounting and management of the Endowment Fund. Mr. Raymond Bartlett, Treasurer who worked closely with the External Auditor during the audit, stated they had spent a fair amount of time on alternative investments and evaluations and were comfortable with our procedures.

Regent Ray also noted she was working with Spencer Yantis to obtain new agreements from all supporting organizations and they will work more closely with the each of these organizations in the future.

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

There being no further business to come before the Committee, the meeting adjourned at 4:40 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
 Carl Carlucci
 Dona Cornell
 Raymond Bartlett
 Steve Wallace

Hamilton Lee
 Jeff Blazek
 Gene Lohmeyer
 Spencer Yantis
 Jon Aldrich

Eli Cipriano
 Tom Ehardt
 Don Guyton
 Barbara Stanley
 Marquette Hobbs

Ed Jones

Gerry Mathisen