MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Tuesday, August 10, 2010 - The members of Endowment Management Committee of The University of Houston System convened at 2:02 p.m. on Tuesday, August 10, 2010, at the University of Houston, Athletics/Alumni Center, Melcher Board Room 100B, 3100 Cullen Boulevard, Houston, Texas, with the following members participating:

ATTENDANCE –

Present
Jarvis V. Hollingsworth, Chair
Carroll Robertson Ray, Vice Chair
Jim P. Wise, Regent
Welcome W. Wilson, Sr., Ex Officio
Michael J. Cemo, Advisory Member
J. Christopher Jones, Advisory Member

Non-Member
Andrew Cobos, Student Regent

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.

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AGENDA ITEMS

1. Approval of Minutes – Item B

   On motion of Regent Ray, seconded by Regent Wise and by a unanimous vote, the following minutes from the meeting listed below was approved:

   - May 24, 2010, Endowment Management Committee Meeting

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

   Chair of the Committee, Jarvis Hollingsworth, called on Hamilton Lee, from Cambridge Associates, to give a brief commentary regarding what we are currently doing in the Endowment from a strategic standpoint, particularly as it relates to our investment in real estate.

   Mr. Lee stated that from a strategic standpoint Cambridge Associates views real estate as an important part of the Endowment portfolio, not only because of the return stream that diversifies the rest of the portfolio but also as a good inflation hedge, particularly for private real estate. Mr. Lee called on Philip Fiske, Managing Director at Cambridge Associates who discussed this issue in greater detail with the committee. Regent Hollingsworth suggested

Cambridge prepare a report for the next meeting breaking out our exposure to real estate by segment.

An executive summary was given and by preliminary estimates, the University's Endowment returned -4.6% for the quarter, which although negative, bested both Dynamic Benchmark A and B by 70 bps and 220 bps, respectively. Over the trailing one-year period, the portfolio returned 11.8% versus Benchmark A's 8.7% and Benchmark B's 8.1%. The Endowment benefitted from strong absolute and relative performance by both international equity managers and absolute return hedge fund managers.

Jeff Blazek, Cambridge Associates gave a market update overview to the committee. The equity markets were particularly weak this quarter as investors became increasingly alarmed by spikes in volatility and a falling Euro. The S&P 500 fell 11.4% and remains 34% off of its all-time high. The MSCI World Index returned -11.2% for the quarter. Bonds, specifically, U.S. Treasuries, were the benefactors of the jittery equity markets returning 4.7% for the quarter. Long duration Treasuries and gold surged (the latter to an all-time record).

Phil Fiske, Cambridge Associates made a recommendation to the Endowment committee that the University of Houston commit $4.0 million to J. H. Whitney VII, L.P. J.H. Whitney ("Whitney") seeks to raise at least $700 million for their seventh fund; the fund is capped at $800 million; and a final close is scheduled to be in the fourth quarter of 2010. Whitney has a longstanding reputation; was founded in 1946; and has a strong pool of industry advisors and board members. The five partners and one senior partner average 13 years experience with Whitney and have successfully managed a generational transition. Whitney has performed well, generating mainly top or second quartile performance. The fee structure will be a 2.0% management fee with a 20.0% carry. Chair Hollingsworth recommended this commitment for committee approval.

On a motion from Regent Wise, and seconded by Regent Ray and by an unanimous vote, the committee's recommendation that the University of Houston commit $4.0 million to the J.H. Whitney VII, L.P. was approved.

Gene Lohmeyer and Mark Dalton presented a Hedge Fund Executive Summary to the committee. Mr. Dalton mentioned that the committee had previously approved five hedge fund managers at the May 24, 2010 Endowment meeting: (1) Mason Capital Management, LLC; (2) Och-Ziff Capital Management; and (3) Taconic Opportunity Fund, as well as two Long-Short Managers: (1) Coatue Master Fund and (2) Scout Capital Fund.

Mr. Dalton recommended three additional fund managers to the committee for consideration: Absolute Return Manager – Anchorage Advisors, LLC; and two Long-Short Managers: Partner Fund Management, L.P. and Samlyn Capital, LLC. By the 2nd Quarter of 2011, the build-out of our portfolio should be complete. The remaining five recommendations to the committee will be made over the next two meetings.

The selection criteria used in identifying recommended managers was addressed by Cambridge. They are as follows:

- Solid track record
- Repeatable strategy/process
- Stable organization
- Transparency
- Strong alignment with investors
- Leverage is not an important source of return

Mr. Dalton stated each manager is continually monitored via quarterly calls by Cambridge Associates' internal research team and onsite visits by research consultants, hedge fund specialist consultants, and hedge fund due diligence analysts. Moreover, their operational due diligence team visits each manager periodically to review operations and business management procedures.

Cambridge recommended the University of Houston invest $7.0 million in Anchorage Capital Partners Offshore, Ltd., an opportunistic credit and distressed hedge fund. Anchorage was founded in 2003 and manages approximately $9.0 billion; which includes $6.9 billion in the flagship fund. They are a multi-strategy credit fund investing both long and short in distressed bank debt, high yield bonds, stressed debt, private refinancing, and equities. Anchorage divides its investment activities into two broad categories, hedged investments and directional investments and will allocate capital between them depending on where opportunities lie. The summary of the terms for Class D shares (Option 2 as presented), is a 2.0% management fee and a 20.0% incentive fee , with a one-year rolling lock on each tranche of money invested. The liquidity will be annually, with 90 days notice. A 3.0% redemption fee will apply for any redemption made on the initial withdrawal date.

On a motion from Regent Ray, and seconded by Regent Wise and by an unanimous vote, the committee's recommendation for the University of Houston to invest $7.0 million with Anchorage Capital Partners Offshore, Ltd. was approved.

The next two recommendations made by Cambridge were addressed by Gene Lohmeyer. The first recommendation is for the University of Houston to invest $6.0 million in the Partner Fund Management (PFM) Diversified Fund, a global long-short equity fund, very opportunistic, with an emphasis on mid-capitalization stocks. The fund was founded in 2004 and manages approximately $4.1 billion in assets across four different funds. The flagship Diversified Fund has approximately $2.6 billion under management. Since its inception, Partner has returned 12.2% vs. 0.4% for the S&P 500 and 2.0% for the MSCI World. The summary of the terms for this investment is a three-year, soft-lock with a penalty of 5% for redemption prior to year 1, 4% for redemption prior to year 2, and 3% for redemption prior to year 3; an incentive fee of 17.5%, and a management fee of 1.5%.

On a motion from Regent Wise, and seconded by Regent Ray and by an unanimous vote, the committee's recommendation for the University of Houston to invest $6.0 million to the Partner Fund Management (PFM) Diversified Fund was approved.

The third recommendation made to the committee by Cambridge was for the University of Houston to invest $6.0 million in Samlyn Capital, a U.S., value-oriented long-short equity fund focused on the financial, industrial, and healthcare sectors. Samlyn was formed in 2007 and currently manages approximately $2.9 billion. Since inception, Samlyn has returned 18.5% vs. -6/3% for the S&P 500 and -7.0% for the MSCI World. The summary of terms is Option 1, 2.0% management fee and a 20.0% incentive fee. The liquidity will be semi-annually, on June 30th and December 31st with 45 days notice following a one-year hard lockup. There is a redemption fee of 7% should investors choose to exist prior to the second anniversary of the subscription.

On a motion from Regent Wise, and seconded by Regent Ray and by an unanimous vote, the committee's recommendation for the University of Houston to invest $6.0 million to the Samlyn Capital Fund was approved.

The next item introduced on the agenda was Item D – Approval is requested for delegation of authority to the Chancellor to negotiate and execute contracts for the hiring of investment managers for the University of Houston System Endowment Fund – University of Houston System – EM-2.

Dr. Carlucci stated the committee had received a report from the System's investment consultant, Cambridge Associates, regarding their recommendation to hire four new investment managers for the Endowment Fund. This item is requesting the delegation of authority to the Chancellor to negotiate and execute the contracts for the hiring of these investment managers.

On a motion from Regent Ray, and seconded by Regent Wise and by an unanimous vote, the approval to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of investment managers for the University of Houston System Endowment Fund was approved.

Dr. Carlucci introduced Item E – Approval to liquidate The Conrad N. Hilton Quasi Endowment for Facility Improvement – University of Houston System – EM-3

In accordance with UH System Policy 3.F.02 – Section 3.15, approval was requested to liquidate The Conrad N. Hilton Quasi Endowment for Facility Improvement currently invested in the UH System Endowment. Dr. Carlucci stated the proceeds would be used to pay for refurbishing costs at the Conrad N. Hilton Hotel at the University of Houston. This endowment was created with funds raised by the college to equip and furnish the building during its construction and the funds in excess of the campaign quota were placed into a quasi endowment with the intent that the endowment might be liquidated and the funds made available to the college for refurnishing the building when needed.

On a motion from Regent Ray, and seconded by Regent Wise and by an unanimous vote, the approval to liquidate The Conrad N. Hilton Quasi Endowment for Facility Improvement was approved. This item will be placed on the August 17, 2010 Board of Regents agenda for final board approval.

The next item presented was Item F – External Audit Report – UHS Endowment Fund, Financial Statements and Independent Auditor's Report for FY2009 and FY 2008 – University of Houston System – EM-4.

Don Guyton, Chief Executive Officer presented this report to the committee. He stated this was the first year that KPMG was engaged in the audit of the Endowment Fund. The feedback from the individuals they have interacted with was very positive. These reports were both for FY 2008 and FY 2009. The Endowment Fund's investment appreciation subsequent to year-end and through May 31, 2010 was approximately $32,329,432. As of that date, the Endowment Fund's total net assets were approximately $447,019,690.

The committee discussed this item in more detail with Mr. Guyton. This item was for information only and required no committee action.

The last item listed on the agenda, Item G – Report on Compliance of Private Support Organizations and Foundations – University of Houston System – EM-5 was addressed.

Mr. Guyton presented this item and in accordance with Board of Regents Policy 32.06, an annual report on the compliance of private support organizations and foundations is given to the board. This report had been presented to the Audit and Compliance Committee meeting in May 2010 and has been updated to reflect the receipt of some of the required information. This item was discussed in further detail with the administration and the committee. 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 4:39 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	Hamilton Lee	Eli Cipriano
Carl Carlucci	Jeff Blazek	Tom Ehardt
Dona Cornell	Mark Dalton	Gene Lohmeyer
Don Guyton	Raymond Bartlett	Philip Fiske
Mike Cemo	David Ellis	Ed Jones
J. Christopher Jones	Marquette Hobbs	Gerry Mathisen