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

Tuesday, August 19, 2014 - The members of Endowment Management Committee of the University of Houston System convened at 1:39 p.m. on Tuesday, August 19, 2014, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

| Present | Non-Member(s) Present |
|---|---|
| Roger F. Welder, Chair | Paula M. Mendoza, Regent |
| Durga D. Agrawal, Vice Chair | Peter K. Taaffe, Regent |
| Spencer D. Armour, III, Member | Welcome W. Wilson, Jr., Regent |
| Beth Madison, Member | |
| Jarvis V. Hollingsworth, Ex Officio | |

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, the Chair of the Committee, Roger F. Welder, called the meeting to order and moved to the first item requiring committee action, the approval of the minutes from the Endowment Management Committee meetings held on February 25, 2014 and May 6, 2014.

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AGENDA ITEMS

**Action Items**

1. Approval of Minutes – Item B

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

   - February 25, 2014, Endowment Management Committee Meeting
   - May 6, 2014, Endowment Management Committee Meeting

Regent Welder stated there were six (6) action items and two (2) informational items on the agenda for discussion. He also stated that Cambridge Associates had five (5) representatives at the meeting who would be presenting several of the items listed on the agenda. It was also noted that after any discussions and recommendation(s) from Cambridge Associates, and a vote was called, any recommendations from Cambridge Associates would require committee approval only.

Following the approval of the minutes, Regent Welder moved to Item C on the agenda, the Report from Cambridge Associates regarding the UH System Endowment portfolio –

University of Houston System and asked Dr. Carl Carlucci, Executive Vice Chancellor for Administration and Finance to introduce this item.

Dr. Carlucci stated that he wanted to begin the discussion by revisiting the university's asset allocation that had been addressed at the May 6, 2014 committee meeting and was reflected in the minutes. Asset allocation accounts for the vast majority in variation in portfolio returns estimated to be at 90% so that asset allocation is the most important question that is always before the committee.

Dr. Carlucci distributed materials to the committee that had been discussed at the last meeting but he wanted to revisit. Six years' worth of performance comparison was reviewed. The reports specifically reflected the System asset allocation and one-, three-, and five-years' performance compared to institutions of our size and the university mean. What they discussed and what was determined was that if one were to look at the first item in 2007, the System performance was good, but at that point in time, the university had no allocations to private equity, venture capital or emerging markets.

In June 2008, after the market had a serious correction, the university had a significant drop compared to the one-, three-, and five-year performance of our peers. While the aggregate allocation to these three classes was increased, we were still not invested as well as our peers were in these asset classes. Part of the consequences was the payout to the departments. When the payout was reviewed, the payout was up and down – not very consistent; when in fact, what the colleges and the departments wanted was a very consistent payout. The System is only now recovering to the level of payout that we enjoyed prior to the 2008 correction.

In December 2010, the endowment had recovered and our one-year performance surpassed that of the peer average. At that point it was because we were heavily invested in equity, but we had zero in private equity, zero in venture capital and almost zero in emerging markets. Therefore, even though we were doing well we had not diversified into these asset classes. In was in 2010 that the university engaged Cambridge to go beyond the analytical working they were doing and to assist in manager selection and the build-out of the portfolio. The 2010 results reflect prior to our real undertaking investments in those three asset classes.

The university has spent over a year working with Cambridge to come up with a targeted portfolio that reflected our plan to invest in these three asset classes in order to protect the university against the next market downturn. It was determined that we would invest and had a target of 20% in hedge funds, 17% in private equity, and 10% in developing markets. This was a real diversification strategy by placing almost 50% of our assets in these three classes. In the last few years, the committee has concentrated on manager selection rather than asset allocation or rebalancing the portfolio.

Dr. Carlucci addressed the asset allocation from June 30, 2008 through June 30, 2014 and how it had changed over this timeframe. A chart reflected that equities had decreased as percentage of our allocation. The performance of the new asset classes was addressed and while U.S. equities had performed well in one-year, but over the longer term that since inception, U.S. equities had not done as well as developing international equities or as marketable inflation hedges. So the Board's decision to diversity into those sectors has had a positive impact on our performance.

Dr. Carlucci addressed the comparative asset allocation. The university is still lagging behind our peers to some extent; but it was noted that in the five-year performance, we are now closer to the group mean – the university has done much better at 12.5%. As a result of all the work that has been done, it was pretty much confirmed, that the allocation to the other classes that had been undertaken over the last few years was the major reason why we have done well over that five-year period. The university is still working on it; and at the meeting Cambridge will give the committee recommendations to further diversity our allocation.

Dr. Carlucci believes and it confirms that the Board's decision to diversity the asset allocation was the proper one and will hold up over the long term. The consistent payout from the endowment to the departments, this is really the result of the endowment most important for the university – that consistent payout that supports scholarships and faculty chairs.

Dr. Carlucci stated that at the committee meeting, they would like to go to the next step and recommend to the committee the rebalancing towards those asset classes as a new allocation set of targets.

Regent Welder stated that Dr. Carlucci's presentation was an important historic perspective; it reminds us that the university just got into the diversification game starting four years ago and that it had been a gradual implementation; and the effects of it are still not fully felt and will not be felt for some time.

Dr. Carlucci stated he would like Cambridge Associates to talk about where the market is and performance but also go into the asset allocation recommendations and then move to Item D, <u>Approval is requested to modify the UH System Endowment Fund Statement of Investment Objective and Policies – University of Houston System</u>. Dr. Carlucci stated that there was a set of recommendations regarding a new allocation target and ranges; and he asked Mr. Hamilton Lee, from Cambridge Associates, to talk briefly about our performance but also go on to the asset allocation.

Mr. Hamilton Lee, from Cambridge Associates, stated that they would have a meaningful recommendation to move more forcibly into private investments. Mr. Lee discussed how Cambridge thought about asset allocation for the University of Houston. Mr. Lee briefed the committee on a couple of studies that had been done over the past couple of decades that tried to isolate the impact that asset allocation had on return. The numbers vary by study but the scale of the impact was always the same – asset allocation was by far the primary determinant of return over time; and the most important decision the committee can make. While asset allocation is by far and away the primary driver of return, there is one area of the portfolio, one asset class in which Cambridge would caveat that by saying that manager selection was going to make the difference between success and failure; and that was private investments.

Mr. Lee addressed how Cambridge thinks about asset allocation in the context of the University of Houston's portfolio. Cambridge feels it is critical to note that they believe it is risky to take a cookie-cutter approach to asset allocation. Cambridge believes it is critical to understand how the endowment fits into the overall financial picture of the university and in every institution these combination of factors will be unique, e.g., the level of payout; what percentage of the university's budget does its payout represent; are there assets outside of the endowment that should be taken into consideration when thinking of asset allocation, including real estate holdings or oil and gas; are there constraints on the endowment in terms of debt issued by the institution. These factors will differ institution to institution and need to inform the asset allocation approach taken by an individual institution. This type of analysis is called an Enterprise Review.

Mr. Lee stated that earlier last year Cambridge had conducted an updated Enterprise Review and used the results to inform some recommendations that were made last year. Some key elements were addressed and Cambridge looks at each of these factors in terms of how it impacts the trade-off between short-term risk and long-term risk. Short-term risk as short-term volatility, the risk the portfolio would decline by 15, 20 or 25 percent at any point over a five-year period. Long-term risk is the risk that an endowment dollar today buys less than it does in the future so that at 5% or 5.5% payout you are able to support fewer students in the future than you are today. Those are sort of the trade-offs Cambridge is trying to balance.

Among the most important factors here – the endowment payouts supports only a very small part of the university's annual budget – around 3%. This is a very favorable factor. In terms of favorable, it gives more freedom in terms of how we allocate the endowment; unfavorable, sort of forces our hand in terms of addressing risks or being more aggressive with growth. This is actually a great thing. It provides the university with a great deal of flexibility. Another factor addressed was the annual payout of 5.5% - unfavorable. The higher the payout, the higher the risk of failing to preserve purchasing power. This requires assuming more short-term risk (volatility) in order to reduce long-term risk (failure to preserve purchasing power). However, it should be noted that 150 bps of the 5.5% payout is an assessment to support development efforts. Historically, those efforts have been accretive to the endowment far beyond 150 bps. The actual effective payout of 4% dramatically reduces the endowment's long-term risk. Another factor is the university has multiple other sources of revenue which includes tuition, fundraising, grants, and state funding. The endowment is not encumbered by the university's debt issuance; and the majority of the endowment is restricted, and a relatively small portion is underwater.

All in all, what this tells us in terms of asset allocation is that the university can afford to take more risks than some of its peers, but in particular, it can afford to take more illiquidity risk and more short-term risk in an effort to reduce long-term risk. Mr. Lee stated that the university was in a very enviable position in that we can afford that shorter term and liquidity risk which puts the university in a much better place to support more and better students in the future than we do now.

Cambridge recommended increasing the long-term target to private investments (PI) from 17.5% to 25.0%. Mr. Lee pointed out that in August 2013 Cambridge had recommended an increase in private investments from 10.0% to 17.5%. There are several reasons they believe an increase is appropriate now:

- Growing concerns over the ability of public equities to generate returns above the endowment's required payout rate.
- Increased pace of private investments exposure.
- Potential for enhanced access to top-tier managers.

While this is a material change to long-term targets, implementation requires time and the near-term targets will not change until the private investments program grows. A lengthy discussion followed.

Regent Welder stated that he had a question related to the policy renewal and the change in asset allocation included the verbiage in the policy. Under the Investment Objectives section of the UH System Endowment Fund Statement of Investment Objectives and Policies, where we defined the payout and our goal was to have our payout plus inflation, basically a real return, of 6% as an over-arching policy objective. But further down, Regent Welder read the policy as follows: *"In addition, the performance of the overall endowment is expected to be consistently in at least the second quartile of the university's peer group, as measured by the NACUBO-Commonfund Study of Endowments over rolling five-year time periods, as well as comparison annually to a peer group provided by an outside advisor."* Regent Agrawal has done a lot of work in terms of how we stack up with our peer groups and obviously we are not in that second quartile as our policy is calling for. There are a lot of good reasons for that and the main one is asset allocation. This is a little bit of an arbitrarily policy objective because it ignores asset allocations of the various universities in these particular peer groups. One cannot expect a university that is 50% allocated to private equity to compare with a university that is 50% bonds and 50% large cap U.S. Regent Welder asked Cambridge to comment on this and comment on where we are and where they believe we are versus our peer groups for the benefit of Regent Agrawal and the others who have inquired about this; and also comment on some policy guidelines that they might have for UH in terms of this particular wording whether it is appropriate given the shift the university was making in our asset allocation.

Mr. Lee stated that he felt it was appropriate and common practice to compare yourself to peers. The policies should have a number of measurements, such as:

(1) Are we meeting our payout objective;
(2) Are we beating our benchmarks;
(3) Have we selected the right managers;
(4) Are we in line or better than our peers.

The peers should be defined as people who not only have the same resources that we have to deploy but people who have the same constraints. In other words, in this peer group and most of NACUBO, there are institutions who support 90% of their budget and then there are some like UH who only support 3% of their budget. The university needs to fine tune that so we are comparing ourselves to people who are as much in the same boat as they can be. This is a way of gauging that we made the right decisions at higher levels. If necessary, Cambridge can adjust the wording in the endowment to say, *"peers of a certain size" or "public peers of a certain size."* Obviously, the more specific you get, the more narrow that peer group gets.

Regent Welder stated that as a follow-up to this and on behalf of the committee, if that is truly our target and we want to be in the second quartile, was there anything we should be doing from an asset allocation standpoint today that we are not doing; and does Cambridge feel that UH is on the right course for that?

Mr. Lee answered these questions and stated that including today, Cambridge felt we were doing the things we should be doing. UH has been making a lot of those changes over the course of the last four years; and the difference in the five-year performance 5 years ago and the five-year performance today was dramatic. It was a 200 bps lag several years ago, and it was now a 40 bps lag that shows a trend and it is a trend that will continue based in large part on the progression on the privates portfolio. Mr. Fiske commented on the private piece - it was not only dependent on the allocation; it was also dependent on how long we have been doing it.

Regent Hollingsworth stated that it was important to look at the presentation that Dr. Carlucci had presented and the issues that Cambridge had addressed. When he joined the Board 5 years ago, the endowment was essentially a BETA fund. We had no private market investments. We rose high when the capital markets were high and down when they were down; and what we have developed over the past several years was a more balanced portfolio that was risk adjusted and takes advantage of some of the higher opportunities without risking the downside. For a fund of our size, given our annual obligations and long-term targets, Regent Hollingsworth believed we were absolutely headed in the right direction. If one were to look historically at the returns, it would reflect that. The next 3-5 years will be phenomenal.

Regent Agrawal reviewed the top performers for the assets between $500-$750 million and there were five (5) institutions that had three (3) full-time institutional staff members; three (3) institutions that had two (2) members; and two (2) institutions that had three (3) members); and UH has none. Regent Agrawal asked why we did not have someone in this position so that UH can be a top performer institution. Five institutions have 35% higher performance for one year; 28% higher performance for three years; and 35% higher performance than us. This does include institutions that were both private and public. He also received a report of 28 public institutions with assets between $500 million and $1.0 billion and there were seven (7) institutions that were top performers; and their performance was 24% higher than us for one year; 23% higher than us for three (3) years; and 104% higher than us for five (5) years. Why was our performance below average compared to all 28 institutions? What can we do that these other institutions are doing to improve our performance, asked Regent Agrawal.

Dr. Carlucci commented on the comparison of the institutions. Yes, they have additional staffing and they have, as we interpret it, they basically are executing manager selection and hiring with local staff. Cambridge was originally providing analytical work for us and then as we moved into a more aggressive asset allocation, UH engaged Cambridge to help us with the execution so they have been handling both manager selection and actual investments. It is possible that if we had an internal staff we could execute transactions quicker. That would be a Board decision. Dr. Carlucci's concern was that it would add to the cost; and to have someone at that level would not be cheap. We could do that but it would also require the Board to delegate more authority directly to the staff to execute transactions and that was something that we just have not done in the past. We limit authority with the Chair of the Endowment Committee and the Chair of the Finance and Administration Committee. Most of the NACUBO institutions that have larger staffs are $1.0 billion and over.

Mr. Lee also wanted to add to the question as to why doesn't the university have the staff? It was not necessarily a question of whether or not, but it is often a question of sort of an evolution. Mr. Lee stated that of the five institutions that were mentioned, he had spoken to all of their consultants about the history and for the three (3) that did have staff, Cambridge had worked with them for 15 years prior to that and they still worked with them; but they have been directing, e.g., their hedge fund program and their private equity program. Once the program was mature and they had established relationships with mangers and it was more of a function of re-upping with existing managers and maybe at the margin, identifying a new opportunity, they began to develop staff. Cambridge remained involved, but it was very much like what was happening at UH except we are earlier in the process than some of these institutions.

Regent Welder called for a motion to approve the request to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System with notes that these are areas where we can improve the language of the policy. On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the request to modify the UH System Endowment Fund Statement of Investment Objectives and Policies, with notes that these are areas where we can improve the language of the policy – UH System was approved.

Regent Welder moved to the next action item on the agenda, Item E, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of investment managers for the University of Houston Endowment Fund – UH System, and asked Dr. Carlucci to introduce this item. Dr. Carlucci stated that there was a recommendation from Cambridge to hire two managers which we have discussed in the past, but are now bringing them forward for Board action: Insight Equity Partners III and Lexington Capital Partners.

Ms. Katherine Chu, from Cambridge Associates stated that Insight Equity Partners III ("Fund III") was discussed at the last Endowment meeting, but one of the things that had changed since that meeting was that Cambridge had completed full diligence and completed more work on this manager. Cambridge recommended that the University of Houston approve a $7.5 million commitment to Insight Equity Partners III. They are targeting $750 million for its third fund investing in distressed, but strategically viable, middle market companies. The fund will target North American companies with revenue of $50 million to $1 billion and enterprise value of $50 million to $500 million. Their managing partners have extensive experience that makes them very well suited for this strategy. Three of the four managers of this fund have extensive experience in management consulting, particularly at Bain Consulting Group. If one were to look at the performance of their two prior funds, they are very compelling. The partners in this firm have committed 10% of the target fund size of their own money which is always a great sign for managers; and at 10% of the target fund size that is significantly above what is typical in the private equity funds Cambridge normally sees.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the request for the University of Houston to commit $7.5 million to Insight Equity Partners III was approved. This action requires committee approval only. No further board action is required.

The second private equity manager recommendation made by Cambridge Associates was for a $10.0 million commitment to Lexington Capital Partners ("Fund VIII"). Mr. Phil Fiske, from Cambridge Associates addressed this manager recommendation. Lexington Capital Partners VIII will mainly target diversified portfolios of LP interests, pursuing smaller, more concentrated direct deals opportunistically. Lexington plans to construct a portfolio diversified across geography and asset class, investing roughly 60% in buyout funds and the rest in venture capital, growth equity, and yield-oriented strategies including credit, energy, and infrastructure. They plan to invest two-thirds in the U.S., a quarter in Europe, and the remainder in Asia and the rest of the world. Lexington expects to invest roughly 20% to 30% of the fund's capital in direct company interests, a higher percentage than the prior fund. By asset class, the manager plans to invest LCP VIII roughly 60% in buyouts, 15% in venture capital, 12% in growth equity, 5% in infrastructure, 5% in cash, and 3% in energy (a very diversified group of funds). They are a consistent performer. Cambridge likes secondary, especially for the UH program which is still in the early stages of being built-out, because we would get the vintage year diversification and the mitigation of the J-curve. They are a very stable group and there has been virtually no turnover and it is a solid choice in a sector that Cambridge believes gives the university a fair amount of diversification that will allow UH to receive their capital deployed sooner rather than later given the fact that they are typically buying things that are 75% funded at the time they go into it.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the request for the University of Houston to commit $10.0 million to Lexington Capital Partners VIII was approved. This action requires committee approval only. No further board action is required.

Regent Welder moved to the next action item on the Endowment agenda, Item F, Approval is requested to terminate a hedge fund manager – University of Houston System, and Dr. Carlucci introduced this item. Dr. Carlucci stated that the recommendation that the committee would hear today was really made prior to questions that were raised about this fund. The Cambridge recommendation was not as a result of questions raised in the media; and the reason he pointed this out was because when the university was asked if we were going to react to the media, our response was no. But we knew that Cambridge had already made a recommendation. Dr. Carlucci asked Mark Dalton, with Cambridge Associates to address this item.

Mr. Dalton stated that in August 2010, the University of Houston funded an initial $8.0 million investment to Och-Ziff Master Fund. Since inception the fund has returned +9.0% annualized versus +4.1% for the FHRI Fund of Fund Composite Index. Assets under management have grown to $45.5 billion for the firm and $25.8 billion for the Master Fund as of March 31, 2014. The management fee of 2.0% is larger than the 1.5% average hedge fund management fee. As a publicly listed stock, Och-Ziff faces alignment issues with their LPs (i.e., as a listed stock, one of their priorities is growing company earnings which can result in a focus on asset gathering rather than investment returns). Cambridge recommended the University fully redeem from Och-Ziff Master Fund and the effective date of the redemption would be December 31, 2014. The market value of Och-Ziff Master Fund as of June 30, 2014 was $11.1 million.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the request to terminate hedge fund manager, Och-Ziff Master Fund was approved. This action requires committee approval only. No further board action is necessary.

Regent Welder moved to the next item, Item G, Approval is requested to restructure the fixed income portion of the University of Houston System Endowment Fund which includes delegating authority to the Chancellor to negotiate and execute contracts for the hiring of fixed income mangers, terminating of the existing active fixed income managers, and eliminating and consolidating the dedicated laddered Treasury portfolio assets to one or more of the fixed income managers – University of Houston System, and asked Dr. Carlucci to introduce the item.

Dr. Carlucci asked Mr. Hamilton Lee, from Cambridge Associates to address this item. Mr. Lee discussed the current fixed income environment. He stated that bond managers have a limited ability to fulfill their historical role of providing yield, superior liquidity, and defense against equity market corrections. Bonds generally have reduced potential for upside if rates fall, and higher-than-usual potential for downside if rates rise. While a rate hike is unlikely in the near-term, there is more room for rates to rise than to fall. In addition, liquidity in the corporate bond market has been drastically reduced as an unintended consequence of the Dodd-Frank Act. Given these concerns, Cambridge believes there would be a better way to reduce rising interest rate risk while still earning an attractive return and protecting the portfolio from equity market volatility.

Mr. Lee outlined the recommendations that Cambridge was proposing to the committee as follows:

- Cambridge would eliminate the short-term Laddered Treasuries that is currently in the portfolio in favor of a long-term treasury allocation. A global, unconstrained bond strategy provides managers with multiple means of generating return without relying on duration, thus reducing the risk of a negative impact from rising interest rates. As a complement to such a fund, a small, dedicated allocation to a long-duration U.S. Treasuries would provide the traditional defensive function and serve as a pure crisis hedge.

- The Current Fixed Income Manager Structure versus the Recommended Manager Structure was addressed.

| Current Manager Structure | | Recommended Manager Structure | |
|---|---|---|---|
| Smith Graham - | 47.6% | Smith Graham - | 25.4% |
| Mondrian Global Fixed Income | 33.1% | Templeton Global Bond Plus | 48.8% |
| Laddered Treasuries Portfolio | 19.3% | Long-Term Treasuries Portfolio | 25.8% |

- The combination of these elements should provide superior yield, broad protection against rising interest rates, and serve as a potent diversifier in periods of equity market stress.

Mr. Lee presented further details on the manager Cambridge was recommending to take on the Global Unconstrained Bond Mandate, Franklin Templeton Global Bond Plus. Franklin Templeton is one of the largest asset managers in the country, in the world really, with over $1.0 trillion in assets spread across multiple products. This product is handled by Dr. Michael Hasenstab, who is based in California. Dr. Hasenstab has a very large team working with him. They are a very quantitative group; they do quantitative analysis on country-by-country coupled with a very strong fundamental analysis and kind of a qualitative analysis of the prospects of that country. They have a global network through Franklin Templeton as well as some partners that allow them to have sort of boots on the ground in some of the countries they are looking at. Mr. Lee said they take three approaches to making money: (1) position on the yield curve; (2) country selection; and (3) currency. Global Bond Plus is a flexible strategy that can use multiple methods of generating return without assuming too much rising –rate risk. It is fairly uncorrelated to both equity markets and to the other recommended component of the bond portfolio, Long-Term Treasuries.

Long-Term Treasuries portfolio would hold 100% U.S. Treasuries with an average maturity of approximately 24 years and an effective duration of over 15 years. In addition to the potential for appreciation should rates drop, long Treasuries serve as a global "safe haven" asset in times of market stress and tend to trade on price rather than yield during those periods; and they are the most potent defense against equity market corrections.

Following Mr. Lee's overview, the following recommendations were made by Cambridge for the committee's approval as follows:

1. Full redemptions from Laddered Treasuries - $14.9 million; and Mondrian Global Fixed Income - $25.5 million, and a partial redemption from Smith Graham - $18.5 million

2. Initial investments in unconstrained bond manager Templeton Global Bond Plus Strategy at $35.0 million; and a Long-Term Treasuries Portfolio at $18.5 million.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the request to restructure the fixed income portion of the UH System Endowment Fund with the following recommendations made by Cambridge Associates were approved by the committee as follows:

1. Full redemptions from Laddered Treasuries - $14.9 million; and Mondrian Global Fixed Income - $25.5 million, and a partial redemption from Smith Graham - $18.5 million

2. Initial investments in unconstrained bond manager Templeton Global Bond Plus Strategy at $35.0 million; and a Long-Term Treasuries Portfolio at $18.5 million.

This action requires committee approval only. No further board action necessary.

Regent Armour requested Dr. Carlucci introduce the next item on the committee's agenda, Item H, the Approval is requested to raise cash through rebalancing the endowment to meet the Fiscal Year 2014 endowment payout commitments to the UH System components – UH System.

Dr. Carlucci presented the UHS Endowment payout history report to the committee. As of June 30, 2014, the payout will be a $27.0 million cash distribution – some from cash and some from rebalancing of the portfolio.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the approval to raise cash through rebalancing the endowment to meet the Fiscal Year 2014 endowment payout commitments to the UH System components was approved. This action requires committee approval only. No further board action is necessary.

Regent Armour moved to Item I on the Endowment agenda, the Approval is requested to modify the investment resolutions for the University of Houston System. Dr. Carlucci presented this item which requested to modify the Resolution Governing the Sale, Assignment, Endorsement, Transfer, and Delivery of Gift Securities for Any Component of the University of Houston System Endowment Fund; and the Resolution Governing the Purchase and Sale of

Securities and Similar Investments for all Non-Endowed Funds of the UH System. The modification made was to the authorized persons which are due to personnel changes.

On motion of Regent Agrawal, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the approval to modify the investment resolutions for the UH System was approved.

At the conclusion and approval of this item, Regent Welder made the motion to place the action items unanimously approved by the committee and requiring the approval of the full board be placed on the Board of Regents Consent Docket Agenda for final board approval.

On motion of Regent Welder, seconded by Regent Agrawal, and by a unanimous vote of the regents in attendance, the following items will be placed on the Board of Regents Consent Docket Agenda for final board approval at the August 20, 2014 Board meeting as follows:

1. Approval is requested to modify the UH System Endowment Fund Statement of Investment Objective and Policies – UH System; and

2. Approval is requested to modify the investment resolutions for the University of Houston System – UH System.

The final agenda item was addressed for information only, Item J, Report on the UH System's invested fund and bank deposits, and Mr. Raymond Bartlett, Treasurer for the UH System presented this item.

Mr. Bartlett stated this report was given to the committee each quarter which summarizes the UH System's invested funds and bank deposits. This report was for fiscal quarter ending May 31, 2014. There was $1.2 billion of investable funds and bank deposits as of this date. This information is also posted to the Treasurer's website within 60 days of the end of each fiscal quarter and submitted annually to the State Auditor's Office, Legislative Budget Board, Texas Comptroller of Public Accounts, and the Governor's Office of Budget, Planning and Policy.

This item was presented as information only and requires no committee action.

There was no Executive Session held.

There being no further business to come before the Committee, the meeting adjourned at 3:30 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:

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| Carl Carlucci | Hamilton Lee | Mark Dalton |
| Paula Myrick Short | Katherine Chu | Phil Fiske |
| Valerie Colleman-Ferguson | Shannon Thomas | Raymond Bartlett |
| Vic Morgan | Dana Rooks | Jeffrey Cass |
| William Staples | Tom Ehardt | Dan Maxwell |
| Rathindra Bose | David Bradley | Charles Haston |
| Phil Booth | Don Price | Ben Aldrich |
| Eloise Dunn Stuhr | Joanna Wolff | Brian Thomas |
| Jon Aldrich | Marquette Hobbs | Brenda Robles |
| Gerry Mathisen | | |