

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

Tuesday, November 16, 2010 - The members of Endowment Management Committee of The University of Houston System convened at 1:35 p.m. on Tuesday, November 16, 2010, 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
Mica Mosbacher, Regent
Carroll Robertson Ray, Ex Officio
Michael J. Cemo, Advisory Member

Non-Member

Nandita V. Berry, Regent

Absent

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.

AGENDA ITEMS

1. Approval of Minutes – Item B

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

- August 10, 2010, Endowment Management Committee Meeting

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

Chair of the Committee, Jarvis Hollingsworth, asked Hamilton Lee, from Cambridge Associates, to give a brief summary and asset allocation overview to the committee.

Mr. Lee's discussion topics included a market commentary; implementation update; review of policy statements; review of portfolio geographic exposure; alternatives: hedge fund and private equity recommendations; and the termination of HedgENERGY and Absolute Plus Management.

Capital markets were broadly positive in the third quarter, with global equity markets up close to 10 percent in October alone. The late summer rally saw commodities rise, yields

fall, and the dollar continue to slide, all with positive results for Endowment performance. Endowment returns were positive across all asset classes for the recent quarter, year to date, and trailing one-year periods. Year to date, the Endowment was up 6.4%, beating both its dynamic benchmarks (A and B) by over 200 bps. For the trailing year, the Endowment has gained 9.8%, beating benchmark B by 210 bps and Benchmark A by 300 bps. This was led by a very strong relative performance by the portfolio's US, Emerging Market, and International equity managers.

Gene Lohmeyer from Cambridge Associates reviewed the Asset Allocation and Implementation Schedule with the committee. Mr. Lohmeyer stated that the following selection criteria in identifying recommended managers was used. They are as follows:

1. Solid track record;
2. Repeatable strategy/process;
3. Stable organization;
4. Transparency;
5. Strong alignment with investors; and
6. Leverage is not an important source of return.

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.

Below is a brief summary of each of the Hedge Fund managers Cambridge Associates was recommending to the committee for approval.

1. Absolute Return Manager – HBK Capital Management. Cambridge recommended that the University of Houston invest \$8.0 million in the HBK Offshore Fund, a multi-strategy hedge fund which allocates capital across a broad range of arbitrage strategies. They have a solid and experienced investment team. HBK is committed to avoiding capital impairment and maintains a strong risk management culture at all levels of the firm. HBK is owned by 13 managing directors who have worked together for at least 9 years and, combined, are the largest investor in the fund.

The summary of HBK Offshore Fund terms are as follows:

- Management Fee – 1.5% of assets;
- Incentive Fee – 20% of net profits subject to a high water mark; and
- Liquidity – Quarterly with 65 days notice, 25% gate no lockup period.

On a motion from Regent Mosbacher, seconded by Regent Wise, and by a unanimous vote, the recommendation that the University of Houston commit \$8.0 million to the HBK Offshore Fund was approved. This item requires committee approval only.

2. Long-Short Managers – Highline Capital Management and Maverick Capital, Ltd.
 - (a) Highline Capital Management
Cambridge recommended that the University of Houston invest \$6.0 million in the Highline Capital Fund, a U.S. focused long-short equity fund. Highline has a deep

investment staff headed by Jacob Doft, an experienced portfolio manager with a strong track record dating back to Highline's launch in 1995. Their investment process is designed to hone in on misunderstood and/or underfollowed areas of the market where mispricings and opportunities should be most plentiful. Highline uses little-to-no leverage.

The summary of Highline Capital Partners terms are as follows:

- Management Fee – 1.5% of assets;
- Incentive Fee – 20% of net profits subject to a loss carryforward provision; and
- Liquidity – Redemption: Quarterly with 30 days notice; Lockup: 1 year (5% early exit fee)

On a motion from Regent Mosbacher, seconded by Regent Wise and by a unanimous vote, the recommendation that the University of Houston commit \$6.0 million to the Highline Capital Partners Fund was approved. This item requires committee approval only.

(b) Maverick Fund, Ltd.

Cambridge recommended the University of Houston invest \$6.0 million in Maverick Fund, Ltd., a global long-short equity fund which invests across multiple geographic regions and industry sectors. Maverick is among the most tenured long-short equity hedge funds in existence with a 17+ year track record. They have 9 officers and over 50 investment professionals, and they are among the best resourced long-short equity managers in the business. Their investment process emphasizes bottom up stock picking with a heavy emphasis on industry specific fundamental analysis; and this process has been largely unchanged since inception.

The summary of the Maverick Fund, Ltd. terms are as follows:

- Management Fee – 2.0% of assets;
- Incentive Fee – 20.0% of profits subject to a loss carry forward provision; and
- Liquidity – 1 year rolling soft lock-up with a 1% early redemption penalty per whole or partial year plus application of the fee structure over the remaining commitment period.

On a motion from Regent Wise, seconded by Regent Mosbacher and by a unanimous vote, the recommendation that the University of Houston commit \$6.0 million to the Maverick Fund, Ltd. was approved. This item requires committee approval only.

Mr. Phil Fiske with Cambridge Associates presented the committee with the recommendation the University of Houston commit \$5 million to EnCap Fund VIII. Mr. Fiske and the committee discussed this recommendation at length. Due to several issues addressed, the committee did not recommend approval of this item at this time.

Cambridge Associates presented the committee with an update on the University of Houston's investments in HedgENERGY Master Fund L.P., an energy hedge fund managed by Moncrief Willingham Energy Advisors, L.P., and Absolute Plus Management, which manages an inflation-hedging strategy that employs both commodity options and direct fixed income

holdings. The University of Houston currently has about \$3.3 million invested with HedgENERGY and approximately \$4.5 million with Absolute Plus.

After a complete review of both funds, Cambridge Associates recommended the University of Houston terminate HedgENERGY and Absolute Plus Management. HedgENERGY does require a 60 day notice for a quarterly exit and Cambridge recommended the University of Houston exit this investment as of March 31, 2011.

On a motion from Regent Wise, and seconded by Regent Mosbacher and by a unanimous vote, the recommendation to terminate HedgENERGY and Absolute Plus Management was approved by the committee.

The approval to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – University of Houston System was addressed. Below is a summary of the recommended changes:

- The Investment Objectives section is amended to reflect the minimum real return expected over rolling five-year periods given the endowment's current spending rate, and an additional peer group, which the endowment's performance is measured, has been added to this section.
- The asset allocation section is amended to include emerging market equities as a separate asset class from non-U.S. equities with a target allocation of 5% and a range of 2.5% to 7.5%, and there is a commensurate decrease in the non-U.S. equities target allocation from 25% to 20%.
- A section on alternative investment risks is added which identifies and defines the common risks associated with investing in alternatives and describes how these risks are mitigated.

On a motion from Regent Mosbacher, and seconded by Regent Ray and by a unanimous vote, the approval to modify the UH System Endowment Fund Statement of Investment Objectives and Policies was approved by the committee.

The approval to modify the UH System Investment Policy for Non-Endowed Funds – University of Houston System was addressed. Below is a summary of the suggested recommended changes.

- Any reference to the long-term asset portion of the Non-Endowed pool has been removed, as those assets have been assumed by the endowment. As a result, the policy addresses only the mix between the cash and equivalents pool and the intermediate bond pool.
- The policy now incorporates more specific language restricting certain types, quality and duration of holdings.
- Recent edits also specifically address a restriction on securities lending in the Non-Endowed portfolio.

On a motion from Regent Ray, and seconded by Regent Mosbacher and by a unanimous vote, the recommendation to modify the University of Houston System Investment Policy for Non-Endowed Funds was approved.

The Manager Watch List was addressed by the committee. Regent Hollingsworth requested that at the next Endowment Management Committee meeting, Cambridge review the criteria for the Manager Watch List and discuss in more detail their recommendations.

There being no further business to come before the Committee, the meeting adjourned at 4:45 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
Don Guyton
Michael Rierson
Jon Aldrich

Hamilton Lee
Jeff Blazek
Gene Lohmeyer
Raymond Bartlett
Barbara Stanley
Marquette Hobbs

Eli Cipriano
Tom Ehardt
Christian Gibson
Philip Fiske
Ed Jones
Gerry Mathisen